

Rural America at the Turn of the Century

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Rural America at the Turn of the Century

Prologue

At the turn of the last century in both Canada and the United States farmers played a major role in society and the national economy. More people lived in rural areas than in urban, and the vast majority of those in rural places were farmers (Figure 1). Now, although the rural population is roughly still as large as it was 100 years ago in both nations, it is far smaller than the urban population, and in the same period of time, farmers have gone from being the majority of rural residents to being a minority. The change in farm numbers has not been accompanied by a decline in either agricultural output or in the amount of land in agriculture. Farm output continues to expand and the amount of land in crops is now larger than it was one hundred years ago, despite the growth of cities and suburbs that has taken significant portions of the most arable land out of production. Scientific agriculture and massive capital investments have increased productivity and allowed the substitution of other inputs for human labor, and in addition allowed high levels of production on land that in earlier times would not have been considered fertile.

Other parts of rural North America have also changed greatly over the period. More rural residents live in small towns than in the country, and people in towns no longer have as significant a link with farming as they did in the past. In the last hundred years, mines have opened and closed, creating and then eliminating communities; forests have been harvested and restored; and in some regions a wave of manufacturing swept into rural places but has now largely disappeared. At the turn of the century, it is clear that rural areas will not go back to the economic structure that they had even twenty years ago, but it is less clear what their future will be.

While rural areas experienced change throughout the last century, the last thirty years

have been particularly volatile. When I was a small boy in southern Ontario, the village I lived in was still very much like it was when the area was settled by the Loyalists after the American Revolution. Fonthill had more farm equipment dealers than banks, there was a general store, a hardware store and several small restaurants that were locally owned, two grocery stores, a butcher, a bakery and a couple of full service garages with mechanics. The community existed to support the local farm economy, and although there were a growing number of village residents who worked elsewhere, the pace of the community was still set by the farm families who had been in the area for generations. Now Fonthill is a suburb of St. Catharines. Farms have been converted to housing developments, there are no tractor dealerships; but there are five banks to serve the larger population, more restaurants, but they are mostly fast food franchises, a few struggling local stores competing with a Walmart that is less than 15 kilometers away, and gasoline is only available at convenience stores.

But Fonthill is still part of rural Canada. It is certainly not the rural place it once was, but neither are many other rural communities. Perhaps the most striking thing about the consequences of the changes that have occurred is how many different rural Canadas, and rural Americas, there are now. Fonthill went from being a farm town to being a bedroom suburb. Other places went from being farm towns to retirement communities. Others were mill towns but are now medical or education or government centers. Some forest communities now exist as tourist and cottage centers. Other places have shrunk to nothing, while others have grown so they are no longer rural. In all these places change came and in many cases it was for the better, but in some places it was for the worse.

John Kenneth Galbraith, arguably rural Canada's greatest contribution to economics has said about the people who left farms for city life. "For them the modest, even meager, living standards of the city, were quite wonderful as compared with the rural privation and oppression and the social isolation from which they had come." (Galbraith p. 4) While some farm families left for cities because they had no choice, most left because they saw more opportunity. Ultimately economic opportunity is what allows people to remain in rural areas and most of the communities where change has taken place have been able to identify new opportunities as old ones disappear. If rural development is about anything, it is about helping people and places identify opportunity as change occurs and helping them take advantage of it.

The Causes Of Change

There are multiple causes of change in rural places with some being more important in some places than in others. The following list is neither exhaustive nor is it in order of relative importance because a minor force in one place can be the dominant force elsewhere.

Resource Depletion

An obvious cause of change for some rural places is resource depletion. For a mining community, resource depletion is a fact of life. Mines have a finite stock of materials that can be extracted from the ground. But long before most mines are physically exhausted, they are abandoned because they are no longer economically viable—costs of production are too high. Sometimes this reflects lower quality deposits, other times it is a too expensive labor force, in other places it is competition from a new mine. Irrespective of the cause, the community is faced with the necessity of finding a new economic function or declining.

Other forms of resource depletion are less predictable or necessary. Resources that are potentially renewable, like forests or fisheries, can be depleted to a point that the community can no longer support itself in the traditional

manner. The cod fishery in Newfoundland and New England is the classic example of the depletion of what in earlier times had been seen as an inexhaustible resource. Overgrazing of federal lands in the western states by ranchers who have limited interest in preserving the carrying capacity of pastures is another example. In these cases, depletion is not necessary but the effect can be the same—the community has to change or decline.

Changing Government Policies

Numerous aspects of changes in national policy affecting rural communities exist. Decisions to shut military bases as the Cold War came to an end had major impacts in the Northeast and Central Plains states because of the lost income from direct payroll and soldiers spending in local businesses. Farm policy in the United States was altered radically in 1996 with farmers being forced to bear more risk directly. Although the full implications of the 1996 FAIR Act have not been phased in yet, the likely consequences are further consolidation. Deregulation in sectors like airlines, transport, telecommunications and electricity have been undertaken to reduce costs at the national level, but in each case the implications for most rural areas were higher costs, as rural subsidies that were embedded in the old regulatory structure were phased out.

