Proceedings

OUTLOOK '88

64th Agricultural Outlook Conference
U.S. Department of Agriculture
Washington, D.C. Dec. 1-3, 1987

ANNUAL AGRICULTURAL OUTLOOK CONFERENCE
United States Department of Agriculture
Washington, D.C.

Outlook '88, Session #21 For Release: (Wednesday), December (2), 1987

RURAL ECONOMIC CONDITIONS AND RURAL DEVELOPMENT POLICY FOR THE 1980'S AND 1990'S

Kenneth L. Deavers
Director
Agriculture and Rural Economy Division, USDA

Background

The 1970's was a period of unprecedented employment and population growth for nonmetro America. The nonmetro poverty rate for individuals fell to 15.2 percent in 1979, while the ratio of nonmetro to metro median family income reached .85. Because the pattern of strong nonmetro growth in the 1970's was so widespread, and matched so well the residential preferences of our citizens, it appeared that these new patterns would continue into the 1980's. Writing about rural policy in the early 1980's, I said "the strength of the underlying forces shaping rural development, including economic decentralization, modernization of rural life, and preference for rural living make it unlikely that the 1970's were an aberration."

Unfortunately, as evidence of nonmetro economic hardship and structural dislocation continue to accumulate, it has become clear that for much of nonmetro America the 1970's were an aberration. Relatively greater dependence on goods production--the kinds of manufacturing industries in rural areas and the occupational structure within these industries--and sharp declines in natural resource-based industries and agriculture, have been the principal causes of economic adjustment and stress in rural America in the 1980's. Indicators of rural economic adjustment include:

- Nonmetro employment grew one-third as fast as metro employment between 1979 and 86 (4 vs. 13 percent), a reversal of the 1970's when nonmetro employment grew more rapidly. National attention has focused mainly on financial problems in the farm sector. Overall employment in farming dependent counties has been stagnant, and thousands of farm households were forced out of farming for financial reasons. At the same time, employment in rural mining and energy dependent counties has declined by 9.5 percent, and rural manufacturing dependent counties, which are home to 40 percent of the rural population, showed employment growth of only 2.7 percent.

- For 1986, the nonmetro unemployment rate averaged above 9 percent, nearly 3 percentage points higher than the metro rate. The nonmetro unemployment rate has fallen more slowly than the metro rate during the current economic expansion, leaving over 1,000 nonmetro counties with annual average unemployment rates of 9 percent or more. Higher nonmetro than metro unemployment rates are a reversal of the historical pattern observed in the 1960's and 70's.

- The nonmetro poverty rate was 18.3 percent in 1985 compared with 12.7 percent for metro areas. While the metro rate has fallen during the recovery from the recession of the early 1980's, the nonmetro rate has been virtually unchanged. Counties with high poverty rates are disproportionately located in the rural South.

- Net outmigration from rural to urban places has gained momentum. During 1980-84, net outmovement from rural areas totaled only 30,000. But in 1985-86 the outmovement was over 600,000, and preliminary estimates for 1986-87 are over 900,000. These annual net outmigration numbers are much larger than the annual average of either the 1950's or 1960's. Despite a recovery in the national economy from the serious recession of the early 1980's, more than 1,300 nonmetro counties cost population from 1983-86.

Rural Economic Diversity and Specialization

At the beginning of World War II most of our rural citizens lived and worked on farms. But an agricultural revolution, fueled by changing technology and facilitated by public policy, created a surplus of farmers, leading to a massive exodus from the sector. Between 1945 and 1970, an average of 120,000 farms disappeared annually, leading to an average yearly farm population decline of 600,000. In the end, we were left with less than one-third as many farmers as we began with.

In spite of significant declines in agriculture and extractive industry employment, 25 percent of our citizens remain in rural areas. In the 1960's and 70's a growing manufacturing sector provided new employment for rural workers, particularly for a generation of rural women whose labor force participation grew rapidly. During the same period rural areas also participated in the growth of the private service economy, which between 1969 and 1979 produced 55 percent of all the new jobs in rural America. Rural people now make their living from a wide-ranging set of activities not unlike those of urban Americans. Manufacturing, trade, and services are the dominant industries in rural areas. This transformation of the rural economic base from a primary dependence on natural resource activities, including agriculture, to a dependence on manufacturing, trade, and services has increased the diversity among rural areas.

