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Rural America in the 1990's

Trends and Choices

Shifts in the national and international economies have reduced the demand for primary U.S. products and eroded the comparative advantage of rural America. New technologies require less labor and have reduced agriculture's and manufacturing's shares of rural jobs. These trends restrict policy options. The future of rural America depends on the choices made among available options and the collective action (political, civic, and market) used to implement those choices.

THE difficulties rural America experienced in the 1980's are in large measure the product of vast shifts in the national and international economies. Three trends are prominent: increased productivity and a decreased demand for labor, decreased demand for (U.S. nonmetro-produced) primary products, and, finally, decreased government investment. These changes determine available policy options and necessitate the coordinated efforts of all levels of government as well as the private sector in determining and implementing policy options. These trends are briefly discussed below, followed by a prescriptive solution.

First, tremendous advances in output have been accomplished with ever-shrinking amounts of labor. This is a familiar phenomenon in U.S. agriculture, where productivity growth has resulted in a decline in farm operator labor. However, somewhat less familiar is that this laborsaving trend also exists in manufacturing.

Second, primary products, the strength of rural economies, are now a less significant share of the economy because other countries increased their agricultural and materials output in the 1970's and 1980's, reducing their demand for U.S. goods. Domestic demand for primary products has also declined because U.S. production has shifted toward service-sector activities.

Finally, U.S. investment has fallen behind that of our major competitors, and future investment promises to be hard to come by. Additional public funds will be

difficult to obtain, and pressures on (and struggles over) existing resources will likely intensify. Consequently, there is likely to be an increasing demand for more efficient, less bureaucratic forms of public-sector activity—a process David Osborne has called "reinventing government."

As a result of these trends, and the need to compete more effectively in the international economy, public programs that can be justified as investments in long-term productivity and growth will have a decided edge. Rural strategies will have to be defended as contributions to overall national well-being, not just in place-specific terms. National and local interests may not always converge. For example, human capital investment (a person-specific strategy) makes eminent sense as a national strategy, but it will not succeed in staunching the outflow of trained young people from rural communities unless rates of return to human capital are simultaneously increased in these communities (a place-specific strategy).

These broad trends imply that rural America has entered a new era. The challenge in the 1990's is to shape new strategies responsive to both enduring rural realities and changing national and global circumstances.

Rural Comparative Advantage

To succeed, rural development strategies must be built on a realistic assessment of the rural comparative advantage. The development of rural America has historically depended primarily on place-specific resource advantages: land, timber, and minerals. The central rural disadvantage—distance—was overcome in part by natural features (for example, long, navigable rivers), and in part by publicly guided development of communication and transportation systems. Resource advantages have not disappeared, but their significance

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has declined, given the changes in the structure of production and demand.

In the 1960's and 1970's, the primary basis of rural comparative advantage shifted from resources to factors such as cheap land, low-cost labor, relatively relaxed regulations, and weak or nonexistent unions. Combined with a new burst of public investment in transportation (the interstate highway system), these advantages spurred a significant expansion of manufacturing in rural America: from 1960 to 1980, the rural share of manufacturing employment rose from 21 to 27 percent.

But these advantages, too, have been eroded by economic change. The importance of land costs in plant location decisions has diminished, and in a global marketplace with fully mobile capital, cheaper labor can be found and employed outside U.S. borders. Further, labor will likely continue to shrink as a component of manufacturing costs, and, therefore, as a determinant of production siting.

During the 1980's, rural America entered its third major phase. The kinds of natural characteristics regarded as "amenity values" by retirees, vacationers, and certain businesses emerged as the chief new source of rural comparative advantage. Rural places with substantial locational assets have commanded the lion's share of nonmetro population and employment gains.

There is, however, a downside. The characteristics—small populations and low densities—that give some rural areas amenity value frequently limit opportunities for broad-based development. Three factors are key. First, small size and low density make it difficult—in some cases impossible—to achieve significant local diversification, leaving communities (and even entire regions) highly vulnerable to downturns in their prime economic base.

