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Invited Presentation

The Changing Rural Policy Context

Stephen M. Smith

A characteristic of our rural policies is that we seem to treat farm policy and other rural policy as if agriculture and the rest of the rural economy and society are separate. Literature from each perspective tends to ignore the existence and context of the other. There has been enough change in the rural context, however, to require a different approach to rural policy analysis and formulation. We must start from a comprehensive view of the rural economy, including both the agricultural and nonagricultural rural economies. The paper discusses issues that have changed the rural policy context: the changed rural economic structure, macro forces, farm-nonfarm interdependence, and the political arena. These changing contexts create new opportunities for rural policy formulation. The paper concludes by suggesting that agricultural economists will contribute more to systematic knowledge and policy formulation if they base analysis on the changed objective conditions in rural areas, and utilize more theoretically-based analysis.

This is an opportune time to look at the context for rural policy, as Congress is in the midst of drafting a new Farm Bill, and a great many rural and agriculturally-related groups are trying to influence its contents. The Farm Bill that finally emerges will provide the framework for U.S. agricultural and rural policy well into the next century.

But will the Farm Bill be a forward-looking document to guide us into the next century, or will it simply be a continuation of past programs and paradigms? Will it address only a narrow spectrum of agriculture, or will it react to the total context and recognize the changed nature and increased complexity of rural America? How relevant will the Farm Bill be for most of rural America, and for the problems confronting rural America?

My objective is not to speculate on what may end up in the Farm Bill, but to examine the range of contexts within which a Farm Bill and other rural policies will have to operate in the foreseeable future. I decided to look at contexts, as this is easier and less dangerous than discussing what policies ought to be. Nevertheless, through extrapolation we may end up defining policy directions.

A characteristic of our rural policies that became apparent to me as I prepared this presentation, is that we seem to treat farm policy and other rural policy as if agriculture and the rest of the rural economy and society are separate. That is a mistaken context to use. As much as we talk about rural economies being interdependent with urban, national and international economies, we also need to specifically address the fact that the rural economies are even more interdependent, or intradependent.

There appear to be two, and perhaps three, somewhat mutually exclusive rural policies: (1) agricultural policy; (2) "nonagricultural" rural policy, which encompasses a very diverse group of policy objectives and adherents; and (3) general state and federal economic development policies that do not consider rural as distinct from the economy as a whole. For the most part, literature from each of these perspectives ignores the existence and context of the other. Agricultural policy writings tend to focus exclusively on agriculture; the "rural development" literature seldom considers agriculture; and the large literature on national, state and local economic policy generally mentions neither agricultural nor rural issues.

One conclusion I reach from this situation is that there has been enough change in the rural context to require a different approach to rural policy formulation. If we are to be effective, we must start from a comprehensive view of the rural economy, including both the agricultural and nonagricultural rural economies. (This may also imply a more inclusive name for the policy context than "farm bill".) Further, we need to realize that rural concerns will not automatically be included in the broader economic policy discussions. Rural and agriculture are often afterthoughts in those arenas, especially in the current political and budgetary context. If we continue to fragment rural policy efforts, this problem will persist.

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Before drawing further conclusions, I will present what I see as key issues that have changed the context for rural policy: the changed rural economic structure, a set of macro forces, farm-nonfarm interdependence, and the political arena. I will then briefly mention what they suggest to me as opportunities for rural policy, and will finish with a suggestion for our role as agricultural economists. These certainly will not be new and astounding insights, but I hope that I will raise a sufficient number of issues that discussion will be generated.

Some Background

One of the most interesting occurrences in recent decades is how rapidly the rural context has changed. For example, ten years ago, much agricultural policy was focused on the farm financial crisis that severely impacted many rural areas. This generated a renewed realization of and interest in the interdependence of agriculture and rural communities, and the relationship between the health of the farm and nonfarm economies. Also about 10 years ago, long time observers of nonfarm rural America were saying that the population turnaround of the late 1960s and 1970s had fundamentally altered the policy context of the previous 20 years (Brown and Deavers, 1988). That is, the strength of the economic decentralization of the 1960s and 1970s, the modernization of rural life, and the preference for rural living were said to have brought rural America into the mainstream of American life. This was said to have reduced the need for (1) separately administered rural and urban programs, and (2) for tailoring national programs to previously unique rural needs.