Another aspect of rural diversity is that, in spite of widespread decline in rural manufacturing, agriculture, and natural resource based economies, other rural areas have done relatively well. Job growth in the rest of rural America has exceeded 9 percent. Rural recreation-retirement counties have grown in population at more than four times the rate of other nonmetro counties, capturing most post-1980 rural population growth. This diversity of experience makes it much more difficult to design a national rural development policy, and strongly implies that targeting of assistance is important.

Post World War II farm consolidation improved the incomes of most families that remained in farming, and rural industrialization provided better jobs and higher incomes for many other rural workers. Other changes that modernized rural life were also taking place in the 1950's and 60's expanded rural electrification and rural telephone service, improvements in rural educational systems, better transportation linkages to urban markets, upgrading of rural housing quality, etc. Collectively, these changes meant living in rural America did not necessarily imply social or cultural isolation. But most of our rural territory remains sparsely settled with few towns of more than 5,000 or 10,000 people, and most rural economies remain relatively specialized. In fact, the process of local economic development in rural communities after World War II involved moving from one economic specialization to another, as the dominance of natural resource based industry receded. Many rural communities proved too small to achieve significant diversification of their economic base. The overall result was greater diversity among rural areas, but continued local dependence on a few major employers in a small number of closely related industries.

In the 1970's specialization seemed to be an asset for many rural areas. For example, mining and energy counties, riding the wave of rising energy prices and oil embargoes, experienced very rapid gains in employment and income. The economies of many other natural resource-dependent and farming areas were likewise buoyed by boom times in their basic industries. But boom and bust cycles have been frequent in the history of mining, forestry, and agricultural communities, and this time has been no exception.

Over the long-term, economic specialization is a serious handicap for rural areas, because structural decline occurring in a single sector can cause widespread dislocation threatening the viability of the entire community--there are simply no other expanding sectors to take up the slack when decline begins. For rural areas collectively the problem of specialization is made worse by the fact that entire regions may share a common rural economic specialty. Thus, stagnation and decline are not confined to a small number of rural communities.

Elements Of A Rural Policy

Macro Policy

The employment impacts of monetary and fiscal policy vary across regions, depending on the industrial composition of the regions. Overall, rural employment is slightly more sensitive to changes in monetary and fiscal policy than is urban employment. These differences are particularly pronounced in the nonmetro Northeast and South, and appear to be related to the relatively greater importance of manufacturing in these areas. Thus, the fact that the overall performance of the U.S. economy has been relatively weaker since the peak of the last business cycle in 1979 than it was in the two previous business cycles covering the 1970's, is a partial explanation for the relatively poor performance of rural economies in the 1980's.

The greater dependence of rural economies on farming, especially in the Great Plains, is another part of poor economic performance related to changing monetary and fiscal policy. There is evidence to suggest that agriculture experiences wider swings in prices and asset values as a result of sudden changes in macro policy than the rest of the economy, accentuating the boom and bust cycle farming communities have experienced since the early 70's.

Structural factors, including the serious deterioration in the competitive position of rural manufacturing and declining demand for the products of mining/energy industry are also important. In the two business cycles 1969-73 and 1973-79, rates of employment growth in nonmetro areas exceeded those of metro areas. But from 1979-86, the compound annual average rate of employment growth in nonmetro counties has fallen to only one-third that of metro areas. High real interest rates and a high-valued dollar since 1981, major consequences of the monetary and fiscal policies followed by the U.S. to bring inflation under control, have contributed to financial strains in farming and competitive problems in all rural industries. The dramatic decline in the relative performance of rural economies, however, seems to signal a long-term structural adjustment problem.

No set of sector-specific or community-specific rural development policies will be able to overcome slow growth of aggregate demand in the U.S. and world-wide, or to insulate rural commmunities from the effects of major changes in monetary and fiscal policies. Rural areas have a significant stake in stable macro policies that achieve the highest possible rates of overall economic growth consistent with reasonable price stability. Such policies may reduce the pace of adjustment in many rural economies, although they will not eliminate structural change. They also increase the opportunities for resources released from rural agriculture, natural resource, and manufacturing industries to be productively reemployed in new activities.