Second, small population and low densities are correlated with larger average distances between individuals and economic activities, raising communication and transportation costs. Third, population and density may increase with successful amenity-based development, thus eroding the area's original advantage.

Not surprisingly, nonmetro counties that are adjacent to metro areas did better than remote counties during the past decade. As Emery Castle notes, "the economic welfare of the more sparsely populated areas is linked with, and dependent upon, economic activity in the more densely populated areas.... It is not a coincidence that the most prosperous rural areas have close economic links with other parts of the world and the large urban centers." Thus, a central challenge for rural



USDA/Farmers Home Administration

development in the 1990's will be to forge new kinds of linkages between metropolitan areas and remote communities. Absent such innovations, the prospects for remote communities without significant natural amenities are bleak.

Collective Action Failures

The foregoing may be misinterpreted as an argument that the decline witnessed throughout so much of rural America in the past decade is the inevitable consequence of immutable national and international trends. That is not my intention. I argue a more complicated case: while these broad trends do set the agenda and restrict options, the outcomes for rural areas reflect the choices made among available options, as well as the forms of collective action used to implement these choices.

In modern societies, there are, broadly speaking, three principal ways in which individuals can organize themselves collectively to get things done. The oldest of these is **politics**, the sphere of authority in which the legitimacy, office, persuasiveness, or power of some people induces others to accept their judgment and command as the basis of action. A second sphere, the **market** has emerged since the 18th century. The market is governed by the principle of exchange: transactions that leave all parties better off (as they themselves define their own well-being) than they were before. The third sphere is **civil society**. Civil society encompasses all voluntary associations based on shared principles, loyalties, or sentiments: families, churches, neighborhood groups, nonprofit or charitable organizations, and so forth.

Like the market, civil society can exist only if the sphere of politics refrains from occupying the totality of available social space. Markets and civil societies are thus linked to what may be called the liberal principle, that government should (for reasons of efficacy as well as morality) be limited in crucial respects.

Market forces, on balance, did not promote rural development during the 1980's, and the unchecked market's indifference to issues of spatial distribution was nowhere more clearly demonstrated. Nor, in spite of heroic efforts, was rural civil society able to address effectively the problems with which it was confronted. Churches, communities, and support groups ministered to distress and occasionally warded off worst-case outcomes, but without reversing underlying negative trends. The public sector did no better: in spite of unprecedented spending on programs regarded as "rural," the Federal Government did almost nothing to improve the long-term prospects of rural families and communities.

James Bonnen has argued that U.S. rural policy is a classic example of Government failure. The reason, he contends, is that over the past century the political economy of rural America was institutionalized around key industries rather than communities. For much of the period, this political configuration was not too damaging. But in the crisis of the Great Depression, Congress created legislation that, for the most part, provided selective support to specific groups, usually agricultural. This evoked a mobilization of agricultural interest groups to defend and expand public benefits (as Anne Krueger's model predicts) at precisely the time that the agricultural sector was rapidly shrinking as a percentage of rural population and economic output. The result has been the domination of national rural policy by an increasingly narrow and unrepresentative segment of rural America.

The inadequacy of rural political institutions has been exacerbated by population mobility. As rural residents leave their communities in search of opportunity elsewhere, the rural population declines as a percentage of the total population, reducing its representation in State and national legislative bodies. This trend was accelerated by the one-person, one-vote Supreme Court decisions of the 1960's, which left the U.S. Senate as the last bastion of rural representation.