Both these contexts are, in fact, quite the opposite today. Farm incomes are strong, and have been growing for several years, albeit in a considerably changed agricultural structure in many regions. The "previous" context of rural economic stagnation, poor housing and community facilities, and widespread and persistent poverty at much higher rates than in nonrural areas again has come to characterize rural areas.

This indicates both how much and how little the context has changed. Farm incomes are strong, but farm numbers continue to decline. Freer trade and decreasing commodity supports will place greater pressure on farm performance. Measures of economic and social welfare continue to show significant and growing gaps between rural areas and the nation as a whole. Thus, the objective situations, and the need for particular attention to rural areas, sound the same as before.

At the 1988 meeting of this association we heard two invited papers that discussed aspects of these issues. One was by Gerald White from Cornell University, and the other by Paul Barkley of Washington State University.

White discussed the conditions of and the future for production agriculture in the Northeast. He concluded that: (1) on balance the resource base and the proximity to large population centers were negative influences for agriculture in the Northeast, while the diversity of agricultural enterprises was positive; (2) the numbers of part-time residential and commercial farms had remained stable, but that production was increasingly concentrated among farms with over $100,000 in sales, and that this will continue; (3) the competitive position in the Northeast is such that the region will lose market share for products at both regional and national levels, and also lacks a competitive advantage in many high value specialty crops; (4) all these issues together imply a reduced share of market for Northeast production agriculture; and finally, (5) demographic and farm number trends suggest that the traditional land grant clientele (students and agricultural producers) will become fewer and fewer.

Barkley addressed aspects of nonfarm rural issues. In reviewing the history of rural policies, he showed that the conditions giving rise to political concern for rural areas decades ago are similar to those today. In many ways the 1909 Country Life Commission Report could serve as the basis for rural development policy today—that rural areas were forever behind in education, nutrition and health; that the poor quality of rural towns was interfering with farmers' abilities to produce at optimal efficiencies, and to live at the level of the urban population. More recent reports draw strikingly similar conclusions (Henry, 1993; Flora and Christenson, 1991).

Barkley characterized the rural problem as one with 'n' dimensions, where 'n' is an evasive variable. Even when 'n' is identified, each 'n' takes on 'm' qualitative attributes that make general policies for rural America ineffective and elusive. These several dimensions include geographic, demographic and economic diversity. Barkley concluded that one of our greatest problems with rural policy is the inability of economic science to make significant inroads into understanding the dynamics of rural America.

Farm policy does not receive much more favorable treatment. Bruce Gardner, in a 1992 article in the *Journal of Economic Literature*, discusses the

basis of farm policy and its relationship to theory and empirical analysis. He starts by quoting Leontief, who lauded the agricultural economics profession as demonstrating "the effectiveness of a systematic combination of theoretical approach with detailed factual analysis." Gardner concludes, however, that the "systematic" part is unearned, particularly in the context of formulating policies that contribute to solving the "farm problem."

Gardner maintains, similar to Barkley's belief about general rural development policy, that we lack a general underlying theory to unify our understanding of what we observe in the agricultural economy. The results of theoretically-informed story telling have been suggestive, he says, but econometric verification or rejection of hypotheses is scarce. As a result, policy work by agricultural economists has focused too exclusively on solving transient agricultural economics problems. This leads to policies being instituted to assist farmers when economic conditions turn against agriculture, but not being instituted in the context of broad objectives based on an understanding of how the system works.

Gardner also maintains that we really do not have a farm problem, no matter how it is measured. The evidence is that farmers are no longer an economically disadvantaged group, whether measured by relative labor returns, returns to investment, average household income levels in all farm size classes, average wealth of farm operators, or poverty status. Thus, policies to support farmers can no longer claim this rationale. Yet while the farm problem has disappeared, interventions have not, and indeed increased, especially through the mid-1980s.