The rural economy is now an integral but distinctive part of the national and global economy. Thus, policies undertaken to achieve broad national goals have significant implications for the performance of rural economies. Education, communications, and transportation policies help to shape the future prospects for rural development. And income maintenance programs will determine the well-being of many rural poor. Rural interests are not likely to be paramount in shaping these national policies; but recognition of the unique economic, social, and institutional capabilities of rural areas is essential if they are not to be inadvertently disadvantaged by national policies.

Sectoral Policy

Public discussion of the need for and desirability of a U.S. industrial policy has largely disappeared, declining roughly in pace with the national economy's recovery from the severe 1979-82 recession and the reemergence of stronger urban growth. That recession, which hit goods-producing industries particularly hard (U.S. manufacturing lost 2.2 million jobs), followed a decade of unprecedented job, income, and population growth favoring rural areas. Rural growth came, in part, at the expense of urban areas. And the decade of the 1970's also saw serious structural problems begin to emerge in many urban-based manufacturing industries--steel, autos, etc. These experiences contributed to proposals to reindustrialize America, and eventually to the idea of a targeted industrial policy for the U.S.

Such a policy, according to its proponents, would channel resources from public and private consumption into needed infrastructure, research, and capital formation. The principal concern of industrial policy was to overcome a long-term secular decline in U.S. productivity growth, which was determining the Nation's competitive position. Tax reform and regulatory change, as well as programs to direct investment flows into specific industries and regions, were to be used to restore American industrial preeminence. There was disagreement, however, about whether the goal of industrial policy should be to accelerate the rate at which market forces shifted resources into growing industries, or whether it should attempt to support (and perhaps restore) the competitive position of declining industries and the places that depend on them.

Serious practical and theoretical questions have been raised about the appropriateness of public intervention with sector specific policies. For example, it is clear that monetary and fiscal policy have played an important role in creating the structural adjustment problems we are now experiencing. Since 1982, the Federal deficit as a percent of GNP has been at high levels, unprecedented for a peace-time, non-recession period. Rather than finance this deficit out of domestic savings, we have relied on foreign investors. However, between 1980 and 1985 the trade weighed value of the dollar increased by more than 50 percent, virtually guaranteeing a serious trade deficit because of its impact on the competitiveness of U.S. goods at home and overseas. The high-valued dollar also appears to have speeded up the product cycle, leading business firms to seek overseas locations for production of many goods as the only effective strategy to overcome large de facto cost increases. Whether exchange rate changes are the principal problem leading to structural decline in rural industries is an unanswerable question at this time. New labor-saving technologies may allow us to raise productivity and compete more effectively, if exchange rates fall far enough. Even so, it is unlikely that the U.S. will ever recover many of the jobs lost in low-skill, low-wage rural manufacturing industries such as textiles and apparel.

Because evidence of a fundamental decline in U.S. competitiveness is unclear, and because of the very real risk that a targeted program of industrial assistance would be primarily protectionist (attempting to prevent adaptation and change in the U.S. economy), sectoral policy does not now seem an attractive component of rural policy.

Territorial Policy

Rural development policy has most often focused on strategies to ameliorate differentials in levels of economic activity, growth, and rates of return between rural and urban "regions" (and to a lesser extent among rural places).

Mobility of resources is an important way of redressing such differences. In fact, the U.S. economy has been characterized by its capacity to move capital across sectors and between regions (and world-wide) in response to changing market forces. As economic opportunities shifted, large numbers of people have followed. The movement of individuals from areas of low returns to areas of higher returns is not without substantial economic and psychic cost, and given the importance of "place" in our Federal system, it has serious political costs as well. But public intervention to achieve more "balanced growth" is not necessarily without cost.

