Three Papers on Rural Development

David Freshwater

November 2000
Staff Paper 00-14

About the Author

David Freshwater is a Professor in the Department of Agricultural Economics and in the Martin School of Public Administration and Public Policy at the University of Kentucky. Dr. Freshwater is also Program Manager for the TVA Rural Studies Program at the University of Kentucky.

Three Papers on Rural Development

Preface

The three papers assembled in this publication were written for three different international conferences held in the month of June 2000. At each event, I was invited to provide a North American perspective on rural development to a primarily European conference audience. While there is some overlap in the papers, for the most part they approach the problem of rural development from different perspectives. The first paper, presented in Potsdam, Germany, is mainly focused on employment prospects in rural areas; the second, presented in Sophia, Bulgaria, provides more of an historical review of rural policy, and looks at what can be expected from policy in the future. The third paper, presented at a conference in Aberdeen, Scotland, looks at how the new economy has changed production opportunities for rural areas and, in the process, made much of traditional rural policy obsolete. Together, they provide a context for thinking about development prospects for rural places in the industrialized world, and the role of governmental development policy.

At each conference, a number of key issues either surfaced or lay just beneath the discussions. The first was the changing role of agriculture in the rural economy. Just as in North America, Europeans are facing the reality that farming can no longer provide employment for the numbers of people it did in the past. In those regions of Europe where small farms still predominate, this is causing important local adjustment problems. As a result, the role of agriculture in society and the economy is receiving considerable attention. A second issue is the dilemma of uneven growth within Europe, especially between Western and Central/Eastern Europe. The main policy dilemma is the difficulty of absorbing a large low-skill pool of labor that is concentrated on farms in the rural areas of Eastern Europe. Only two options seem possible—either jobs will have to be created where these people currently reside, or ways to accommodate large scale migration will have to be developed. This is not a problem unlike that faced by the United States in the 1950s. Historically, large migratory flows from the rural South to the urban North were accommodated by expanding manufacturing employment in both urban and rural areas. At the time, the United States and global markets for manufactured goods were able to absorb these workers. Now, however, urban manufacturing, both in Europe and North America, has little absorptive capacity because production technology has changed in ways that reduce the need for unskilled labor. Similarly, rural manufacturing is facing increased competitive pressures from firms in developing nations where labor costs are an order of magnitude lower. And so, both continents must also develop a new solution for rural areas with an excess supply of low-skill labor.

In Europe, all of these issues are complicated by the fact that the various nation states are still the way people view the continent. Differences in language, culture, and values make adjustment much harder than, say, within the United States. But as North America moves to a continental trading and production structure, some of the same problems of labor force rigidities and flows are appearing. On both continents, a central question is how do national governments respond to these changes in ways that protect the interests of the various members of society.

While no solutions appeared from the discussions at these conferences, at least in Europe, the problem has been recognized as being serious, both within the academic community and by different levels of government. By contrast, in North America, the most widely held belief is that market forces will bring about a new equilibrium without any significant role for public policy. For rural areas, this is an important topic because the availability of employment opportunities is necessary if they are to survive.

Paper One: The Promotion of Employment and Economic Development[1]

Sustainable development is generally discussed in terms of environmental considerations, but from a rural community perspective, sustainable development must address how the people of the community generate the income to maintain their rural lifestyle. In those instances where employment is considered as part of sustainability discussions, it is too often thought of in static terms—jobs that will last. But the reality of both modern rural and urban life is that economic conditions rapidly change, and so a discussion of sustainable employment has to be conducted in a dynamic context where different types of employment evolve as economic conditions change. While market signals alone can, in principle, provide the information and the conditions for this type of dynamic process, the argument of the paper is that the nature of rural areas makes it unlikely for markets alone to allow sustainable employment; so there is an important role for government policy to help define a development path for rural places that will allow the residents to contribute to the larger society, and to do so while remaining in rural areas.

The Failure of Convergence

Since the mid-1990s, economists in the developed nations of the world have spent considerable time trying to determine why some countries have experienced lower rates of unemployment than others (Andriessen; Commission of the European Communities). These differences in unemployment rates have persisted (Figure 1) despite greater degrees of global integration through more open trade policies and the creation of a much more open global capital market. Macroeconomists and trade theorists are hard pressed to explain the persistence of unemployment rate differentials in this environment because it seems to violate some basic assumptions of economics concerning efficient market behavior and the "law of one price." Given enhanced factor mobility the convergence of unemployment rates among economies at similar levels of development would seem to be an inevitable outcome.

However, convergence of unemployment rates does not seem to be taking place at a very fast pace. To date, the main explanation that has been advanced for the slow movement to more uniform unemployment levels has been differences in government policy (OECD, 1994a, 1994b, 1995a). Those countries with lower unemployment rates are thought to have more flexible labor markets where wages can fluctuate, employers have greater ability to modify the size of their work force without any major penalty, and there are fewer hidden costs for employers in the form of payroll taxes and other restrictions on staffing.

There is, however, another explanation that may be equally useful in understanding what has happened to employment numbers. It is the recognition that, for most people, labor markets are not international or national in scope, but are local. This is an unpleasant proposition for macroeconomists and trade theorists because it means that one of the key factors of production is far less mobile than their models require if they are to behave properly. Limited worker mobility means that labor markets can be tight in some regions, and have an excess supply in others.

[1] Prepared for Rural21. Potsdam, Germany. June 4-8, 2000.

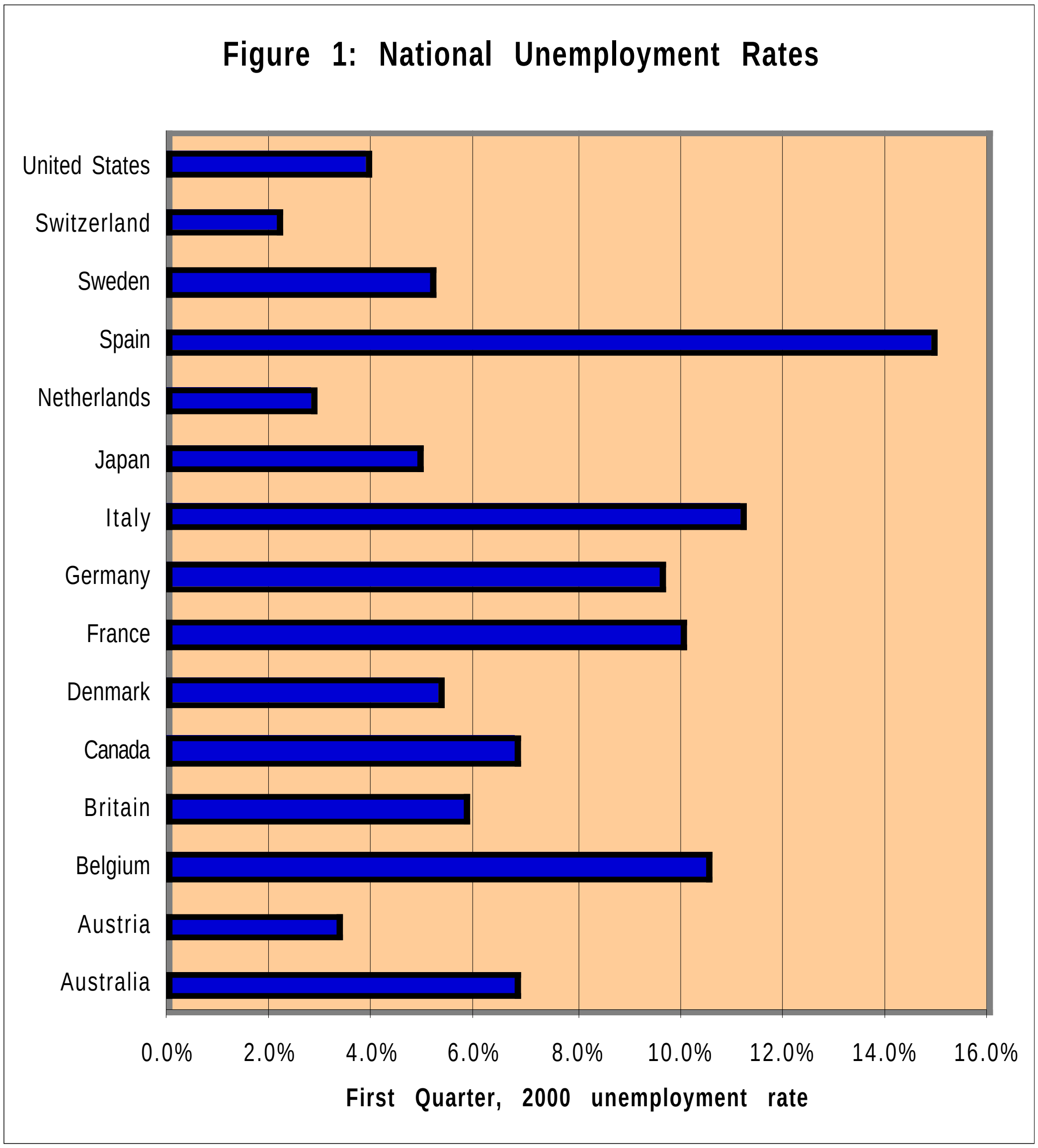
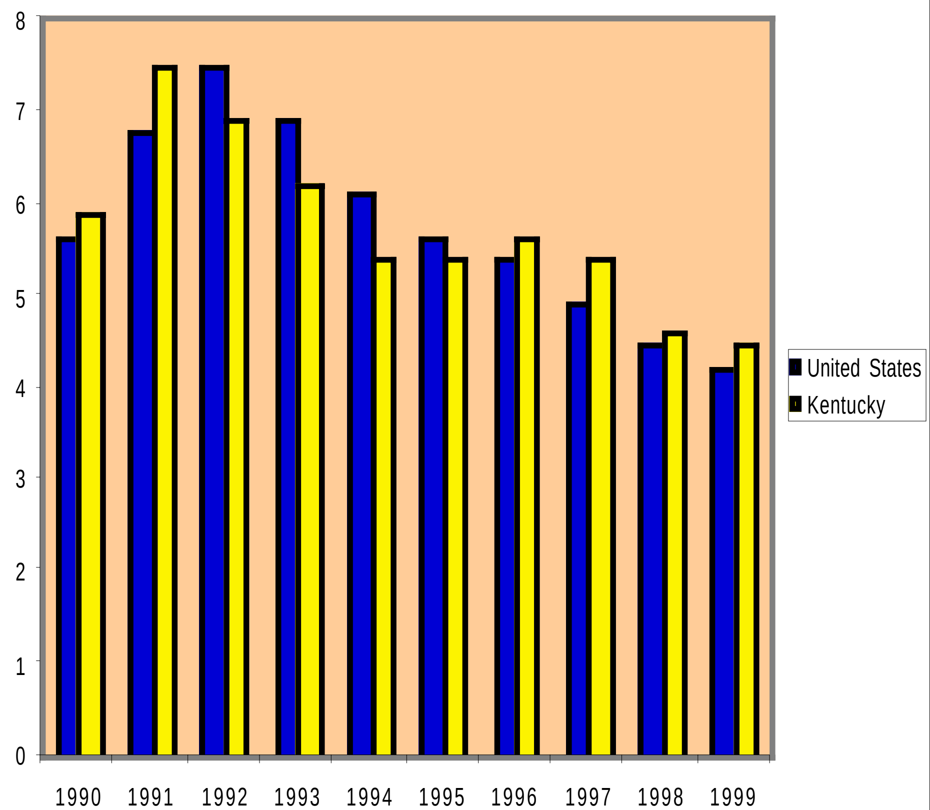


Figure 1: National Unemployment Rates
United States
Switzerland
Sweden
Spain
Netherlands
Japan
Italy
Germany
France
Denmark
Canada
Britain
Belgium
Austria
Australia
0.0%
2.0%
4.0%
6.0%
8.0%
10.0%
12.0%
14.0%
16.0%
First Quarter, 2000 unemployment rate

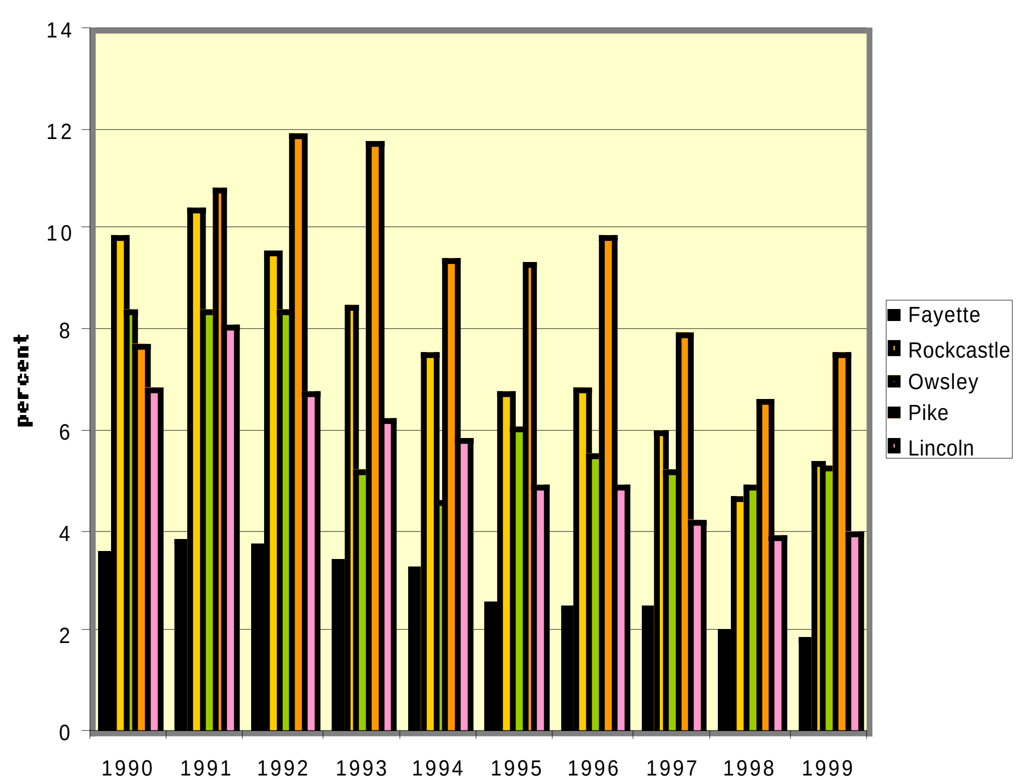
We see in Figure 2 that the state average unemployment rate for Kentucky tracks with the national average rate over the ten year interval, suggesting that variability in local labor markets continues to be masked at the state level. However if sub-state data are used a different picture is seen (Figure 3). Fayette county, a relatively large metropolitan county that contains the city of Lexington, has an unemployment rate that is significantly lower than is found in the four smaller rural counties that are also shown. These counties are all within a two hour drive of Fayette county and one, Lincoln, is close enough that some people already commute to the Lexington metropolitan area. In this environment of close proximity, it is puzzling that we do not see more labor flows and evidence of convergence. Given their small population, even small flows out of the rural counties would have a noticeable effect on their unemployment rates.

