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RURAL DEVELOPMENT

Rural America Faces Many Challenges

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The Honorable Patrick J. Leahy
Chairman
The Honorable Richard G. Lugar
Ranking Minority Member
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

The Honorable Thomas A. Daschle
United States Senate

Small, vibrant rural communities are still many Americans' ideal place to live. But the sources of rural America's economic vitality—farming and natural-resource-based industries—have undergone major restructuring or have declined. As a result, many rural communities are no longer thriving. People who can find work elsewhere often leave, and those who remain frequently have limited employment options.

To assist the Congress in strengthening rural development policy, you asked us to identify the challenges rural America faces in dealing with current economic realities. To do so, we convened a symposium of experts working on issues affecting rural America. The 78 participants who attended our Symposium on Rural America on June 11 and 12, 1992, included local and regional leaders, financial experts, members of nonprofit associations, and representatives from local, state, and federal government. (See app. I.) This report synthesizes the views of symposium participants.

Symposium's Results in Brief

The challenges facing rural America need to be understood in the context of certain characteristics that distinguish rural areas from metropolitan centers, symposium participants said. These characteristics include remoteness from urban centers, low population density, and specialization in a natural-resource-based industry, such as agriculture or mining, or in low-wage, low-skill manufacturing. For many rural communities, these characteristics, although not necessarily problems in themselves, have led to a gradual decline in economic prosperity and social well-being and create major obstacles to successful competition in a changing national and global economy. Other rural areas, however, have improved their chances for long-term viability by identifying and building on particular

Background

Since the early part of the century, population movement has been away from rural America to metropolitan areas, encouraged in part by greater economic opportunities—higher-skill, higher-paying jobs—and easier access to services in urban centers.

This movement has contributed to a cycle of increasing difficulties for rural America. As businesses fail or leave and new businesses do not replace them, the local tax base shrinks. In turn, the amenities that would attract and retain businesses and people—good medical services, roads and bridges, quality education, and housing—are neglected or not developed. In addition, rural communities are unable to fund programs to meet federal and state mandates, such as environmental requirements for clean water. With fewer or low-paying jobs available to them, those rural residents who remain have less incentive to improve their skills and qualify for higher-paying jobs and/or lack educational opportunities to do so. Leadership and community cohesion are impaired, leading to further business failure or flight.

Certain Rural Characteristics Make Development Difficult

Three major characteristics—remoteness, low population density, and dependence on a particular industry—are associated with rural areas, symposium participants noted. These characteristics make it difficult for many rural areas to remain viable under current and projected economic conditions.

First, many rural areas are far from major population centers. This remoteness hinders the development of agglomeration economies—the efficiencies gained when industries locate in close proximity.[1] Several speakers stated that agglomeration economies have been particularly important in producing services that can be sold in regional, national, or global markets. Remote rural areas also generally cannot provide the opportunities for face-to-face communication that are important to business development and are commonplace in more densely populated areas, according to several participants. To illustrate the significance of remoteness, a speaker reported that during the 1980s economic growth declined in "absolute stepwise fashion" with distance from metropolitan areas.

[1]While agglomeration economies are generally cited as a cause of industrial clustering in urban areas, such economies and clustering also occur in rural areas—for example, the furniture industry in Tuperlin, Mississippi; carpet manufacturers around Dalton, Georgia; and metalworking firms around Gadsten, Alabama.

even lower wages, corporations are increasingly willing to relocate to save labor costs. When a parent corporation closes a branch plant, it creates both unemployment for that plant's workers and hardship for other rural enterprises that were subcontractors to the branch plant.

Despite these problems, some rural areas have been able to capitalize on other rural characteristics: natural amenities and/or the low cost of living. The 500 nonmetropolitan counties known as recreation counties and/or retirement counties have been virtually the only nonmetropolitan counties that have experienced economic growth since 1982. In addition, rural areas adjacent to growing metropolitan areas are becoming integrated into urban economies.

Rural Revitalization Hinges on Several Factors

Revitalization of local and regional economies through enterprise development is the underlying challenge for rural America, in the view of symposium participants. Rural America's present economic difficulties are not likely to be reversed by overall growth in the national economy. Such growth is now fueled in part by agglomeration economies; support services for businesses (e.g., communications, express mail carriers); and participation in international markets. Businesses in rural America that draw money from outside the local area stimulate local economic growth. Local businesses that do not draw outside money may only sustain themselves. Therefore, rural America, like the rest of the nation, needs to learn to compete internationally, not just locally and nationally.

To meet this challenge, rural areas are developing, or need to develop, an array of new approaches that will help them address inherent barriers to modern economic growth. These approaches will depend in large part on rural areas' ability to obtain information and expertise and to develop an educated work force. In addition, revitalization efforts are affected by such other issues as the need to sustain the environment, the lack of adequate transportation, and the role of telecommunications in modern business.

Revitalization Efforts Seek to Overcome Barriers

Symposium participants highlighted a variety of approaches to overcome inherent rural characteristics that are barriers to growth and to address rapidly changing economic conditions. The purpose of these efforts was generally to provide rural enterprises and communities with the information and expertise necessary to develop, maintain, and improve their businesses.

for-profit sector that provides traditional financing. Since 1988 the Bancorporation has invested over $10 million in about 125 firms. Moreover, because the Bancorporation wants to expand the spending power of southern Arkansas, it principally finances firms that can compete regionally, nationally, and internationally.

In their discussion of new approaches to rural problems, several participants cautioned against too much reliance on traditional industrial recruitment—recruitment of low-wage, low-skill industry to an area. They pointed out that this approach is not an effective long-term strategy for rural employment problems, although it is popular. One speaker urged "smarter recruitment"—seeking out manufacturing concerns that will not only generate jobs in the short-run but also stay longer, encourage the development of other businesses, and train workers for jobs requiring more skills.

Education Is Key to Revitalization

The importance of education to rural revitalization was underscored by many participants. Although speakers did not offer solutions, they cited the particular problems rural communities face because of rural residents' lower education levels.

Rural school systems often cannot offer the variety and depth of courses commonly available in metropolitan areas. They do not have the numbers of students to support such courses, according to symposium participants. In addition, although high school completion rates are similar for rural and metropolitan students, a smaller percentage of rural students complete 16 or more years of schooling than do metropolitan students. Consequently, participants stated, rural areas have more difficulty than metropolitan areas in attracting businesses that require highly skilled workers and often do not have as large a pool of well-educated adults to provide leadership. In addition, adult workers who seek to upgrade their skills find it difficult to obtain the appropriate education or training. Moreover, job training programs tend to focus on displaced workers rather than anticipate economic transitions and prepare workers for those transitions.

Other Issues Are Important to Revitalizing Rural America

Although symposium participants concentrated on economic problems and their solutions, three associated issues were of particular concern: the environment, infrastructure, and telecommunications.

strengths, such as natural amenities that attract tourism or retirement communities.

Rural America's underlying challenge is to revitalize local and regional areas by developing enterprises that can respond to changing economic conditions, according to symposium participants. To effectively address this challenge, rural areas need new approaches that will help them overcome the barriers to development resulting from their remoteness, sparse populations, and dependence on a single industry. For these approaches to be effective, rural areas need to (1) gain access to information about and expertise in such areas as business planning and development and national and international competition and (2) develop a more educated work force. Revitalization efforts must also address the problems of sustaining the environment, improving infrastructure, and capitalizing on the benefits of telecommunications.

Current federal policy does not address the needs of rural America, symposium participants said. When it targets rural America directly, federal policy primarily focuses on providing assistance through traditional agriculture programs. This federal emphasis on an agrarian, rural economy may be misplaced now that a declining percentage of the rural population depends on farm income. Moreover, nonagricultural federal programs may not be effectively serving rural areas. For example, federal programs are often complex and uncoordinated, making it difficult for rural areas—whose resources and expertise may be limited—to take advantage of these programs.

Looking to the future, symposium participants believed that federal efforts to help rural areas become or remain viable should be based on two interrelated ideas. First, creative, effective solutions are often generated locally, in communities whose leaders are most informed about problems and can shape appropriate solutions. Second, "one size fits all" federal programs are not likely to be effective for rural areas because different areas need different solutions to their problems. For example, by providing specialized information and/or expertise, the federal government can help rural areas develop appropriate enterprises, make necessary changes in education, and support infrastructure. However, specific efforts may differ, depending on a rural area's available resources, location, and population.

Participants also stated that remoteness affects rural residents in another sense: They generally tend to be less informed than residents of metropolitan areas about changes in the national and global economy that will affect their economic future. Moreover, rural residents lack the access to expertise and specialized knowledge that is widely available in metropolitan areas. Finally, participants said, while the small-town environment fosters social interactions, it is often not conducive to business owners' sharing information and looking for common opportunities.

Second, rural areas are most often defined by their sparse populations—90 percent of America's towns outside of metropolitan areas have populations of less then 5,000, according to one speaker. Consequently, rural populations generally do not have the breadth and depth of expertise needed to initiate and sustain the new types of economic activity that can compete nationally and globally, symposium participants generally agreed.

Finally, the economies in rural areas have tended to be based on a single industry. When that industry is hurt by economic change, the whole region tends to decline. In today's economy, traditional rural specialties—such as agriculture, mining, or low-wage, low-skill manufacturing—have become less important as a source of new employment and economic growth and/or are being lost to overseas competitors.

The importance of an industrial base in rural areas should not be underestimated, participants cautioned. Twice as many rural residents are employed in manufacturing such products as furniture and carpets as are employed in mining, energy, and farming combined. This manufacturing base is being eroded, however, by the loss of both small and medium-size enterprises (SME)—companies with fewer than 500 employees—and rural manufacturing plants that are subsidiaries of large corporations (branch plants).

This decline of SMEs and branch plants in rural areas has occurred for some of the same reasons these areas are unable to compete nationally and internationally. Because remoteness and low population density result in less access to information and expertise, rural areas are hard-pressed to sustain SMEs. SMEs may not succeed because they find it difficult to develop and maintain a comparative advantage in terms of quality design, delivery, and technological competitiveness. In contrast, branch plants in rural areas have traditionally offered large corporations the advantage of a pool of low-wage workers. Since workers in foreign countries may work for

For example, the problems of remoteness and reliance on a single industry are being addressed by the Oregon Wood Products Competitiveness Corporation. This state-funded corporation, launched to solve problems in the wood products industry, acts as a resource center: It organizes collaborative endeavors among firms, provides training and technical assistance, and conducts market research. Similarly, the Montana Women's Economic Development Group serves as a central resource for counseling, training in self-employment, and access to capital. It, too, seeks to overcome the lack of access to information and expertise that is common in sparsely populated areas.

Manufacturing networks may also help rural areas overcome inherent problems, according to several speakers. These networks, like agricultural cooperatives, give small production units the external economies of scale needed to compete in global markets. For example, the Northern Economic Initiative Center in Marquette, Michigan, works with small manufacturing firms that have had little access to the support necessary to build businesses, such as training and business services. The center also found that the firms could teach each other and began to host meetings for the discussion of common problems. Participants generally agreed that this type of networking enables firms to advance their knowledge and develop their technologies, making them more competitive in world markets.

Access to information and expertise is equally important when rural businesses seek financing, several participants noted. For example, two contrasting views of capital availability were linked to the need for knowledge and expertise. One participant said that local bankers are often not receptive to unfamiliar proposals, preferring instead to finance more traditional business undertakings. According to another participant, when capital is available for new business development, rural entrepreneurs often do not know how to draw up a business plan that a bank will approve. In some rural areas, entrepreneurs may seek out the Small Business Administration, as much for the technical advice as for the capital the agency can provide.

Recognizing the need for both capital and expertise, the Southern Development Bancorporation, a private holding company, developed a multistep approach to building businesses in the southern half of Arkansas. The Bancorporation includes both a nonprofit entity, the Arkansas Enterprise Group, which provides money, management, and marketing assistance to small and growing rural manufacturers, and a

Rural communities often have environmental problems that need attention, according to participants. They noted, however, that the environmental debate tends to focus more on the cost of complying with state and federal requirements than on how to best solve the environmental problem. For example, they indicated that while the level of water quality in rural areas is often significantly lower than in urban areas, rural communities are frequently financially hard-pressed to solve their problems. The federal and state requirements for water quality under the Clean Water Act and Safe Drinking Water Act are often too costly in relation to a community's tax base, participants stated. However, the federal government and rural areas generally share the goal of a cleaner environment, which is also an important selling point for some rural communities.

Participants also said that infrastructure—roads, bridges, and water resources—is far from adequate in many areas, making them unattractive to new businesses. In addition, airlines and trains no longer service some rural areas very well, and some firms have moved out of, or do not want to move into, rural areas because access to transportation may not be sufficient.

Finally, participants cited the importance of telecommunications to rural development. Telecommunications, they pointed out, can help overcome problems of access to information and remoteness from concentrated employment areas. For example, telecommunications can provide long-distance education for students of all ages as well as continuing professional education. However, telecommunications cannot fully replace the face-to-face contact that is important for business, according to some participants.

Federal Policy Does Not Effectively Address Current Rural Problems

The principal federal policy for rural America, symposium participants stated, has been the effort to develop and sustain agriculture. This policy was largely developed in 1930s farm support programs, when rural America depended on agriculture, particularly the small family farm, for its well-being. This policy, however, is no longer in accord with current conditions. Manufacturing has become more important to rural America, and agriculture has declined as the major source of economic development, symposium participants noted.

Other federal policies that affect rural America tend to address problems facing Americans wherever they live. However, the programs to implement these policies are likely to be designed for large population centers. This "one size fits all" approach is generally inappropriate for rural areas, speakers said. More specifically:

- Federal programs require coordination of expertise and resources. A concern widely shared by symposium participants was rural areas' difficulty in dealing with a myriad of federal programs. To achieve any goal, a local government may have to coordinate the requirements of several different agencies. A given problem—in education, work force training, health, transportation—may involve one agency or multiple agencies, each with its own forms and regulations. Rural areas generally do not have the financial and information resources that metropolitan centers have to meet such federal requirements. For example, for a single rural project, three different agencies will require that applicants submit three different planning documents to participate in their programs. Each document requires time and expertise to develop.
- Federal programs do not adequately distinguish among communities of different population densities. Many federal programs define small communities as those with fewer than 50,000 people, said one participant. That is, communities of 49,000 are considered identical to those of 1,000 for program benefits and/or mandates. However, the smaller communities are not likely to have the local leadership or personnel to take advantage of these programs or the resources to comply with the mandates. Similarly, this participant stated, these programs assume that communities cannot benefit from federal support in amounts lower than $150,000, while in fact a small community might benefit considerably from assistance of as little as $5,000.
- Federal programs often focus on process rather than effectiveness. Many federal programs measure effectiveness by volume—numbers served or dollars spent—rather than by the achievement of program goals, participants stated. This approach may not always help rural areas use available resources efficiently. For example, one participant pointed out that the Small Business Development Center, funded by the Small Business Administration, has to serve every qualified borrower, whether or not that borrower's enterprise is likely to be effective in promoting economic development. In contrast, the Southern Development Bancorporation's Arkansas Enterprise Group can choose to invest in business ventures that are likely to yield the greatest benefit to the community and/or to target its efforts to certain types of enterprises, such as innovative businesses or manufacturing.