Changing Markets

Rural communities are subject to shifts in markets. The demand for particular commodities can be affected by shifts in supply or demand. American ranchers lost sales of beef in Europe when restrictions on the sale of beef that had been fed hormones were imposed. Specific tourism destinations are very popular for a period of time but then are no longer considered fashionable and the number of visitors declines. Cotton production fell in the United States after World War II as synthetic fibers displaced cotton, but later cotton production recovered as new markets were opened and the population grew. Milk consumption has been affected by the growth of

soft drinks and juices forcing the dairy industry to develop new markets for milk. In each case, people and places that had relied upon a specific market faced adjustment costs.

Technological Change

Advances in technology are one of the main driving forces in rural America. Agriculture is the classic example of an industry driven by new technology. New equipment and new crop varieties allowed fewer farmers to feed more people, thereby changing the nature of rural America. Other technologies have changed the minimum efficient scale of different industries including steel production, automobile assembly and health care. Each of these had implications for rural areas. Steel mini-mills can now be located in small rural communities with access to scrap and cheap electricity, instead of steel production having to take place in close proximity to coal mines. As a result some small rural communities gained while coal miners lost. Automobile assembly has shifted from central cities to rural areas with good highway access to large markets, because of advances in transportation and assembly-line systems. Consolidation of the hospital sector into a smaller number of larger hospitals and a larger number of emergency treatment centers, because of shorter bed stays after surgery, more expensive medical equipment, and an improved capacity to move patients to hospitals by helicopters and well-equipped emergency service vehicles, have resulted in the closure of many rural hospitals affecting the viability of some communities.

Other forms of technological change are only slowly adopted in rural areas. These include many of the benefits of advanced telecommunications which are first introduced in urban areas and then only slowly spread to rural areas. Although telecommunications offers ways to overcome the barrier of distance that has always slowed economic development in rural areas, it is a technology that requires major investments in human capital to make it effective. Unlike a telephone or fax machine, which can be mastered in a brief period of time,

the Internet requires a computer and the skills to operate it, which entails investments of both time and money.

Globalization

Rural America has always been heavily involved with international trade especially for resource based products but the increased integration of national economies has had major impacts on rural businesses. Flows of capital and goods now follow international price signals, and many of the firms in rural areas are no longer competitive with foreign firms. Textiles, fabricated metals, and some agricultural commodities like sugar and peanuts can be produced for less in other nations. Without import protection U.S. producers lose sales, but other nations require access to U.S. markets for these products if other products, which can be produced efficiently in the U.S., are to have access to their markets.

The Shift To A Service Economy

In the last fifty years, the nature of the U.S. economy has changed from an emphasis on the production of goods to the production of services and information. Where services only played a secondary role in the old economy, supporting the production of raw materials and goods there is a new category of services that deliver value independently of an association with manufacturing. Modern services such as accounting firms, patent firms, investment banking and marketing and management consulting generate large amounts of wealth, but are rarely found in rural areas. Although it is possible to deliver these services from almost anywhere, there are clear advantages in being close to a major airport and in being in close proximity to colleagues who can be relied upon for collaboration.

Traditional services, such as retailing and restaurants, have also changed in important ways that affect rural places. Traditional downtowns that consisted of small shops owned and operated by local residents have been displaced by large chain stores like WalMart and franchise restaurants that are located on the

fringe of the community on major roads. Not only do these firms displace local service businesses in the community where they are found, but they also tend to draw customers from surrounding communities. One effect of the change is that profits leave the community for corporate headquarters but the community also loses a group of entrepreneurs who also typically were highly involved in the development of the community. However, the range of products carried by these new establishments is larger, and prices are often lower, conveying benefits to rural customers.

Lower Transport Costs

Steady declines in transportation costs for goods, people and information have radically changed rural America. Because we have better roads, better trucks and cars, and better communications systems, there is less need for many of the smaller communities that once were the service centers in rural places. Towns can be further apart and people can get to them faster than was the case thirty years ago. Lower transportation costs have been a major factor in globalization, because high transport costs create an effective barrier to trade. Better roads have both allowed urban businesses to compete with rural ones as well as making it possible for urban residents to visit rural places. Tourism and travel were once activities that only the wealthy could afford, now they are a mass market that is available to virtually all people.

Urbanization

As the share of the national population living in cities increased, political and economic power left the rural areas. More members of Congress came from urban areas and began to promote urban interests. Policies were framed to address urban issues and were extended to rural areas without much thought for whether they were appropriate. Examples include mandates to use the best available technology for waste treatment, even though these technologies generally cost more and are no more effective than older technologies in rural environments, developing job training programs that cannot be

operated in rural areas because either too few people are eligible for the program or the minimum class size is so large that the graduates of the program would more than exceed the total demand for workers with that set of skills. At times, there are attempts to identify rural differences and modify policies to better suit the needs of rural places, but in general this involves a single adjustment for all rural places, which given the differences in conditions among rural places, is almost as bad as no adjustment.