Figure 2: U.S. and Kentucky Unemployment Rates



A potential explanation is that the skill composition of many of those who are unemployed in the rural areas is low enough or different enough from what is demanded in other areas that either commuting or moving would not increase their income enough to make it a rational decision. Rural low-skill individuals who would earn the minimum wage may determine that commuting costs to Lexington are too high, while higher costs for housing and other living expenses in Lexington eliminate any benefits from moving. The implication is that, while the relevant labor market may well be national or global in scope for some individuals with high value skills, for most low-skill people their labor market is not much larger than the community they reside in.

Figure 3: Selected County Unemployment Rates



Consequently, national unemployment rates mask considerable variability in employment prospects for people with different skills and who are located in different places. We know that where information costs and transaction costs are high, relative to the market value of the commodity, trade is restricted. For example, unskilled workers in a small town in Kentucky may lack the resources to identify jobs in another part of the state, and even if a job was recognized, they would certainly have a hard time assembling the funds to allow relocation. Beyond the significant direct financial outlays, there are also the very real costs of leaving one's birthplace, family and friends, and assimilating into a different environment. Although we may observe what are clearly large outflows of people from high unemployment areas, these adjustments are rarely enough to equilibrate unemployment rates.

Immobility beyond the local labor market is clearly the case for most people in rural areas. There are, however, significant exceptions to this rule. In many rural parts of the United States, there has been a large influx of Hispanic workers from Mexico and Central America in the last decade. These workers have lower formal skills than much of the indigenous labor force, yet they have almost always found work, often in occupations that the local population found undesirable. This has led to a phenomenon of high levels of unemployment among the domestic population of low-skill workers, and high rates of employment among low-skill immigrant workers who have traveled thousands of miles to take jobs that pay low wages. If nothing else, the existence of this situation makes it clear that labor markets do not equilibrate as easily or quickly as economists typically assume, and that local labor markets are connected to the larger economy.

An obvious explanation is that the economies of the United States and the Latin American countries are at such different development and income levels that the situations of the two groups of workers are not comparable. For the immigrants, low wages in the United States provide far more opportunity for income and advancement than are available in their home country, so it is rational for these people to travel large distances to take advantage of them. At the same time, for rural Americans, the change in well-being associated with moving to take a low wage job is small compared to the costs of relocation, so they remain unemployed. The major differences in opportunity cost between two groups who superficially appear to be in the same position can explain an otherwise perverse situation.

Nevertheless, the notion that for most people labor markets are subnational in nature is important for both understanding current conditions in different areas and for designing public policy. It suggests that a part of our rural development effort should focus on either improving the workings of local labor markets by improving information, enhancing employment opportunities, or by providing people with the resources to relocate from areas of limited employment potential to places where work is plentiful.

Employment and Rural Development

Enhancing employment opportunity in rural areas is a necessary condition for economic development to occur (OECD, 1995b). While economic development involves more than job creation, it is clear that, in the absence of employment opportunity, sustainable economic development is not possible. Communities may be able to improve the degree of social cohesion, they may be able to improve the appearance of the local environment, and they may be able to develop both their physical infrastructure and the level of human capital, but if jobs do not exist, it is unlikely that the community will survive. In the short-term, government transfer payments may provide an infusion of income that allows a local economy to exist, but without a strong economic base that generates earnings from outside the community, the chances of long-term development are minimal.

In industrialized nations where local economies are integrated components of the national economy and national policies reach citizens in all parts of the nation, it is reasonable to ask whether specific attention should be paid to rural areas, rather than simply relying upon national programs. While the problems of rural people and places are in general the same as those in urban areas, there are important differences that justify a specific geographic focus.

> Rural areas differ from national areas in a number of ways. Rural areas have lower labor force participation rates, which is symptomatic of their smaller degree of integration into the broader economy. Residents of rural areas also tend to be less well protected by the social safety net and less subject to employment protection than their urban counterparts. Rural labor markets tend to be thin, with a limited number of employers, and in many remote areas the potential supply of workers is far in excess of feasible demand. Because rural workers are predominantly engaged in the production of low wage, low-skill tradable commodities they are highly exposed to the effects of globalization. But, because they have low-skill and education levels relative to urban workers, and there are fewer employment opportunities in rural areas, many face a particularly severe transition to the global economy. (OECD, 1995b, p.35)

Thus, a central issue in rural development policy for all levels of government—national, state, and local—is how can the chances to enhance employment be improved? Historically, rural development policy by national governments has not had a strong direct focus on enhancing employment. Instead, rural policy has tended to be defined in terms of either sector-based policy or in terms of place-based policy. In the first case, governments provided support to some specific rural industries, most commonly agriculture, in the expectation that enhancing the income of the sector would in turn create direct and indirect employment effects that would benefit the rural populace. In addition to agriculture, the most common sectors for this type of support were the other primary industries, forestry, fishing, and mining. To the extent that these sectors were either only found, or mainly found, in rural areas, their support implicitly defined rural policy. For the second type of policy, governments identified specific places and provided resources to those places to enhance their development in the belief that by improving the infrastructure of the community, or by providing tax concessions to firms locating there, the level of economic activity would increase and once again employment opportunities would result. This assistance could be justified in terms of efforts to stimulate "growth poles" or for social equity reasons, in the case of providing assistance to specific communities that had fallen below some performance threshold, such as average family income level or level of unemployment.

Industrial sector-based approaches have a significant record of past success, but also notable failures (Bartik). However, they are less likely to be effective in the future. Traditional rural sectors, like agriculture and the other resource-based industries, are shedding jobs and replacing labor with capital. In the process, they not only create less direct employment, but they also provide less indirect employment because their industrialization replaces linkages to the local rural economy with linkages to the larger regional or national economy as a source of inputs and markets. Similarly, low-skill manufacturing, which has become a major source of rural employment in the last fifty years, now faces competition from firms with even lower labor costs in developing countries. As a result, place-based efforts to attract new business now face lower success rates, as firms increasingly consider foreign as well as domestic sites. Even when attraction efforts are successful, they often lead to people from outside the community receiving a large share of the new jobs, because local workers lack the necessary skills, so the social or economic indicator that triggered the recruitment initiative is not affected.

This suggests that, instead of rural development policy being structured in terms of helping places and sectors, it should be organized as a way to help rural people (Winters). By ensuring that people have appropriate skills, you ensure that they have the best chance to lead a productive life and, by doing so, they can contribute to a rural place if they choose to reside there. Or, if they determine that their future lies in another place, they leave the rural community with the skills to be successful somewhere else. Given the rapid pace of change in our economy, the necessary skills are more likely to be defined in terms of general knowledge that will allow the acquisition of more specific functional skills as markets dictate, than narrow technical credentials.

This suggests that policy to enhance employment opportunity in rural areas should emphasize the accumulation of human capital.

The changes we are seeing in the industrialized economies make it clear that the set of skills a person has is a major determinant of how well they will live (Eberts and Montgomery; Gittelman and Howell). In the United States where unemployment rates are at record, or near record lows, in most states there are still large pockets of high unemployment where worker skills are limited, mainly in rural areas and urban cores. In a decade of record prosperity, we find that the real income and wealth of the least skilled portion of society has declined, because they are unable to effectively participate in the economy.

The desirability of thinking about rural policy in terms of enhancing workforce skills is hardly a novel idea. In 1974, well before the effects described above had brought about significant changes in rural labor markets, Ray Marshall noted, "... that economic development depends heavily upon the quality of human resource development" (Marshall, p.174). His ideas have been echoed by other studies over the subsequent decades. (Bollman and Bryden; Galston and Baehler; MDC; Rowley and Freshwater). Given the consistency of the policy recommendations, it is hard to understand why we have failed to make much progress in implementing the suggestions. One explanation is that the rapid pace of structural change over recent decades has made it harder to define appropriate policy.

Structural Change in Rural Economies

The important changes taking place in the economy are well known, and their impact on rural places is clear. They include: globalization, falling transport costs, rapid technological change, the shift from manufacturing to services as the leading sector in the industrialized world, and the explosive growth of modern telecommunications (Drucker; Wood). While all parts of our society are affected by these changes, rural areas have an especially high level of exposure. Because rural places have always produced tradable commodities, like agricultural products and manufactured goods, they have always had a high degree of exposure to international trade. This exposure has increased as a result of lower trade barriers and falling transport costs. For those rural industries that are efficient, the effect has been an expansion of markets, but for many rural industries the result has been unpleasant, as lower cost foreign competition has driven down revenue and, in many cases, captured markets.

Rapid technological change has had the effect of reducing the useful life of capital investments and forcing firms to continuously modernize their operations to remain competitive. In this environment, it is harder for firms with lower sales volume, or that are distant from the source of innovations, to remain competitive. If a firm cannot rapidly recover its investment by selling large volumes of output in a short period of time, it may not generate the resources to make the next round of investments to modernize its technology. Similarly, firms that are late adopters of a technology because they are far away from its origin, face the dilemma of an increasingly shorter time period before their production processes become obsolete. For each new innovation, the late adopters face a reduced time interval to recover their investment costs and are thus more likely to fall behind and fail. Rural firms are more likely to face these circumstances than are urban firms because they are often smaller and are not as well connected to sources of innovation.

Over time, the industrialized economies have evolved from an economic structure that was based upon primary industries, to one dominated by manufacturing and now, to one that is led by the service sector. The result has been a steady erosion in the importance of rural places and a parallel rise in the importance of urban centers (Figure 4). Not surprisingly, over time the population has shifted from being primarily rural to primarily urban. Although a large minority of the population remains in rural places, the majority is found in urban centers. While services are the largest single sector in urban and rural places, the mix of service industries varies considerably between the two types of place. Both rural and urban communities have consumer services, such as, retail banking, restaurants and other forms of stores; personal services like barbers, lawyers, and insurance agents; and medical and educational facilities.

However, urban centers also have advanced producer service sectors, such as, engineering firms, financial specialists, and software development firms that are rarely found in rural places. Even for industries like banking and medical care, the mix of activities varies greatly between rural and urban places. In urban centers, bankers engage in retail lending but also in corporate finance, while urban medical care involves research, as well as the standard medical function of caring for patients. In the case of hospitals, certain types of advanced care are not available in rural places because the volume of demand is too small.

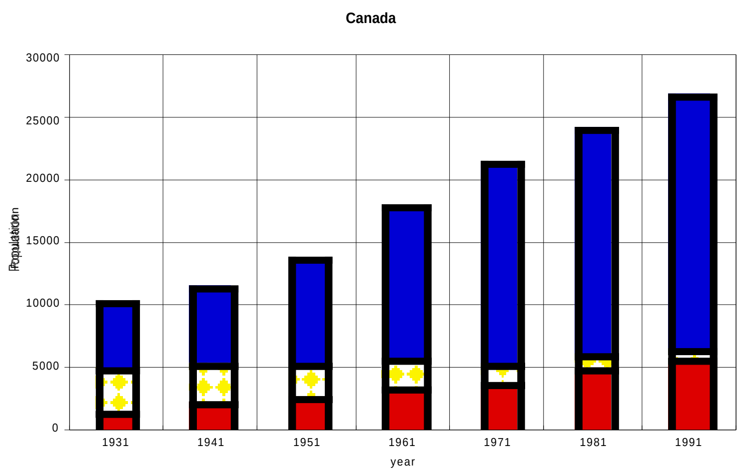
While differences among urban and rural function existed during the era when manufacturing was dominant, the general assumption was that over time manufacturing firms in a given sector migrated from urban to rural areas, with initial stages of the product cycle taking place in urban areas, and later stages in rural places. This provided rural workers and places with a stream of job opportunities as the next round of firms left urban places to fill the void left when the previous round of rural firms declined. However, there is little evidence that a similar process is happening with advanced producer services because they seem to require a large critical mass of close physical linkages both to other firms in their industry and to supporting firms in related industries (Coffey). As a result, there is less chance of rural places experiencing trickle down benefits from the shift to a service-based economy.

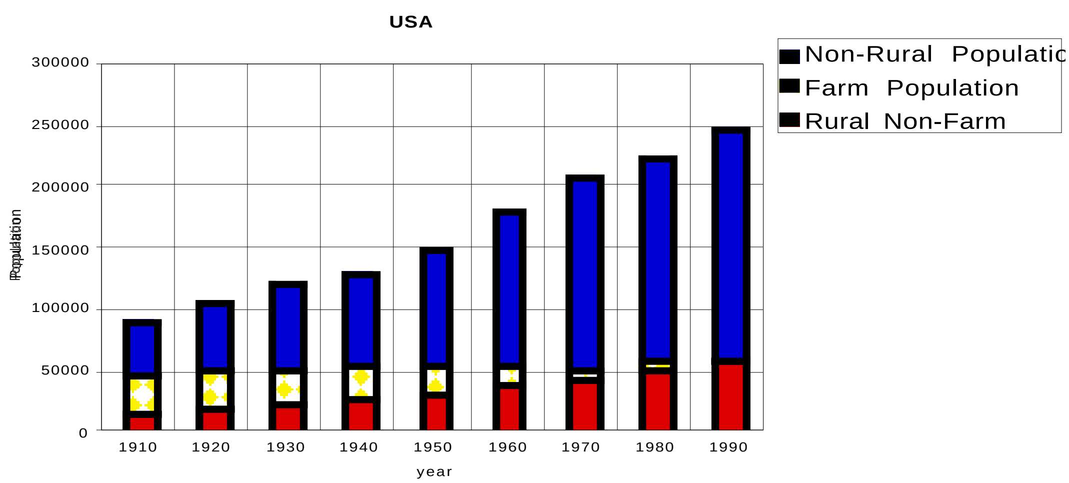
The final and most recent factor is the rapid growth of advanced telecommunications and computer usage over the last decade. The essential feature of all forms of telecommunications, including the Internet, is that they are network industries. In a network industry, the value of being part of the network increases as the number of people that participate in the network increases. For example, fax machines were of limited value so long as they were so expensive that very few people had one. Once they became cheaper and more people had one, they became much more valuable to all users because they could be used to communicate with a much larger segment of the population. Thus, the value of e-mail increases as more of the people you want to communicate with have access to the system. Similarly, e-commerce becomes more attractive as a business medium when more people and firms are Internet users.

However, the converse of the benefits of a network industry also holds. As a greater share of the total population makes use of the network, the cost to those remaining outside the structure increases. Individuals who either lack access to modern telecommunications technology, or who are unable to use it, now face a significant penalty in terms of their choices as consumers and in their opportunities for employment. Over time, the size of this penalty is likely to grow. Rural residents make up a larger share of this group than their population share would suggest. As modern telecommunications continues to evolve and dominate the way the way business is conducted, employment opportunities for rural residents will be increasingly influenced by their access to the systems.

While differences among urban and rural function existed during the era when manufacturing was dominant, the general assumption was that over time manufacturing firms in a given sector migrated from urban to rural areas, with initial stages of the product cycle taking place in urban areas, and later stages in rural places. This provided rural workers and places with a stream of job opportunities as the next round of firms left urban places to fill the void left when the previous round of rural firms declined. However, there is little evidence that a similar process is happening with advanced producer services because they seem to require a large critical mass of close physical linkages both to other firms in their industry and to supporting firms in related industries (Coffey). As a result, there is less chance of rural places experiencing trickle down benefits from the shift to a service-based economy.