Key Changing Contexts

The Changed Economic Structure

The historical "rural problem", at least since World War II, has stemmed from the long run employment decline in agriculture and other natural resource-based industries, on which rural economies initially were based. Accompanying this has been the consistent, and renewed growth in, rural-urban economic gaps—income, employment, and infrastructure, where the last is broadly defined to include economic, social, institutional and educational infrastructure. These gaps do not seem to be cyclical, but are related to structural factors, such as international economic forces, the shift to a services-dominated economy, deregulation, and structural change in agriculture (Drabenstott and Henry, 1988).

This may be the most worrisome context. Is there anything that policy can do to address these issues, other than to ameliorate the effects? The growing income, employment and infrastructure gaps, the generally poor performance of the rural economy since 1980, and the 1980 and subsequent farm bills, all suggest that rural policies have not had much effect.

This changing structure of the rural economy is perhaps the overriding reason behind the concern for rural areas, and for a focus on rural development. The nature of the rural economy has changed so much that the principal cause of economic stress in much of nonmetropolitan America in the 1980s was attributed to the poor performance of rural manufacturing (Brown and Deavers, 1988; Reid and Long, 1988). Rural job growth from the 1950s to the 1970s had been based on manufacturing expansion, which replaced the declining opportunities in the traditional rural extractive industries. Rural economies in many areas became based on manufacturing.

These trends provide keys to understanding the larger rural development problem. It is clear that the rural economy and rural employment are no longer dominated by agriculture and other natural resource-based industries. The rural economic structure increasingly has become similar to that of the nation as a whole, with manufacturing, trade and services dominating. The result, and another key, is that the rural economy has become exposed to a much wider range of external forces. A further result is that agricultural policy can no longer be deemed synonymous with rural policy.

At the same time, this trend toward increased rural economic diversity does not mean that each community or region is similarly diverse. Quite the contrary. Communities and regions often have become more specialized, but in a variety of specialties—agriculture, wood products, narrow types of manufacturing, education, health services, retirement, tourism and recreation, government or military—with each specialization subject to different forces and trends. Thus, again, one policy cannot address all the issues nor each community's situation.

Macro Forces

A second context for rural policy is related to a range of macro forces. These forces continue to adversely affect the agricultural and natural resource base, as well as other rural industries. One is the *decoupling of raw materials* from the busi-

ness cycles in the rest of the economy. Raw materials constitute a small and declining portion of the gross domestic product and of production inputs in most industrialized economies. Thus, the raw resource and agricultural commodity markets can decline, but the rest of the economy is immune. Conversely, the rest of the economy can do well, and raw materials markets may still remain depressed.

A second macro force is *technological change,* specifically in the form of increasing labor productivity. This is nothing new to the raw material and agriculture industries, but more recently has particularly affected rural manufacturing. Rural economies, again, are affected more adversely than the urban and national economies. First, agricultural and raw materials are produced primarily in rural areas. Second, the types of industries that dominate rural areas are more subject to labor productivity increases. Furthermore, the emphasis on integrating high technology, or computerized technology, into all phases of the economy heightens the vulnerability of the relatively labor-intensive rural industries.

Within agriculture, technological change has contributed greatly to the changed context for farm and rural policy. Although employment and the amount of land in agriculture continue to decline, value added continues to grow (Hanson, 1994). A result is that the types of agriculture, and their needs from the Land Grant and Federal systems have changed. An interesting by-product of agriculture change in the Northeast is the decreased amount of land in agriculture, and a resulting major change in the landscape. The Northeast now has as much forested land as it had at the time of the Revolutionary War (McKibben, 1995).

A third macro force is the *effects of freer international trade policies*—GATT world wide, and NAFTA in much of the Western Hemisphere. Freer trade will hasten many of the changes that already are affecting rural areas. The movement to lower cost production regions will take place sooner. There will be more rapid loss of uncompetitive industries, and hastened adoption of new technology in order to compete in world markets. More open markets also will result in agricultural commodity programs having less effect on our domestic prices.