The Historical Development Of Rural Areas in The United States⁴

In the United States prior to the civil war, one could argue that a large part of national policy was really rural policy, since a major aim of national policy was expansion into new territories primarily through the encouragement of agriculture (Osborn). This rural and even farm based vision of America is still captured in the image created by Thomas Jefferson of the yeoman farmer being the backbone of American democracy. Over time as manufacturing gained importance, conflicts between urban and rural regions increased, and are pointed to as a major cause of the civil war. Following the war, the era of urban dominance began, even though rural residents continued to outnumber the urban population until 1920. The first expression of the need for a rural policy came at the turn of the century with the 1906 report of the Country Life Commission to President Roosevelt. The report argued for better roads, better postal service and the integration of agriculture into the economy and the larger society. This was perhaps the first explicit recognition that American society at the national level no longer was linked to agriculture, and that farmers were no longer the basis of society, just as they were no longer the base of the economy.

By the end of the first World War, farmers were no longer the majority of Americans but they were still the vast majority of rural residents, so it was not surprising that farm policy was chosen as the instrument for rural policy. At that time, in most rural places what

was good for farmers was good for rural America. Because the agricultural recession of the 1920s preceded the depression of the 1930s by a number of years, there was even more interest in addressing the farm problem. Farm policy was an integral part of the federal government programs in the 1930s to provide relief to the unemployed. These programs proved so popular and so durable, that they still remain part of the core legislation for the United States Department of Agriculture today.

Farm policy provided support to farmers in a number of ways: subsidized credit, technical assistance, marketing orders and price supports. However, the mix of support varied considerably by commodity, with some commodities receiving higher levels of support than others. In the 1930s this did not matter much because farms in all regions of the nation received roughly equivalent levels of support, since most farmers were of the same size and produced a diversified set of crops and livestock. Rural communities benefited directly from the programs because farmers once again were able to pay taxes, purchase supplies and support the small stores that made up the local business sector.

For decades farm policy proved effective in supporting rural America, but embedded in the policy were incentives that ultimately made the policy ineffective. As agricultural technology advanced, farmers who were early adopters were able to increase the amount of government funds that went to their farm, which gave them the resources to continue to grow. Continued growth required specialization and a reduction in farm numbers because the supply of land was essentially fixed. Thus, a set of policies that was designed to support small diversified family farmers encouraged the growth of large specialized enterprises. The results were a decline in farm numbers in the post World War II era and a parallel decline in the communities supporting farms that reflected both fewer farmers and a shift in farmers' purchases from

small local stores to larger specialized suppliers who could offer better prices.

While the decline in farm numbers and increased regional concentration of the production of specific commodities were common phenomena in rural America, the local adjustments were not. In some parts of the country, especially the northeast, agriculture became unprofitable and many farms and farm communities were abandoned. In the south, farms in the more fertile areas were converted from share cropping or tenant systems to large mechanized enterprises, and massive numbers of poor black and white farm workers were encouraged to move north to urban centers. Farms in less fertile regions of the south were less effected by consolidation, in part because of the specific mix of federal agriculture programs they had access to, especially tobacco, and because these regions were less suited to consolidation. But for the rural south, the major factor was the influx of relatively small manufacturing plants from urban areas in the Northeast. These manufacturing plants provided a new source of income for small farm and small community residents and maintained a higher rural share of the total population than in other regions of the nation. In the Midwest, farm consolidation was also accompanied by an increase in manufacturing but unlike the South more of the manufacturing firms were either locally owned or were expansions of firms with headquarters in the region. In the Northern Plains and the west, farm consolidation was accompanied by an outflow of rural residents.

By the end of the 1980s, USDA was referring to the diverse nature of rural America (USDA). This reference was a simple way to capture a set of linked changes. Farming was still the single major use of land in the United States, but farming no longer described rural America and the nature of farming varied greatly from one part of rural America to another. What characteristics does the diverse nature of rural America capture?

Of the 2,288 rural counties in 1990, only 556 were considered farm dependent, that is more than 20 percent of household income in the county came from agriculture, compared to almost 2000 counties in 1950 (Figure 2).

Almost as many rural counties, 506, are dependent upon manufacturing as those dependent upon agriculture (Figure 3).

Fewer than 200 counties depend upon other natural resources, mining, energy or forestry as the major source of income.

Government has become a major force in the economy of some rural place in that 244 counties are dependent upon employment in government as their major economic engine.

Retirement and recreation employment is the major economic activity in 190 counties.

While rural areas typically have higher rates of unemployment and lower per capita incomes than urban places, there are pockets of poverty, some 535 counties found in large contiguous blocks, that consistently have some of the worst conditions in the nation.

What this means is that a farm based rural policy is no longer an adequate tool to address the development problems of rural America.

Rural Development Policy In The United States

Much of the analysis of rural policy in the United States focuses on the effects of national policy. This reflects the long history of policies to bring about the western expansion and the more recent dominant role of farm policy as the central element in rural development policy. But the set of changes outlined above have created a rural America that is no longer responsive to a national policy that relies upon a single sector. In fact, it is increasingly clear that the federal government is increasingly ineffective in

providing rural development support. While the historical record is clear that the federal government was the dominant force for rural development, it is less likely that this will be the case in the future.