Figure 4: Changes In The Farm, Non-Farm Rural and Urban Populations In Canada and The United States





Population in thousands

The final and most recent factor is the rapid growth of advanced telecommunications and computer usage over the last decade. The essential feature of all forms of telecommunications, including the Internet, is that they are network industries. In a network industry, the value of being part of the network increases as the number of people that participate in the network increases. For example, fax machines were of limited value so long as they were so expensive that very few people had one. Once they became cheaper and more people had one, they became much more valuable to all users because they could be used to communicate with a much larger segment of the population. Thus, the value of e-mail increases as more of the people you want to communicate with have access to the system. Similarly, e-commerce becomes more attractive as a business medium when more people and firms are Internet users.

However, the converse of the benefits of a network industry also holds. As a greater share of the total population makes use of the network, the cost to those remaining outside the structure increases. Individuals who either lack access to modern telecommunications technology, or who are unable to use it, now face a significant penalty in terms of their choices as consumers and in their opportunities for employment. Over time, the size of this penalty is likely to grow. Rural residents make up a larger share of this group than their population share would suggest. As modern telecommunications continues to evolve and dominate the way the way business is conducted, employment opportunities for rural residents will be increasingly influenced by their access to the systems.

In particular, e-commerce will play a large role in the future development of rural areas. The government of New Zealand has recently characterized e-commerce as having potentially the same impact on the economy of New Zealand as the introduction of the freezer ship did in the nineteenth century. The freezer ship completely transformed New Zealand by providing the opportunity for a remote rural nation to ship its principal product—lamb—to the rest of the world. In the same way, the adoption of the Internet is seen as providing a time and distance eliminating link that can allow companies in New Zealand to have access to markets anywhere in the world (Ministry of Commerce).

The same effect holds for other rural places. The advantages of e-commerce are that small companies can be present in as many markets as large companies, without having to have a physical presence; small companies can produce efficiently even though each market absorbs only a few units of production; and the Internet provides a source of new ideas and information that may not be available otherwise. However e-commerce is also a threat because it provides rural customers with a new set of suppliers who may be able to provide a wider range of products, lower prices, and even faster delivery than traditional rural businesses.

The critical question is how well positioned rural places, businesses, and people are to make use of the Internet. Access to the Internet requires, first, that the community has an adequate telecommunications infrastructure and access to an Internet service provider. In many rural places, the local telephone switch may not be capable of hosting fast Internet access, and local access may not be available. As the speed and complexity of Internet commerce increases in the future, more rural areas are likely to experience degradation in their access because the physical limitations of the local telephone network will restrict the types of services they can obtain.

Secondly, access depends upon having a computer and the skills to operate it, as well as the financial means to pay for connection charges. While these costs are falling, they still represent a major barrier for many rural residents, particularly the necessary level of skill required for their use. For example, as recently as 1996, fewer than one third of residents in rural areas of the southeastern United States knew how to operate a computer for basic functions like word-processing, data entry, or e-mail (Ilvento and Rupasingha).

The rapid evolution of the computer sector provides a clear example of the importance of learning basic skills that can be applied in a variety of situations, rather than receiving narrow technical instruction. Computer skills that were in demand ten years ago, such as computer operators and data and text entry functions no longer exist, and those trained in these narrow areas are once again looking for employment.

Differences In Rural Conditions

A major problem for all forms of rural policy is the diversity of rural conditions. While it is accurate to describe rural places as generally lagging behind urban places in terms of indicators like levels of income, employment rates, or education and skill levels, there are huge variations among rural places, and some rural places perform better than do their urban counterparts. In a very real sense, there is greater homogeneity within the set of large urban places in terms of the composition of the local economy and the characteristics of the population. Small places, by contrast, differ as much from each other as they do from large urban places.

In terms of income and skill levels of workers, there are also large regional variations. For example, in the United States, concentrations of workers with very low-skill levels and correspondingly high rates of poverty and unemployment are now found in a relatively small number of specific parts of the country, compared to the extent they were thirty years ago. Over time, the number of these pockets has declined substantially, so that all the places that remain are the most intractable cases. This creates a painful policy dilemma. As we would expect, earlier development policy appears to have had some impact on those places that were in the best relative condition. But while this indicates there may in fact be a benefit from policy interventions, the magnitude of the problem has been reduced. Consequently, the perceived burden on society at large from having under-utilized rural workers is smaller, so there is less support from the general public for policy interventions. Yet at a time when interest is waning, those places that remain in poverty will require major infusions of assistance because their problems are so severe. In addition, because the number of rural poor is now relatively smaller, they constitute a less powerful political force and their concerns can be more easily ignored.

Employment Opportunities

In a society where computer skills are increasingly a determining factor in employment opportunities and earnings levels, the lack of computer knowledge and other technical skills is a critical barrier to economic development (Wood; Wren). Historically, rural residents have been able to be productive parts of society even when they had lower levels of formal education and fewer skills. Informal artisan skills were often more valuable than formal education in primary industries and in many types of manufacturing. Piore and Sabel argued over a decade ago that technology has changed manufacturing in one of two distinct ways: Either production has been reorganized so that unskilled labor can perform most functions, making developing countries candidates for production sites, or the underlying technology has become so sophisticated that it can only be mastered by those with strong formal education and a significant amount of technical training.

These changes have limited employment opportunities for much of the rural labor force. Other changes have also decreased opportunities for those in rural areas with limited qualifications. In the past, outmigration to urban areas was a potential solution. Historically, rural areas have been a major source of labor for urban centers especially as agriculture shed workers. Now, however, the lack of jobs for the unskilled in rural areas is matched by a similar shortage in urban places. Further, many of the lower skill urban jobs are now being filled by immigrants from developing countries who are prepared to work for lower wages than are domestic workers. As noted earlier, this is also becoming the case in rural areas. Finally, most opportunities for emigration to other countries, which historically allowed a significant outflow of rural workers, have disappeared. Now immigration policies in virtually all countries allow only skilled applicants to receive visas.

Another important factor is the changing nature of the employment relationship. Twenty years ago in North America, people still believed that if they found a good first job there was a high probability they would remain with that employer for the balance of their work life. Even if they experienced periods of unemployment, they could still expect to be recalled to work when economic conditions improved. Currently there are few expectations of lifelong employment in North America. Schools now counsel children to expect to work for at least six employers and in a diverse range of occupations during their time in the labor force. To be successful in this environment, labor market participants require a strong formal education that prepares them for continuous learning (Texeira).

Many rural workers do not have these skills. This, and the combination of a thin local demand for labor, only having job-specific skills that are either unwanted or in ample supply, and an inability to effectively retool because of a deficient general education, leaves workers who lose their jobs in a position where they have limited prospects for reemployment. While this is a considerable problem for workers of all ages, the plight of middle-aged workers is particularly severe. Older workers may be able to retire early and the young have the possibility of learning additional skills that can lead to employment, but the middle-aged are less able to rely on either option.

Other significant factors in the nature of work are the increased use of contract or temporary employees instead of permanent workers, and the flattening of the management hierarchy which eliminated many low level management positions. Both of these reduce the opportunity for direct employment in a firm, and the latter has the important effect of limiting mobility within the firm. In the past, a "jobs ladder" existed where people began in entry level positions and over time acquired the experience to move up the company hierarchy. Not only did this provide an individual with the prospect of an improved standard of living, but it also allowed people to regularly enter the firm at the lower levels. Now, there is a greater tendency to hire people for a given task and keep them there, rather than to use "on the job training" to facilitate promotion. An obvious consequence is a reduction in the amount of informal job training carried out by firms.

This is especially significant in rural areas because there may be no other prospects for job training beyond those provided by the employer. In small and remote places, prospects for formal job training are limited. While the Internet may address some of these problems, there are many skills that require more direct contact during the training period. Over time, if workers with specific skills cannot be replaced, the health of the local economy is threatened because their services are no longer available to businesses, and future production may be limited.

Balancing Recruitment and Entrepreneurial Strategies in Local Development

Many rural development strategies emphasize the recruitment of branch plants as a way to create jobs in a community. Various types of assistance are provided to the company as a means to attract it to the region. Critics of this process argue that it transfers public funds to private companies and has little effect upon actual location decisions. Despite these criticisms, the practice remains widespread because it results in a company coming to the community with an existing set of markets, expertise in a specific production technology, and a large body of resources. For many communities, the potential opportunities provided through recruitment are seen as exceeding the costs.

However, for recruitment to be an effective development strategy, there should be long-term benefits to the local labor force in terms of skill enhancement. Initially, a number of the jobs may have to be filled by non-residents of the community rather than local people, but this may be necessary if these skills are not available. Over time, the company should be willing to provide training for local workers so they can fill the various positions. Similarly, recruited firms should be encouraged to develop local labor supply chains to the full extent possible because this allows the community to expand the range of benefits from the firm.

Communities must be realistic in their recruitment actions. The nature of the product cycle is that firms become obsolete or locations become unprofitable. This means that recruitment is an ongoing process. It is this phenomenon that makes the effort to improve labor force qualifications important. When a recruited firm leaves the community, if the human capital of the community has been improved during its tenure, then the chances of finding a replacement enterprise or starting locally owned businesses are improved.

The creation and expansion of locally based businesses is the main alternative to the recruitment of firms from other areas. Locally based businesses have the advantage of being within the community, so the expense and uncertainty of recruitment is not required. They are also more likely to have developed local supply and marketing relationships, so local linkages may be relatively more important than in the case of a recruited firm. It is also widely held that local businesses are less likely to leave the community for another location.

However most locally based businesses are small, and very few can be expected to grow significantly. This limits their employment effect. In addition, few locally based businesses add significant amounts of new human skills or new knowledge to the community. Indeed, a major problem of a locally based development strategy is that it tends to be inward looking rather than externally focused. Locally based businesses have to make major efforts to gain information about the larger economy, and the cost of such efforts is often more than they can afford.

This suggests that a balance of recruitment and locally based development is important if employment opportunities are to be expanded. Recruitment, when managed properly, can provide access to new skills, technologies, and markets. Even if it entails an inflow of new residents, the community benefits from having a broader set of available skills. By contrast, an indigenous business approach can help to stimulate linkages, and encourages residents to think about entrepreneurship as a potential career rather than seeing employment solely in terms of working for someone else.

Enhancing the Capacity of the Local Labor Market

Incomplete information and high transaction costs impede the functions of any market. In rural labor markets, these are major problems. Many small firms do not advertise employment opportunities widely and rely upon word of mouth to obtain workers. While this is a low cost strategy, it may not provide the best match between employer requirements and worker skills. The low population density of rural places makes it less likely that workers will happen upon a job without some more formal means of communication. However, governments tend to provide less of a labor market intermediation function in rural places because the costs per worker are high due to lower population densities.

In a recent paper, it has been argued that one of the reasons the U.S labor market has performed so well is the growth of the temporary help industry (Katz and Kreuger). These companies provide a number of services. The first is an obvious matching of workers and jobs. This reduces search costs for both employer and employee. Employment agencies can also provide an efficient way for both employer and employee to screen each other before entering a more permanent relationship. In addition, they can allow workers who want part time jobs to share work with other individuals who want part time jobs, while providing the employer with a full time equivalent. Conversely, they can allow a worker who wants a full time job to work for multiple employers who each only require a part time employee. This can be especially important in a rural area where no employer can justify the full time employment of an individual with a particular skill, but a number of employers require someone with that skill for efficient operation. Finally, employment agencies facilitate the creation of a tiered employment structure where core employees obtain higher levels of wages and benefits and temporary employees receive lower rates of compensation. This may be a significant way to allow individuals with limited skills to gain access to employment that they would otherwise be excluded from.

Employment programs are too often narrowly conceived in terms of jobs, or wage labor. Entrepreneurship or self-employment initiatives must be an important part of any employment oriented development strategy. While we know little about how one can motivate a person to start and operate a business, it is clear that small business is a vital part of our economies and it may be more important in rural areas as opportunities for recruitment diminish. Agriculture, in particular, provides an ideal training for other types of small business. Farmers are used to operating their own firm, have higher than average levels of wealth in most cases and possess a broad range of applied skills. Thus areas with a large population of farm proprietors are particularly suitable for efforts to encourage entrepreneurship. By contrast, rural areas where the traditional industries involved low-wage, low-skill labor, the inherent potential for entrepreneurship is more limited.

Finally, an obvious way to enhance the functioning of rural labor markets is to improve mobility. This can be as simple a function as making information available about job opportunities in other places, or it can include skill development programs and relocation assistance to enable people to move to another community and begin work. In many rural places, this type of assistance will be necessary for markets to clear. Otherwise, excess labor will overhang the market, depressing earnings levels for all workers. A low-level equilibrium is enforced because too many people lack the information and resources to move. Only if local conditions decline to a point that the opportunity cost of remaining in place is similar to that facing those individuals in Mexico who move to the rural United States, will unassisted mobility take place. However, waiting for this to happen would imply a major decline in the level of development of the rural environment. A second obvious way to improve mobility is to ensure that people have the skills to be employed elsewhere. This means that, at a minimum, they must have a strong basic education that will prepare them to learn the specific skills appropriate to a new location.

Conclusion

At a national level in North America, there is increased pressure to consolidate programs in the name of efficiency of administration and a concern that having multiple programs leads to conflicting objectives and strategies. There is also a belief that policies not universally available lead to distortions in market signals that hamper economic development. While there is still some support for counter-cyclical macroeconomic policy, region- or territory-specific policy has little support.

Yet even unsophisticated data analysis shows that there are persistent differences in levels of income and employment at the substate level that are similar in magnitude to the differences that are causing concern at the international level. If the OECD is concerned that liberalization and greater integration has not reduced differences in unemployment rates among nations where macroeconomic policy differences are seen as explaining much of the differentials, should we not be concerned that similar differences occur within nations where macroeconomic policies are by definition constant?

While national employment policies provide the basis for any rural employment initiatives, it is important that both national governments and lower level governments think about specific types of rural policy interventions. National policies by nature are broad-brush approaches that cannot focus on the specific needs of smaller rural places. This means that a more focused approach is required. In particular, local governments can play an important role in creating an environment in which national policies can work more efficiently. This need not require large resource commitments, as much as an understanding of what activities the national policies will support and the needs of the community.

If it is accepted that, for a large portion of the local labor force, the relevant labor market is small in size, then it makes sense to think about local efforts to enhance both the way the local labor market functions, and to look for ways to improve the types of employment opportunities that are available to participants. Sustainable development in rural areas requires that we identify ways to improve the income prospects of rural residents, or there will surely be continued outmigration.

The key challenge in designing employment policy for rural areas is to develop programs that deal effectively with small numbers of people that seek employment in a labor market that is both thin and geographically large. As one moves from places in close proximity to an urban center to more remote areas, this problem becomes larger. The search for policies must focus on ways to overcome this challenge. In this environment, increasing the flexibility of both the labor force and of employment opportunities is a critical concern.