Future Federal Policy Needs to Be Responsive to Rural Conditions

Symposium participants had multiple visions for a future rural America, reflecting the actual and potential diversity of rural areas. As a result, participants stated, the federal government's approach to rural problems must be premised on a federal policy that acknowledges two interrelated principles. First, informed local communities can and are developing creative solutions to their problems, such as those in Oregon, Montana, and Arkansas. Federal policy and programs should use and build on these solutions and the resources that rural areas can provide. Second, given the differences among rural areas, a variety of approaches are needed to address rural problems—"one size fits all" will not work. As one speaker pointed out, the needs of Socorro, New Mexico, located on the Rio Grande, and Darlington, South Carolina, located 75 miles from the Atlantic Ocean, are "worlds apart." Participants described ways in which federal policy could be developed and identified some key issues they believed need to be considered in defining a federal approach to rural areas.

Federal Policy Can Facilitate Needed Changes

The federal government can help rural areas make necessary changes, primarily by providing specialized information and expertise, according to participants. Most rural areas need to know more about how their economic development can be enhanced by learning what has worked elsewhere, what could work, and what other issues they need to consider, several speakers suggested. For example, one speaker commented that programs to finance development are more effective when they provide not only funding but also access to (1) expertise about markets, (2) information about technologies, and (3) specialized management skills.

Several participants also stressed that federal policy should enlist multiple levels of government and the private sector in developing solutions to rural problems. State rural development councils have taken this approach, according to one speaker. Federal government officials participating in the symposium stated that these councils can address some of the problems of low population density and lack of access to expertise that rural communities face. For example, the South Carolina Rural Development Council helped six small rural communities jointly respond to a mandate to create a water and waste system that none of the communities had the resources to create by itself. These officials said that the councils can also try to address the problems of coordinating government programs. One speaker cautioned, however, that these councils' coordination efforts may become another additional cost, and not an effective use of resources.

Participants Discussed Possible Changes in Federal Approaches

Symposium participants also noted a need for the federal government to rethink its policy for rural areas. Although participants discussed several approaches, no single approach or combination was identified as best satisfying all concerns.

On financing, for example, one participant cited a proposal to reverse federal-state funding responsibilities. Under this proposal, the federal government would be responsible for social welfare programs and the states for economic development. He said that the advantage of this approach for rural areas would be to free up state and local funds for economic development. State and local governments, in this view, are likely to more effectively foster economic development than the federal government because they are more knowledgeable about local conditions. The federal government would be responsible only for social programs. For economic development, the federal government would serve only as an information clearinghouse.

Other participants argued for a federal role in economic development, pointing out that the federal government (1) is the major owner of land and productive resources in some states and (2) can provide guidance more effectively if it also provides funding. Other participants stated that federal funds now being used for some programs, such as agricultural subsidies, could be better used for different programs to help rural areas.

Participants also debated whether federal resources should be targeted to particular rural areas or be widely dispersed. Some rural communities, participants said, may not be viable without inordinate amounts of assistance. Scarce federal and state funds should be spent on those communities that, with some assistance, can be viable. In addition, larger communities are likely to survive because they have more resources and expertise to successfully compete for government funds than do smaller communities. For policymakers, the question becomes whether federal and state funds should go to these stronger competitors or whether government has an obligation to help smaller communities compete more effectively for available funds.

Realistically, rural communities may find it difficult to compete for resources because they simply do not have the influence that more populated areas have, several speakers noted. For example, even in a rural state like Nevada, most of the population is concentrated around metropolitan centers. Therefore, state and federal representatives are more apt to target funding to their larger constituencies. Moreover, rural problems are often not as visible or as pressing as urban problems. The riots in south Los Angeles, which immediately preceded the symposium, raised concerns among participants that legislators would concentrate on urban problems to the exclusion of rural ones.

Rural representatives need to demonstrate the importance of their areas to the nation in order to effectively influence policy for rural America, according to symposium participants. They can do so by showing the interdependence of rural, suburban, and urban America—in the markets they provide each other, in the similar problems they face, and in the importance of open, rural landscapes to the nation as a whole.

Symposium's Conclusions

Nationally, many rural areas are in decline. But this reality is often hidden by a still-powerful vision of rural life. Moreover, the political focus remains on critical urban concerns. Under these conditions, the problems of rural America have not been addressed in a coherent, responsive federal policy.

Such a federal policy must be based on a vision of what rural America should be, according to symposium participants. Because an ideal rural America means different things in different places—from the open spaces of Montana to the retirement communities growing near urban centers—this vision may be difficult to articulate. Therefore, a federal vision and the policy that embodies it would not require all rural areas to develop in a similar way. Instead, participants believed that both vision and policy would acknowledge the diversity of rural America and the importance of enabling rural communities to develop their own revitalization strategies.

A federal policy for rural America cannot be designed or implemented, however, without the support of urban and suburban communities. This support can be developed if legislators and others recognize the interdependence of rural, urban, and suburban communities: (1) rural areas provide markets for goods and services produced elsewhere, (2) people in urban and suburban areas seek out the amenities that rural areas can offer, and (3) all three areas have problems of inadequate education, enterprise development, and transportation infrastructure.

Each rural area is also responsible for making the decisions that are right for it. It can do so by recognizing that any effective revitalization effort has to overcome that area's particular problems of remoteness, sparse population, and dependence on low-skill, low-wage industry. Rural areas cannot rely on stopgap measures, such as traditional industrial recruitment, to ensure their long-term survival, participants said. The federal role in helping to ensure long-term survival may be one of information and education so that rural communities have the knowledge they need to develop effective strategies.

Such a new federal effort would not be without costs. However, federal funds are already being spent in rural areas—for agricultural support programs and for social welfare programs. A clear understanding of the problems facing rural America might require a reexamination of the priorities in rural areas to determine if these funds are being spent as effectively as possible to ensure rural America's revitalization, according to participants.

We performed our work between January and September 1992. We engaged a consultant, Dr. Ron Cooper, to help identify appropriate experts to speak at the symposium and to provide technical assistance on rural development. A complete discussion of our objective, scope, and methodology is contained in appendix V.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this letter. At that time, we will make copies available to others upon request.

If you have any questions about this report, I can be reached at (202) 275-5138. Major contributors to this report are listed in appendix VI.

John W. Harman
Director, Food and
Agriculture Issues

Contents

Abbreviations

AFDC	Aid to Families With Dependent Children
ADA	Americans With Disabilities Act
ARC	Appalachian Regional Commission
CDBG	Community Development Block Grant Program
CDC	Certified Development Corporation
EDA	Economic Development Administration
EPA	Environmental Protection Agency
ERS	Economic Research Service
FFA	Future Farmers of America
FmHA	Farmers Home Administration
GAO	General Accounting Office
JOBS	Job Opportunities and Basic Skills
JTPA	Joint Training Partnership Act
NADO	National Association of Development Organizations
NIST	National Institute of Standards and Technology
RDA	Rural Development Administration
SBA	Small Business Administration
SBIC	small business investment company
SME	small and medium-size enterprise
UDAG	Urban Development Action Grant
USDA	U.S. Department of Agriculture
WEDGo	Women's Economic Development Group

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The Role of Rural America in the U.S. Economy and the National Rural Policy Debate

E (Kika) de La Garza

We know rural America has many problems, and yet it has been ignored. Basically, there is a very small federal role and no comprehensive national rural policy.

As we try to address rural America's problems, we must operate within the constraints of the federal budget. There is simply little money to go around. That is why in the legislative activities of the Committee on Agriculture we are often trying to meet rural America's needs in ways that don't require a lot of money. These are the constraints we face in trying to formulate policy, at this late date, to meet the needs of rural America.

Here in Washington, D.C., you hear about the affluent suburbs. But throughout the rest of the country, beyond the major metropolitan areas, are the not-so-affluent suburbs. In the area I represent along the U.S.-Mexican border, they are called colonias. This is where the poor congregate, on the fringes of small towns. They do so for many reasons, one being that land is cheaper there. For example, in my district we have an area where the land is salted and you can't grow anything. A developer will sell you a lot there for $10 down and $10 a month for the rest of your life.

That is what life in that part of rural America is all about. Rural America is not always the nice-looking farm out in the country, with animals in the pasture, the farmer on the tractor working the field, and the rest of the family working on the farm. In fact, in many areas that life is gone. Today, in rural America, we are grasping to make the American public understand these problems. The people in rural America don't have the political clout to change the course alone anymore. There aren't that many of them.

Just in yesterday's newspaper [June 10, 1992] I read that the number of farmers is down by 50 percent. There are some people going back to rural America for health reasons and aesthetic reasons, but those are the very few.

Compounding the problems is that the rural infrastructure is in complete disarray. For example, Wilson County, which is in my congressional district, had heavy rains—totaling 6 inches—and the low-water bridges were washed away. The bridges still have not been repaired because there is no money locally and no money from either the state or federal government to help the county take care of the bridges.

I have in my congressional district in South Texas areas that still have no water supply, although there are about 27 rural water supply districts in operation. What's the problem? All of these districts are inadequately funded and without enough resources to bring water to these areas. I still have areas in my district that have no electric power, even with the Rural Electrification Administration.

In the 1990 farm act [the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624)], our Committee created the Rural Development Administration (RDA). It sounded, and may still sound, like another bureaucracy on top of another bureaucracy. But we felt that the Farmers Home Administration (FmHA) could no longer adequately serve the purpose of promoting rural development. Over the years we have asked a lot of the Farmers Home Administration. It was to be the lender of last resort for housing, for farmers, and for people living in rural America. Farmers Home no longer serves that purpose because of the insistence of the rest of America that it be run like a business.

I believe one of the problems is that there is a lack of understanding of what farmers, ranchers, and agricultural producers do. Someone asked me, "Is there a future in agriculture?" I say all the human body needs for survival is air, water, and food. Only the good Lord makes air and water, and only farmers and ranchers make food. And that's not going to change.

I get very frustrated when environmentalists say the farmers are messing up the water, they are messing up the air. What does a farmer need besides being a good farmer? He needs good soil, good air, and good water. Otherwise, he is out of business.

There's an old Spanish saying in my area—I learned it from my grandfather—that goes like this: "If you go on the land and you don't feel a vibration inside, you don't belong." It's not going to work for you. That's what being a farmer is all about. Why does a farmer keep farming if he's not making money? It's the vibration. He is tied emotionally to that land.

The Rural Development Administration we created in the 1990 farm act is not off the ground yet. Unfortunately, there has been some resistance to its creation. Some of the resistance is a matter of turf here in the Congress. Supporters of the Farmers Home Administration say, "You are getting into our area." We are not trying to take away from what FmHA is supposed to do for farmers. With the new RDA we are trying to better focus USDA's resources and provide some policy guidance to encourage rural economic development. That's our biggest problem in rural America. There is not now an adequate job base in rural America. I don't know that I want to bring in huge manufacturing concerns or anything of that kind—I think that kind of strategy would just mess rural America up worse. But there is a need for small manufacturing or cottage industries that could utilize the base of people living in rural America.

How do we get from here to there? First, we have to see that there is some degree of sensitivity to the plight of rural America. And then we worry about how to get the money. Money is the last thing that I would worry about. First, we have to get the understanding and the sensitivity.

Why do I say we must first make people aware of rural America's problems? It is because the mentality of the Congress is urban, for no other reason than numbers. On agricultural issues we have been relatively successful in making our urban friends in the Congress sensitive to agriculture's needs. We have to because we can only count on about 90 solid votes for a farm bill. Yet we passed the last farm bill with 100 plus to spare, because we have educated the Congress.

We succeed because we have created some degree of sensitivity and because we also make people aware of some parochial interests. I had a colleague, a friend, who said, "I'd like to vote for your bill, but how am I going to explain in downtown Detroit that I voted for some bill to give farmers money not to plant things?"

I said, "Billy, that's not the issue, just trust me." He said, "Well, what do I tell them?" I said, "Tell them, 'no farmer, no pickup.'" He said, "What?" I said, "Tell the people in Detroit if we haven't got any farmers, they don't sell any pickups." He said, "I understand that." So, that's a higher level of sensitivity than inherent sensitivity.

I'm glad that GAO is having this symposium. I think that we have yet to research in depth many of these questions. What is rural America? Who lives in rural America? What is their contribution to our economy? What are their needs? If we can fully understand where rural America fits in, then we can begin setting the policy. It is important that we know that rural America can fit into our priorities because it is critical at this time with the current budget situation. But that's down the road.

As you know, there are many people right here in Washington, within a few blocks of here, who need help. They are in very difficult circumstances, socially, politically, economically. And while you don't notice it as much in rural America, I can assure you the same thing is true there.

David M. Kohl

Our goal this morning is to look at the role of rural America in the United States and the national rural policy, and in the context not only of our national economy but also of our global economy.

In terms of agriculture and the rural economy, I would like to present several important facts. One, one out of every five people in the work force is involved in agriculture in rural America. Two, agriculture in rural America constitutes about 17 percent of the gross national product. Three, because of technology, agriculture in rural America could constitute up to 25 percent of the gross national product by the year 2000. We are not going to be dealing with chemical and mechanical types of technology over the next 10 years. We are going to be looking at information and biotechnology, which are two of the key factors that will move rural America into the twenty-first century. Four, we have to look at manpower. Fifty percent of all new jobs will be created in the next 8 years. However, there is a problem: Only 45 percent of our work force is adequately trained for these jobs, and 85 percent of our work force is already on board. Eight out of every 10 new people in the work force will be women, minorities, and immigrants. Five, we are going to have a very mobile society in which the typical graduate of a high school or graduate of any of our technical schools or colleges is going to move an average of 11 times and have three distinct career changes. Six, we are also going to look at the environment. More and more of our capital needs are going to be environmentally oriented and oriented toward compliance with environmental concerns.

Today, the person in rural America, whether the agricultural person or the small business person supporting him, is managing land, labor, and capital. But the most important activity is going to be managing information. And information is doubling every 18 months.

We also have 30 million people who do not live where they work. In other words, we have a society that is dependent on commuting. Because of telecommunications, we have access out into rural America, and we're going to have to be looking at that in the 1990s for rural policy.

We have a problem in rural America because the average age of the farmer is 55. Health care costs are therefore a critical issue for rural America: 60

percent of all health care costs, for example, come in the last 6 months of life. I completed a study in four states in the Midwest, and for every 20 farmers over 55, only one under 35 was coming into farming. And this gap appears to be widening.

We also have 2 million American farms. About 80 percent of the net farm income is generated by about one out of every five of these farms. Therefore, income is not equally distributed. We have a clustering of profits, a clustering of agricultural productivity in this country.

Another important issue, as we look at rural America, is that 65 percent of farmers in America depend on off-farm income. If you do not have a viable rural community, where a number of the rural residents have to depend on farm income, then your lifestyle farms and your traditional farms, which make up a large segment of our farm group, have difficulties, and farmers have a lower standard of living.