Another consequence of population mobility is less obvious, but just as important: the weakening of internal forces pushing for change. As Albert Hirschman has argued, "exit" and "voice" constitute the two major forms of response to organizational decline. Individuals dissatisfied with the performance of firms or communities can choose either to leave or to stay and speak out for reform. The problem is that the availability of the exit option tends to inhibit the development of effective voice. Exit serves as a safety valve that removes the most energetic and upwardly mobile members of the community, leaving behind a stratified mix of those who are relatively satisfied with the status quo and those too old, weak, or downtrodden to muster an effective protest against it. (A number of studies suggest that the portions of Europe with the highest rates of outmigration during the 19th century were less prone than others to social protest and violence.)

One difficulty, particularly acute in the U.S. context, is that voice—collective action through politics—is labor-intensive over an extended period and typically requires coordinated action with others, while exit is a once-and-for-all act that can be performed by isolated persons or families. Effective voice faces special impediments in a country whose public culture celebrates mobility and individualism. Still, an initial display of political effectiveness can serve as a magnet, inducing some who would otherwise leave to believe in the possibility of local improvement. This suggests that "public entrepreneurship" must play a key role in the revitalization of rural America.

Conclusions

The future of rural America is determined by a set of structural facts and by public choices made within that structure. Analysis goes astray if either of these factors is ignored. We must not overlook the powerful national and international winds now buffeting so many rural communities, but neither should we slight the ways in which, even in the face of these inhospitable conditions, skilled hands at the public helm can artfully tack and move forward.

In this complex interplay between structure and agency, it is important to maintain the distinction between macro-level trends and micro-level choices. What is

true in the aggregate may not be valid for individual communities. For example, within an overall pattern of sectoral stagnation, opportunities for local growth may nonetheless persist. A sounder understanding of broad developments will create a context in which policy analysts and local decisionmakers can more realistically evaluate the odds of success for each of the options before them. Rural communities need not always "go with the flow," but they should at least understand the nature of that flow.

Consequences for Research and Public Policy

The pressures of international competition require productivity increases in agriculture, natural resources, and manufacturing, reducing employment in these traditional economic sectors. To maintain and expand the rural job base, local communities and national policy must turn increasingly toward the substantially nontraded sectors of the economy, such as services for the retiring elderly, tourism, and the siting of Government activities. This new emphasis is consistent with the shift of rural comparative advantage to a third phase, one that emphasizes amenity values rather than natural resources or the costs of production.

The fiscal crisis of the public sphere, which has now spread to every level of the Federal system, means that large new rural programs are unlikely and that continuing pressure on existing programs is inevitable. This is a situation that cries out for innovation in the basic structure of public action. Government programs must increasingly employ cost-effective, nonbureaucratic mechanisms, and they must discriminately use public resources to catalyze action in the private sector and in rural communities. As one analyst has put it, government in the 1990's can steer the boat, but it cannot row.

The continuing, perhaps even enhanced, importance of rural linkages to metro areas means that efforts must be intensified to find effective functional substitutes. Hopes for greater spatial dispersion of the service sector have proven overly optimistic. Rural policy in the 1990's must focus on sectors, such as advanced telecommunications, that can give rural communities more complete, timely access to information and lower existing barriers to fuller rural participation in the most vigorously growing parts of the economy.

The emerging importance of size for community health, even community survival, suggests that institu-

tional change is essential. Small rural communities must seek to break down political boundaries and form new cooperative political units for education, service delivery, and public entrepreneurship—units that more closely correspond to the real scope of contemporary rural economic and social life. Recent trends suggest that only through such consolidation can many of the smallest communities hope to survive.

The progressive globalization of advanced economies has led many analysts to conclude that the skills and cumulative learning of the workforce are the new keys to competitiveness, the real sources of the "wealth of nations" in the next century. While there is debate as to the rate at which new or enhanced workforce skills will have to come onstream, the basic conjecture is widely accepted. It does not follow, however, that what enhances national wealth will necessarily benefit particular subnational regions. There are many reasons for local communities and the Federal Government to embark on a new partnership to upgrade education and training. But rural communities should be under no illusion that such initiatives by themselves will create local job opportunities and stem the outflow of young people.

For Additional Reading...

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