In addition, it is important that rural employment impacts be considered when making other types of rural policy. While rural residents are the most directly concerned with what happens to the physical environment that surrounds them, they are increasingly subject to national decisions on what constitutes acceptable levels of development. These decisions are increasingly driven by an urban desire to preserve both traditional rural culture and a "natural" environment. In making these decisions, the impacts upon local rural economies are typically not a central factor. If rural people operated in a national labor market, this might not be much of a problem because their short-term losses might be easily overcome through relocation. But as we have seen, many rural people do not find relocation a low cost option, and so reductions in local employment opportunities have a particularly harsh effect.

Further, there is at times an inherent contradiction between the effort to preserve traditional rural lifestyles that are based upon the extraction of natural resources and the desire to keep the natural environment intact. It is difficult to maintain logging and mining communities with cutting trees or extracting ore as anything but museums. In this sense, the economic development options of rural places are limited to protect national interests in exactly the same way they are limited by decisions to liberalize trade. In each case, the national interest may be advanced, but it should be recognized that some parts of the nation, often among the poorest, are bearing a disproportionate cost.

In an ever-evolving global economy, governments are not likely to be able to identify specific growth poles, growth industries, or skill gaps at a fine enough geographic scale to play an active role in managing labor markets. Instead, they may want to focus on improving the functioning of labor markets by improving information flows about jobs, supporting employer-based skill development programs, increasing the capacity of the educational system to foster life-long learning skills by assuring that all students have a strong general education, and trying to ensure that those with limited skills have an opportunity to earn an income. This will be particularly important if current trends in social welfare policy continue to distinguish between the deserving poor—those who have jobs—and the undeserving poor. For many rural areas, this type of segmentation could be particularly brutal, given the current limited opportunities available to much of the rural populace.

REFERENCES

Andriessen, F. Overview. In *Reducing Unemployment: Current Issues and Policy Options*. Jackson Hole Symposium, Federal Reserve Bank of Kansas City. Kansas City, MO. 1994.

Bartik, T. "Economic Development Incentive Wars." *Employment Research* 2: (1): Spring 1995.

Bollman, R.D. and J.M. Bryden (eds.). *Rural Employment: An International Perspective.* Wallingford, UK: CAB International. 1997.

Coffey W. The Role of Producer Services in Modern Production Systems. In *Rural America and the Changing Structure of Manufacturing,* G.A. Bernat and M. Frederick (eds.). AGES 9319 USDA Economic Research Service, Washington, DC. September 1993.

Commission of the European Communities. *White Paper on Growth, Competitiveness, and Employment*. COM(93) 700 final, mimeo. Brussels. December 1993.

Drucker, P. "The Changed World Economy." *Foreign Affairs* 64: (4): 1986.

Eberts, R and E. Montgomery. "Employment Creation and Destruction." *Economic Review.* Cleveland Federal Reserve Bank, 30: (2): 1994.

Galston, W.A. and K.J. Baehler. *Rural Development in the United States*. Washington, DC: Island Press. 1995.

Gittelman, M. and D. Howell. "Changes in the Structure and Quality of Jobs in the United States." *Industrial and Labor Relations Review* 48: (3): April 1995.

Ilvento, T.W. and A. Rupasingha. "The Demand for Skills Training in the Rural South." TVA Rural Studies, University of Kentucky, Contractor Report 00-02, 2000.

Katz, L.F. and A.B. Krueger. "The High Pressure U.S. Labor Market of the 1990s." *Brookings Papers on Economic Activity* 1: 1999.

Leigh, D. *Assisting Workers Displaced by Structural Change*. Kalamazoo, MI: W.E. Upjohn Institute. 1995.

Marshall, R. *Rural Workers in Rural Labor Markets*. Salt Lake City, UT: Olympus Publishing. 1974.

MDC. *The State of the South, 1998*. Chapel Hill, NC: MDC, Inc. 1998.

Ministry of Commerce. *Electronic Commerce: The Freezer Ship of the 21st Century.* Wellington, New Zealand: Ministry of Commerce. November 1998.

Organization for Economic Cooperation and Development (OECD). *The Jobs Study: Facts Analysis Strategies*. Paris: OECD. 1994a.

———. *The Jobs Study: Evidence and Explanations*. Paris: OECD. 1994b.

———. *The Jobs Study: Implementing the Strategy.* Paris: OECD. 1995a.

———. *Creating Employment for Rural Development—New Policy Approaches.* Paris: OECD. 1995b.

Rowley, T.D. and D. Freshwater. "Ready or Not? The Rural South and Its Workforce." TVA Rural Studies, University of Kentucky, 1999.

Piore, M.J. and C. Sabel. *The Second Industrial Divide*. New York: Basic Books. 1984.

Segal, L. and D. Sullivan. "The Temporary Labor Force." *Economic Perspectives.* (Federal Reserve Bank of Chicago) 19: (2): March 1995.

Teixeira, R. Rural Education and Training: Myths and Misconceptions Dispelled. In *The Changing American Countryside: Rural People and Places,* E.N. Castle (ed.). Lawrence, KS: University Press of Kansas. 1995.

Winters, W.F. "The Rural South: From Shadows to Sunshine." The Rural South: Preparing for the Challenges of the Millennium Series, No. 2. Southern Rural Development Center, Mississippi State, January 2000.

Wood, A. "How Trade Hurt Unskilled Workers." *The Journal of Economic Perspectives* 9: (3): 1995.

Wren, C. "Some Anatomy of Job Creation." *Environment and Planning,* 26: (4): 1994.

Paper Two:
The Evolution of Rural Policy and Agricultural Policy in North America[2]

Introduction

The broad objective of this paper is to review the development of federal policy affecting rural areas in Canada and the United States, and to assess its effects on rural residents. In doing this, the focus goes beyond policies that are explicitly rural in nature. Today, broader social policies are the major federal influence on rural areas in both nations. In part, this reflects the simple fact that these programs are where the vast bulk of federal outlays occur, but it is also the case that the availability of a set of basic social welfare programs is a vital building block in the rural development process.

Having set out the objective, it is important to recognize that in the federal systems of government of Canada and the United States, the national level is only part of the picture, and that states and provinces are increasingly playing a larger role in rural development policy. Finally, it cannot be overemphasized that successful rural development is almost always a fundamentally local phenomenon. Ultimately, successful rural development depends on local initiatives.

The salient geographic feature affecting early forms of rural policy in North America is scale. The size of the landmass, and the corresponding low population density and reliance on resource-based activities, imposed development problems distinct from those of most of Europe. The distance factor in land-extensive systems resulted in a different division of labor between country and city than was the case in more land-intensive systems. Even today, communities in the hinterland of urban areas face different problems from those in frontier areas. Canada and the United States are similar countries in many respects. Both are large landmasses, with large portions of each country having low population densities. In both nations, the vast majority of the population is urban and the degree of population concentration in the largest metropolitan areas is increasing. Similarly, an increasing share of national economic activity is also taking place in urban areas.

The Economic Structure of Rural Areas

Virtually every academic model of the economic development process of nations suggests a reduced role for agriculture in GDP as a primary indicator of economic development. While the absolute value of agricultural production may continue to increase, as might the value and volume of agricultural exports, the significance of agriculture as a source of employment and as a percentage of the national economy declines. In Canada and the United States this process has occurred steadily over the twentieth century (Figure 1).

The development process in North America has essentially been one of urbanization and more recently, suburbanization. In this process, population and economic activity have moved to urban centers. However, what is striking about Figure 1 is the fact that the aggregate rural population has stayed fairly constant in both countries. Net population growth has been in urban places, while in rural areas the decline in the farm population has been offset by an increase in rural people who are not engaged in agriculture. The shift in rural population reflects the growth of nonfarm employment opportunities in manufacturing, the service sector (trade, tourism, and various support functions), and government and education.

As a result, the occupational composition of rural North America, on average, does not look that much different from the distribution of occupations found in urban North America. Although there is a somewhat bigger share of the labor force employed in the primary sector

---

[2] Prepared for the World Bank conference on The Challenge of Rural Development in the EU Accession Process. Sofia, Bulgaria. June, 2000.

(agriculture, forestry, fishing, etc.), the bulk of employment in both the urban and the rural case is in the tertiary sector (services and government) and in the secondary sector (manufacturing). Thus, from a national perspective the path of economic development seems to occur as a single process that has had a uniform impact on urban and rural space

However, while from the national level, development appears to entail a simple decline in the relative role of agriculture and a parallel set of transformations of both rural and urban economies, the nature of development is more complex when examined at the regional and local level. While the economic structure of rural areas may, in aggregate, look like urban areas, it is clear that no specific rural area looks anything like any urban area. Further, while agriculture plays a steadily declining role in the national economy, it remains the major economic engine in a fairly large part of rural North America. A band of rural territory stretching from the prairie provinces of Canada (Manitoba, Saskatchewan and Alberta) down through the central portion of the United States into Texas and Oklahoma still depends upon agriculture as its major source of economic activity (Figure 2). This region roughly corresponds to the area named by Joel Garreau as the "Empty Quarter," to describe the low population density, the disproportionately small number of large urban centers, and the relative scarcity of economic activity (Garreau).

In most other rural parts of the two countries, agriculture still remains the primary land use. Indeed, there was at least as much land in crops in the year 2000 as there was in 1900, but only a small percentage of the population and local income is farm related. Yet these non-agricultural rural places are also different in important ways from urban centers. The most striking economic difference is the degree of specialization. A necessary characteristic for the economic viability of rural places is a high degree of specialization. Because the local population is small, the only way to reach minimum efficient scale in almost any activity in rural areas is by dedicating a large share of the local labor force to one or two industries. As a result, rural places are highly dependent upon trade, because they produce a relatively small proportion of the goods and services they consume. While it is tempting to think of rural residents as being relatively self-sufficient, this is far from the case. In reality, any rural place is less self-sufficient than a large urban center, in that a smaller proportion of the items and services it utilizes are produced locally. Consequently, rural places are at least as dependent upon stable trade flows as are urban centers.

In both Canada and the United States, rural development policy has historically been formulated as agricultural policy. Up through approximately the first half of the twentieth century, this was an effective development approach. A large portion of the rural population was either directly engaged in agriculture or was found in small communities that supported agriculture. Within large geographic regions, farms were fairly uniform in size and in the mix of products they produced, had strong links to the local community. This meant that development programs, focusing on agricultural research, enhancing rural transportation systems, stabilizing the prices of a few key commodities, and providing credit to farmers, had a pretty positive and uniform impact, both directly on farmers and indirectly on the balance of the rural residents.

An important consequence of these earlier agricultural development efforts has been a major change in the structure of agriculture. New technologies have encouraged the growth of farm size and specialization. Credit programs and improved transportation facilitated these adjustments. As a result, the number of people involved in agriculture has declined, links to local communities have weakened, specialization has taken place and, in some regions of the country, less productive farmland has been abandoned. At the same time, manufacturing expanded into rural areas, providing rural people with alternative employment opportunity. The result is that traditional farm-based development programs no longer have any meaningful effect on most rural areas and to a considerable degree have little real impact on a large share of the remaining farms. As a result, agricultural development policy is no longer an effective rural development policy.

An Overview of Rural Policy

There are many notions of what rural development involves. Among those that are commonly articulated are a prosperous agricultural sector, stronger integration of rural places with urban centers, the preservation of traditional rural culture and protection of the natural environment, and equal access for rural residents to the goods and services enjoyed by urban residents. Each of these notions has been an integral part of rural development concepts in North America, yet none of them individually offers an adequate definition of rural development. Yet, in some sense, each is an important part of a complete definition of rural development.

Early Experience with Rural Policy

Prior to the beginning of the twentieth century, the majority of North Americans lived in rural places, so almost all development policy was really rural policy. Now, the vast majority of North Americans live in urban centers and very little national development policy has an explicitly rural orientation. This change took place over an extended period of time in both countries. Four distinct phases can be traced in the evolution of North American rural policy (Figure 3). Although all four policy regimes have been experienced in Canada and the United States, they did not take place at exactly the same time in each country, nor did each regime last the same length of time.

In each country, the first period of rural policy consisted of land settlement and the expansion of natural resource exports to Europe. In both countries, this interval started at the time of initial European settlement and occupied the first phase of nation-building. The most important characteristic of this phase was the effort to settle the land, that is, to ensure that no other group or nation would be able to claim part of the territory for itself. This involved policies that provided farms to immigrants and required the development of canals, railroads, and roads to improve transportation systems. From the start, the development of rural North America was highly export oriented. This phase of policy continued until roughly the late nineteenth century in the United States, and the early twentieth century in Canada.

A second stage, which can be described as the era of scientific agriculture, began with the closing of the open frontier, when the majority of the potentially arable land had been brought into production. At this time, there was a recognition that any further increases in agricultural output would have to come from more intensive use of land, rather than expanding the land base. This led to the creation of government supported research centers to enhance agricultural productivity, the creation of agricultural colleges and universities, and the development of an agricultural extension service to disseminate new scientific methods to farmers. In the United States, this interest in scientific agriculture began after the Civil War with the creation of the Land Grant Universities and expanded funding for agricultural research. In Canada, the process started somewhat later, but it was well in place by 1900. As in the first stage of rural policy, agriculture was still the central focus because farmers still made up the dominant share of the rural population. But the form of rural policy had significantly changed. Rather than agriculture being the main means for financing the development of the rest of the nation, it was now a sector that required external investment to allow it to increase its productivity. During this second phase, rural areas were displaced by urban areas as places where most economic activity took place, and, subsequently, where the bulk of the population lived.

The second period can be thought of as losing its dominant status with the onset of the Great Depression in the 1930s. The collapse of the farm sector in both countries made it clear that rural development could no longer rely solely upon agriculture. This led to a search for ways to diversify rural places. The chosen means was to introduce manufacturing into rural economies that had previously relied solely upon agriculture. The first coherent effort in this respect took place in Mississippi through the Balance Agriculture with Industry program that began in the mid-1930s. The state government made a concerted effort to recruit manufacturing firms from the northern part of the United States to relocate in rural Mississippi. The advantages they promised were cheap land, cheap labor, financial assistance and limited government regulation. The intent was to provide rural communities with alternative sources of income that supplemented earnings from agriculture. Soon other parts of the southern United States, and then other rural areas throughout the continent, followed Mississippi's lead.

A second important feature of the third stage of development policy was the introduction of broad social welfare programs. For the first time, the federal government provided pensions and other forms of assistance to the general populace. This safety net provided greater security to all residents of the country, irrespective of where they lived. It can be seen as a major shift in policy approach because the programs are not driven by geography or economic sector, but by the status of people. Over time, both the types of assistance and the level of support increased, reducing the necessity of depending upon family support and improving the quality of life of urban and rural residents. However, the impact in rural areas was arguably greater because few rural residents were able to receive the types of employer paid benefits that were provided to workers in large urban firms.

During the first two policy stages, agriculture had been the dominant economic sector and more importantly agriculture provided a mechanism for the modernization of the country at large. Following the Depression and World War II, the modernization process took place and agriculture became a fairly minor factor in terms of total national production. This third stage lasted through the 1970s and carried into the early 1980s. It was marked by major outmigration from agriculture, and increased dependence upon manufacturing as a major source of rural income and employment.