These are some of the ideas that we are going to be discussing today.

Kenneth L. Deavers

I would like to share with you ideas around four themes. First, I'm going to focus mainly on economic development questions. Second, I think it's important that we not get stuck in the 1980s. It is useful to recognize that the economic disadvantage of rural areas isn't new. It is a long-term problem. But at least a couple of things that emerged in the 1980s are different, and it seems to me that they pose a legitimate reason for renewed concern about the future well-being of rural people. Third, I want to talk about what it is in rural areas that puts them at a disadvantage. My view is that there are three unique characteristics of rural places that mean they will be disadvantaged, that they have been disadvantaged. And finally, and most important, as we look forward to the 1990s and beyond and try to understand what happened in the 1980s, we ought to ask ourselves why these traditional characteristics of rural places are even a greater disadvantage now than they have been historically. That is part of what we need to understand as we move forward with policy.

Performance of the Rural Economies During the 1980s

There are four measures of rural economic performance to look at because they are significant. These performance data are available in the federal data system.

One measure is employment growth. Rural areas experienced very slow employment growth during the 1980s. Between 1979 and 1989, employment in metropolitan areas grew by a little over 21 percent, while nonmetropolitan employment grew by about 12 percent. Within that overall growth for nonmetropolitan areas, as low as it was, it is important to remember that there were declines, essentially, in all the natural resource industries: in farming, in the agricultural industries connected to farming, and in mining and energy.

In mining and energy, employment decline was a particularly serious problem. Mining and energy had been a source of some growth during the 1970s, in part because of the oil embargo and the high price of energy. But the collapse of energy prices in the mid-1980s has meant a collapse of mining and energy economies in rural America.

While nonmetropolitan employment was growing overall, there was stagnation in the manufacturing sector. Manufacturing is slightly more important to rural people as a source of employment than it is to urban people. There are more than twice as many people in rural America employed in manufacturing as are employed in mining, energy, and farming combined. The growth of manufacturing in the sixties and early seventies was a strong factor in the performance of the rural economies during those periods. But by 1989 total employment in manufacturing in rural areas was still below what it had been in 1979. In part that is a measure of how serious the recessions in the early eighties were in rural areas. What you heard about in the early eighties were the problems in farming. What you didn't hear so much about was that between 1979 and 1982, when we lost a relatively small number of farms over and above the trend line, we lost 550,000 nonmetropolitan manufacturing jobs. At the end of the decade most of those had not returned.

Another measure of the economic performance of rural economies was high unemployment rates. High unemployment rates are clearly a measure of some kinds of problems in labor markets. In the 1980s we saw the emergence of a persistently higher unemployment rate in rural areas than in urban areas for the first time since we have been observing unemployment rates for both metropolitan and nonmetropolitan places. The rural unemployment rate peaked at over 10 percent in 1982 and declined very slowly after that. In fact, during the recovery period, up to about 1988, the difference between the rural and urban unemployment rate was increasing. That is, the relative severity of the unemployment rate in rural areas was getting worse during the recovery.

A third performance indicator is poverty. High poverty rates in rural America were what we expected to see in the 1940s, 1950s, and 1960s. But given the development we had seen in the 1960s and 1970s, it was somewhat of a surprise that the recessions in the early 1980s drove the poverty rate as high as they did. What happened afterwards was a very slow decline in that poverty rate, despite the recovery in the general economy.

Finally, there is probably no measure of the performance of rural economies that is more politically salient than population retention. During the 1980s widespread population loss resumed across rural America. In fact, during the decade of the eighties, more than half of all nonmetropolitan counties lost population, and the census shows that at least some states had an overall decline in nonmetropolitan population.

Growth in the 1970s Masked Problems

The poor economic performance of the 1980s led some people to say, "The economic disadvantage of rural areas is something new." In part, that is because people were looking at the 1970s, when rural areas appeared to be doing relatively well.

But, in fact, we ought to take the 1970s out. The 1970s are really the outlier, not the 1980s. If you leave the 1970s out, you see that for decades rural areas have been losing population. In fact, the 1970s was the only decade in this century in which more people moved to rural America than moved out of rural America.

Some recent work by colleagues of mine in the Economic Research Service (ERS) suggests that the relative optimism with which we look at the 1970s was somewhat misplaced. They looked at the relative growth of urban and rural areas after having adjusted for structural characteristics of both kinds of places—the kinds of industries that had employment, the region of the country, the nonwhite portion of the population, and a number of other characteristics of the economies and the work forces. They found that rural areas should, in fact, have done much better than they did in the 1970s and should not have done as badly as they did in the 1980s.

There is a persistent disadvantage to being rural that existed even in the decade that everybody wants to call the "rural renaissance." What was different about the 1980s if, in fact, there has been this persistent disadvantage? I would say that the difference is that from the end of World

War II through at least the mid-1970s, in the face of significant population loss, massive consolidation within farming, and other major changes in the economic structure of rural America, two positive things were happening.

First, the real income of rural people was rising, and the ratio of rural to urban incomes was rising. That is, the relative position of rural people compared with urban people was getting better, in part because of the economic restructuring that was going on.

In the 1980s, however, rural earnings per job for rural workers actually fell by about 6-1/2 percent, and the gap between the income of rural and urban people grew, so that the gap is now essentially the same as it was in 1969. Therefore, 20-some years later, we have lost the progress that we had made in narrowing the income gap between urban and rural people.

Second, during this post-World War II period, we began with much higher poverty rates for rural people than for urban people. But beginning in the late 1950s and running through the 1960s and into the early 1970s, rural poverty declined dramatically. That was a reflection, to some extent, of shedding a lot of excess labor in the agricultural sector.

But, by the end of the 1980s, rural poverty, which had risen in the recession, was still higher than it had been in 1972. There is no reason, I think, that anybody should assume that what we saw in the 1980s won't continue in the 1990s.

Key Disadvantages of Rural Areas

What are the key characteristics of rural areas that put them at a disadvantage? They are, in my judgment, the defining characteristics of rurality—of what it means to be rural. And, I think there are three characteristics that are outstanding as they affect economic development opportunities.

First, the small scale and low density of rural settlement. Ninety percent of the towns in this country, outside of metropolitan areas, have populations of less than 5,000. Those towns, and the open country that surrounds them, contain 40 million people.

Therefore, what happens in those places affects a lot of peoples' well-being. However, a lot of attention has been paid to the 1990 Census figure that more than half of the U.S. population now lives in metropolitan places of more than 1 million people. But, for the 40 million people—which isn't an insignificant number—living in places that aren't metropolitan, the public policy models don't work very well.

Why are small scale and low density a disadvantage? For one, the way in which we deliver services, public and private, is driven by important economies of scale. We use a lot of very expensive, capital-based technology, and if you don't have scale you can't get unit costs down. In addition, there are the important agglomeration economies that economists talk about—many businesses of a similar kind together in the same place, leading to less friction in doing business. Agglomeration economies are almost impossible to achieve in rural areas.

Second, the economic specialization of rural places. In part, that's a tautology. Rural places are so small that they cannot possibly have diversification in the same way that big places can. But their specialization has two characteristics that are important. One is that a lot of rural economies in the same region tend to be specialized in the same thing. Therefore, problems are regional in scope, and they are very hard to deal with at either the state or local level. If you have significant consolidation and financial problems within the farm sector, for example, you don't find isolated rural areas sprinkled across the country experiencing the problem; you find enormous concentrations in a number of adjoining states.

In addition, many of the things that rural areas are specialized in are industries that aren't doing well and cannot be expected to be important generators of new employment. That is true of farming, which was, obviously, an enormous rural industry at one time. Farming now is a relatively small employer of rural people. Most of the jobs in the food and fiber system are not rural jobs; they are metropolitan jobs. A lot of them are in wholesale and retail trade.

Most of the jobs that are in the food and fiber system in metropolitan areas would still be there if there weren't a single farmer left in America. We would choose to eat, and we would import the food if we didn't grow it. Most of those jobs that are required to move food through the system, to process it, to turn it into things that we can buy in grocery stores, would be there.

The only thing rural areas have a comparative advantage in, in the food and fiber system, is the production of product, and farming is the smallest part of that system. Of the 18 percent of the gross national product resulting from that system, only 2 percent is in farming. Most of the rest is in the businesses in metropolitan areas. It is important to remember that.

Third, and perhaps most significant, remoteness and distance. Distance is, obviously, understandable. There are large numbers of small towns in the Great Plains that are more than 150 miles from the nearest town of 10,000, and a town of 10,000 in the Plains is a big town.

Geographic distance you understand. But there is another sense, and I use "remoteness" to try to capture it, in which rural people don't understand very well what is happening in the global and national economy that is playing out to their disadvantage in their communities. These rural people are disconnected institutionally. They are disconnected in a number of other ways, and they just don't have easy access. They are remote from understanding the things that are affecting their future, and that is important.

Significance of These Disadvantages for the 1990s

Why are these rural characteristics, which have always been there, more of a disadvantage now than they were in the past? This is my interpretation of the culmination of the research that has been done by the ERS over the last 6 or 7 years.

Essentially, we are seeing an economy in which all of the net job growth is generated in the service sector. In this sector, rural areas are at a greater disadvantage than they are in the production of various kinds of goods. Why? I don't think we know exactly. Let me divide the service sector into two pieces.

Rural areas did okay in the consumer-based services, that is, in the services that essentially sell to local people. Rural areas didn't do at all well in the 1980s in producer services, which was an enormously productive growth sector for the U.S. economy. Those are services that earn exports for local economies because they are sold to markets that are regional, national, or global. Without export earnings, the service sector can't be an engine for future growth, any more than the goods-production sector could have been in the past.

Economists have grossly underestimated the importance in the producer service sector of agglomeration economies and of face-to-face ways of doing business. We have been enamored of the new technologies that allow people to do business from a distance. We have failed to understand that those technologies only work if you also, very often and reasonably cheaply, can meet directly with your clients.

Economists just didn't get that. They are beginning to, but they didn't get that for a long time. The United States is now a service-generating economy. That's where most of our employment growth is going to be. Unless we figure out how to get rural areas into it in some way, this will be a continuing and increasing disadvantage, as it was in the 1980s for rural job growth.

Even within the manufacturing sector, things are happening that are to the disadvantage of rural people. Rural areas basically are specialized in low-skill, low-wage manufacturing, routine production activities. During the 1980s, urban areas were able to shed those kinds of jobs. However, rural areas now are more heavily concentrated in that kind of manufacturing than they were at the beginning of the decade.

There are two problems with that. First, the manufacturing sector isn't generating new employment. Second, in the long run, even though rural areas are competing relatively successfully for those kinds of jobs now, we can't keep these jobs in this country unless we continue to push real wages down. That is precisely what happened in rural areas during the 1980s.

There is an advantage for some kinds of rural places, and I would like to mention two of them. Rural areas that have important natural amenities—mountains, seashores, attractive climate, lakes —have very strong growth. The new natural resource advantage of rural areas is amenities that help in the production of services, for local rural people, but largely for urban consumers.

What evidence do we have that the kinds of things that I'm talking about matter? The best evidence is the strong growth of two kinds of rural areas. First, those areas adjacent to metropolitan areas, especially to large and rapidly growing metropolitan areas, are becoming integrated into an urban economy. This urban economy—the urban system, essentially—functions as the nodes in a global marketplace. Being part of that system, both physically close and integrated into it, is essential to rural areas.

And, second, the rural areas that did well were a group of counties we originally called retirement counties. We are now redefining and expanding some counties to include retirement and recreation. There are more than 500 of those nonmetropolitan counties in the United States. Virtually all of the nonmetropolitan population growth that occurred in the United States after 1982 occurred in those 500 counties.

What does this mean for rural policy? It seems to me that it means two things. First, we need to think of ways of overcoming scale by finding analogues to scale. There are some experiments going on, mostly at the local level, of community cooperation in the operation of the kinds of facilities that no one community could afford on its own.

You can't mandate community cooperation from Washington or from state capitals, but you can certainly think of ways of facilitating it. A number of state governments have been imaginative in trying to stimulate this kind of analogous scale in rural communities. This kind of development has been happening spontaneously at the local level.

And second, the key for rural economies is going to be connectedness. That is, they have to be able to transport people as well as goods. They have to be able to communicate, not just by voice, but by information and data. They have to have an institutional structure that is informed about innovation, about rapid changes in the marketplace, in technology, and in finance because otherwise rural areas are going to find themselves slipping further and further behind.

DeWitt John

I would like to describe a vision of what rural America might be, and what rural development policy might be.

Goals for Rural America

Let's start with the people who live in rural America. They should have choices. Many of them are now trapped. Some, in chronically poor rural America, live close to Third-World standards. Others, in communities supported by low-wage, routine manufacturing, enjoy fairly high incomes and living standards by global standards. They may be trapped because the kinds of low-wage, low-skill jobs that they rely on to fuel those communities are disappearing as this kind of manufacturing moves to the Third World. Therefore, our vision for rural America should include opportunities for rural children and rural workers to get the education and skills they need to compete in an international labor market.

Second, rural communities should also have choices. The basic choice is, of course, whether the community will shrink or grow, and then how it might grow. It is important to realize that there are no iron laws of economics that say that specific communities don't have choices. Even in areas that are losing population, there are prosperous, vibrant towns. Towns can avoid and are avoiding inevitable decline because development depends not only on economic and technological factors, but also, and I think increasingly, on the social and political capacity to organize yourself to use the resources you've got.

Therefore, our vision for rural America, when it focuses on communities, should include ways to help rural communities mobilize their internal resources for bottom-up development and respond effectively to the bottom-up initiatives they take.

Third, rural businesses have to be world-class if they are going to prosper. However, government has no responsibility for providing a safety net for businesses. It does for citizens and, to some extent perhaps, for communities. The vision for rural businesses, then, should be to make the public services that businesses depend on available in rural areas.

Public Policy to Achieve Goals

I have six suggestions about how to achieve this vision for communities, workers, and businesses.

First, economic development programs. Many of the new ideas in economic development focus on making specialized information available, especially to small and medium-size firms. This, I think, is the essence of industrial extension or flexible manufacturing networks[1] and a variety of other interesting things that are happening.

But both the states and the federal government spend more money on development finance and on physical infrastructure than on information. Development finance programs are helpful, but they are more helpful when they provide, along with the cash, access to expertise about markets, to information about technologies, and to specialized management skills. Those are the kinds of programs that I think are more effective, and I think that is the way we are moving. This trend in economic development programs is good for rural communities because there aren't a lot of specialists in a small place. There is also less direct access to specialized information in small towns. In an economy that is based on information, this is a really critical disadvantage for small places. So the first element of

[1] "Flexible manufacturing networks" refers to collaborative efforts by small and medium-size firms to improve their competitiveness by cooperating on technology diffusion, training, design, finance, and marketing.

my vision of rural policies would include development policies that emphasize information and expertise for rural areas.