This reflects a number of forces. First, the diverse nature of rural America now makes it impossible to conceive of a coherent set of federal policies that can address the development needs of all rural places. We know a single policy is likely to be ineffective in almost every place because it has to be designed to suit average conditions, and rural places have such variability that the average is not a good approximation. At the other extreme, arguments that the national government should tailor unique policies to specific places are administratively impossible to implement. At best one can conceive of different agencies offering a variety of programs to rural places, where some programs are more attractive to some places and others are more attractive to other places. Such an approach results in a major shift in strategy from a situation where the federal government determines what is needed for development to one where the decisions are made locally.

In addition, other than for brief periods in the 1930s and in the 1960s, the national government of the United States has not engaged in systemic efforts to foster economic development. While specific programs, such as those operated by USDA or the Department of Commerce, have been available they have not been coordinated, nor has there been a sustained commitment to either long term funding or to making program assistance available to specific communities over a long interval. As a result, communities have received funding, one year for one type of program and funding for another type of program another year, on what can be characterized as a random basis. This situation reflects shifting priorities with various sessions of the Congress and various presidents and their cabinets. It also reflects a skepticism of the ability of the national government to manage a process as ill defined as economic development.

Further, in the past when farm policy was a good proxy for rural development it was possible to establish a set of objectives and some instruments for achieving them. In this earlier time, if farm incomes were increasing and government outlays on farm policies were not large then one could argue that rural development was taking place. Now it is less clear. We no longer have a clear definition of rural development. Some people argue it is synonymous with economic growth while other believe that development has little to do with simple growth. Some argue that who benefits is important, especially people who have deep roots in the community, while others argue that “a rising tide lifts all ships” so distribution issues are not important. Some see development as a matter of stability and endurance, while others consider development to be a process of continuous change. Virtually no one really believes that higher levels of farm income are sufficient to ensure rural economic development.

The diverse nature of rural America, and even the diversity of agriculture, have made traditional farm policy based rural development obsolete, and for many reasons the federal government has not found a replacement. Arguably the biggest influence of the federal government has today on rural areas comes through policies that affect individuals irrespective of where they live. Social Security, Medicare, minimum wage legislation and national environmental standards have a great influence on rural people and places. However, the specific nature of these policies tends to be shaped by urban concerns, because urban people are the dominate force in both the national economy and the national government (Freshwater and Reimer; Swanson and Freshwater).

Historically, state governments have played a fairly limited role in rural development policy, in part because it was seen as an area where the federal government had a clearly established policy and because states had limited resources for economic development activity and preferred to focus them on higher potential return and

higher visibility projects. In the late 1980s, when rural conditions were at their worst in terms of the urban rural gaps in employment levels and in income and educational attainment, the National Governors Association set out a rural development policy that would have involved a much larger role for the states in fostering rural development (John, Batie and Norris). State governments would become the lead force for rural development under the argument that they were closer to actual rural communities and could better articulate a development strategy that fit the conditions of the people and places in that state. Unfortunately, the proposal envisioned a substantial transfer of federal funds to the states for this process, with the states having to provide little in the way of accountability. This suggested that the states were not convinced enough of the importance of the concept to commit their own funds. But equally important was the observation that most state governments had no better idea of appropriate development paths for rural places than did the federal government, so all the state plans would do is substitute one top-down program for another. Yet state governments, like the federal government play a major role in rural development. State transportation policies determine where roads go and which ones are improved; state education policy sets minimum performance standards for school systems; the state determines hospital locations and since local governments derive their powers from the state, it effectively controls local government revenues and expenditures.

The role of local government in the rural development process has only recently received the attention that it has long been given in urban development. While cities have been seen as playing a key role in their own development for a long time, the notion that local governments could influence rural development is relatively rare. Most regional economists and planners see rural areas as part of an urban sphere of influence, with the fate of the smaller place being dependent upon what happens in the city. Individually, rural places are too small

to have much political influence and the increase in diversity among rural areas has further balkanized their limited power. For example, the development interests of farm oriented communities have little that is obviously in common with those of places dependent upon the continued presence of military bases. However, rural policy in the United States seems to be slowly coming to grips with the necessity of involving local governments and local leaders in rural development (OECD, 1997; Shaffer; Radin et. al.; Rowley and Ho).

Diverse needs and opportunities are the obvious reason for doing so. If you cannot conceive of a national or state rural development policy that is both flexible enough to serve the needs of most rural places and cheap enough to administer, then you are driven to locally based policies that allow the use of a variety of federal and state programs in ways that are appropriate to that place. In addition, the notion of locally based development fits into the current political culture of making people responsible for their own future and requiring them to invest their own resources. It is consistent with the notion of federalism advanced by President Reagan when he argued that projects that convey mainly local benefits should be the responsibility of local governments, not the national government.