Most past Federal programs specifically aimed at rural economic development (e.g., Appalachian Regional Commission, Tennessee Valley Authority, Area Redevelopment Administration, and Economic Development Administration) have devoted the majority of their funds to public infrastructure, largely to serve goods-producing firms. There is little reason, however, to believe that future growth patterns in the U.S. economy generally will favor large increases in the absolute number or share of goods-producing jobs. Thus, there is little reason to believe that the expansion or location of manufacturing enterprises in rural areas will play a major role in solving existing economic stress. This raises serious questions about the future effectiveness of rural policy that focuses primarily on financing traditional kinds of goods-producing, industry-serving infrastructure, and promotes programs of local "smoke-stack chasing." Future rural physical infrastructure needs are more likely to be for facilities that reduce rural disadvantage in access to information (and communication).

Rural economic policies need to reflect realistic assessments of the process of structural economic change taking place in the U.S. economy, and potential futures of individual rural areas--their place in economic space, and the degree of urbanization of their region. These policies need to accommodate futures of stability or decline, not just growth. The role of State government has been substantially enhanced by the difficulty of addressing the diversity of rural conditions with national policy and programs. At all levels of government, however, we have been unable to envision and unwilling to design rural policy that includes the reality of decline, preferring instead the myth of universal growth.

The great diversty of rural economies, and the fact that economic stress is not the experience for all rural communities, increases the importance of targeting the public funds available for rural economic development and effectively coordinating programs at the local level. But many rural communities lack the institutional capacity to mobilize local resources, to utilize Federal and State programs, and to develop and carryout successful initiatives in cooperation with the private sector to stabilize or expand their local economies, or to plan for orderly decline. There is an important place for government-supported programs that facilitate a process of rural institutional capacity building, often call community development. Various models exist, including the Federal-State-local partnership of the Cooperative Extension system.

Clearly, an achievable goal for U.S. policy that focuses on rural economic development for the 1980's and 90's is coping with change. Such a policy is most likely to permit rapid overall U.S. growth, provide new opportunities to reemploy displaced rural (and urban) workers, and generate a political climate that makes public funds available for programs to ameliorate the economic stress of structural change.

Human Resource Policy

Outmigration from rural to urban areas was the dominant theme of U.S. poulation movement from the turn of the century until the 1970's. It is the dominant theme again in the 1980's.

The twenty-five years from 1945 to 1970 was a period of particularly rapid rural outmigration, largely because of the technological revolution in farming and the dramatic decline in the number of farms and farm population. It is not unusual to find rural counties in the Great Plains, the Corn Belt, and the deep South that reached their peak population in 1900-1910, and now have only 50 or 60 percent as many residents. Because young people are much more likely to move than older people (migration rates for people in their 20's are five times the rates of those in their 60's), the sustained period of outmigration has left the nonmetro U.S. with a lower share of people of prime working age (20 to 44) than the metro U.S. This is a serious constraint to future rural job growth for which there are no politically viable policy solutions.

Since many rural youth end up spending their working lives in urban areas, the success of rural educational systems has a bearing on the capability and skills of both our rural and urban work force. Unfortunately, average rural educational attainment is lower, and the average high school drop-out rate is higher than in our urban areas. Regional variations are noticeable, with the rural South exhibiting particularly serious educational disadvantage. These human resource problems also have their impact within rural labor markets. While cause and effect are not easy to sort out, and other factors are also at work, the relatively low-skill, low wage occupational structure in rural areas is importantly related to the low educational attainment of rural workers. In the manufacturing sector, the different occupational structure of rural firms has been a major source of slow job growth. Between 1979 and 1985 U.S. manufacturing employment actually grew by 10 percent, while blue collar manufacturing employment declined by 15 percent. Because blue collar jobs make up 75 percent of nonmetro manufacturing employment, decline in blue collar jobs has been disproportionately a rural labor market adjustment.

Most of the burden of the economic adjustments occurring in rural America falls on the human resources—displaced industrial workers, displaced farmers and other proprietors, and members of their households. Problems of job loss are exacerbated by difficulties individual workers may face in shifting from production jobs to white collar jobs in the service sector. Skills gained in farming, mining and blue-collar manufacturing employment frequently are of little direct use in the services sector. Also, pay scales are substantially lower in many parts of the services sector. Most who succeed in making the occupational transition may have to accept changes in job tasks. Many may have to move their residences to find new jobs. Thus, human resource policies that equip people for major changes in occupation, and that rely on broad multi-county, regional, and national labor markets in which to seek reemployment opportunities for displaced rural workers, are critical to successful amelioration of current rural economic stress.