The second element of my vision for rural America is vital, more powerful development organizations working at the community level. There is a lot of creativity out there today. These organizations combine development finance with close attention to information and to work force issues. They seek to mobilize all the resources in the community, including women and minorities, in addition to the usual suspects. They are seeking to push their way into the policy arena and to make bottom-up development something that states and the federal government will really pay attention to. I think this is starting to happen.

The third element of my vision concerns funding. Right now, states spend about $1 billion a year on economic and community development programs, and the federal government spends about $5 billion a year. That's the wrong ratio. I think it should be reversed because there is an inevitable process within the federal government to standardize things, to make programs fit the least common denominator. Rural communities have problems that are different from those of the generic American suburb or the much-publicized inner city.

Alice Rivlin[2] of the Brookings Institution and some people in the Congress have recently advocated a major swap of functions between the state and federal levels. The federal government would pick up the responsibility and the bills for social service programs and would cut back spending on development, as well as on some other activities. States would then have more funds to invest in development. Of course, we would have to make this kind of change very slowly.

In the future, I hope that when we have a new idea about how to promote development, people would look to Washington, not as the place where you go and get a new categorical program and new sources of funding, but in a very different way. I think people should get the money at the state and local levels and see Washington as a switching station for ideas that can be customized to fit their own local circumstances.

The fourth element of my vision concerns industrial recruitment. This is not a popular topic in many circles. We all know that industrial recruitment is often zero sum, with one town robbing another. However,

[2]Alice M. Rivlin, Reviving the American Dream: The Economy, the States, and the Federal Government (Washington, D.C.: Brookings Institution, 1992).

recruitment is still the bottom line in many rural communities. Texas, for example, recently allowed towns to levy a 1/4-cent sales tax for economic development. This is raising more money than the entire budget of the state development department. A lot of those local dollars are going to industrial recruitment.

I would like to see smarter recruitment. You should think of the industrial recruitment process as a market, where communities or states are buying plants from industry. The market is not functioning very well. It's a one-sided market, with one seller—the company that is looking for a place to put its plant—and lots of buyers—states and communities. Therefore, state and local governments pay higher prices than they should. Rural areas, in particular, pay the most and buy the worst products in this market.

Smart recruiting would mean recognizing that it is better to have some kinds of factories in town than others. Some factories will stay there longer. They will spin off more new businesses. They will encourage local community-building and train their workers for higher-skill, higher-paying jobs.

We need tools to help us understand this and to be able to explain the differences in the types of recruitment that are going on to politicians and to the public. We also need tools to make better dollars-and-cents estimates of the costs and the payoffs of individual deals with recruited firms. Good information could bring discipline to the recruitment process, encourage more productive investment of public funds, and diffuse some of the confusion. The fifth element of my vision of a national rural development policy has to do with all the other programs—education, work force training, health, transportation, and whatever you would like to add to that list. Over the past decade those of us in government have tried to link these programs more closely to development, but there is a problem. There are hundreds of these programs, and dozens of kinds of institutions that manage these activities. Each of these programs, each of these institutions, has its own language, its own sense of professionalism and commitment, its own advocacy groups, and its own friends in the Congress. Therefore, pooling resources and mounting coordinated efforts with all these different programs is very, very difficult, particularly for rural communities that lack the expertise to mobilize the resources from all these various programs.

I don't think it is exaggerating to say that this aspect of our government is broken. The federal government and the states have dozens of programs that are crippled but still hanging around. Furthermore, many of these programs were designed for yesterday's problems, and although they have changed somewhat to address the real needs now, there are problems in changing them completely.

We need to find new ways of mobilizing the public resources that are tied up in these antiquated and exhausted programs. I think a national rural development policy should include top-down measures to encourage bottom-up activities that cut across programmatic lines.

Let me give you three suggestions of trends that are just starting and that in my vision of national rural development policy would emerge full-blown.

One way to reduce fragmentation is to frame development strategies at the level of substate regions. In Nebraska, people are designing an experiment in which the regions and counties have the discretion to set goals and to orchestrate resources. Similar efforts are getting under way in other parts of the country. Some of these efforts involve not only public employees but also private-sector people who have an interest in the economic development of the region.

Another way to overcome fragmentation is to focus on industrial sectors—textiles, timber, commercial aviation—because that's how the private sector is organized and because the needs of the private-sector firms cut across government programs. I'm not suggesting national sectoral planning. What I am suggesting is that there are decentralized approaches to sectoral policy by working through trade associations, industrial extension, and flexible manufacturing networks. It may be possible, through these mechanisms, to mobilize new coalitions to harness all the resources of government to help communities achieve their development futures.

The third vehicle for overcoming fragmentation is the new state rural development councils.[3] They are far too young to be called a success, but they are full of potential. They offer an arena in which bottom-up efforts to address problems can develop.

[3]State rural development councils were established by a presidential initiative in 1990.

These councils have to first get past their internal organizational and political problems and start working on specific tasks. I think they need to be given some leadership. I think people at the federal level should try to respond to the initiatives that come from the councils.

The sixth and final element of my vision of a national rural development strategy focuses on responses to society's commitment to environmental quality. The battle in the Pacific Northwest over timber and spotted owls is just one example. Another is whether the Bureau of Land Management should have ranchers' cattle on public land. The environmentalists are demanding that federal land be "cattle free in '93," and the Wyoming Cattlemen's Association replies, "cows galore in '94."

The pressure of natural environmental laws on rural industries and communities is truly enormous. It's possible there will be a backlash. The new drinking water standards are particularly difficult for small towns to handle. Already, the state of California is refusing to enforce the Environmental Protection Agency's (EPA) standards for lead and copper in drinking water, and EPA is not doing much about it.

However, if there is a backlash, I think it's going to focus more on the agencies and the process than on the goal of a cleaner and more pleasant environment—that really is part of our national consensus. There is no way to continue with traditional ways of managing natural resources without incorporating environmental considerations directly into the business plans of the producers.

For example, in Iowa, farmers are discovering that they can cut back on chemicals without cutting back on yields and without losing money. The future for the chemical dealers in that state is to sell not just the chemicals but the information and the services that the farmer needs to apply the chemicals correctly. That business is turning into an information business.

This will have important economic consequences as well. Of course, as farmers buy fewer chemicals, fewer Iowa dollars will flow out of the state to the big national companies that make farm chemicals and more dollars will stay home in the pockets of crop consultants in Iowa.

There are three things that I would like to point out about my vision for rural America. First, although it is a national agenda and involves federal initiatives, it does not rely on federal leadership. The role for the federal government is less that of a leader and a source of funding, and much more that of a provider of specialized information and a discipliner through information, not a regulator of state and local initiatives. The federal government, furthermore, is a participant in processes that occur at the state and local levels. It is not the designer and the leader of the policy system. It participates in what happens and in what comes up.

Second, although the agenda is crafted to address rural problems, none of the things I have suggested calls for policies that focus purely on rural areas. In many cases, what rural areas need is generic state or federal initiatives that can be customized to local circumstances.

Third, the vision stresses a strong role for government. It calls for new ways of doing business that are sensitive to rural areas.

Bob Bergland

The National Rural Electric Cooperative Association contracted with the Roper Organization for a national survey of the general public's perception of rural areas and other matters. I want to briefly report on a couple of the rather interesting findings from this survey.

First of all, by a vote of 73 percent to 18 percent, the public thinks that the nation has lost its way. However, at the same time, by a vote of 47 percent to 40 percent, people believe that the local community is on the right track. Because they believe things are okay at home, they believe that sooner or later we will bring the federal establishment to its senses and that the national economy will sooner or later get pulled in the right direction by the local folks.

We asked people to define what they thought was the American dream. The overwhelming choice—63 percent of those surveyed—was the freedom to live as you want to. It was twice as important as getting rich or getting a college education. Only one percentage point behind this issue, at 62 percent, was being able to be financially secure enough to enjoy leisure time.

The things people do with that leisure time has become the most important consideration. What they want is a place to be with the kids, where they are not going to get run over by a car, and where they don't have to trespass on someone's property.

We asked questions about the rural communities, and here is the real surprise. Those surveyed think rural communities are the place to live because rural families have a much stronger sense of family, rural communities are more concerned and able to deal with the environment, rural persons are more friendly and more resourceful, and rural communities have a much stronger commitment to the community than do cities. On the down side, those surveyed believe, by a vote of 63 percent to 7 percent, that rural areas are more difficult places in which to achieve the American dream because of limited economic opportunities.

Let me now tell you something about my organization, the National Rural Electric Cooperative Association. Our group of 940 consumer-owned, rural electric cooperatives has 12 million customers, about 30 million persons in 46 states. It has been said that farming in these communities has become more interesting than important. Of our 12 million customers, only 200,000 farm and ranch for a living. An additional nearly 2 million families farm part-time and have a living income from wages and salaries earned off the farm.

Farming and ranching have changed in these communities. There is no such thing as an independent producer of chickens anymore, or turkeys, or eggs, or pigs, or ornamental shrubs. If you are not a part of Frank Purdue's enterprise, you are out. The Frank Purdue or Don Tyson model of contracting, involving a vertically integrated system from the farm to the food store, completely dominates perishable agriculture. It is highly automated. There are no new jobs in it. The "traditional family farm" that is so revered in this public survey is a thing of the past.

Developing a community's local economy is a local matter. About that there is really little disagreement. It starts at home or it doesn't start at all. Our organization has evolved an approach to local development—a resource team—with the cooperatives in the community. This approach has persons from outside the community—power suppliers and the state agencies involved in education, health care, transportation, banking, and the like—go into a community and engage in an enterprise that often is heavily resisted by local leadership.

We do honest stocktaking, and that is sometimes not very popular. Focusing on existing industry and small-scale enterprise does produce an enormous list of things that are happening within that community. But these activities often employ only two or five persons; they are almost always surrounding or built upon some indigenous resource. It may be agriculture, it may be forestry, it may be tourism, but it will be driven by the resource base of the community.

The next biggest task, then, is to sell the business leadership on this honest appraisal. We try to get the banking and other business organizations to help build local awareness. We show that we can generate a very exciting list of things to be done by going to existing industry and asking what we—from the university, the bank, the power supplier—can do to help double employment.

But this is uniquely a local retailing effort. It does not lend itself to a national carbon copy. The needs we find in Socorro, New Mexico, are worlds apart from those in Darlington, South Carolina. You wouldn't even know the two were the same country, they are that diverse. Therefore, local knowledge and local development are the most important frontiers.

I want to comment just briefly on the question of natural amenities. We know the national population will double in 40 years, and the Bureau of the Census tells us that most of the increase will come from persons over age 50. Where will they live and why? Will they be able to pursue this dream of having a rural place?

We know that many persons would, if they could, move to the country, but they face the barrier of economic opportunity. If you go out there, you are going to have a tougher time because the schools aren't as good, the hospitals aren't as good, and the jobs aren't as good. You are forced to make some choices. Is that leisure time more important than job time? The answer, now, is that it is. We think, therefore, that there will be a continuing high and increasing level of interest in rural communities. The question is, where?

Pleasant surroundings are at least as important as the local economic resource base. We would never engage in a policy of triage, but the truth is, try as hard as we can, we are not making headway in North Dakota. And, without passing judgment on the North Dakota winters, and meaning no criticism of the North Dakota summer wind and drought, it is a fact that people would prefer to live in, of all places, the Ozarks of Missouri than in the plains of North Dakota. Why? Well, there are water, lakes, and forests; it's a delightful place. You can play golf in Branson, Missouri, for $9; in Washington, D.C., it costs $40. People on a pension say, "not bad."

Amenities and pleasant living surroundings are the number-one consideration when persons decide not only where to live but even where to site a factory. We do our share of smokestack chasing, and we are good at it. We go to all the meetings, and we subscribe to all the documents, and we advertise in the right places. We find that people are looking for a place where their executives want to live, and the managers of those plants prefer to live in North Carolina rather than in Colby, Kansas.

Our job in the public and private sectors is to engage in this honest stocktaking and take the appropriate steps that might be required.

Dennis U. Fisher

I appreciate the opportunity to respond to DeWitt John. I particularly liked the idea of the bottom-up approach. However, the real difficulty with that concept is that many communities are not in a position to do it.

I like to use the term "skinny" when I talk about rural America. That is, the leadership pool is fairly shallow. It's not that there aren't good leaders, but there are just not enough of them to get the job done. In a rural area, if one leader says that a project is not high on his or her priority list, that may be sufficient to kill an otherwise viable effort. A metropolitan area may have six or seven different channels through which a particular project may be accomplished. Thus, leaders will need some assistance if the bottom-up approach is to work effectively in rural America.

In addition, not all of the rural development action is at the state and local levels. While the state and local roles have been increasing, a strong federal role is still necessary, even if not sufficient. In fact, a federal, state, and local partnership will provide the best results. Both the review panels in title XXIII of the 1990 Farm Bill and the rural development councils that are part of the 1990 President's Initiative on Rural Development stress the need for partnerships including all three levels.

I was a bit concerned about the notion that the federal government should back away from the funding process. I'm not sure what happens as the federal government backs away. It will lose its capacity to influence what is going on at the local and state levels. If the federal government is going to have a guidance or discipline function, it will have a much better opportunity to do so if it is providing money.

The current policy environment is like a Procrustean bed—one size fits all. You change the body to fit the bed. The one-size-fits-all problem is acute in two areas: combining of programs to deal with a single rural issue and multicommunity approaches to rural issues. Let me explain what I mean.

First, we are well aware of the problem of flexibility in government programs. This is particularly acute when a community needs to put together programs from several government agencies in order to get a package that fits its development needs. Faced with a shortage of leadership, local communities are challenged when they address a single government program; they find the red tape associated with combining programs from different agencies almost impossible. This problem becomes more serious as issues arise that can only be addressed effectively by combining programs from several agencies. The state rural development councils may be able to address and reduce this problem. The problem is that you have a local community drawing from a shallow leadership pool, having to deal with several bureaucracies and make it work at the local level.

Second, the one-size-fits-all approach causes problems in multicommunity strategies for rural issues. Increasingly, the problems faced by rural areas require cooperation between a number of communities in order to be solved, particularly in sparsely populated areas. Logically, of course, our government programs are set up to be delivered through existing government units. That is not unusual; you would expect them to be set up that way.

However, unless that particular government unit fits that issue, the programs may be unusable. For example, the Community Development Block Grants (CDBG) are designed to be flexible but suffer from this Procrustean bed problem. CDBGs are designed to be delivered through a single economic development district, but the issue being addressed may stretch across two or more districts. In this situation, some funding in each affected district could yield a higher return on the grant funds than just placing the funds in one district. But we don't have mechanisms to do that very easily.

Three other issues also deserve some attention: the need for targeting, triage, and population distribution policy.

There are many programs designed to facilitate development, but most are tailored to urban and suburban areas. Thus, their benefits are slow to trickle down to rural areas. In general, programs need to be modified for and targeted to rural areas to be effective. Programs that can go to either rural or urban areas tend to be captured by the more aggressive leadership located in suburban and metropolitan areas. Of course, some of the targeting and special treatment has not been positive. For example, Medicare reimbursement for services performed in rural areas has been as much as 40 percent less than that for metropolitan areas. This differential reimbursement has caused substantial difficulty for rural health care delivery, a system that was in trouble already. There is no evidence that provision of services in rural areas is less costly than provision of those same services in metropolitan areas. In fact, the opposite is true.