But a locally based development strategy has some obvious deficiencies. The first is that it sets up competition among communities in the search for employment and income. Inevitably, this competition results in higher levels of financial and other inducements to attract, retain or stimulate the creation of businesses. In the process, communities transfer wealth to businesses, and by doing so make themselves poorer than they would have been absent the competition. While it may be possible to develop a cooperative development strategy that cuts across multiple places, there will always be a tension that reflects the incentive to maximize short term self-interest. Second, the process results in a selection bias that may be efficient in an economic sense, in that communities with the largest initial set of resources have a development advantage, but may be socially

undesirable. While it was efficient for cotton farmers in the southern U.S. to replace unskilled labor with machines, the resulting mass migration north of rural blacks contributed to major urban problems in the 1960s. Locally based programs must assume that the national or state interest is best served by the individual decisions of local communities, each of which optimizes its own situation. Finally, the national and state governments are left managing and funding programs whose value is determined at another level of government. This makes their continued existence less likely, since it will be more difficult to explain why they are required.

Rural Economic Development In The New Millennium

The dominant position of rural places and people in the United States ended early in this century, and in each decade since then rural people and places have played a relatively less important role in the national economy. Although the real value of rural output has continued to increase over time, an increasing share of Gross Domestic Product comes from urban places. Similarly, urban concerns increasingly dominate rural concerns in terms of social, environmental and political issues. For a long time, beyond the point in time where agriculture was the key economic force in rural America, rural policy continued to be defined in terms of farm policy (Freshwater 1997). This reflected the political power of the farm lobby and deeply held American values about the value of agriculture as a symbol of American democracy.

More recently, urban America has become increasingly suspicious of rural decisions and behavior. Rural residents are no longer seen as stewards of the nation's resources. Loggers are a threat to endangered species. Corporate farms pollute rivers and eliminate wildlife habitat. Mining companies level mountains and dump toxic wastes in valleys. Rural manufacturing firms pay low wages and import illegal aliens to do work that is too degrading for citizens. Many rural communities have more than their share of crime, drugs and social dysfunction. In short, the behavior of rural people no longer fits the

urban perception of rurality (Howarth). Although these aspects of behavior are perhaps not much different from what they were thirty or forty years ago, what is different today is their visibility. Television brings a picture of rural America to the city that is often vivid and disturbing. Where rural areas were once so remote that what went on was rarely discovered, now modern telecommunications combined with rapid transportation makes every place accessible if the story is good enough.

As a result, a major challenge for those promoting local economic development in rural areas is finding a development strategy that is acceptable to the urban majority. It is increasingly no longer enough that local residents support a particular development strategy; what is also required is the endorsement of urban people who see many rural development schemes as inconsistent with the national interest in preserving rural territory. Ironically, rural people are now being held to the standard of wise stewardship that they promoted in the past.

Compounding the problem of rural development is the widely held belief that rural areas are appendages of urban places. As such they necessarily have truncated economies that are dependent for their economic health upon conditions in larger urban centers. This suggests that rural areas can only grow if the larger urban economy grows, and that a rural development strategy that is something other than an urban driven regional development strategy is improbable. Certainly a large number of rural places can be defined as ex-urban components of a central city, and much of the recent growth in rural America takes place in those rural counties that are adjacent to metropolitan areas. But this form of growth tends to result not in rural development but in urban expansion. What was once rural becomes urban, thereby reinforcing beliefs that rural areas are hinterlands and that growth in remote places is improbable.

This development pattern has its roots in the nineteenth century writings of the economic geographers Losch and Christaller who

sought for regularities in development patterns. At the time, a clear urban hierarchy existed because of the existing production, communication and distribution technology. Urban cores communicated with each other, and each urban core had a field of influence that declined with distance from the central city. Rural places were not functionally connected with each other since all the linkages went up through the hierarchy. There is reason to doubt the ongoing validity of this model. Central cities are no longer the dominant force they once were (Garreau), and advances in communications, especially since the widespread diffusion of fax machines, the Internet and package delivery companies, allow firms and communities no matter where they are to deal directly with any other firm or place. As a result, the old linear hierarchy, where central cities were major nodes through which all communication flowed, has been replaced by a network of direct linkages among places that bypasses the old nodes. As a result, a firm in Mayfield, Kentucky can sell its products directly over the Internet to firms in Dijon, France or Prince Albert, Saskatchewan and have the products delivered in two days by UPS or Federal Express.

What remains true about rural development is the necessity to create value and find customers outside the community. The essence of rural places is their small size, which means they can produce only a limited number of goods and services. While they may no longer be dependent upon the flow of goods and services to and from the large city in closest proximity to them, they still must purchase many of the things they need to survive from outside the community. If they cannot earn the money they must either live off of transfer payments or disappear. This explains the focus on employment that characterizes most rural development strategies. While social cohesion and environmental protection are important issues for rural places, there is a clear understanding that without jobs and income, the community will not survive.