Unfortunately, not all displaced workers will make a successful transition to new private sector jobs. Older workers, those with work-limiting disabilities, and those who lack basic educational skills will be difficult (sometimes impossible) to place. For these people, as well as many of the long-term rural poor, Federal and State public welfare programs, not labor market programs, will determine their future well-being.

Policy Choices

Increased integration of national and international markets, macro and fiscal policies that worsened the U.S. competitive position, and the changing industrial and employment structure of the U.S. economy have led to widespread stagnation in rural economies in the 1980's. The resulting economic stress has been especially serious in rural areas dependent on natural resources, including agriculture, and in manufacturing counties.

The economic adjustments now creating stress in rural areas present a dilemma for territorial strategies. Promoting growth where people currently live and in occupations or industries in which they now work is the least disruptive to existing community and family structures, and is the most politically attractive. But current rural economic adjustments appear to result largely from real competitive disadvantages, not failures of information or capital markets, or from generally inadequate rural infrastructure. Thus, rural policy that provides public subsidies for development in-place may trap resources in inefficient businesses or locations, reducing national productivity and competitiveness. The overall regional and national economy is better served by policy that facilitates a smooth and rapid movement of capital and labor from weaker to stronger industries, and from less competitive to more competitive locations.

The future course of farm employment is almost certainly one of decline. The declining significance of agriculture as an employer of rural workers and as a source of rural income growth has made farm policy ineffective as a strategy to improve general rural well-being. The interests of the agriculture sector and the territorial needs of rural areas would be better served by treating each with separate policies that have distinct objectives.

Diversity among rural communities makes the task of designing a national rural development policy more difficult. Some rural areas may need assistance, others do not, and the kind of assistance likely to be needed varies from State-to-State, and community-to-community. This situation enhances the role of States in developing and delivering rural programs. States may be able to promote collaboration among nearby rural communities, helping each one to identify a specialized role to play as a "neighborhood" in their rural regionl. Regional rural approaches might make possible some economies of greater scale and the attractiveness of larger and more varied labor markets, thus enhancing the range of feasible development options.

Ultimately, the choice of national rural development policy is political, a balancing of the interests of groups whose future opportunities are being affected by widespread stress and structural change in the rural economy. But it is a blalance in which the public at large, not just the most directly affected groups, also has an important stake. The general public, as tax payers and consumers, expect representative government to do more than mirror the power of various special interests. Given the diversity of rural conditions and interests, much of the responsibility for devising program strategies to deal with rural stress will fall to State governments, and successful implementation of programs will depend on the leadership of rural communities. There are, however, significant externalities resulting from rural structural change that provide the economic rationale for a Federal role. That role includes creating a macro environment conducive to economic growth, facilitating multi-state or multi-community approaches to solving rural problems, and assuring adequate levels of investment in rural human resources. The Federal Government also has a comparative advantage in providing information and conducting analyses of broad national and rural economic change that help to shape policy.

How well rural people are educated and trained has the broadest national implications. Many rural communities undergoing structural change will be unable to capture the benefits of higher spending on improved basic education or occupational and skill training and retraining, because graduates of these programs will often leave the community to find better labor market and entrepreneurial opportunities. States may face a similar problem in capturing the benefits of human resource investments. Thus, Federal programs to improve the human capital endowments of rural youth and the rural workforce (including workers dislocated in the current industrial restructuring) are the only way to overcome chronic underinvestment in rural human resources. They also have a major impact on overall economic performance of the Nation, not just on successful rural development.

Some will argue for a broader Federal role based on their perceptions of inequity resulting from the rural stress of structural change. There are human costs associated with geographic and occupational mobility, just as there are economic (and budget) costs associated with policies to slow the process of change. Historically, the strong performance of the U.S. economy has been enhanced by its ability to adapt to changing technologies and marektplace conditions. While there appears to be little disagreement that future adaptation will be required, and that overall public policy should be designed to facilitate that process, there is considerable debate about how structural change should proceed. The question is whether it is appropriate and efficacious for public policy to attempt to prevent structural adjustment for certain industries and to discourage displacement of particular workers in order to try to guarantee the growth of nearly every rural community.