After 1950, the economies of rural areas became increasingly diverse. Not only did the economic base of rural places change from being mainly driven by agriculture, but the nature agriculture also changed. In particular, farmers became more specialized, so the interests of farmers diverged. However, the main change was that the local economy of most rural places became dependent upon something other than agriculture. By the 1970s, important sectors in rural North America included agriculture, manufacturing, tourism, government installations, retirement destination places, and mining and timber communities. This led to a fragmentation of rural interests. As the diversity of rural areas increased, it became increasingly difficult to develop a coherent national rural policy.

At the same time, the urban interest in rural places became a more significant policy factor. Urban residents increasingly saw what went on in rural areas as having an impact upon them. They became increasingly concerned with the quality of the rural environment. This growing concern has led to the fourth phase of rural policy (Swanson and Freshwater). Rural policy now is mainly driven by urban considerations, not rural ones. One important consequence has been an increase in the role of government in rural places. In the past, government acted to enhance the economic development of rural areas, now, in many ways, it constrains economic development to meet urban objectives.

By the late 1960s, agriculture had been displaced by manufacturing as the dominant economic sector in rural areas. However, in the 1970s, manufacturing began to face increased competitive pressures from foreign firms. In addition, increased income and wealth in urban areas and an enhanced ability to spend leisure time in rural places have led to a greater concern with the quality of the rural environment. Urban people began to value rural places not for the production they could provide, but more importantly for their esthetics. This led to a new type of rural policy that was not concerned with what went on in rural areas in terms of maximizing production, but rather was interested in the characteristics of rural places. In the last few years, the notion of development has taken on new meaning. It is becoming a richer concept embracing both environmental and economic values. Preservation of the environment, both natural and cultural, has become an essential aspect of development. Where a focus on jobs was once the primary criterion by which development projects were considered, now a broader set of objectives is taken into account.

An important aspect of the evolution of rural policy has been a steadily increasing role for government. In the first phase, rural areas are seen as the main source of funds for development activity. In this era, government policy was designed to maximize revenue from the use of rural resources by facilitating exports. In the second phase, government begins to make significant investments in increasing the productivity of rural areas, particularly farming. In the third phrase, policy expands to introduce new types of economic activity in rural areas and to provide rural people with access to a greater set of social services. The final phase has seen government take on an even larger role in the rural economy, where it now establishes a much more complex set of rules under which development can take place. Government intervention has been an inherent force in the emergence of the post-1945 rural economic diversity. Public attention has been focused on the degree of government involvement in agricultural production and trade, but agriculture is fairly typical in terms of the influence of policy on rural economic activity.

One of the more obvious aspects of government influence is through the types of infrastructure that are available. The government has had a long involvement with transportation facilities, but it also influences the location of power lines, oil and gas lines, and sets standards for water and air quality. In both countries, the development of a federally funded highway system clearly helped those communities it passed by, while harming those that were not served. But even those places that have access to an interstate highway experienced disruption, as economic activity abandoned downtowns for more desirable locations near interstate ramps.

The most recent example of the influence of public policy on the modern rural economy is the development of telecommunications regulation. Access to the Internet is now a necessary feature for modern life and commerce. To date, many smaller places have been able to keep up in the race to adopt newer technologies, but a lot have not. As telecommunications technology evolves, it becomes increasingly unlikely that most rural areas will be able to afford to keep up. High speed access is predicated on proximity to physical infrastructure that is expensive to install and maintain, whether it is a central switch, a cable system head-end, or a high capacity wireless tower. Low density places, especially, poorer places, are inherently unattractive places to make investments that have short useful half lives. A deregulated telecommunications system also has little incentive to make investments for the social good, if it harms profit margins. Thus, federal government decisions to abandon principles of universal service have clear implications for who has access to telecommunications. Further, efforts in the United States by state governments to ensure that hospitals, schools, and libraries in rural regions have access to the Internet have often had an unintended unfortunate effect on business access. Typically, the state has negotiated low cost access for these institutions, but with the provision that no "for-profit" firms will be able to use the infrastructure. As a result, demand for advanced services has been fragmented, and the cost of establishing a parallel network to carry commercial traffic is often more than the local private sector can afford.

Refocusing Rural Policy in the Twenty-first Century

The process of rural structural change has led to the fundamental question of what, if anything, do you do for the people who reside outside the growing urban areas? Historically, rural development policy has been of national interest in Canada and the United States because rural people were, if not a majority, a large minority of the population. More importantly, as long as agriculture was the dominant rural industry, there was at least the appearance of a common bond among the rural populace that created an obvious vehicle for delivering policy. Now however, in many parts of each country, the rural population is a minor share of state or provincial populations and the nature of rural economies at the local level is so fragmented that the old policy mechanisms are not effective.

This has led to an argument that in industrialized nations, where local economies are integrated components of the national economy, and national policies reach citizens in all parts of the nation, there is no longer any reason to have specific programs for rural areas because national programs can adequately serve all the legitimate needs of the population, whether they are rural or urban residents. However, while the problems of rural people and places are in general the same as those in urban areas, there are important differences that justify a specific focus.

> Rural areas differ from national areas in a number of ways. Rural areas have lower labor force participation rates which is symptomatic of their smaller degree of integration into the broader economy. Residents of rural areas also tend to be

> less well protected by the social safety net and less subject to employment protection than their urban counterparts. Rural labor markets tend to be thin with a limited number of employers and in many remote areas the potential supply of workers is far in excess of feasible demand. Because rural workers are predominantly engaged in the production of low wage, low-skill tradable commodities, they are highly exposed to the effects of globalization. But, because they have low-skill and education levels relative to urban workers, and there are fewer employment opportunities in rural areas, many face a particularly severe transition to the global economy. (OECD, p.35)

This quote suggests that a central issue in rural development policy for all levels of government, national, state, and local is—how can the chances to enhance employment be improved? Historically, rural development policy by national governments has not had a strong direct focus on enhancing employment. Instead, rural policy in North America has tended to be defined in terms of either sector-based policy or in terms of place-based policy. In the first case, governments provided support to some specific rural industries, most commonly agriculture, in the expectation that enhancing the sector would in turn create direct and indirect employment effects that would benefit the rural populace. In addition to agriculture, the most common sectors for this type of support were forestry, fishing, and mining. To the extent that these sectors were either only found, or mainly found, in rural areas, their support implicitly became rural policy.

For the second type of policy, governments identified specific places and provided resources to those places to enhance their development, in the belief that by improving the infrastructure of the community, or by providing tax concessions, there would be a resulting increase in economic activity, and once again employment opportunities would result. This could be justified in terms of efforts to stimulate "growth poles," or for social equity reasons in the case of providing assistance to specific communities that had fallen below some performance threshold, such as average family income level or level of unemployment.

Industrial sector-based approaches have a significant record of past success, but also notable failures. However, they are less likely to be effective in the future. Traditional rural sectors, like agriculture and the other resource-based industries, are shedding jobs and replacing labor with capital. In the process, they not only create less direct employment but they also provide less indirect employment because their industrialization replaces linkages to the local rural economy with linkages to the larger regional or national economy as a source of inputs and markets. In a parallel development, place-based efforts to attract new business now face lower success rates as firms increasingly consider foreign as well as domestic sites (Glasmeier and Conway). Now, even when attraction efforts are successful, they often lead to people from outside the community receiving a large share of the new jobs because local workers lack the necessary skills, so the social or economic indicator that triggered the policy initiative is not affected.

An alternative approach is that instead of rural development policy being structured in terms of helping places and sectors, it should be organized as a way to help rural people (Winters). By ensuring that people have appropriate skills, you ensure that they have the best chance to lead a productive life and by doing so, they can contribute to a rural place, if they choose to reside there. Or, if they determine that their future lies in another place, they leave the rural community with the skills to be successful somewhere else.

This suggests that policy to enhance employment opportunity in rural areas should emphasize the accumulation of human capital. The changes we are seeing in the industrialized economies make it clear that the set of skills a person has are major determinants of how well they will live (MDC, Winter). In the United States, where unemployment rates are at record or near record lows in most states, there are large pockets of unemployment, mainly in rural areas and urban cores, where worker skills are limited. In a decade of record prosperity, we find that the real income and wealth of the least skilled portion of society has declined, because they are unable to effectively participate in the economy.

While it is clear that past policy approaches no longer fit current conditions in most rural places, identifying new rural policies has not been an easy task. The diversity of rural conditions, combined with large geographic area and low population density in rural areas requires that each place have an almost independent approach. But this type of complex approach is not possible to implement as a national policy. In practice, only a small number of programs can be effectively managed by any government agency, so the challenge is to design a limited set of programs that can be combined in a number of ways to address rural development needs in different places.

Issues In Implementing Rural Policies

Despite the great similarities and the increasing degree of economic integration between the two nations, striking differences remain. These are most obvious in cultural and political institutions. In particular, their approaches to rural development have differed considerably. In a rhetorical sense, if we ask which country has the most rural policy, the answer is simple—the United States. Canada has rarely had any explicit rural policies, while the United States has a considerable body of legislation that is explicitly rural. But how do you measure rural policy? Is it by the amount of legislation on the books, whether or not it is implemented? Is it by the amount of federal dollars spent in rural areas? Is it by the vitality of rural areas, assuming that federal influence has a bearing on vitality? Is it by the level of outmigration?

All of these measures provide some evidence, but none are adequate. Ultimately, we are not interested in whether a country has more or less policy, but in the quality of life of rural residents, both in an absolute sense and relative to urban residents. To address this issue, we must look beyond just counting explicitly rural policies and examine broader policy questions, such as:

- How do general economic policies affect rural areas? What is the effect of monetary policy, banking regulations, minimum wage laws and other policies on rural regions?

- Is the set of general economic and social programs adequately meeting the place-specific needs of rural areas? Do broad social programs meet rural needs? For example, Canada's health policy guarantees universal access to health care in the sense that an individual's income and wealth does not affect the level of service they receive. But *place* does, as there is no requirement that services be extended to particular areas.

- If place-specific policies are desirable, is it institutionally possible to develop effective place-specific rural programs? Even if we would like to provide additional support to rural areas, do we know how to do it?

Three OECD Policy Regimes

Approaches to political economy, among OECD countries have been clustered in three broad groupings, or "policy regimes," termed neoclassical, corporatist, and social democratic, respectively. This classification follows Gosta Epsing-Andersen's comparative analysis of social policy systems in the OECD (Epsing-Andersen, 1990). This analysis is extended to include strategies of intervention or nonintervention in market economies.

Neoclassical regimes emphasize the primacy of social choice through unhindered market mechanisms in the realm of both social policy and the economy. A citizen's rights to social and economic well-being in neoclassical regimes are very closely tied to the sale of his or her labor as a commodity. Social program benefits are either tied to past labor market performance (e.g., U.S. social security payments) or emphasize needs tests for access to program benefits. Benefits for the "neediest" tend towards minimal payments for restricted periods of time. Compared to other OECD countries, the neoclassical regimes restrain the coordinating and innovating role of government in the general economy. There is an instinct that unfettered markets are the optimal vehicle for optimizing collective economic performance and well-being. The neoclassical regimes include the United States, Canada, Australia, New Zealand, and the United Kingdom.

Corporatist policy regimes emphasize a close integration of economy and society. Citizens' access to a minimum of social and economic well-being are a matter of rights rather than being conditional on demonstrating severe need. Benefits are more generous, cover a wider range of activities, and are available for longer intervals of time. Beyond minimum benefits, there are gradations in benefits that are linked to an individual's rank in the occupational hierarchy. Benefits also tend to be calculated in terms of the perceived rights of family units rather than to individual rights.

Epsing-Andersen attributes much of the corporatist approach to a preindustrial conservative political heritage. Society is viewed as a hierarchy of different groups integrated into the social organism. The converse of hierarchy is a sense of noblesse oblige. Salient examples of corporatist approaches to political economy are Germany, France, and Japan. The corporatist approach extends beyond individual social welfare rights to a sense of the obligation and rationality of governments as a means to coordinate the national economy and promote national comparative advantage. It can also involves a more cooperative relation between labor and management than is the case in laissez-faire systems.

Social democratic regimes predicate social policy on an egalitarian system of rights of high levels to social benefits that are independent of market performance. In contrast to corporatist systems, benefits tend to be allocated to individuals rather than families: child support systems, for example, will be directed towards high day care payments that encourage women's participation in the labor force and whose levels are not linked to the spouse's earnings. As Epsing-Anderson points out, high levels of social program benefits imply a high degree of government intervention intended to maintain high employment rates. State-owned enterprises play an important role in the economy. The social democratic regimes include Sweden, Norway, Finland, Holland, and Austria.

Comparative Fiscal Federalism

The political systems of OECD countries adopt a wide variety of arrangements for dividing political power between national, regional, and local levels of society. Systems of division of power do not coincide with, and cannot be subsumed under, the type of economic policy regime. For example, two corporatist policy regimes, Germany and France, stand at opposite poles of the decentralization versus centralization continuum. The neoclassical regime in the United Kingdom is highly centralist while its major offspring, the United States, Canada, and Australia, have all adopted federalist political institutions.

In parallel, the distinction between unitary and federalist political systems does not coincide with, and cannot be subsumed under, the distinction between land-intensive and land-extensive rural resource systems. Long distances do not necessarily result in a decentralization of authority via federalism, nor is a compact scale necessarily associated with a unitary system. Sweden and Norway have unitary political systems while Germany and Switzerland have adopted federal systems with a highly decentralized federal division of powers.

The baseline measure of the distribution of power between different levels of government is the relative amounts of money spent at national, regional, and local levels respectively. An initial estimate of these distribution patterns in OECD countries is presented in Ehrensaft and Freshwater (1991). The ratios of national level to total civilian government expenditures demonstrate both 1) a clustering of federal systems at lower levels of national to total expenditures than is seen for unitary states; and 2) within federal systems, a greater degree of national centralization in the United States and Australia compared to Germany, Canada, and Switzerland.

Another layer of complexity is imposed on the analysis by the fact that there is also not an overlapping of division of powers between 1) legislative, executive, and judiciary powers within national and state/provincial governments, and 2) the distribution of federal powers between national, state, and local governments. The Swiss federation follows the U.S. model of dividing legislative and executive authority, but is on the opposite end of the spectrum, in terms of centralization versus decentralization, from the United States. The parliamentary systems of Canada and Australia, which follow the British precedent of combining legislative, executive, and judiciary power in a prime minister and collectively responsible cabinet, also stand at opposite ends of division of powers between national, provincial, and local governments.

With respect to rural development issues, it is relatively easier to address rural issues in corporatist and social democratic regimes than in neoclassical ones. The corporatist and social democratic regimes attach as much importance to groups as to individuals in the interface between markets and society. A system that specifies group rights by occupation or by social class is more readily inclined to assign group rights by place than is a market-oriented regime.

The political culture in neoclassical systems, with its emphasis on individual rights and welfare, has a more difficult time dealing with issues of place. The European notion that rural society constitutes a "cultural landscape" that is a highly valued part of a nation's heritage, and therefore, deserves a high degree of policy support, is a hard sell in North America. The North American reaction is to lament the decline of rural areas but to view it as an inexorable result of market forces.