I fear that the educational reform movement in this country may also do damage to an already struggling rural education system. By its very nature, the education policy process is primarily urban and suburban. The reform process will be influenced more heavily by urban interests. The move toward higher standards, more emphasis on college preparation, and reduction of vocational training may not have a positive effect on rural education. We are going to have some difficulty with educational reform unless a strong rural interest gets involved in the process so that we come out with something that fits rural conditions.

Another area of concern is triage. That is, we tend to provide programs and assistance to the most aggressive communities, to those that put together the best plans. Typically, they are going to be those communities that are larger, that have a deeper leadership pool, that have more technical expertise. Do we want to continue to use that system, or do we have an obligation to bring leadership up to speed in some of the smaller areas and provide technical assistance?

That brings me to one last point. Years ago we had a population distribution policy in this country: the rural postal service, the phone systems, the rail systems, the farm-to-market roads—policies that added to that population distribution program of the homesteading system. Programs that continue to encourage infrastructure investment in rural areas, while serving rural residents, are de facto population distribution policies. I'm wondering whether we need to revisit that. Were we wrong with that population distribution program? Are we going to, as a nation, completely walk away from that? Or, is that something we need to rethink? Maybe those reasons for population redistribution are still valid today.

Some of the policy issues raised here have as their basis equity for rural residents, and others, the productive capacity of our nation. Both are valid and important. My concern is that we develop a national rural policy on purpose rather than by default. Our rural residents should not be asked to continue to reap the benefits of benign neglect.

Mark Drabenstott

I would like to do three things this morning: (1) give my perspective on how the rural economy is changing; (2) comment on why I think it is changing; and (3) give my framework for how we might think about rural policy.

Three facts helped define the changes that were occurring in the rural economy in the 1980s. The first fact is that if you look at what was happening across the country, the differences were quite profound from region to region. To give one example, in New England in the 1980s, despite the downturn in the last couple of years of the decade, an additional dollar of income in Boston was matched by $1.08 somewhere in rural New Hampshire. So, a rural New Englander did quite well in the 1980s. Meanwhile, an additional dollar of income in Kansas City was matched by 20 cents in Goodland, Kansas. That is a very stark contrast.

My point is that we can't rely on one federal policy to solve all problems in rural America. We have to, I think, take a bottom-up approach, recognizing that the solution to rural problems begins at home. We also have to understand that the rural economy tends to be specialized within regions. The federal government has to in some way encourage cooperation across the region.

The second fact about the rural economy of the 1980s is that remoteness mattered a lot. One of the most profound pictures that I have seen of what happened to the rural economy in the 1980s arises from taking all 2,400 or so nonmetropolitan counties and dividing them up into Beale Codes, the codes that try to account for adjacency to metropolitan areas. What you find is that economic growth declines in absolute stepwise fashion as you move away from metropolitan areas.

Despite the fact that people talk about the new technologies that tend to close distances, many parts of rural America are disconnected. The real question is, can we close that gap? Can we in some way put rural areas in touch with the metropolitan areas that are centers of innovation, of technology, of finance, and of social and cultural amenities?

The third fact that defines what happened to the rural economy in the 1980s is the profound difference across economic bases. Essentially, only two groups of counties did well in the past decade: retirement communities and "rural trade centers," or mixed counties, which benefited in large measure at the expense of smaller communities around them.

Meanwhile, traditional rural counties that depended on farming, manufacturing, or mining were all going through very difficult straits.

I would argue that there is one thing that separates those two types of counties. The retirement and trade center counties were the only ones that were able to tap into the service economy, largely for local services. The other counties were the ones that were being exposed to global competitive pressures. They had their feet to the fire, and they were tested sorely. They were being asked to address the question of whether we have world-class competitive rural industries, and, if not, what can we do about that?

Why are these changes taking place? There are a lot of reasons. I would like to briefly touch on four of them.

The first was the matter of the service economy. The service economy was the really big engine of the economic expansion that we saw in the 1980s. Through the middle of the decade, seven out of eight new service jobs were found in metropolitan areas, while roughly three out of four people lived there. Thus metropolitan areas were gaining a disproportionate share of the service jobs being created.

Rural America also lost out in terms of wages. If you array the growth in service wages by Beale Codes, you find that real service wages grew in metropolitan areas and declined in completely rural areas. Thus, not only were few service jobs created in rural areas, but the ones that were created tended to be low-wage jobs.

The second reason we saw a lot of change is information technology and agglomeration. There is a role for face-to-face communication and a role for business networking, and it would appear to me that information technology to date has favored metropolitan areas to the disadvantage of nonmetropolitan areas. Can we change that? I don't know, but that is a very critical question facing rural America.

The third reason for the change in the 1980s was a revolution in manufacturing. I think this has really been overlooked over the past decade. As we saw the nation move away from large-batch manufacturing to flexible manufacturing networks, it seems to me that this shift tended to work to the disadvantage of rural America. Is there a way to change that? That is a very critical question.

And, finally, of course, we had a lot of structural change in agriculture. In the 1980s consolidation in U.S. agriculture was driven mostly by financial pressures. In the future, we are likely to find the change in agriculture driven far more by vertical integration and contracting—changes that have been illustrated dramatically in the poultry industry. The trend to contracting hasn't yet reached the bulk grain commodities, but if the geneticists develop more highly specific crops, and if we see the safety net lowering under those commodities, contracting will eventually come to at least pockets of the Corn Belt. Overall, the trend towards contracting will accelerate the trend towards fewer, bigger farms. It will also tend to favor larger rural communities at the expense of smaller ones.

Finally, let me raise a few points about rural policy. I believe that we can talk about three broad directions for rural policy. The first is what I call "transition policy." The second is policy to make rural places more competitive. The third is policy to make rural industries more competitive.

Rural transition policy continues to be overlooked. If you look back on the 1980s, job one for rural policy should have been to help rural displaced workers adjust. In large measure, that was an opportunity lost.

There is a problem when we talk about retraining rural workers, however, and that is, who pays? If you are the governor of North Dakota with a lot of displaced rural workers and you pay to upgrade their skills, where are they going to find a job? Perhaps in Minneapolis, perhaps in Fargo, perhaps in Kansas City. The person who pays doesn't capture the benefits. It seems to me that there is a federal role in many transition programs.

A second element of transition policy is to reform public services. We have problems delivering public services in many rural areas simply because of small scale. What innovative ways can we develop to encourage more efficient delivery of public services? It seems to me that is a very important transition issue for a broad portion of rural America.

A third element of transition policy is rethinking rural infrastructure. There are broad stretches of rural America where we have a serious problem funding infrastructure. We also have a problem in that we may still be thinking about physical infrastructure and not information infrastructure. Where do we make the investments and in what types of infrastructure? These are very difficult questions on which rural communities and state policy leaders need a lot of help.

A second approach to rural policy, it seems to me, is to try to make rural places themselves more competitive. This is probably what most people equate with the term "rural development." In my opinion, however, support for this lean-against-the-wind approach is going to be hard to come by. It is simply a rule of the numbers. Even in a rural state like Nebraska, only a bare majority of people live in rural areas.

When you try to make rural places more competitive, which places do you choose? Do you spread your scarce dollars a mile wide and an inch deep, or do you try to target them? I would argue that we are going to have to have some type of competitive-bid grant process, but at the same time we are going to have to try to equip all community leaders with the tools they need to compete.

There may be two pillars on which to build a rural development policy. The first is to steward rural resources. The urban population may be willing to pay to keep the rural landscape looking nice. A second pillar is to avoid urban problems. The riots in Los Angeles provide a perfect opportunity to talk about developing rural solutions that avoid the urban problems of congestion, pollution, crime, and so on. The Europeans have a common agricultural policy—it's not so much a food policy; it's a rural landscape policy.

To make rural places more competitive, there are two main strategies. One is rural education, which I think speaks for itself. The second is helping rural entrepreneurs. If we provide better rural education without providing more opportunity, people will simply leave rural areas. Entrepreneurship, therefore, ought to be a main strategy for keeping rural places more competitive. The best recruitment strategy is to have a good local business climate. That will tend to attract businesses.

A third approach to rural policy is to make rural industries more competitive. Rather than aiming a policy at specific rural places, we might think about having policymakers try to make rural industries more competitive in the world market, and let rural economic activity go where market forces take it.

In the case of agriculture, that means adding value. We could make investments in research and technology that would improve our ability to compete with value-added products. In addition, there are rural communities trying to encourage more food processing at the local level. I will readily admit that targeting food processing is no panacea, because food-processing jobs tend not to be high-wage jobs. Nevertheless, that is the first best alternative for a lot of Farm Belt communities.

In the case of manufacturing, we have to think through technology transfer a lot more clearly. We have had more than a century of public investment in agriculture to try to make it a vibrant industry for rural communities. I'm not sure we have made the same commitment in manufacturing, which is far more important to rural America than is agriculture.

Let me conclude with a comment about making service industries more competitive. A number of rural communities around the country are going to be successful in services. To give you one stark comparison: The Colorado counties that lie on the plains had employment growth of one-half of 1 percent in the 1980s. By contrast, the Colorado counties that lie in the mountains had employment growth of 2.5 percent a year in the 1980s. If a rural county has a natural amenity, it has a built-in service strategy, and success depends merely on executing that strategy.

Questions and Answers

Audience Member. I'm from Missoula, Montana. We see a lot of folks moving in, but we don't see, necessarily, associated job creation for residents who have been in the community and are dislocated from timber and mining. We see people coming in with their fax machines and commuting back and forth to Minneapolis. How can job creation happen for the people who are dislocated in the region? Several people have brought up the importance of amenities as a rural development strength, but we see this as a problem as well.

Mr. Deavers. I think that's a good description of one of the things that we only know a little bit about anecdotally, which is that employment growth and immigration were very large in counties that have an amenity base. What isn't clear, in the aggregate, is how well local people do with this sort of development. I don't have any answer in terms of strategies. I have lots of anecdotes like yours that suggest that in the aggregate it is a problem. I think there are some things to do to prepare displaced workers for the new kinds of opportunities that are associated with the kind of development that is taking place in those communities. We haven't thought very much about that.

Mr. Bergland. The growth in the jobs in these rural communities is mostly in the service sector or in low-skill manufacturing. The income from those jobs is $200 a week. As you know, $200-a-week wage earners don't buy cars and houses. They buy what they can afford, and it is usually a substandard old home, or worse, a second-hand trailer house. The Farmers Home housing projects just go right over their heads. We talk to them about getting into a $60,000 home, and they say, "How about an $18,000 home?" These folks work in places with no health insurance. While they have jobs, and they show in the numbers as employed, beneath those numbers are some very tragic circumstances.

Mr. Drabenstott. We've got to figure out a way to help people move from one way of thinking to another. Branson, Missouri, is a real growth area. A lot of the businesses, I suspect, were started by people who came to Branson following that trend, rather than by the people who originally lived there. Is there a way to provide skills to local entrepreneurs that allows them to participate? I'm not sure we have an extension program right now that really matches that problem.

Dr. Fisher. When you bring in a manufacturing firm, the better-paying jobs are typically filled by people who come in from out of the area. We have really not done very well in bringing the local labor force up to speed so they can take some of those kinds of jobs.

Audience Member. I'm from the Treasury Department. Dennis Fisher threw out the phrase, "a safety net for places." Could you elaborate a little on that idea? Whose responsibility is it—the state government's or the federal government's?

Dr. Fisher. In the past, we had a population distribution policy. To some degree, rural electrification, rural telephones, the rural postal service, farm-to-market roads, and others were safety nets for places. That is, they placed people in certain areas and then helped them stay there.

Given the population decreases in large areas in the United States, particularly throughout the Great Plains, we ought to ask some serious questions about whether we want that policy to continue. As a nation, do we have an interest in making sure there is some population out there? What do we lose?

Audience Member. I'm an independent banker from Kansas. In listening to what has been said, I think we're overlooking something. How are the communities going to cope with and plan for integrated agriculture, integrated natural resources, and the social development that needs to take place and that is changing in the rural area? We've got to think beyond what we've been thinking here today if rural America is going to develop in the future.

Mr. Bergland. All of perishable agriculture is going into the integrated model. Pigs, chickens, turkeys, and eggs are already integrated. The entire gamut of perishables, including cattle feeding, will be part of this highly integrated corporate structure that, for the most part, does not patronize the hometown. In our business, the largest part-time industry in rural America today is grain farming. There used to be a highly diversified family enterprise, feeding cattle and raising pigs, and growing corn and soy beans. The family now needs employment to supplement the grain farm income, and that integrated model is the current, most popular model.

Mr. Drabenstott. It seems to me that the very nature of farming is changing. The decisions are flowing further downstream, and that model will hold not only for farmers but also for the communities that are farm-dependent. Even if you have a broiler-processing plant in your town, the financing for that facility probably comes from elsewhere. There are fewer independent economic decisions to be made in farming in America. If you are a community lender, you probably want to be the town that has the facility rather than the town that doesn't. But if you are that town, you've got to find ways to provide economic benefits that do not come directly from the facility itself.

Audience Member. I'm with the Department of Health and Human Services. What impact do you think the Los Angeles riots and related issues are going to have on federal rural development policy?

Mr. Deavers. There were researchers in the 1970s who argued that the single reason the 1970s were so different was the large-scale and widespread urban riots of the late 1960s. They noted that those riots created an impression among people who had some roots in rural areas originally, and among investors, that the risks were less in rural areas even if the returns looked lower. I would say that the interesting question will be this: If Los Angeles is the only place in which the United States experiences significant urban unrest, are we likely to see the kinds of spillover effects that some researchers, at least, attribute to what happened in the late 1960s? I think it's too early to tell. I think it's very hard to speculate.

Audience Member. I'm from Virginia Tech. It strikes me that our political models are not as well developed as our models for what needs to be done. We've heard a lot about a kind of bipolar political model of urban versus rural areas. I'd like to suggest that we really need to be thinking about a tripolar model—the central cities, the suburbs, and the rural areas. Are there ways in which rural areas can take common political positions with either of those other groups? For instance, in terms of a safety net for people, the central cities probably have more in common with rural areas than do the suburbs. If we are talking about preserving the rural landscape, then maybe we need to make linkages with the suburban areas.

Mr. Bergland. The social and economic profile of rural America is exactly like that of an urban ghetto. You cannot separate Los Angeles from rural South Carolina. These are problems that are American in scale and scope and have to be dealt with.

Mr. John. I've said to urbanists, "It seems to me that you have people moving out; you have problems in having enough good high-skill, high-quality jobs in urban centers. Isn't there something here in which we have common interests?" But I'm afraid that the myth of what rural America is differs so much from the perception of what urban America is that it's just very difficult politically to make that leap.