Farm and Nonfarm Interdependence

Another rural policy context, which has been made more apparent by changes in the structure of the economy and of agriculture, is the growing, or at least more visible, interdependence of the farm and nonfarm rural economies. Our awareness of this interdependence was renewed during the farm financial crisis in the mid-1980s, when communities dependent on farming suffered equally with agriculture. At the same time, it also became apparent that farmers and farming areas without off-farm employment opportunities suffered the most.

The most outstanding aspect of this interdependence has become the role of off-farm employment opportunities in maintaining farm family income, and by implication the family farm structure. Among the 73 percent of farms with annual gross receipts from agriculture less than $50,000, over 90 percent of family income comes from off-farm employment (RUPRI, 1995). Other research has shown that dependence on off-farm income extends into larger farm size classes (Hallberg *et al.*, 1991). Thus, rural economic development—defined as increasing nonfarm employment opportunities—also would be a family farm, or small and medium size farm policy, by helping to maintain farm family incomes.

Another aspect of farm/nonfarm interdependence concerns the public and private service sectors of rural economies, both of which are important to maintaining farm sector profitability and the quality of life for farm families. Public services and education cannot be maintained and improved with only the population and tax base of agriculture. In addition, vibrant rural communities are necessary to provide a private service sector for farm families and businesses. This, again, implies maintaining nonfarm economic activity, as farming and farm families do not provide enough of a market to support such businesses, including farm supply businesses.

The Political Arena

The final context for rural policy is the national political mood, or more precisely, the national budgetary mood. This context is one of reduced federal involvement, including investment, direct funding, categorical programs, and specific actions. While this is a national phenomenon, rural areas are at a disadvantage, particularly when efforts are fragmented or competitive.

One reason for this political difficulty is the declining weight of agriculture and rural people in the economy and voting constituency. Historically, according to Gardner (1992), the legislative success of farm programs was because of agricultural interest group politics. Now, however, the agricultural population is becoming minuscule in

many regions, especially in the Northeast. The aggregate population of all farming-dependent counties is only 7 percent of all nonmetropolitan people (RUPRI, 1995). Furthermore, in the late 1980s, only 20 percent of the members of the House of Representatives were from districts with nonmetropolitan voters in the majority. And only 15 of the 50 U.S. Senators were from states with a nonmetropolitan majority (Jahr, 1988).

Another explanation for the rural political disadvantage may be that agriculture is seen as far removed from the lives of the vast majority of Americans, and also as far distant from what agriculture itself was. Food production is now large scale and industrialized. Increasingly, new members of Congressional agriculture committees represent constituencies that are more interested in employment and services in rural areas, food assistance programs, and protection of the environment (Daft, 1994).

Another reason for political difficulty of rural programs in general is the existing myriad uncoordinated federal and state policies and programs spread out over several agencies ("Report . . . ," 1995). There is considerable sentiment for streamlining, collapsing, or eliminating many of these, and perhaps moving to general block grants for federal programs.

There certainly is a greater inclination by government to rely more on free market forces. All quarters seem to be calling for continued reductions in farm subsidies. The ascendent philosophy is that while government is responsible for assuring that its people and businesses have access to the resources necessary to pursue economic success, it does not have to be the sole supplier of those resources. This is being called the "Third Wave" in economic development (Ross and Friedman, 1991).

Politics and the social contract imply that we are not likely to go to the extreme of eliminating all commodity, housing and regulatory programs, loan and training subsidies, etc. There *will* be movement in this direction, however. To the extent that it happens, one result may be a much greater realization of the interdependence within the rural economy. Each sector will see that it receives net positive benefits from the success in other sectors, and vice versa.

Policy Opportunities

Clearly the context within which rural policy is made has changed. Change will continue in such directions as increased urbanization, an altering industrial structure, increased integration with urban and international marketplaces, and increased environmental awareness. However difficult or frustrating this may seem, it also presents opportunities. And conditions in the Northeast may make adjustment to the new contexts somewhat easier and more advantageous.

All of these changes imply opportunities for greater collaboration among those concerned with rural issues. For example, the new context may provide the needed incentive for agriculture agents, community developers, and economic/industrial developers to come together and seek common ground. Several groups now providing input to the Farm Bill process (RUPRI, 1995; "Report . . . ," 1995) are proposing much closer federal/state/local partnerships to facilitate rural development on a broader front.