Many policy-makers and analysts consider programs that facilitate out-migration by rural individuals towards higher standards of living as legitimate and principal strands of rural development policy. This is the perspective, for example, expressed in Luther Tweeten and George Brinkman's important book, *Micropolitan Development*: rural development involves improving the well-being of rural people, wherever they eventually reside (Tweeten and Brinkman, 1976:4). For some rural communities, there are few prospects for viability and outmigration may be the best available option. In this case, we should label this accurately and honestly as closing down communities, not "rural development."

Short of a fundamental shift in the North American political economy regime, a key issue in rural development is how to accomplish the difficult but necessary task of assigning a higher degree of legitimacy to places within a neoclassical system. The most viable route for addressing place issues in North America is on the basis of equal access to opportunities. Almost three out of ten North American citizens reside in rural and small town areas where they have less access to opportunities because of the poor access of rural communities to the programs and facilities that foster economic development. Redress in the form of rural development policy is necessary to ensure that this thirty per cent of the population can fully participate in the national economy and make the greatest contribution to national productivity.

A second proposition is that support from urban-based environmental movements is likely to emerge as an important component of North American political coalitions that transform rural needs into place-oriented rural policies (Swanson and Freshwater). The other side of the coin of a market-oriented, individualistic political culture is a high propensity to form social movements and pressure groups to advance perceived individual rights. It is likely that in the future, one strand in the creation of North American rural development policy will further develop from the urban movements which demanded the conservation of forest land as national and state/provincial parks. As urbanization and income levels increase, more people feel a need and a right to enjoy the amenities of nature.

In summary, Canada and the United States exhibit modest but significant policy differences in their approaches to public policy. While both are clearly market-oriented, or neoclassical regimes, Canada has a larger role for the state and is a more typical federal system when compared to other OECD nations. Despite these differences there are greater similarities than differences.

Social Programs and Rural Development

All policies are not created equal. The degree of importance which governments attach to competing issues can be measured along three dimensions. The first is rhetoric or the extent to which government talks about an issue, including speeches by politicians, resolutions, legislative proposals and program developments. The second measure is outlays which show how the government spends its scarce resources indicating true priorities. This includes both direct outlays and tax expenditures or foregone tax receipts. The final measure is the extent of mandates by the federal government which compel other parties to assist rural areas. In a sense, they are a form of indirect expenditure where the government requires others to act on its behalf.

All three measures are useful indicators of the importance of rural issues. The first is a measure of moral suasion and indicates awareness of rural issues by politicians. It is generally a leading indicator of the degree of rural concern, since politicians typically test the water for support before allocating funds. Because rhetoric is inexpensive and political issues appear and vanish continuously, it is not a very strong indicator, nor is it one that necessarily reflects longer term reality.

The importance of rhetoric in rural policy discussions is best seen through the power of the perceived link between agricultural and rural policy beginning in the 1970s. For more than two decades the Rural Development Division of the Economic Research Service of the USDA, along with the majority of the university community, engaged in rural development research in Canada and the United States and argued that farm policy was no longer an adequate rural development policy. At the end of the 1980s, it appeared that continuous repetition had made an impact. The 1990 Farm Bill contained a title that included far more rural policy than had been seen since the 1970s and members of Congress actually appeared to have become comfortable talking about the need for a rural policy that was something other than farm policy. Similarly, in the early 1990s the Canadian government created a Rural Secretariat within Agriculture Canada that was to coordinate the activities of all ministries where they influenced rural people and places, and the speech from the throne in 1992 explicitly identified rural development as a significant issue for the government. It truly appeared that perhaps inertia had finally been overcome and there was a brighter future for rural areas and rural policy.

By the end of the 1990s, despite clear evidence to the contrary, farm policy was once again being described as rural development policy (Stauber), a new farm crisis had returned agriculture to the politicians' attention, and the desire to help a favored constituency led to a revision of policy. Members of Congress once again rely upon the metaphor of agriculture when they speak of rural, the initiatives of the Rural Secretariat have been greatly diminished, and the Rural Development Division of the Economic Research Service has been eliminated. Yet rural policy issues are at least as pressing as before, and changes in public policy including reductions in social safety nets and greater trade liberalization are exposing rural residents in Canada and the United States to far more pressures than are commonly acknowledged.

Outlays are traditionally seen as the prime expression of government interest. If rural programs receive increases in their spending authority, then the government has clearly determined that there are needs that must be addressed. Outlays *per se,* however, say nothing about the effectiveness of the support. Another problem with simply looking at aggregate outlays is the possibility of considerable year-to-year, or regional, variability in what the money is spent on and who receives it. If the opportunities for funding are fleeting and vary by category, then communities are unlikely to develop coherent development strategies. Instead, they will simply take whatever money is available, even if it doesn't really fit their needs, simply because that is what is available at the time.

Finally, governments can influence the actions and outlays of other parties. This is becoming a more important feature as claims on the government increase, and as discretionary revenues decline. Governments can require that particular actions be taken through mandates or by linking assistance in one program area to behavior in other areas. In a balance sheet sense, for a particular group or region, government funds can be thought of as receipts, while government mandates are required expenditures. Either approach can foster economic development.

A full assessment of the supply of rural policies requires looking at how these three forces have evolved over time in the context of changing rural conditions and differing allocations of responsibility. When one moves beyond the analysis of rhetoric to the analysis of action, direct outlay data is the dimension which is relatively easiest to investigate. At present the United States, but not Canada, maintains a comprehensive set of data at the county level. These data are the basis for all sub-state analysis. However even in the United States, the national interest in collecting data at this level is shrinking. For most national purposes, data only has to be accurate at the state or provincial scale, which can be achieved with far smaller samples. Erosion of this data base will make it impossible to continue to examine differences in the performance of small areas, especially rural ones.

Social programs are by far the largest expenditure category in the national budgets of both the United States and Canada. When expenditures by all levels of government are considered, Canada spends an estimated 13 per cent of its GNP on social programs, including education, compared to 11 per cent for the United States (Brooks, 1989). The amount of social program money flowing into rural areas in both countries is far greater than from any other single source.

In terms of the analytic framework, social policy would qualify as a "maintenance" policy, as compared to a development policy. The existence of these programs, however, can also be viewed as valuable social infrastructure expenditure that increases the willingness and ability of people to stay in rural areas and work towards their transformation. From a strict neoclassical perspective, of course, these policies can also be viewed as an impediment to the free flow of people to areas where jobs are available.

National Differences in Social Programs

Canada not only spends a modestly higher proportion of its national product on social programs than the United States, but it also allocates expenditures differently. It is not only important to measure how much money is spent, but also how the money is spent. One examination of how social program funds are targeted in OECD countries suggests that there are modest differences between Canada and the United States in the targeting of social programs that reinforces the differences in spending levels. (Epsing-Andersen, 1990) Epsing-Andersen assigns "decommodification" scores to the content of social policies. By decommodification, he means the degree to which program benefits are unrelated to a person's performance in the labor market. For two major policy areas, pensions and unemployment insurance, there has been a modestly higher degree of decoupling from market criteria in Canada compared to the United States.

Epsing-Andersen's combined decoupling score for major social programs indicates a clustering of countries into three groups (the higher the score, the greater the degree that social policies are decoupled from market performance). The first group, consisting of Australia, the United States, New Zealand, Canada, Ireland, and the United Kingdom, impose the strongest links between labor performance and benefits. Canada's score indicates that it has a somewhat more progressive policies regime than does the United States: Twenty-two for Canada versus 14 for the United States. This compares with an average score of 27 for all OECD countries. Maximal decoupling is measured in the 31-39 range for a group of countries composed of the Scandinavian countries, the Netherlands, and Austria.

Both Canadian and U.S. studies show that federal social expenditures are some-what skewed in favor of nonmetro counties. The geographic distribution of social program payments in favor of rural areas in Canada and the United States has little to do with rural pressures or the existence of policies intended to direct more resources towards rural areas. Pressures for program development came primarily from the urban majority. Demographic characteristics of the rural population relative to the urban population, such as a higher proportion of old people, have resulted in the skewed distribution of resources towards rural North America.

Canadians often pride themselves on having a more generous set of social policies than their southern neighbor. More accurately, Canada can be described as having social policies which resemble the United States far more than those in most other OECD member nations. Modest differences in social policy make rural Canada a modestly more attractive place to live than the rural United States. Canada's system of public medical care and regional equalization of educational funds within provinces reinforce these modest differences. These differences, however, are not the result of an explicit attempt to improve rural conditions.

In sum, Canada spends a modestly larger share of its resources on social programs than does the United States and program payments that are uncoupled from labor market performance to a modestly greater degree than those of the United States. As in the United States, program benefits are skewed in favor of rural regions for reasons that have much to do with demography and little to do with rural political demands.

Explaining Differences in Rural Policy

Different current approaches to rural development are a logical extension of past differences. In both nations, policy formation is typically an incremental process relying on marginal change. In Canada there was a regional focus, but defined in terms of provincial units, while in the United States a more explicit rural policy was developed. In both cases, the focus is not on income transfers but on improving economic conditions.

Beyond their common focus on agricultural development activities, the U.S. policy emphasis remains on providing infrastructure and business finance, while Canada stresses planning and human capital. These differences reflect the legacy of past policies and the influence of interest groups that make it easier to refine and extend existing programs rather than create new ones. In the United States, the USDA is the only federal agency with a strong presence in rural areas, so administratively, it makes sense to build policies around it. Within Canada, no federal agency has a strong network of local offices, so there is far less ability to directly deliver programs.

The different approaches reflect national attitudes, especially toward the role of government and the degree of responsibility of individuals for their welfare. Canadian policy tends to be more interventionist in this sense, while U.S. policy is more geared to facilitating individual action. Canada has a much stronger tradition of government intervention with an equalization mandate enshrined in the Constitution. Easterbrook (1990) suggests that Canada never experienced anything analogous to the influence of Jefferson, and consequently followed a more centralized system of development with less concern for individual rights and independence. Conversely, social programs are no longer an optional safety net policy in Canada, but have become more of a status quo property right (Courchene, 1987, p.9).

Differences in the sphere of influence of the respective national governments are also important. Each government has different strengths. Although in general, the Canadian parliamentary system results in a stronger central government with power concentrated in the prime-minister and the Cabinet, in terms of rural policy the U.S. government is far stronger. In Canada the federal government is checked by the assignment of important powers in this area to the provinces while in the United States the tradition of a strong federal presence and weak state influence make rural policy a predominantly federal issue.

Different political institutions result in very different degrees of responsiveness of elected officials to local concerns. This can be characterized as a place vs. party orientation in the United States and the converse in Canada. The Canadian electoral system results in ridings that do not have an equal number of voters since seats are distributed among provinces on a formula basis. More importantly the nature of the Canadian system enforces strong party discipline with members under great pressure to adopt party positions.

By contrast, in the United States party discipline is weak and individual members are primarily responsible for their own electoral fortune. In both the U.S. House of Representatives and the Senate, members are more likely to adopt positions that reflect the needs of their particular district or state than their Canadian counterparts. This helps explain a more visible rural policy in the United States, where politicians from rural areas have to show they are trying to support local issues.

Canada is characterized by a stronger sense of regional identification than exists in the United States. The most obvious case of this is in Quebec. Canadian policy evolves through a delicate adjustment of federal and provincial powers (Simeon and Robinson, 1990). Extensions of federal authority are hard to accomplish because popular support allows provinces to protect their authority. The United States is characterized by a stronger sense of commonality and collective identity that facilitates national programs being developed. The U.S. Revolutionary War and the constitutional process established a country that had a common set of principles. By contrast, the Canadian experience can be characterized as an economic union of diverse entities that sought to keep their own identity.

A greater concentration of economic and social power exists in Canada, as compared to the United States. Urban social and economic elites are able to make effective use of a centralized political process to maintain their position. Grassroots reform movements face a harder struggle in Canada. Social class distinctions are also more common in Canada than the United States. This structure makes it more difficult to advance a rural agenda.

Conclusion: The Future of Rural Policy

Returning to the earlier questions about the need for explicit rural policy, what can be concluded? In both countries there is a residual underlying social contract that holds that people have rights to equal opportunity. One of the strong trends in both societies is growing recognition of this right, both as a result of new policies and as a result of judicial decisions. While market forces remain the dominant means of allocating resources and distributing wealth, they are not the sole means of making decisions. Legal rulings have extended these rights in both countries and while the rulings have not always been on the basis of unequal opportunity for rural people, many of the decisions have clear implications for differences in opportunity between central and peripheral regions.

In many cases we know that general social programs or specific macroeconomic policies may have adverse consequences for particular regions. Rather than changing the programs, it may be more appropriate to compensate those adversely affected by implementing other programs targeted to their needs. From a pragmatic perspective it may be easier to introduce place-specific amendments rather than restructure core macro policies.

Making programs address rural needs will require major redesign and implementation efforts. Many current economic development programs tend to miss rural areas needs. For example, a major development interest in the United States, enterprise zones, is almost always seen as an urban program although the legislation authorizing these zones requires that one third be in rural areas.

Providing programs that treat all parts of a nation, or all groups, equitably may require that the programs treat different the parts or groups differently. We know that conditions vary among different parts of each nation and consequently, if we want to see equal outcomes, we may need to provide different resources on the basis of local needs. If there is going to be equality of opportunity, then the federal government in each country will have to play a major role, since it is the only level of government concerned with national standards. In the North American context where functional regions cross borders, national governments have a role in ensuring that policies are harmonized on an international basis to meet development needs. This may be one of the main advantages of greater continental integration.

National governments are also best placed to observe what is happening in other nations and in facilitating an exchange of experiences. In the United States the growing interest in education and health care as critical factors in rural development suggests the desirability of looking at the Canadian experience. In Canada, the limited success of regional development programs defined on provincial boundaries suggest looking to the United Stares for information on specific rural programs. Beyond the two nations the most likely places directly relevant lessons are other land extensive nations, Australia, New Zealand and the Nordic countries, since they share common problems of scale, distance, and capital intensity. However all nations have the potential to provide innovative ideas.

It is clear that general economic and social programs, even if extended beyond their current levels, will not be capable of dealing effectively with the problems of distance, scale, and the loss of critical social mass in rural areas. Only by grafting place-specific programs onto the set of core social programs will we allow equality of opportunity irrespective of place. While the traditional emphasis on improving human capital to allow outmigration is important and necessary, it too requires place-specific approaches. Ignoring the attachment of people to place weakens the likelihood of success of any program since it results in no sense of community and common purpose, and therefore must rely solely on individual self-interest.

In the neoclassical policy environment of North America, the most effective way to legitimize rural policy is through appeals to increased efficiency. In this context, enhancing employment becomes the basis for rural development. Arguments that are constructed around efforts to reduce unemployment or underemployment by bringing rural people into the economy in more effective ways will be more likely to gain support than arguments based upon equity considerations. Because rural communities are open to both national and international trade influences, they are under considerable pressure to adapt to the global economy. What they need are the resources to facilitate a speedy adjustment, otherwise they will place a significant burden on the rest of the nation, whether the people in rural areas remain there, or if they move to urban centers only to find they lack the skills to find employment.