Because rural places are small, any change they make has a relatively large effect upon the

local economy and community. In a city, if a builder overestimates demand and builds three more warehouses than can be used immediately it will not take much time nor much of a decline in price to fill them. By contrast one extra warehouse in a rural area can overhang the market for a number of years and significantly depress rents for all warehouses. Similarly, excess or under-investment in infrastructure cannot be quickly resolved in rural areas and as a result the community will face a considerable cost. This means that any investment in rural areas bears more risk than a similar investment in urban places, and in addition, there is probably less reliable information in rural areas available for making investment decisions. Yet if rural areas are to be competitive, they will have to make significant investments in people, companies and infrastructure to be competitive in modern markets.

Changes in technology and in patterns of trade have had a very large impact on rural areas because they are much more exposed to changes in most city economies. Other than a service sector, which depends upon local demand, very little economic activity in rural areas is buffered from external competition. In fact, many of the manufacturing firms in rural America are so exposed to foreign competition that they moved to rural areas as a way to reduce costs enough to make them competitive. Forty years ago cheap labor, electricity and land, along with limited regulation, were offered by southern states as inducements to northern firms facing stiff competition. Now much of the competitive advantage of the rural south has eroded and the same firms are moving out of the country to even cheaper locations (Rowley and Freshwater). This leaves much of the rural south with the fundamental dilemma of trying to compete with developing countries for low wage, low skill jobs on the basis of somewhat better proximity to markets, or of trying to compete with regions in North America and Europe that have better trained workers for higher value work. The first course requires continued efforts to drive costs of production down, often at the expense of workers, while the

second path will require major investments in worker skills and community infrastructure, with no promise of success.

Some of the changes that have taken place in the larger environment have created opportunities for rural areas. While urban residents now impose more restrictions on development in rural areas they are more interested in being associated with rural areas. The growth in tourism and retirement income in rural areas reflects the growing urban interest in rural places. Certainly the potential to take advantage of these opportunities is conditioned by the natural environment that is locally available, but there is a growing range of interest in types of recreation like eco-tourism and agro-tourism that were not common ten years ago. While rural areas in the United States may no longer be competitive in the production of cheap mass-market goods (Piore and Sabel) the development of modern telecommunications has enhanced the opportunity for the niche marketing of small scale products (OECD, 1995b). A small firm in a remote area can appear just as professional as a large urban firm if its business is transacted by Internet, fax and Federal Express.

As the competitive position of traditional rural industries, resource extraction and low skill manufacturing are reduced, rural areas will have to find new sources of income and employment. Entrepreneurship, tourism and recreation and retirement are the concepts most frequently put forward as the ways to if not replace then supplement agriculture and branch-plant manufacturing. Examples of the successful introduction of each approach are numerous. In the case of increased entrepreneurial activity we see places where local residents started firms that grew to employ a significant segment of the population (Childress, Smith-Mello and Schirmer; OECD, 1999; Cote). However, while we can demonstrate that entrepreneurship is an effective means for rural economic development, we are less certain as to how to bring it about. Industrial recruitment is a strategy that virtually any community can adopt and have some prospect of success. But, developing an interest

and aptitude among the local population in starting and operating small businesses is not as easily accomplished. Similarly tourism, recreation and retirement provide opportunities for some rural places, but not all. To be successful in these activities requires some minimum level of desirable environmental characteristics, like climate, topography and historical or cultural significance. Absent these efforts to bring about visitor interest are likely to be no more successful than many industrial parks have been.

Both the changing nature of global economic relations and the changing political power of rural areas compel rural interests in North America to reexamine how they fit into the larger economy and how they can best participate in the policy process. The rural populace is dependent upon the policy process for both direct and indirect reasons. In a direct sense, rural residents receive assistance through commodity based programs, like farm price supports and low price access to resources on government owned lands; and through social assistance programs like health insurance, worker training programs and social security programs. In addition, rural areas are indirectly dependent on government decisions in areas such as trade policy, environmental protection standards and the regulation of financial institutions.

Because rural areas in North America have a high dependence on natural resources, many of which are found on government owned land; because they have a high incidence of poverty and other social problems that rely on government assistance for amelioration; and because the economic base of rural areas is comprised mainly of businesses engaged in the production of tradable commodities; the actions of government are particularly critical to rural residents. The rural populace thus has a vital interest in influencing the decisions of government, but other than in the case of agriculture, rural Americans have been unsuccessful in channeling government policy.

In an economy that is becoming more open, it is important that rural residents work to

provide support for a transition to a new economic structure (OECD, 1995a). An open economy based upon global markets threatens the survival of many rural businesses. In some sectors there is no potential for reaching a competitive structure of production and these industries should seek assistance in winding down. Most of the manufacturing industry that produces standardized commodities in rural areas using low cost labor and simple technology falls in this category. In other cases, industries will have to adjust to meet new scale requirements if they are to remain competitive. This will require new investments in both physical plant, worker skills and community infrastructure.

In the new era, the future of the rural population will depend upon defining and developing industries that are competitive. In seeking government assistance, rural interests should press for development assistance rather than transfer payments that can be easily dissipated. Such assistance could take the form of retooling for both firms and workers, or relocation assistance for people who seek a brighter future in another location. By contrast, efforts to continue to block foreign competition will inevitably lead to rent seeking behavior that merely props up declining sectors for a bit longer time, such as is seen in the Canadian and U.S. agricultural sector. However, unlike agricultural interests that deal from a position of accumulated power, other rural interests have little chance of individually garnering this kind of support.