Political power and a lot of the economic opportunity are in the suburbs. That's certainly where the growth is occurring. However, it's very difficult to put together common links between urban, suburban, and rural areas. Therefore, I'm left with the concepts of customizing because of the diversity of circumstances and pushing decisions down, so that whatever kind of community you've got, you can act in the way that fits you best.

I'd like to say one other thing. I think there is a myth that rural areas don't get their fair share. Rural areas are getting their fair share of the federal dollar. They are getting about what they put in the way of tax dollars. But they are getting a different kind of tax dollars back. It's a matter of what the federal government does in rural areas, rather than how much they get.

Key Challenges Facing Rural America

Glen C. Pulver

In my presentation, I will argue for expanded national and state investment in long-term community economic development, education, and technical assistance. If necessary, this investment should take place at the expense of other federal and state programs aimed at rural America. This is a low-cost investment and will make more difference than all the other dollars invested in rural America.

In addition, any investment in building local leadership infrastructure in rural areas must be long term. Short-term investments seldom produce significant change.

The long-term development of rural areas is dependent on a number of critical variables. The classic variables that regional economists cite include a well-informed, well-educated work force that is flexible and capable of responding to shifts and changes. Thus, investments are made in elementary, secondary, and higher education as well as in job training.

Another critical variable is access to capital. That is, rural areas must have access to capital that is responsive to the opportunities that entrepreneurs generate. If capital institutions are nonresponsive, growth is closed off.

Transportation systems are also important. Transportation is not just a matter of physical infrastructure; it is also a matter of regulations and rules. If government regulations and rules are prejudiced against any specific area, urban or rural, they are devastating to development and growth.

Rural access to first-rate telecommunications systems is also imperative in this information society. Dramatic changes are imminent, and rural areas must not be left behind.

If the living environment—housing, aesthetics, culture, water quality, and air quality—is not proper, no new enterprises will be established. Those that are currently located in rural communities will move elsewhere.

All of these factors are important, but the single most important factor in rural economic development is the quality of local decision-making. There is no lack of able individuals in rural areas. The problem is that not many people live there, and those that do live there operate under severe limitations. They generally have less access to the kind of knowledge that is vital in day-to-day decision-making. Government councils in large cities have elected members and employed staff with a wide spectrum of knowledge. In contrast, community leaders in small towns may be automobile dealers, shopkeepers, cafe owners, and others with little technical knowledge of public finance, law, business, and economics. They are just as intelligent as the people in large cities, but because they do not possess much essential information, they must acquire it elsewhere.

People in more remote communities do not have easy access to public or private sector representatives who live in other parts of the state, such as the state capital. Thus, there is a lack of access to knowledge, which is vital to community and business decision-making. Sheer distance and lack of broad public financial support are other factors that contribute to the lack of access to necessary information.

Contrary to popular belief, rural local leaders are often very aggressive about trying to improve the economic well-being of their communities. Unfortunately, their actions frequently lead to failure. Rural leaders do make some things happen on a regular basis. For example, they collect money and build churches with impressive skill. But when it comes to collecting the kind of resources it takes to stimulate and support economic development, they have little basis upon which to make good judgments. Therefore most rural communities are doing things that may have been effective in 1950 but don't work today.

The same problem exists in the private sector. For example, if a rural business person goes to the local banker and asks for money to develop a manufacturing plant of a kind the banker is familiar with, and if that person has a good business plan, the money is forthcoming. The same cannot be said for less familiar businesses, such as computer software or biotechnology firms. The usual bank response is, "We don't know much about this kind of business and thus cannot judge the proposal's creditworthiness." The problem of the absence of knowledge about new high-growth business must be resolved if rural areas are to grow.

Of course there are exceptions in many communities. Some rural communities are growing rapidly. Some high technology businesses are flourishing in rural areas. These exceptions are proof of the concept that much more rural development and aggressive economic growth would be possible if education on community economic development and technical assistance could be provided more widely.

If necessary, a few of the dollars that are now invested in infrastructure should be put into a sustained community development education system.

That system must provide for long-term, ongoing community education and technical assistance. It must recognize that it is local leadership that makes critical development decisions. The education system has to be placed in or near the community so that it is accessible. It has to be one in which the community can have some confidence. It has to be one that can speak to the community and communicate on issues. It has to be capable of providing education and technical support for the broad range of alternatives that are developed.

I want to emphasize that the system must be ongoing. There are literally dozens of examples of successful pilot efforts in rural America. The problem is that they remain pilots and are never widely adopted. Communities that receive assistance are generally highly successful in making short-term changes that improve community conditions. But because the pilot is only a temporary program, these same communities have a new set of problems after 2 or 3 years. Yet, for an annual cost of $2 or $3 for each person living in a rural area, community education and technical assistance could be sustained. Those dollars could come out of a willing partnership of federal, state, and local governments.

I have one important addendum. We must not forget our urban neighborhoods. We should recognize that almost all of the statements I've made with regard to rural development needs can be made for urban, inner-city neighborhoods. The residents of these neighborhoods are badly in need of community education and technical assistance that recognizes their unique character and need. Geographic distance is not the problem; there are other, more insidious barriers to the acquisition of knowledge. There might be an opportunity for cooperation between rural and inner-city residents in acquiring political support for needed community economic development education and technical assistance. All of us who care should ask, "How are small rural towns linked to disasters like those that occurred in the cities in the 1960s and have started again in south Los Angeles?"

David McGranahan

Rural areas of the United States have lower education levels than urban areas, and the disparity appears to have increased since 1980. A key rural economic development issue is whether the relatively low levels of education in the rural work force have hindered economic growth. I believe that the answer for the 1980s is no. Low rural education levels are more a reflection of the course of rural and urban economic change than a cause. The basic rural development challenge is to develop jobs that require education and training.

I would like to begin my discussion with some basic education statistics and a comparison of rural and urban education levels. My focus is on young adults, people aged 25 through 34. These are relatively new entrants to the work force. Economic trends are reflected more in their wage levels and migration patterns than they are for other age groups.

Rural-urban differences in high school completion rates are relatively small for this age group. All but 13 percent of metropolitan young adults have finished 12 years of school. Among nonmetropolitan young adults, 17 percent have not completed 12 years of school. High school dropout rates have been decreasing in both rural and urban areas.

On the other hand, the differences in college completion rates is rather large, with the proportion completing 16 years of school nearly twice as high in metropolitan areas as in nonmetropolitan areas. In the past 10 years, the rate of college completion has fallen for nonmetropolitan young adults but stayed roughly constant for young adults in metropolitan areas.

The educational levels of urban blacks are roughly the same as those of rural residents in general. Rural blacks have extremely low education levels. About 25 percent have not completed high school, and only 6 percent have completed 4 years of college.

The South has historically had lower education levels than other areas of the country. Young adults in the urban South, however, now have roughly the same education levels as young adults in the rest of the country. Young adults in the rural South still have relatively low levels of education compared with young adults in rural areas in the rest of the country. In part, this is a reflection of the large black population in the rural South. But even among rural southern whites, about 22 percent of the young adult population has not completed high school.

One reason that young adults in rural areas have less schooling than their urban counterparts is that rural youth are less likely to go on to college. The high school dropout rates are fairly similar in urban and rural areas and have become more alike over time. However, while 50 percent of the high school graduates go on to complete at least a year of college, only 42 percent of the rural graduates do so. The relative inaccessibility of colleges and universities in rural areas is probably a main reason that rural youth are less likely to continue. Also, rural youth have less exposure to the advantages of higher education than do urban youth, largely because the opportunities for young adults with higher education are fewer in rural than in urban areas.

The lower educational attainment of rural youth has placed them at an increasing disadvantage over the past 10 to 15 years, as earnings for those with no education beyond high school have fallen both absolutely and relative to those with more education. While low education has held back rural young adults as individuals, this is not evidence that rural areas have been held back by the low education levels of their work force.

One test of whether the relatively low rural education levels have impeded rural growth is to examine rural-urban differences in earnings. Historically, pay levels have been higher in urban than in rural areas, probably in part because of differences in the cost of living. A decrease in the rural-urban gap for better educated workers would suggest a growing shortage of better educated workers in rural areas as rural employers bid up their wages. During the 1980s, however, the opposite occurred. Urban wages for better educated workers rose relative to rural wages. In 1979, the urban earnings advantage for young adult men was about 10 percent across all education levels. This could be roughly equal to the rural-urban differences in cost of living, which would suggest an equilibrium in 1979 with respect to rural and urban differences in supply and demand.

During the 1980s, wages and salaries fell for less educated workers but rose slightly for better educated workers. The increase for better educated workers was entirely in urban areas, however. As a result, the urban earnings advantage for highly educated workers increased considerably. By 1989, young adult men (and women) with 4 or more years of college were earning 30 percent more in urban than in rural areas, suggesting that the education shortage in the 1980s was largely an urban phenomenon.

A second test of whether low rural education levels have been an impediment to rural growth is the migration patterns of better educated workers. If these workers are tending to migrate to rural areas, this would suggest a rural shortage of better educated workers. Instead, there has been a rural "brain drain," with a substantial net movement of better educated youth from rural to urban areas. A major 1988 survey of young adults (ages 24 to 31) compared residence at age 14 with current residence. The survey results showed a major net outflow of youth attaining college education from rural to urban areas. In 1988 there were

37 percent fewer college graduates in rural areas than there would have been if no migration had taken place. There were only 10 percent fewer high school dropouts, however, which is evidence that only the better educated workers were finding urban opportunities considerably greater than rural opportunities.

Some of this migration probably occurred as rural youth went to urban colleges and did not return to rural residence. But other data on migration during the previous year consistently show a net outmigration of better educated young adults ages 25 to 34, at least from 1986 through 1991. Beginning in 1990, however, there is some evidence of a net migration into rural areas of high school dropouts. In sum, the migration data are consistent with the earnings data in suggesting that the rising demand for highly educated workers has been largely an urban phenomenon. Rural opportunities for highly educated workers have apparently increased relatively slowly.

A third test of whether economic development in rural areas has been hampered by low rural education levels is to examine whether those rural areas that do have higher education levels gained more jobs in the 1980s than rural areas with lower levels of education in their work force. Research by Killian and Parker, using commuting zones—multicounty units combined on the basis of intercounty commuting in 1980—as units of analysis, found no net relationship between average education in the rural commuting zone and rural areas' job growth in either the 1970s or 1980s. This finding held up when confined to the southern commuting zones.

One reason for this finding may be that rural area labor markets are generally too small to support industries requiring a highly skilled, diversified labor pool. In a recent study of manufacturing location, I divided manufacturing industries into complex technology industries (e.g., computers, pharmaceuticals, electrical machinery) and routine technology industries (e.g., autos, textiles, food processing). Jobs that tend to have higher education requirements in complex industries would be more sensitive to the education levels of the local work force. This turned out to be true, but only in large (urban) labor markets. In large areas, 1 year more of work force education generally added 8 percent to the growth rate of complex manufacturing employment. However, in smaller labor market areas, average work force education had no effect. For routine industries, which tend to be decentralizing from urban areas to rural areas, education had a slight negative effect in both large and small commuting zones. In sum, the analysis of local commuting zones suggests that some industries are sensitive to local work force education levels, but these are industries that are moving to larger, urban labor markets.

While rural areas tend to have a less educated work force than urban areas, none of the three tests described here provides any evidence that low education levels impeded rural job growth in the past decade. The evidence suggests, rather, that the growth in demand for an educated work force was largely an urban phenomenon.

What are the implications for future rural development? First, I think it is clear that, despite (or perhaps because of) the increase in information technology, location matters. With the possible exception of some high amenity areas, rural regions are not going to develop management and research-based economies requiring highly educated labor forces.

Second, while rural areas may be able to compete with urban areas on the basis of low wages for low-skill but reliable workers, the internationalization of markets means that rural areas will be competing more and more with less developed countries. This competition will only serve to drive rural wages down unless rural areas can find specialization niches or rural employers begin to adopt or develop technologies requiring workers with somewhat higher levels of education and skills. I believe that, without more highly skilled and innovative rural employers, improvements in rural work force skills and training will have little payoff for rural areas.

Stuart Rosenfeld

My talk is about industrial policies in the states—the forms they are taking, how they are likely to play out in rural areas, and what barriers we are likely to encounter and actually are encountering.

The surge of interest in so many states in nonconventional, nontraditional economic development policy (by nontraditional, I mean not recruitment) is really based on a few premises about the rural economies.

First, manufacturing is important. It still provides for two-thirds of our exports, half of the value added, about 25 percent of the service jobs, and many of the highest wage jobs, although that is declining. We really can't maintain skill levels, the stronger service industries, or technical expertise without an industrial base. Of course, in rural areas much of this is traditional industry, the kind that is most threatened by competition.

Second, small and medium-size enterprises (SME) are vital to a healthy industrial economy. There are about 350,000 to 360,000 of these enterprises with fewer than 500 employees in the United States. They account for about 95 percent of all establishments and about two-thirds of manufacturing employment. These smaller firms are disproportionately located in nonmetropolitan counties and are the backbone of many rural communities.

Third, lowest cost is being replaced as a major comparative advantage by quality design and delivery. The implications are that the factors that now lead to competitiveness are less connected to site and physical infrastructure than to social infrastructure, or relationships between firms and service providers, vendors, schools, and other firms. If you believe, as Michael Porter says, that you cannot have a competitive region without having competitive industries, then it really turns economic development theory on its head. You have to start worrying about how to make your industries competitive, not your locations.

Fourth, SMEs tend not to use the latest technologies. Our surveys show that a third are using computers, about 1 out of 15 is using robotics, and about 1 out of 6 uses statistical process control. Cutting-edge technologies are not being used. In the South, we find that the major distinction in using these technologies is not urban versus rural, but the size of the firm and its ownership. Independent firms are much less likely to use more advanced equipment than branch plants.

Many of these small and medium-size enterprises, especially in our traditional sectors, are dangerously old-fashioned in their production methods and don't turn to the federal laboratories or the research universities for help. They turn to their trade association journals and to their vendors for help. They don't tap into the many available information systems, nor do they have experts do this for them. They lack sufficient intelligence about markets and ways to scan market trends. The information may be there, but they lack mechanisms to access the data. The firm is likely to invest piecemeal rather than systematically toward an integrated system.

Typically, too, small manufacturers aren't well served by training programs because colleges will not train five or six people.

Most important, I think, these firms don't trust government or universities, which they consider to be part of the problem, not part of the solution.

They see government as putting regulations and controls in front of them and expecting them to fill out forms. They see the branch plants getting all the subsidies.

I think it is safe to assume that if we come up with some ways to help these small firms catch up, it is going to require some special attention to rural conditions. Rural small firms do face some unique barriers. In addition, small firms that are located in less populated areas are doubly disadvantaged by special conditions of distance, dispersion, and population density.

For example, access to information is there. The problem really is having the time and the ability to determine what is out there and to sort through the information, interpret it, and decide what is needed. It takes someone to help these businesses use the information. They don't have the time to find out what is going to help them, so they depend on the people who come to them and give them the information—often the vendor.