Are there lessons from North America that are applicable for other nations? Perhaps the most important is the difficulty of untangling agricultural policy from rural development policy. Well after agriculture has ceased to be the dominant force in much of rural North America, it continues to drive the policy process, to the harm of rural development. A second lesson is that rural places will evolve in very different ways once they progress beyond being farm dependent. This makes a national rural policy that does not have a strong role for local leaders unlikely to be effective, especially in large nations like Canada and the United States. A third lesson is that despite the wish that national programs alone have the potential to meet the needs of all of the residents of a country, there is still a need for territory-specific policies. National policies may be the most important influence on rural development, but they are too blunt an instrument to bring about uniform growth in all parts of a country. The final lesson is that the appropriate mix of rural policy is driven as much by social conventions as fiscal capacity. To be effective, rural policies have to fit within the nature of the social contract between the government and the people of a country. Countries as similar as Canada and the United States have adopted very different development strategies because their societies and institutions remain distinct. Pieces of the North American experience may be useful elsewhere, but North America is not a good model for anyone else.

References

Battle, K. "Clawing Back." *Perceptions* 14: (3): 34-38.

Brooks, S. *Public Policy in Canada.* Toronto: McClelland and Stewart. 1989.

Courchene, T. *Social Policy In the 1990s*. Toronto: C.D. Howe Institute. 1987.

Doern, B., A. Maslove, and M. Prince. *The Politics of the Budget in Canada*. Ottawa: Carleton University Press. 1988.

Easterbrook, W. T. *North American Patterns of Growth and Development*. Toronto: University of Toronto Press. 1990.

Ehrensaft, P. and D. Freshwater. "Policy Regimes and Rural Development: North America in Comparative Perspective." Paper presented at the International Symposium on Economic Change, Aspen Institute, Aspen CO, July 1991.

Epsing-Andersen, G. *The Three Worlds of Welfare Capitalism*. Princeton: Princeton University Press. 1990.

Freshwater, D. "Farm Production Policy versus Rural Life Policy." *American Journal of Agricultural Economics* 79: (5): 1515-24 (1997).

Freshwater, D. and P. Ehrensaft. "Direct and Indirect Rural Development Policy in a Neo-Conservative North America." Paper presented at the Arkleton Trust Conference Europe 1993: Implications for Rural Areas, Douneside, Aberdeenshire, Scotland, March 1990.

Garreau, J. *The Nine Nations of North America*. New York: Avon. 1982.

Glasmeier, A.G. and M.E. Conroy. "Let In or Left Out: Peripheral Regions in the Age of Globalization." *Policy Options* 20: (9) 48-53.

Levesque, B. "State Intervention and the Development of Cooperatives (Old and New) in Québec, 1968-88." *Studies in Political Economy* 31: 107-39 (Spring 1990).

Logan, M. "Freeing Trade—Constraining Social Programs." *Perception* 14: (3): 24-7 (1990).

Marshall, R. *Rural Workers in Rural Labor Markets*. Salt Lake, UT: Olympus Publishing. 1974.

MDC. *The State of the South, 1998*. Chapel Hill, NC: MDC, Inc. 1998.

Organization for Economic Cooperation and Development (OECD). *New Trends in Rural Policy Making.* Paris: OECD. 1989.

———. *Creating Employment for Rural Development—New Policy Approaches.* Paris: OECD. 1995.

Simeon, R. and I. Robinson. *State, Society, and the Development of Canadian Federalism.* Toronto: University of Toronto Press. 1990.

Stauber, K. Envisioning a Thriving Rural America through Agriculture. In *Visions of American Agriculture,* W. Lockertz (ed.). Ames, IA: Iowa State University Press. 1997.

Swanson, L. and D. Freshwater. "From New Deal to No Deal." *FORUM For Applied Research and Public Policy* 14: (1): 84-9 (1999).

Tweeten, L. and G. Brinkman. *Micropolitan Development.* Ames, IA: Iowa State University Press. 1976.

Winters, W. F. "The Rural South: From Shadows to Sunshine." The Rural South: Preparing for the Challenges of the Millennium Series, No. 2. Southern Rural Development Center, Mississippi State, January 2000.

Paper Three: The "New" Open Economy: What Has Changed for Rural Areas?[3]

Many residents of rural areas are concerned by the rapid changes that are taking place in their communities. Places and jobs that were seen by generations of people as being permanent are either disappearing or being altered in major ways. The rapid changes contradict the conventional notion of a rural place, one that is pastoral, stable and plays an important role as the repository of a considerable portion of national culture (Howarth). One consequence of the changes has been a search for some form of sustainable rural development. Often embedded in this search is an effort to either slow or halt what is taking place in rural areas and to return the community to a past that is seen as a better time. However, rural places are part of a larger economic and social system, and this external environment imposes limits on what rural places can achieve.

However, while the values that underlie a desire for a sustainable form of rural development are widely held, they are likely to be no more successful now than they were in the past. In reality, rural areas have always experienced change that has been thrust upon them from the outside, and they have rarely been able to block the changes. Even when the rural population was a much larger share of the national total and political power was concentrated more narrowly in the hands of rural landowners, all that could be done was to slow change. Now that urban interests are clearly dominant and no nation has the ability to impede the global reach of capital and new technology, it is even harder to slow change. Given the inevitability of externally driven change in rural areas the appropriate course is to determine how to adapt to these pressures in ways that promise the greatest benefit for rural people. At times this may involve choosing a strategy that minimizes losses, rather than one that maximizes gains, but the promise of an open economy has always been that the lives of more people will be improved by trade than will be harmed, and that promise remains (Krugman).

While there are aspects of the "new" open economy that are significantly different from the environment in which rural places operated in the past, the differences are mainly ones of degree and not a reversal of another situation. While in any nation these changes have clearly made some rural people considerably worse off, they have improved the welfare of other people in the nation, including some rural people. For example consider the effect of Wal-Mart on rural areas. Many rural residents see the consequence of Wal-Mart's domination of rural retailing as the collapse of small retail establishments and the decline of the downtown commercial district. Yet, other rural residents point to a larger selection of goods, lower prices and greater convenience, and consider the change a great improvement.

Trade and Development

The path of national economic development is not well defined, but almost every study suggests that it involves a process of change from a society that is predominantly rural and agrarian, to one where the majority of the population reside in urban places and are occupied in the service sector. The means and speed at which this transformation takes place are not constant but the process is recognized in virtually all development theories. The industrialized world has mostly completed the transformation, although incremental urbanization continues to occur, while other nations are in varying stages of the process. For the industrial nations an interesting question is how far the transformation will go—what is the equilibrium rural share of the population. And

---

[3] Plenary paper prepared for European Rural Policy At The Crossroads. University of Aberdeen, Scotland. June 29 - July 1, 2000.

how small will agriculture's contribution to national income be?

Many factors have been advanced to explain the transformation, but economists tend to rely upon trade as the dominant force for urbanization. Trade among communities, regions or nations allows several important things to happen. The first is increased specialization, which has the effect of increasing efficiency and volume of output. The second is access to goods or services that are not locally available. A third benefit is exposure to new ideas. Each of the outcomes has an important impact upon the societies involved. Specialization can increase the volume of production and lower unit costs enabling higher standards of living and the ability to save and invest more from current output so future output grows quicker. An important induced effect of the process is faster technological change because individuals and societies can afford to allocate more of their resources to research and development. The benefits of access to things that cannot be produced locally are obvious; and while ideas are not traded commodities, an inevitable consequence of trade is exposure to a different society that can provide a new perspective on how things can and should be done.

However, economic history makes it clear that the benefits of trade are not universally recognized. Opposition to increased trade flows has existed for as long as trade has occurred. In many instances, the opposition came from agricultural or rural interests who saw that, while changes in the rules governing trade had benefits for urban and commercial elements of society, they would have negative consequences for rural interests. In earlier stages of development when the rural element of society still played a large role in the national income and population, their opposition was often able to impede the change for a period of time, but eventually urban interests prevailed. The English Corn Laws, ostensibly created to ensure food security during periods of war had the effect of protecting agrarian interests by keeping food costs higher than they would otherwise have been (Roll pp. 186-189). However despite the clear political advantage of the land-owning upper class at the time, the Laws were eventually changed in 1846, when manufacturers finally had enough power to overcome rural opposition. Similarly, the U.S. Civil War had much of its origin in a regional conflict between an industrializing north that wanted to restrict the agrarian economy of the South to manufactured products produced by the North, instead of cheaper European imports. A few decades later in Canada, the central provinces were able to impose high tariffs on imports and high railway charges that reduced the income of prairie farmers to finance an infant manufacturing sector in central Canada.

Even today similar trade conflicts exist, although they are no longer as obviously between urban and rural interests, simply because the balance of power has swung so far to the urban side. Today's agricultural conflicts, whether over restrictions on banana imports by Europe or U.S. sugar policy, are now primarily about different corporate interests, not about rural interests. Similarly, conflicts over the safety of genetically modified organisms pit consumer concerns about health and safety against potential profits for large multinational corporations and an expanded supply of food for poorer nations, and the implications for rural areas are rarely mentioned.

The Rural Interest in Trade Liberalization

Rural places have a disproportionate interest in trade issues for a number of reasons. First, rural places have always been highly exposed to the effects of changes in trade policy or in the terms of trade. In the early stages of national development, rural industries, particularly agriculture, are a major source of national income. Exports from rural places provide much of the income to fund foreign imports and to make the investments that result in national development. This is one of the reasons that many nations in the early stages of development tax agriculture, while richer nations subsidize it. Over time, other sectors of the economy displace rural activities in importance, but while the importance of rural areas to national income declines, the sensitivity of rural places to trade does not. Even as the rural economy changes in terms of economic function from primary industries to manufacturing, it continues to be involved in the production of tradable goods and services.

There is a simple reason for this. Almost by definition, rural places have small, specialized economies that only produce a small fraction of the goods and services their residents want to consume. Small size means you can't produce everything and the requirements of the market to produce efficiently mean that any rural place tends to be pretty specialized in the things it is able to produce and sell.

When the great Groucho Marx was asked how he and his brothers survived before they hit the big time in Hollywood, his answer was, "We made a modest living by taking in each other's laundry." Besides being funny, there's an important lesson here about how economies work, and by extension, what economic development is. Even a little examination of Groucho's statement makes you realize that wasn't how he and his brothers survived. The way people earn a living is by selling something they have—knowledge, skills, or something they make or do—to someone who wants it. The buyer pays the seller. This brings new money into the seller's pocket, making it possible to purchase the things that person needs in order to live, thus the phase "earning a living." A circular laundry economy doesn't allow the participants to buy anything else, and we know the Marx brothers would have had to buy food, and eventually clothing, to replace the shirts that were worn out through laundering. So in order to be successful, they would have had to have, at a minimum, taken in laundry from someone outside the family to get the money to buy the necessities of life.

Communities earn a living exactly the same way. The economy of a community grows when local businesses sell things of value to buyers elsewhere and thus, bring new money into the community. In the language of economists, businesses like these are said to be part of the "economic base" or "traded sector" of the community (Shaffer). Not every business in the community works this way, however. Some, the dry cleaner, the grocer, the car repair shop, simply provide services inside the community. These "local market" businesses are important, after all they employ people, pay taxes, and provide many of the essential things that make life both possible and pleasant. But they really only circulate money that already exists in the community; they don't bring new money in from elsewhere (except when they sell their services to tourists). It's like taking money out of one pocket and putting it back into another; the money moves around, but you don't get any richer.

How does a community get richer? By expanding its economic base. What kinds of businesses are in the economic base? Obviously, a manufacturing plant that ships products elsewhere is, but many other businesses are too. Professional service companies (consultants, accountants, lawyers, architects, software designers and the like) are part of the economic base when they sell their services to outsiders. Tourism, while it doesn't send anything elsewhere, brings people from elsewhere to the community and with them their money, so it's part of the economic base too. People who live in the community but commute somewhere else can be part of the economic base to the extent that they spend their earnings in the community. In fact, even people who don't work at all, for example, retirees, are part of the economic base to the extent that they receive and locally spend their income from retirement investments, social security, food stamps, or even welfare payments.

Thus, for rural places a critical question is, how well are the portions of its local economy doing that generate external income? While the nature of export base industries may change over time, rural places remain trapped between the necessity of specialization to be competitive and the resulting exposure to external threats from changing terms of trade. By contrast, urban places supply a large portion of their goods and services from firms within the community, and many of these are not exposed to significant external competition, for example, major hospital complexes, universities or military contractors.

Change and Rural Development

David Barkley has argued that communities' perceptions of their future development opportunities are conditioned by their past experience (Barkley, p.1252). The economic function that a place once performed is typically the starting point for any discussion of its future function. Moreover, any adjustment in its function is typically seen as involving marginal change from the current position. Thus, agriculturally dependent areas typically believe their future will be in agriculture, or perhaps in food processing or agro-tourism, but not in manufacturing. Barkley also suggests that while this is a sensible strategy in a stable economic environment, it is likely to be inappropriate in a economic environment that is changing rapidly.

It is clear that we live in a highly unstable time. The list of significant changes impacting rural and urban places seems to keep expanding. It includes globalization; rapid technological change in all sectors of the economy; changing organizational structures within firms and industries, falling transport costs; more intense competition among places for growth; the influence of advanced telecommunications and information systems, particularly the Internet; declining political influence of rural residents; and a reduced demand for raw materials (Freshwater). Each of these factors has a significant impact on rural economies, and their cumulative effect will necessitate change in most rural places.

However, another inherent characteristic of rural places is a resistance to change. Howarth has argued that rural society is traditional, conservative, and detached from the sources of innovation. His perspective is consistent with Barkley's observation that rural communities see their future in terms of the past. Obviously there is a clear conflict between the social values and desires of rural places and the changes taking place in their economic environment. Perhaps, unfortunately, it will have to be the social values that will change. For rural communities, the crucial issue is finding the ways to change that leave them best off.

What this suggests is the importance for rural places and people of adopting a type of behavior that is not conceptually new, but is now more important than in the past. It includes an emphasis on education, especially continuous learning; a recognition that the economic base of a community is likely to continually evolve so development efforts have to be an ongoing task; adapting to pressures to make investments in businesses, infrastructure, and people that promise high paybacks; and the importance of developing a local strategy for adapting to change.

Both the magnitude of the required changes and the high degree of variability in the nature of appropriate changes for individual places suggest that national governments will not be able to provide a lot of support in the process. While national governments now almost always speak in terms of the desirability of bottom-up development processes that involve the local definition of development strategies, the reality of their behavior suggests they have not escaped a top-down mentality. Ultimately, governments fund specific projects and programs, and at any point in time they only fund a specific set of things. If something in the current set meets the needs of a particular community, then national support may be useful, but it is also possible that there may be little of value in national programs for particular places. In this situation even if federal support appears to be free, accepting it may alter future development opportunities in a way that slows or reduces the level of development.