Social policy must play an important role in this adjustment. Because large segments of the rural populace are not fully integrated into the economy, they need particular assistance in developing an attachment to the labor force. Even if major funding increases are made available for existing programs, these are not well suited to addressing the needs in rural areas (Greenstein and Shapiro). Thus, it is critical that rural interests work to increase flexibility in federal, state and provincial programs to ensure that rural residents can obtain the greatest

benefit from government outlays. Arguments for flexibility can be couched in terms of increasing the effectiveness of outlays, which implies a concern with efficiency and not just equity.

This will require that rural interests do what to date has been impossible, and that is to fuse a stable coalition that can advance the rural perspective on a broad range of issues. This does not require that individual groups give up their traditional ties to parallel urban interests. However, it does require that a broader network be established. This has to happen soon if rural North America is to make the best use of its eroding political capital. Arguments for transition assistance are most potent while the transition to freer trade is just beginning. Waiting until later to request adjustment assistance will result in rural areas experiencing further decline in numbers and economic activity, and a corresponding decline in political clout.

For rural groups to bring about this cohesion of interests, they will need to develop a new paradigm that allows them to see that their individual interests are best served by working to develop mutual interests. This paradigm will have to emphasize the importance of mutualism and the need to develop partnerships that can serve individual needs. Yet residents of rural areas generally lack the important interpersonal skills for organizing such partnerships. The traditional rural ethos of independence and self-

reliance becomes an impediment to forming large enough groups to become effective.

In addition, rural areas will have to address the growing conflict over environmental preservation versus development. Whether environmental policy is economic policy or social policy is a moot point. Irrespective of the classification, it is critical to the future of rural America. The comparative advantage of rural areas will remain in resource based activities, including the use of the assimilative capacity of the environment and managing ecosystems. An increasingly urban population that has less and less direct linkage to rural areas, in both a personal and economic sense, is in the position to define the terms under which rural residents interact with the natural environment. The high proportion of government owned land and the presence of commodity based assistance programs increases this influence, but even without this leverage, the fundamental problem would remain. Unless rural policy can influence the development of social and economic policy, particularly environmental policies, rural residents will find the number of options for economic restructuring fairly limited.