These small and medium-size enterprises need sorters and translators of information, and government is not very good at this. I think public utilities, private consultants, and trade associations could be better at this. In addition, the small-town social environment is not conducive to owners' sharing information among themselves. Small-town manufacturers have few opportunities to learn from one another, the customers, or the suppliers. They rarely get together to talk over their production problems and look for common opportunities.

These manufacturers are distant from technical resources. They have a hard time taking part in trade shows and professional conferences, events that urban manufacturers often can take for granted. There are only a handful of industrial extension services that provide rural outreach.

This country spends well over $1 billion in agricultural extension and only $70 million on industrial extension. The Office of Technology Assessment found that fewer than 2 percent of all the manufacturers in the country are reached in a given year by technology extension services.

Moreover, small rural manufacturers lack sufficient and timely access to capital. The problem really isn't venture or equity capital, it is debt capital. These manufacturers can't meet their payrolls and they can't buy supplies. The banks aren't familiar with this issue and are not responding to those needs. We haven't got many programs addressing that.

Labor markets are also more restricted in rural areas. Graduates of colleges of engineering and businesses are drawn to cities, where there are more opportunities for advancement. It is particularly more difficult to try to draw a professional person to a rural area when you now have both spouses working. It's difficult to find two jobs in a small town.

What are the roles and the responsibilities of the public sector in making sure that rural areas can support competitive industries, and what problems might we find?

There seem to be three schools of thought about what we can do to help rural small and medium-size enterprises and make America's industry more competitive. Although these views are different, they are complementary. However, each operates with a different focus, which you can see when you look at what the states are doing.

One school of thought is the third-wave school. Its premise is implicit in David Osborne's new book, Reinventing Government.[1] That is, we have to change the role of government to make it more market-driven. The government should be a catalyst, a wholesaler of services, not a retailer. The Corporation for Enterprise Development, the National Conference of State Legislatures, and others are taking that approach to economic development.

A second school of thought is what I call the network or linkages school. This school is based on the premise that we have to change our working relationships, not just between business and government, but among firms. And I think this approach is implicit in everything Lester Thurow writes in his new book, Head to Head.[2] He talks about how our economic challenge is changing. It is now between two forms of capitalism—one based on individualistic values, as in the United States, Great Britain, and Canada, and the other based on communitarian values, as in Japan, Germany, and Italy. These latter countries give more emphasis to strategic planning, teamwork, investment in workers, and worker loyalty. Our emphasis is more on responsibility for your own education and profit maximization.

The third school of thought is the industrial cluster school, or agglomeration economies. Its premise is that programs ought to concentrate on clusters of industries to build collective strength. This approach is based on Japan's technopolis strategies and Europe's famed

[1](New York: Addison-Wesley, 1992).

[2](New York: William Morrow & Company, 1992).

industrial districts. There is some fear that this will force an urban focus, and many people use this to divert attention to urbanized areas. But in fact we have many such clusters in rural areas. You can see it in the furniture companies in Tuperlin, Mississippi; the carpet manufacturers around Dalton, Georgia; and the hosiery firms in the Catawba Valley of North Carolina.

The range of new activities over the past few years demonstrates that states are not sitting back and waiting for federal leadership or federal funds. Many states are beginning to develop good programs, and many of these programs follow the general contours of agricultural policy—research, demonstration, extension, education and training, and incentives.

The federal government has played some role, but without very much money. The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418) authorized manufacturing technology centers, and the development of some new technology extension programs. The National Institute of Standards and Technology (NIST) has funded five of these centers, and two more will be funded soon.

With so little money, though, NIST is forced to seek the greatest impact. It is virtually impossible to address the needs of businesses that are too dispersed. Therefore NIST cannot give serious consideration to any of these centers that are in sparsely populated areas. In fact, one of the criteria in the request for proposals for these centers is a concentration of numbers of firms.

Unfortunately, the law assumes that we've got all these ideas coming out of federal labs. It assumes that all we have to do is push these ideas onto manufacturers to make them more competitive. Nobody asked the small manufacturers what they needed. Government really ought to be helping these firms identify and articulate demand, as opposed to just telling them what they need.

Fortunately, NIST understood the situation and has basically redesigned the program. States have been responsive, but it has been difficult under budget constraints for all but the largest states to develop industrial resource centers. Pennsylvania has established eight centers that reach out to firms in rural areas. These centers help firms assess their needs, conduct technology audits, identify problems, suggest solutions, and subsidize part of the initial response. Similarly, Minnesota Technology, headquartered in Minneapolis, has five rural outreach centers. Like other programs, Minnesota Technology sees its mission as competitiveness—helping firms develop long-term strategic plans. Other countries are doing a lot more for the rural areas. For example, Denmark probably has come the closest to matching our co-op extension. Denmark has a technology information center funded by the government and located in each county in the country, with three to six people to provide information and help manufacturers.

Perhaps the best hope for helping small manufacturers lies with our nation's 2-year colleges, which I think are the most accessible institutions for rural firms. This kind of college has been the one institution that's been there to help them and has economic development as part of its mission.

One final point. An idea gaining a lot of attention from states is to help firms by encouraging inter-firm collaboration—"manufacturing networks." The idea is similar to the old agricultural cooperative, giving small units of production external economies of scale and strength of numbers in order to compete in global markets. I find this one of the most intriguing approaches because it has the best chance of developing a self-sustaining culture of continual improvement and innovation, which is similar to the culture that has characterized agriculture.

In rural areas, however, we still have this notion of the rugged, independent entrepreneurial manufacturer. But the idea of cooperation really is quintessentially American; it just took Europe to show us the way. About 5 or 6 years ago, we heard from northern Europe about thousands of artists and firms operating with the latest equipment and sharing ideas. A number of us began to look at this, and we saw enough firms and enough programs to know that it was really working.

We became interested in this manufacturing network and in whether it could work in the United States, especially in rural areas. We began in western North Carolina to get businesses to work together collaboratively. We did not have instant success because of the lack of people who knew anything about small manufacturers, let alone their problems. We would bring firms together and whet their appetites, and then nobody could follow up. Distance was a barrier because when firms are spread out, it takes some real commitment to come together for a meeting.

The traditional economic development people were so immersed in recruitment that it was hard to get them to consider anything new, and to worry about small manufacturers who might employ 5, 10, 15, or 50 people. There is little glory in helping a firm upgrade its productivity, because the results are long term. It is much better to cut a ribbon on a new plant. However, there are a number of these collaborative networks. The state of Arkansas has had some success and others, such as the Ford Foundation, Joyce Foundation, and Northwest Dairy Foundation, have taken an interest in this approach.

I think the Northern Economic Initiative Center in Marquette, Michigan, is an exemplary model. The center was set up at Northern Michigan University to work with small manufacturing firms that really had little access to any kind of support. The center began with an extension program offering manufacturing, training, and business services. It soon began to learn that these firms had as much to learn from each other as they did from the center. It began to organize these firms into a network and to host meetings to consider some common problems in working together. This effort has created a network of wood products firms, and these firms are now paying substantial membership fees for this coordinating effort.

In addition, these firms took on two other issues—design and financing. The firm owners went on study tours to Europe to learn about design capabilities. When they returned, they decided to introduce design into the curriculum of the local schools, which they are now doing. They also established a new development bank.

There is no lack of need in rural America for this sort of industrial development, there is no lack of opportunity, and there is no lack of challenge. It's a whole new way of thinking about economic development. The biggest barrier, in my mind, is convincing the state and local agencies that industrial competitiveness is, in fact, economic development and to consider it as important as recruitment and entrepreneurial programs. Until that happens, we will never have the scale to have any regional impact; nor will any of the ideas I have mentioned ever amount to enough to affect regional economies.

Panel Discussion, Questions, and Answers

Moderator Maureen Kennedy. Before we listen to the three respondents,[3] can we identify issues not addressed by the earlier speakers? For instance, several of the speakers skirted around the issue of capital availability. A lot of work has been done to determine whether rural areas have less

[3]Panel respondents are Paul Sommers, Amy Glasmeier, and Norman Reid.

access to capital and whether the price of capital is not appropriate or doesn't reflect a true understanding of the risks involved in lending in rural areas.

I did a case study of the Small Business Administration's (SBA) activities in rural America several years ago and spent some time in Kansas. I spoke with the director of the western Kansas program, as well as with several bankers using the program. It became clear as I talked that the majority of commercial lending in this predominantly agriculture- and natural-resources-based part of the state was done with an SBA guarantee. In fact, SBA said that in quite a few communities in rural Kansas, all commercial lending carried SBA guarantees. The director said that this was because agricultural lenders are used to asset-based lending and don't really know how to deal with cash-flow analyses. Therefore, they really need technical assistance from SBA. The guarantee happens to go along with that.

Audience Member. Since 1909 the federal government has encouraged a very successful rural development strategy that included community-based local ownership and control; linked independent businessmen and businesswomen together for access to national/international markets; provided education and a training network; and included credit insurance, electricity, supply input, and all the other things we've been talking about.

I'm working with a task force that is using the cooperative model again and again in health care—linking rural hospitals together—and elderly housing. There are zillions of applications.

Moderator Kennedy. We didn't get into a great deal of detail on infrastructure issues generally. The Center for Community Change has done quite a bit of work looking at water quality issues and infrastructure needs in rural areas. It has found that the level of water quality available to rural people is significantly less than in urban areas, and that the backlog of construction needs, in order to comply with both the Clean Water Act and the Safe Drinking Water Act, is much greater proportionately in rural areas than in urban areas.

The Aspen Institute has done quite a bit of work on telecommunications in rural areas. In some areas, because of unusual timing issues, rural communities have as good or better telecommunications quality as urban areas. In many other cases, rural telecommunications infrastructure is behind that of urban areas.

I would mention political institutions generally and the issue of racism, particularly in the South, but also in the colonias of Texas and in many other parts of the country. Racism really has a tremendous effect in perpetuating inequality within communities, placing a barrier in front of communities trying to unite and move forward in allocating resources.

We've done quite a bit of work, particularly in Appalachia, on the impact of race and political power and what that means in terms of development alternatives and options for communities. It's a hard issue to get at; it's an even harder issue to try to address. But I think it is very significant in terms of obstacles for rural communities.

Audience Member. With respect to basic services and infrastructure, the rural areas really lack transportation services, and I would argue that these services are utilities, in effect. Deregulation has hurt rural transportation services tremendously. There is some federal policy that requires basic rural air transportation services. But firms have moved out of rural areas because of the lack of transportation services. I know that the rural areas in Montana have been seriously hurt by the deregulation of airlines. Communities have less quality air service than they previously had; trains have abandoned the rural areas, too; and the highway system simply isn't there.

Audience Member. One of the shortages that I've seen in Montana is the lack of child care. The ability of women to go to work is really limited. Most women and men have to work today to have a middle class life-style. That's even harder to have in rural America. It means you have more children being left at home without any kind of supervision, and a whole host of problems go along with that. There is really very little local remedy.

Moderator Kennedy. In rural Maine, Coastal Enterprises, Inc., has done some research in this area, to analyze the effect of the availability of child care in rural areas.

Audience Member. We find that on a per capita basis we have more loans—more market penetration—in rural areas than urban areas. Also, I think that we have a mechanism for the capital problem—the problem of capital-poor areas: that is, the secondary market mechanism in which a lender in a rural area can make a loan with an SBA guarantee and then sell the loan in a secondary market, where the investors are from the capital-rich areas of the country and from foreign nations.

In addition, SBA's 504 Certified Development Corporation (CDC) Program has a lot of potential for providing services to rural areas. Right now, however, our coverage is very uneven. In areas where we have dynamic local CDC leaders, it's really wonderful—one-stop shopping for small local businesses and manufacturers. We have to reach out to those areas that are underserved.

Mr. Pulver. I think the discussion that has occurred here is a perfect example of a point that I wanted to make—that there are literally thousands of kinds of things that work. The difficulty is in small communities like Rothschild, Wisconsin. How do those citizens know the programs are there to utilize? It's impossible for them to keep track of all of this stuff. And yet, they don't have a staff of 200 people. They don't have any ongoing technical assistance. They may be the best community leaders in the world.

Paul Sommers

The real problem we face is trying to coordinate all types of strategies—enterprise strategies, place-oriented strategies, and human-resources strategies—to make them really meaningful at a local level, particularly in rural places.

We have enormous resources, but we spend so much time trying to coordinate them that they just are not being used very well. I think, for example, of the state rural development councils. I don't know what the other rural development councils are doing, but in Washington the council has become an exercise in trying to coordinate about half of the state government. The council is an enormous added overhead cost, in effect.

If you don't get that coordination done, you end up not only having coordination costs that are a problem but also training systems that are training people for occupations that are not going to exist in the rural parts of our states. You are helping people move to the urban areas, where the jobs you provided training for are more available; you have enterprises that are having difficulty finding the kind of labor force they need in the rural area; they [the people who have been trained] stay in the urban area.

One of the places from which we can learn some interesting things is Europe, particularly Denmark. Denmark's system is so strikingly simple and clear that it's easy to see what's going on, and it provides lessons on how to do things better here. It's not just the technical transfer systems there that I have been impressed with but the ability to coordinate human capital policies with the place-oriented and the enterprise-oriented policies. In a small county outside Copenhagen, in the southeastern part of the country, the labor ministry office has a forecasting system that's not just tracking what's going on at the moment but trying to forecast occupational openings, 3, 6, and 12 months into the future. That information gets fed to the labor ministry office, which runs training programs for young people coming into the work force and retraining programs that are available for workers to keep them competitive. The ministry offers training slots in occupations for which they expect openings in that part of the country. That kind of coordination is hard to find anywhere in this country.

Some new local strategies around this country are doing a better job integrating place, enterprise, and human-resources strategies. For example, the Oregon Wood Products Competitiveness Corporation is a response to a change in environmental policy at the national level. This policy is displacing thousands of wood products workers within the northwestern states—Oregon and Washington—and also northern California. The Wood Products Competitiveness Corporation is a new state-funded entity, with industry members on the board of directors. It has the authority to work on both human capital issues and enterprise strategies. The corporation can develop programs to train workers in order to make firms more competitive. It can organize collaborative endeavors among the firms. It can provide technical assistance and conduct market research for its firms. The corporation has complete discretion to decide which of those strategies to follow.

Another effort is not a rural model, but I think it's one that is well worth looking at—the Garment Industry Development Corporation in New York City. This is a tripartite organization. It brings together labor, the public sector, and the enterprise owners on its board of directors. It insists that financing come from all three of those sectors. It tries to provide services that are relevant to the workers, managers, and owners of the plants. For example, this corporation has a training program, Master Sewers, which trains the workers to be more skilled at their occupations within these small firms. It also has a very successful program to train the owners and managers of the firms to maintain their own machines so that they don't have to lay out money for repair services. This program produces bottom-line benefits in short order.

The corporation is also organizing a quick-response network project that will link together retailers with the manufacturers—the designers and marketers of garments—with the contractors who actually do the cutting and sewing. The quick-response system is designed to raise profits in all segments of the industry by making sure that hot-selling items show up in greater volume on the shelves in the retail stores during the period of high demand.