In addition, it is also clear that many communities will not successfully complete a transition to a new function. The possible sources of failure are numerous. They include a reluctance to admit that change is required; choosing a strategy that has no hope of success; being unable to obtain the necessary resources to carry out the strategy; implementing a strategy that is overcome by new events, such as changes in tastes or technology; or choosing a strategy that too many others have chosen, so the market is saturated. Realistically, we should only expect some rural places to survive, but this situation is no different than the past, for there have always been rural places that thrived and then declined as conditions changed.

Because rural places are small and resource constrained, any of the sources of failure may lead to the end of the community. Larger urban centers face similar adjustment pressures, but their size (resource base) gives them a degree of resilience that a smaller place does not have. Cities that seem as pathologically unable to define a new function, such as Detroit or Trenton, New Jersey, continue to have sufficient resources to try new approaches, even though they have dissipated much of their earlier wealth in series of unsuccessful efforts. By contrast, a rural place that makes an unsuccessful choice may find it has no future. However, from a national perspective, the saving feature of rural places is the vast number of communities involved in the adjustment process. While the people who resided in a particular place may mourn its demise, the rest of the world is unlikely to notice its absence.

The Old and the New: The Rural Policy Environment

Given the general structure facing rural places described above, what can be said about how the new open economy differs from that of the past? Figure 1 summarizes the discussion in the balance of this section. It suggests those factors that are different now and those that remain the same. In specific places, certain of the new factors are more important than others, and it is also possible that in some places the old environment still exists, even though in others it has little relevance.

The key feature that remains the same in both environments is the dependence of rural areas on external markets as the source of both products and services that are not produced locally, and as the destination for most local production. If anything, this dependence has increased because over time rural communities have tended to become more specialized in their economic activities, and because the range of available goods and services that consumers have access to has also increased over time.

A major difference for rural areas in developed nations is that in the past much of their economic structure was oriented around the extraction and processing of natural resources. This included renewable resources like agricultural land, forests and fisheries, as well as nonrenewable resources, like energy and minerals. Indeed the primary sector was often the principle contribution that rural places made to national economies. Because these resources are site-specific, there was little possibility of domestic competition in their production so while rural places might experience variability in demand and income due to business cycles they could be fairly certain that given time, an economic recovery would occur. In the new environment the primary sector plays a much smaller role, and primary product markets are global in scope. As a result many rural areas in developed countries find their resources are too expensive to produce. Although there are still residual hopes that this is just a cyclical phenomenon, it would appear that for most rural places natural resources promise little future income growth.

The rural labor force has always been characterized by a lower level of educational attainment and formal skills than were to be found in urban areas. Historically, because of the spatial division of labor this was not a major impediment to rural development. The activities that took place in rural areas tended to offset lower formal skills with either location- or occupation-specific experience that came from informal training provided within the family or community. High rates of occupational succession reinforced this process, as did a more limited set of occupational choices. However, now many of these employment options are scarce and new opportunities require more formal training.

A second factor exacerbates the employment problem of rural places. In the past, urban areas provided an almost perfectly elastic demand for rural labor. Rural residents could leave the countryside and expect to find reasonable jobs in urban centers. Indeed, much of the expansion of the urban manufacturing sector relied upon internal labor flows from rural places to cities. Now however, the jobs for the unskilled are scarce relative to the supply in both rural and urban environments, so there is little scope for a nation to resolve rural unemployment problems by encouraging outmigration to its cities. However for rural places outmigration may resolve some of their local problems, albeit at a cost to urban places, as the United States learned during the summer riots of the mid-1960s.

An important difference between the two types of environment has been the falling cost of transport. Transport of all commodities is both cheaper and far faster than was the case fifty years ago. The effect of cheaper and faster transport has been a large expansion of effective market areas. Goods and services can now be obtained from farther away at lower costs. For some rural people, this has brought benefits in the form of more sales for their products, or cheaper purchases of goods and services. For other rural people, it has meant the loss of employment and wealth if the firm they owned or worked for was uncompetitive and lost its market.

Paralleling the declining cost of transport has been an increased efficiency of capital markets. In earlier times, significant interest differentials could exist among places, and capital mobility among countries was constrained by exchange controls. Now there is almost a single global capital market and funds flow to the highest returning investments. Rural investments must demonstrate the same effective rate of return as urban investments now, and many of the traditional industries of rural areas have a hard time meeting this standard. As a result capital leaves rural areas for more profitable opportunities. Unfortunately, to the extent that capital markets remain imperfect, they are often weakest in rural areas. This has had the effect of encouraging even greater outflows from rural areas as financial intermediaries mop up savings, while return flows for investments are less likely, due to imperfect knowledge and relatively higher fixed costs.

Rapid communication through the Internet and other forms of telecommunications have for some people defined an entirely new era that is comparable to the Industrial Revolution in its effects. While the magnitude of the changes the Internet is bringing is not yet known, it is clear that the changes are substantial, and they provide mixed blessings for rural places. For the first time, whatever information is available in a major center like New York or London is equally available in any small community around the world. However, many of the changes in the new information-based economy are not likely to benefit rural places because the labor force lacks many of the basic skills necessary to take advantage of them, and because it appears that there are still important agglomeration effects in the new industries.

Faster communication has had the effect of allowing coordination over long distances and this, combined with cheaper transportation and global capital flows, has allowed new forms of business organization. Remote branch plants are now in constant communication with corporate centers and can adjust production and shipments to match changing conditions. New communications systems have allowed just-in-time production methods, flexible manufacturing systems, and global production mandates for specific plants. Rural areas in the industrialized countries have obtained some of the resulting employment opportunities, but they now must compete with rural areas around the world for these facilities, instead of experiencing a steady stream of new firms as the old product cycle moved production from urban to rural locations.

Rural Change and the Role of Rural Policy

Governments in the industrialized nations have historically supported rural development through policies that provided assistance to specific sectors, notably agriculture, or assistance to specific communities to improve their physical infrastructure. Much of this assistance was effective during the old environment because the economic activities of rural places tended to be limited in number, stable, and geographically specific; so government efforts to support incomes, reduce costs, or increase efficiency often improved the development level of the intended communities. Each of these features made it relatively easy to identify policies over a period of time that were compatible with the underlying structure of the rural economy.

While these features are the primary factors that lead to Barkley's observation that rural places tend to see their future in terms of their past (Barkley, p.1252), they also provide an explanation of why governments tend to continue to rely on old policy approaches although the fundamental structure of rural economies has changed.

Because the economic environment has changed, neither the strategy of building upon the past, nor the traditional forms of government support are appropriate. Traditional resource-based activities are less important to national economies than in the past, and rural areas now must compete with developing nations for these markets. Similarly, support for resource sectors now provides little benefit to rural areas because a declining share of the rural population is engaged in this type of work. Further, in an open economy, small amounts of support may be too little to alter terms of trade. This argument is as true for much of rural manufacturing. Aid to places is also less successful because assistance for infrastructure development has little long-term effect if the community does not have an economic function.

Most importantly the new environment has shifted the critical element that defines economic function and success from land (natural resources) or place to people. In the past, the rural population was able to prosper without having to make large investments in human capital because there were relatively numerous employment opportunities that were specific to rural areas. Now, however, virtually anything that can be done in a rural area in a developed country can be done in either an urban area or in a developing nation, often at lower cost. As a result, the rural population has to compete in one of two directions. It has to either up-skill sufficiently to make its labor attractive in higher wage, higher skill activities that are growing in industrialized nations, or it has to increase its productivity enough to compete with lower wage foreign labor in developing nations. Either way rural places and people now have little or no geographic advantages to rely upon, and must improve their human capital to be successful (Winters).

Although outmigration to urban centers has historically been an important response of rural populations to economic stress, it is not likely to prove as effective in the future. Indeed, much of current government policy can be thought of as an effort to limit migration to urban areas because there are few opportunities for the unskilled. This means that a solution to the economic development problems of rural people is more likely to have to take place in those rural areas and not rely upon exporting the population to urban areas.

Migration is even more important in an another sense. One of the unforeseen consequences of lower transportation costs and better communication has been significant movement of people from less developed nations to more developed ones. The result is that rural development is now an international issue rather than a domestic one. If economic growth in the developing nations does not lead to greater income convergence with income levels in the developed world, it is hard to see how large flows of illegal immigrants can be stopped. In North America, efforts to develop a trade agreement that allows the free flow of goods and capital but not labor has not slowed the flow of illegal Mexican migrants. In Europe, the question of European Union enlargement is stuck, to a large degree because there is no obvious solution for employing the rural population of the applicant countries. In both these regions, there are also increasing flows of people from Asia and Africa. Wade argues that income differentials between the developed and developing world must be reduced from 8:1 or more, to 3:1 or less for migration to cease. There are few nations where this will happen soon. Thus, for the foreseeable future, rural development in the industrialized world has become fused with the problems of the developing countries.

Because the economic environment has changed, it may be useful to think of two distinct types of policy. The first is a set of transition policies that facilitate adjustment to a new economic structure, but are designed to terminate in a defined period of time, whether the adjustment is complete or not. Otherwise, there is an incentive to stretch out the adjustment to capture additional program benefits. Adjustment policy could well include extended income transfers for people whose skills are either very limited or who are close enough to retirement age to make retraining an uneconomic proposition. It could also include specific training and relocation packages for specific areas or sectors to encourage either outflows or inflows of people as may be required. Short-term programs of this nature have a better chance of fulfilling their objective than do longer term industrial targeting exercises because they are dealing in a time frame when the economic structure is relatively stable. However, there is a clear risk in establishing these programs that they will be difficult to terminate once a client group is established.

Longer run programs must be less specific in the types of support they provide because our knowledge of the medium- to long-term is less certain. Support for enhanced education is clearly a candidate, as might be ensuring some minimal set of infrastructure is in place. Perhaps the most important factor could be ensuring that policy decisions do not have unintended negative consequences for rural areas. Simply thinking about how rural place might be affected by a policy that has urban places as its primary focus could prevent unnecessary damage to rural economies.

Effective long-term rural development policy will have to be supportive rather than leading. The temptation for government is to try to manage the details of the development process, despite the clear failure of past efforts to do so. In a rapidly changing environment, no level of government, national or local, has an adequate understanding to plan the evolution of a local community. While planning efforts may be useful, it will probably be because the people and organizations in the community have a better idea of what type of place they want to live in, rather than because their plan can be integrated with other plans. In addition, top-down development strategies increase the chances that decisions will be driven by external priorities. Rural areas have to define development strategies that are appropriate for them, not be forced into accepting ones that have been defined by urban interests. External interests may constrain choices, but they should not establish the choices. If rural areas are to be exposed to externally driven changes, most of which provide more benefits to urban areas than to rural ones, then it seems reasonable that they be given as much freedom as possible in determining how they will react and adapt to the changes.

National government can play an especially important role in education and job markets. Education is a clear area where there are external benefits to the nation from all regions investing fully in the school system. Outmigrants from a community can better contribute to the national economy if they are well educated, even though they take the local investment in education with them. Because investments in improved education are long-term in nature, it may be several generations before the population of rural areas has skills that are comparable to those in urban environments. In the intervening years, other measures may be required to provide short-term assistance to those workers whose skills are no longer in demand and who are too old to benefit from retraining programs, and to facilitate the workings of local labor markets.

Governments can also play a better role in helping sub-national job markets function. A simple focus on national unemployment rates masks the fact that some regions have tight labor markets while others have major problems. Sufficient flexibility in employment policy should be developed to allow local labor markets of various sizes to function more efficiently. This could allow more employment opportunities in rural areas, which could reduce pressures to migrate in the short- to medium-term while skills are upgraded.

An important question is how effective government can be in the new environment (Browne and Swanson; Swanson and Freshwater). Clearly, traditional rural policy now has little to offer. And while the rural populace has shrunk in relative terms, it still remains too large to be bought off by simple income transfers even if this was seen as a desirable option. While it is easy to argue for what should not be done it is much harder to suggest what can be done. Because rural development is a more complex issue now than in the past it is harder to devise appropriate policy (Sweet). However, leaving rural areas to their own devices is a potentially dangerous alternative, particularly if this results in accelerated outmigration to urban areas, and converts a rural development problem to an even less tractable urban development one.

Figure 1: The Old and New Rural Economic Environment

The Old Rural Environment	The New Rural Environment
External markets are important.	External markets are important.
Natural resource-based industries are the focus of government development policy for rural areas.	Natural resource-based industries are the focus of government development policy for rural areas.
Place-specific natural resource endowments are important in the local and global economy and dictate economic function—arable land, mineral deposits, etc.	Place-specific natural resource endowments are not very important to the global economy, while knowledge and skills are the main determinants of success.
Individual rural places are somewhat specialized, but many rural places are similar in function and character.	Individual rural places are specialized, with relatively few rural places being very similar in function or character.
Rural residents have lower levels of formal education and more limited employment opportunities than urban residents.	Rural residents have lower levels of formal education and more limited employment opportunities than urban residents.
Urban labor markets can readily absorb surplus low-skill rural labor.	Urban labor markets are unable to absorb surplus low-skill rural labor.
Transport costs are high, decreasing the size of markets and limiting trade.	Transport costs are low, allowing a single plant to serve continental or global markets and expanding trade.
Capital markets are segmented, making rural places reliant upon their internal pool of capital.	Capital markets are considerably less segmented, so rural areas have to compete within a global pool of capital.
Communication is expensive and relatively slow, limiting coordination.	Communication is cheap and fast, making coordination easy.
The product/service cycle starts in urban centers and diffuses to rural locations in the same nation.	The product/service cycle starts in urban centers and may diffuse to rural locations, but it may jump across national boundaries to less developed places.
Rural areas within a nation compete amongst each other.	Rural areas within a nation compete amongst each other and with rural areas in other developed nations and the less developed world.

References

Barkley, D. (1995). "The Economics of Change In Rural America." *American Journal of Agricultural Economics* 77: (5): 1252-58 (1995).

Browne, W. and L. Swanson. Living With the Minimum: Rural Public Policy. In *The Changing American Countryside: Rural People and Places,* E.N. Castle (ed.). Lawrence, KS: University Press of Kansas. 1995.

Freshwater, D. "Rural America at the Turn of the Century: One Analyst's Perspective." *Rural America* 15: (3): 2-7 (September 2000).

Howarth, W. Land and Word. In *The Changing American Countryside: Rural People and Places,* E.N. Castle (ed.). Lawrence, KS: University Press of Kansas. 1995.

Krugman, P. *Geography and Trade*. Cambridge, MA: MIT Press. 1991.

Roll, E. *A History of Economic Thought*. London: Faber and Faber. 1973.

Shaffer, R. *Community Economics.* Ames, IA: Iowa State University Press. 1989.

Swanson L. and D. Freshwater. "From New Deal to No Deal." *FORUM For Applied Research and Public Policy* 14: (1): 84-9 (1999).

Sweet, M. *Regional Economic Development in the European Union and North America*. Westport, CT: Praeger. 1999.

Wade, R. "The Choice Europe Faces On Immigration." *Financial Times* 28 June 2000, p.18.

Winters, W. F. "The Rural South: From Shadows to Sunshine." The Rural South: Preparing for the Challenges of the Millennium Series, No. 2. Southern Rural Development Center, Mississippi State, January 2000.