A particularly interesting potential opportunity would occur if the proposals to collapse several federal programs into block grants became reality. Under block grants, funds would not have to be directed solely at one aspect of the rural economy, but could be used creatively to address an interrelated set of objectives that had been determined at the local or state level. Wide partnerships among rural interest groups would be necessary to address the diverse nature of rural issues across the regions and within states. Collaborative partnerships working within a block grant context certainly would have to move away from the "one policy fits all" concept.

Such a change would present a propitious context within which to begin integrating farm programs with other rural policy and program efforts. While it may be true that agriculture is losing influence in the political arena, most of the influence behind creating and maintaining rural policies has been the farm constituency. This influence may by waning, but it is still a key building block. In the Northeast we have the diversity of rural interests and rural conditions that may make it easier, more logical, and more advantageous to form such an integrated approach.

The Role of Agricultural Economists

Federal rural policy has been called "a grab bag of programs" (Drabenstott and Gibson, 1988). We need to have more specific objectives for our rural policy, they need to be more measurable, and the objectives need to be determined within the context of the realities of rural areas. Furthermore, if our profession is to contribute, we will need to base the contribution not only on the objective conditions of rural areas, but also on theory.

Both Paul Barkley (1988) and Bruce Gardner

(1992) noted considerable gaps in our theoretical understanding of how rural economies function. Similar gaps have been noted in the European context. John Davis, in a 1993 address to the Agricultural Economics Society of Ireland, called for a clearer articulation of policy objectives for rural areas to provide at least a framework for the development of appropriate policy instruments. He argued that we should consider the adequacy of our existing models, and examine whether we need to enlarge them or develop new ones. Davis concluded that if "we do not rise to this challenge we may risk being marginalised; perceived as being increasingly irrelevant to the debate on the rural adjustment process."

The role of theory in rural development, or the situation that arises without a theory, was made apparent to me several years ago by a colleague's question. The colleague asked me what was the theory of rural development. When I answered that there was no single theory, he responded: "If we do not have a theory, how can we make progress as researchers; provide input for policy; know if anything has changed, or evaluate the changes?"

Figure 1 is my attempt to depict this situation. With a theory that provides guidelines as to what information to collect, what to test, and what to evaluate, progress toward greater systematic knowledge, and more effective policy, can be made. As the circles on the diagonal line in the figure show, such progress may not always be monotonically increasing, but over time there will be positive additions to knowledge. Without theory, however, the situation may be closer to that shown by the horizontal line. Unfortunately, the latter may describe too accurately the situation in which rural development often finds itself.

Without an explicitly-acknowledged theory, or contextual framework, policy formation and action are difficult. The problems can be identified—lack of jobs, or good jobs; the need for freer trade; outmoded communications technology. Addressing these problems, however, is another matter. Theory underlies the assumptions about behavioral relationships between policy targets and actions, as well as assumptions about the cause of the problem.

Much of what passes for policy is an attempt to tinker around the edges of issues and hope that the attempt "makes the market work better." We need to examine thoroughly the objective conditions in rural areas, and then make greater use of economic theory to guide the policies; to examine assumptions about how the policy is expected to work and what it is supposed to attain. The changing context for rural policy makes this all the more necessary.

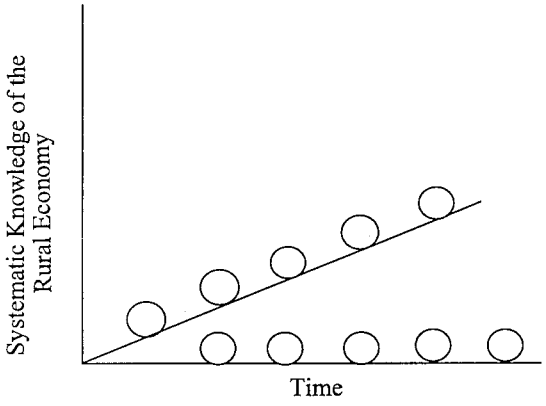

Figure 1. Contributions of Rural Development Theory

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