Endnote

1. Much of the material in this section is drawn from Osbourn 1988a, Osbourn and Freshwater 1991.

Figure 1: Rural, Farm and Urban Population

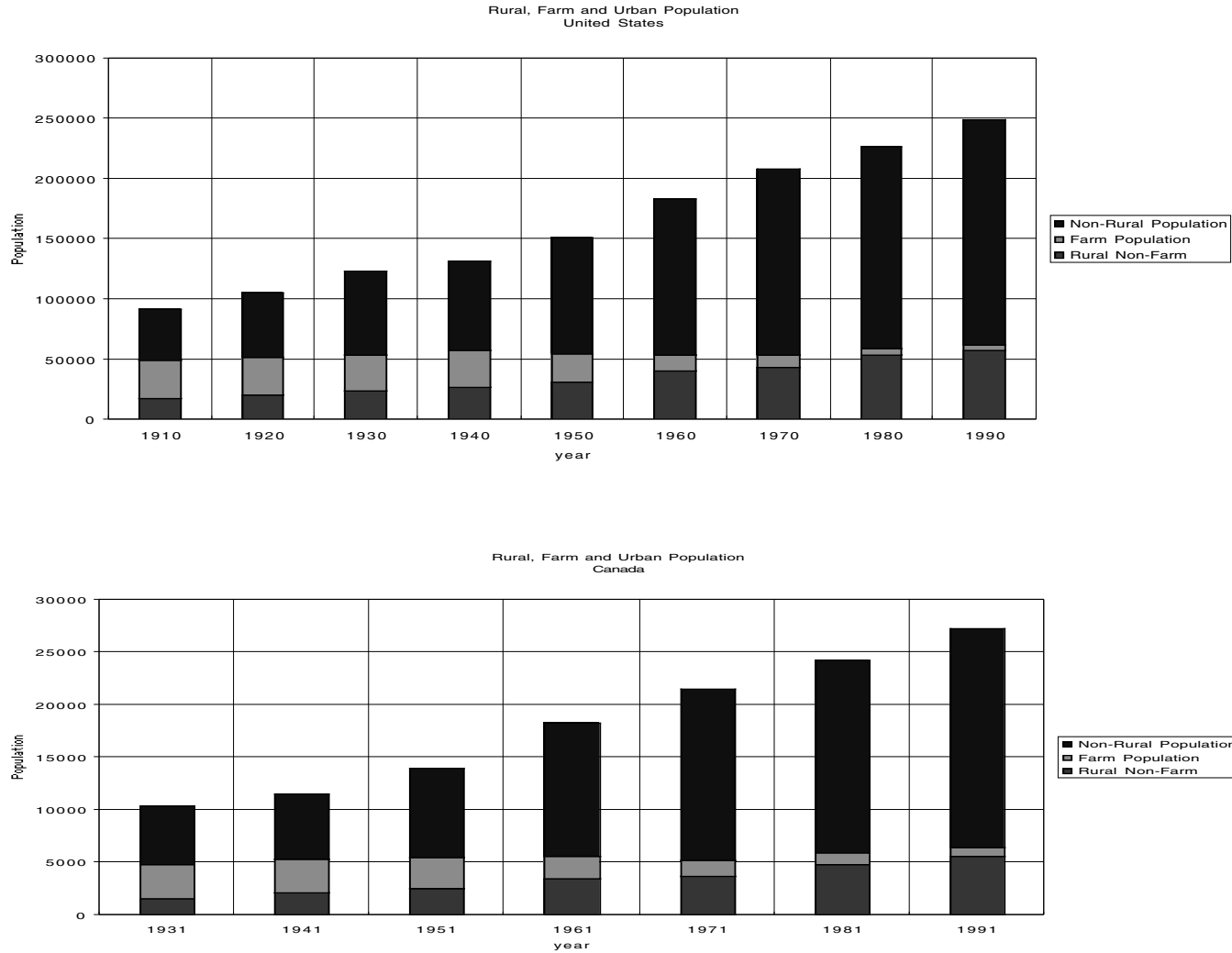
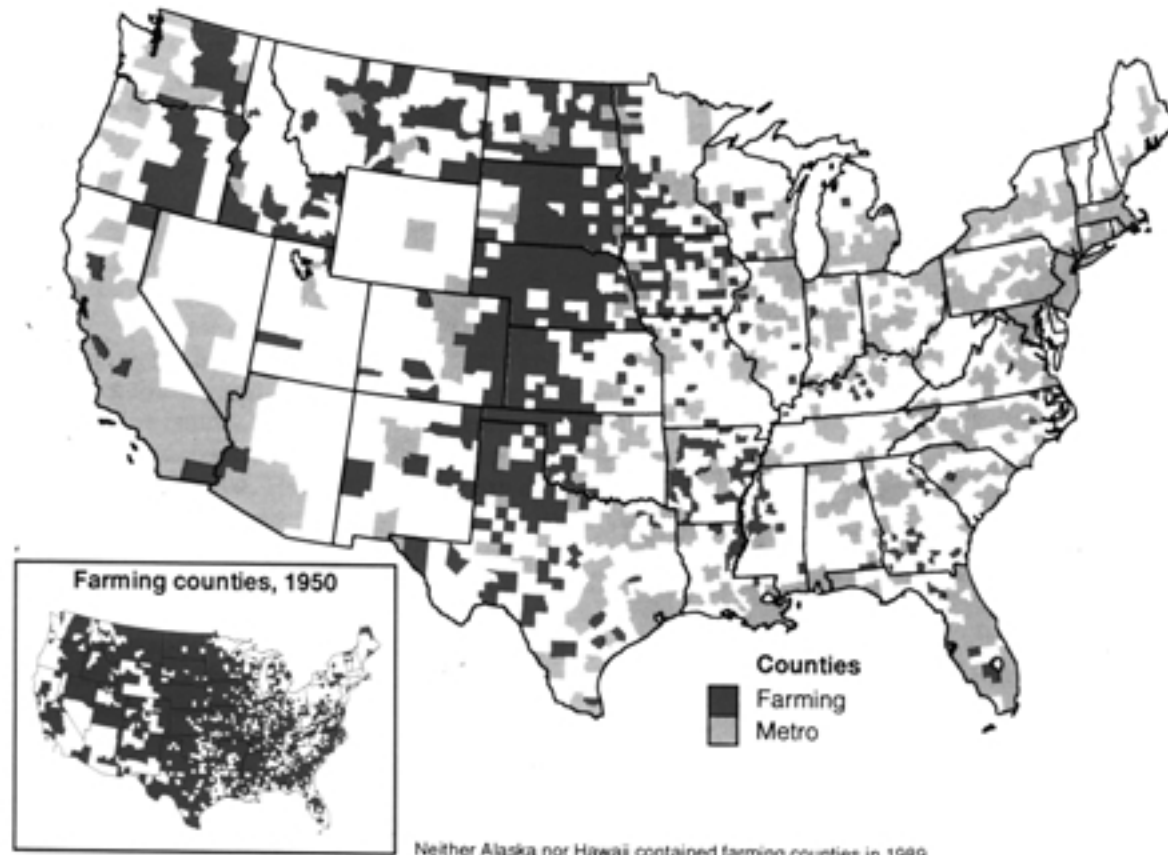


Figure 2: Farm Dependent Counties

The number of farming counties has shrunk dramatically since 1950.



Farming counties: nonmetro counties with 20% or more labor and proprietors' income from farming, 1987-89 annualized average.

Figure 3: Manufacturing Dependent Counties

Manufacturing counties are home to nearly one-third of the rural population.



Manufacturing counties: nonmetro counties with 30% or more labor and proprietors' income from manufacturing, 1987-89 annualized average.

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