You can find a number of examples of network projects that are operating in rural parts of America. The Metalworking Connection in Arkansas, for example, is an attempt to develop an apprenticeship program, a human capital policy in a rural area, by working with the manufacturers in the metalworking trades in a particular part of Arkansas.

I think you can draw a number of lessons from these examples about how to better integrate people, place, and enterprise policies. These things work when local leaders—representing business, labor, and the public interest—are all actively engaged in solving their mutual problems and come together in some sort of structure at the local level to devise a workable strategy. These efforts work when they are supported by appropriate resources. The entrepreneurs and the workers out there in rural areas don't have those resources. Resources have to come from somewhere else: a state, a foundation, the federal government. We have to be able to provide appropriate levels of financial help to make these projects work. And, lastly, I think these things work when you bypass the existing state or federal bureaucracy. They work when the funding, the resources, the ideas are being put together at a very local level to solve very local problems. If we don't do that, we aren't going to get anywhere.

Amy Glasmeier

I want to talk about the large multilocational organization commonly known as the branch plant. The branch plant has been the source of economic development in rural America since the beginning of this century, but has certainly been in full force since the 1950s. Branch plants are always left out of the discussion. I think they are left out of the discussion because they leave a bad taste in our mouth. But they are major employers in rural America, and they are at risk. They are at risk in dealing with quality and delivery issues. They differ from the small and medium-size enterprises, however, because they are geographically mobile.

I want to embed this discussion in the context of globalization because that's where the competitive terrain is for the large multilocational organization. Such corporations transcend geographic boundaries and rely upon operations that achieve economies of scale across places while maintaining sensitivity to local preferences.

Why do I think we have to worry about these multilocational companies? Essentially, in corporate America, rural America has been relatively peripheral. It has been a place where organizations could place their operations with minimum costs for such inputs as labor and land. They could also find relatively pliant local governments and other kinds of regulatory frameworks. It has been a place where they have been able to operate cost centers effectively.

But low cost is not the solution for corporate America any longer. There are lower-cost locations, and there are smarter places with lower costs. We have to figure out how we at least achieve parity.

Why be concerned about large organizations? First, these large organizations, in general, have limited attachments to place. As firms press toward globalization, they are fine-tuning their production and institutional systems. They take advantage of site-specific conditions, but they also have a great deal of flexibility to change rapidly. They are also part of the rural fabric, and that brings me to my second issue.

In looking at large branch plants, we haven't found any supplier/buyer relationships. We have overlooked, however, the subcontracting relationships in these large organizations. These relationships are very important to the survival of some of these small enterprises. And that is the second reason we want to be concerned: The large organizations are very important to rural communities because they are the basis for subcontracting relationships. Finally, we have to be concerned about these organizations because they are the ones that can leave or shut down. At the same time, the local branch has very little control over its own destiny.

My recent work suggests that local branch plant managers are fully aware of the kinds of problems that their organizations face. They are also aware of the innovations that are available in their industry, but they have a very difficult time convincing their corporate directors to use these innovations if they don't happen to be the particular facility that the corporation wishes to invest in. So there's a great deal of uncertainty associated with these branch plants.

I want to talk about something completely different, but at the same time related, and that is trade policy in rural development. Most of the modeling and analysis of the North American Free Trade Agreement suggests that the economic impact and the job-loss impact will be small. It is a very complex and long-range process, and it's difficult to estimate the impacts in precise ways. Theory tells us that at the national level the benefits of free trade will be associated with the fact that American firms will sell goods to Mexico that are more sophisticated and technologically competent, and that we will buy from Mexico those goods that are labor-intensive and much more basic in composition.

I think the argument is absolutely right. However, we know that the U.S. sectors that will mostly be at risk under the free trade agreement are such things as auto parts, apparel and textiles, food processing, and, perhaps, furniture. We know that these industries are predominantly rural. That means we should be acting right now to ensure that there is some kind of concern about the impact of the North American Free Trade Agreement on rural America.

In conclusion, I want to say two things about policy. First, you can see that America has essentially gone through every stage of economic development policy that rural America has gone through. It has had services, it has had high tech, it has had small businesses. But the kinds of problems that have been described today suggest that the solutions are probably not quick fixes that come out of economic development practitioners' bags. Solutions will have to be longer-term. We simply do not have the necessary economic development infrastructure to deal with the problems that have developed over the 1980s. We have been searching for quick fixes, and I think we've reached the end of that.

In terms of what we do immediately to compete, we find a surprising number of nonmultinational corporations that are uninformed and naive about international competition and international trade. We have had organizations that we've spoken with ask us, essentially, "Where is Mexico?" They have a very narrow view of the issues. These corporations have been lulled into complacency by the large market they have had for so long. Well, that is changing, and we have to help our organizations recognize that change is taking place.

There are a number of current policy experiments that can teach us how to deal with big corporations. You can't take a small business program, scale it up, and deal with a corporation that has $2 billion worth of sales. It doesn't work. For example, a program in western New York, the Auto Forum Project of the Western New York Economic Development Corporation, is designed to deal specifically with branch plant problems. It works from the corporate headquarters downward, and that's a must when you are dealing with large organizations. If you operate at the local level to make the local establishment productive, your work will be wasted if that establishment is not part of the corporate scene in the next 5 years.

The best industrial services programs that have been developed are in the South. For example, one of the best programs is Georgia's industrial extension service, which employs engineers with specific industry experiences. One such employee had been an engineer in one of the nation's largest apparel corporations. He understood absolutely everything about the industry and could provide very sophisticated analysis for large corporations when they had particular problems to deal with. That kind of service is a must if we are going to deal with large organizations.

But he was only one person in a state with 120,000 jobs in apparel and textiles, and he was the only person who had technical expertise in apparel. Therefore, there is a problem in the scale of service delivery. States are not now prepared to provide an adequate delivery system.

I think it is also important to do state-level audits. Many states have regulations that simply will not allow international trade to take place. In Texas, we found many problems. For example, Mexican lawyers couldn't practice in Texas, and banks could not undertake businesses across borders. If you are planning to do any kind of trade work, you are going to have to deal with these kinds of issues.

Finally, one of my big areas of concern is the transition strategies that we develop in terms of worker displacement and work transition in a period of globalization. Right now, most job training programs are oriented toward people who have lost their jobs. They are not oriented toward people who are currently employed but whose skills are outdated. We have to develop programs that allow people to be at work while enabling them to make the transition into the future.

Norman Reid

I would like to begin with some comments about the preceding presentations. I would sum up Glen Pulver's presentation as stating that investments in intellectual capital, not physical capital, are the major constraints on rural America at this time. This is an issue that has not been understood by most policymakers. Though it has been said many times, I don't think it is believed.

With respect to David McGranahan's presentation, I would summarize it this way: As important as knowledge and education are, education investments alone will not suffice to bootstrap rural America out of its current dilemma.

I drew several points from Stuart Rosenfeld's presentation. First, product quality must, and can, replace low cost as a basis for comparative advantage in the rural economy. Second, institutional development is also essential to building the capacity to create effective policy. That's more than just building the capacity of individuals to lead, as important as that is; and it is more than just building the capacity of governments to govern. It is also strengthening the private sector and building networks among isolated institutions to get the synergistic effects that can occur through linkages. And third, local control and local demand have very important effects on the way development will occur. A top-down "push" model is very likely to become irrelevant, and certainly unresponsive, to the kinds of needs that exist at the community level. If we want to succeed, we need to have models that can make effective use of high-quality demand from rural people and communities themselves.

I also want to say a few things about things that I didn't hear in these presentations. First, economic viability is the key to creating a good, sound future for people who choose to live in rural places. I do not mean that other problems—such as health care and infrastructure—are unimportant. They are a very important part of the equation. But unless we build viable rural economies, there won't be a need for health care or infrastructure. We will depopulate rural areas, and it will happen a lot quicker than I think any of us believe is possible.

Second, the economic role of rural America is changing; as a consequence its social role is changing. Once, rural America could make it simply by being there. It had land. It had resources. Rural America could make it because it had those things, and other people didn't have them. But, those assets don't matter too much any more, and industries that rely on them can no longer employ all of rural America's workers.

Something has to be substituted if rural life is to be sustained. We tried for a while, and succeeded to a degree, by substituting low-wage manufacturing, for which we had a comparative advantage in lower costs, to replace what we had lost in natural resources. We are losing that advantage now, too, to nations that can outcompete us on a cost basis. We really don't want to underprice these producers. That is not a successful strategy. Rural America can either build comparative advantages based on something that is lucrative, i.e., the quality or uniqueness of the products and services it produces, or rural America will continue to depopulate and its incomes will continue to fall. Doing nothing will bring about these consequences, because I don't think that we are going to stumble into the kind of development that will produce lasting economic gains for rural America.

Third, it would be wrong to say that any job is okay. It's true that if a person is unemployed, any job is better than no job, but that is a very short-term perspective. If we don't think farther ahead than that, we are implying that any kind of a low-wage job, a dead-end job, is just as good as a job that has career potential. I think the kind of job we are talking about for rural America matters at least as much as the number of jobs.

Fourth, I would like to talk about the decision environment in which rural development policy is made. In some policy environments, decisions are frequently informed by scientific knowledge and research. In health policy, for example, many decisions are informed by scientific research.

Overwhelmingly, that is not an accurate characterization of rural development policy, which is mired in pork-barrel politics. The rural research base is almost nonexistent. The single largest institution that devotes resources to this area is the Economic Research Service (ERS) in the U.S. Department of Agriculture. Since 1980 ERS' base of employment in nonfarm rural development research fell from 90 people (out of about 700 people in ERS) to about 35 today. The remainder of the ERS staff is devoted mostly to farm economic issues. During a decade in which rural problems magnified and the nature of those problems shifted dramatically, our resource commitment dropped to about a third of what it had been a decade earlier. In other words, about 5 percent of ERS' resources are devoted to general rural development issues in the nonfarm economy, which employs about 90 percent of the rural work force. This is not an appropriate allocation of resources given the nature of rural America's problems.

Unless we are prepared to invest sufficient intellectual resources to understand the causes of rural problems and the policy "handles" to solve them, the likelihood that our policies will be effective in restoring rural America will depend mainly on luck.

Questions and Answers

Audience Member. To Glen Pulver: Does extension provide a model for ongoing education that just needs to be converted to cover these other areas, or are you proposing a new model?

Mr. Pulver. Extension in some states provides the model. In other states, it doesn't provide any model at all. Only a few states have aggressive efforts under way on the broader rural development issue. I think we need to look at a lot of models. In some states, government is providing a good model. However rural development is put together, it needs to cover the entire country. Probably the wise thing to do is to take the best out of all the models that do exist. But the key is to link knowledge to a local provider who is there all the time.

Audience Member. Is there a role for local government?

Mr. Pulver. When we talk about local leaders, we are talking about local government participating in that process. I would hope we wouldn't exclude, however, the participation of the private sector locally in any kind of model that is put together.

Ms. Glasmeier. I think that local government has to make sure that the concerns about the community are not derived from a single office's idea of what economic development is. The idea should be much more broadly sketched and much more generated from a consensus discussion by local political leaders and representatives than I think occurs in some of the communities that I've been in.

Audience Member. I'm a little uneasy with how the notion of capital was discussed previously, with the suggestion that the problem lies on the supply side. Rather, I would suggest the problem lies predominantly on the demand side, and I would call your attention to two points. First, we survey 350 agricultural banks in the Plains States quarterly. Those banks currently have a loan-to-deposit ratio of 52 percent. Eight of 10 of them wish it were higher. They would like to see more good deals walking through the door. Second, the loan growth in rural communities in the 1980s was very weak, especially compared with urban loan growth. We found that demand-side factors accounted for nearly 80 percent of that phenomenon.

And, finally, I would argue that deregulation ought to be viewed as merely another competitive test that rural America will have to meet. Rural entrepreneurs will have to compete for capital along with everyone else.

The real challenge is to improve the skills of rural entrepreneurs to allow them to better compete for capital and to have a business climate that makes it possible for businesses to grow. If we pin all the blame on the providers of credit, we may be looking in the wrong place.

Mr. Rosenfeld. I definitely agree with that. We had a panel of private-sector people at a regional academy we ran recently. One businessman said, "If you ask the businesses what they claim the biggest barrier to their competitiveness is, they'll say it's capital, but they are wrong; it's strategic planning. They don't know how to put together a strategic plan to bring to the banks, and that's where they need help." That's where a lot of these modernization programs are putting their emphasis now.

Audience Member. In the Department of Education, we really have very little going on in rural education. But we have done some research on aspirations. There is a real chasm between stayers and leavers. The leavers, people who have left rural America, match the suburbanites for educational ambition and performance. It's quite astounding. The stayers match the central city profile.

Insofar as enterprise entrepreneurship is concerned, the Department of Education has funded 10 regional educational laboratories. In 1987 the Congress gave us some money for a rural education initiative; right now it's about $10 million for 10 laboratories. The focus is not on community development, but some of the folks are really interested in that. The Mid-Continent Regional Laboratory, for example is going into the high schools and getting the kids interested in investing themselves in their hometowns, getting them to appreciate their hometowns, getting to see a reason to stay there, and getting them to see a reason for building up businesses. They are trying get the 15-year-olds as entrepreneurs.

David M. Kohl

In our small groups we identified major problems facing rural America. I want to discuss the top five problem areas we agreed on.

The first was education. We need to invest in informing and training community leaders and businesses. We also need to create an entrepreneurial environment, beginning at the secondary school level. There was some discussion about 4-H and FFA [Future Farmers of America]. Do we expand these? Do we develop rural enterprise programs? We also have to have education that is appropriate for local needs. We need to make financing education a high priority. More investment needs to be made in education, in adult education programs, and in retraining.

We need to broaden the role of our land-grant schools to incorporate more rural development rather than just straight agricultural programs. We need to focus more on the rural community. We also need to develop a system in which business is linked to the rural community, and the linkage between our education programs and business needs to be further refined.

We also need to bring accountability into our programs. How do we measure the success of these programs? We need to look more closely at the implementation phase. It seems we have left phase one—development of all these educational programs—but not entered phase two—implementation of the programs.

A second area of consensus was on the lack of ways to coordinate and process technical information. We need to develop public policies to facilitate grass-roots efforts that will empower local people and communities. We need to assist in the coordination of people, information, and the infrastructure. But we need to emphasize people and information and not distribute dollars to the physical infrastructure.

There is a lack of understanding at the national level of how rural delivery systems work. We need to look at the WalMart example. WalMart has been very successful in its distribution system. It could serve as a model. We also need to look at Europe a little more closely, because those countries seem to have had some successful systems.

The third common area was a lack of consensus on what a rural policy should be and a general lack of sensitivity by nonrural lawmakers to rural needs. We also criticized the tendency to reach for short-term solutions instead of developing long-term strategies.

The fourth area of consensus was the lack of capacity for economic change. We must get rural people to efficiently utilize, collectively, their leadership skills, their capabilities, and improved communications.

Regulation and deregulation have had a significant influence on rural communities. The cost of regulation for a rural community is exponentially greater than it is for urban areas.

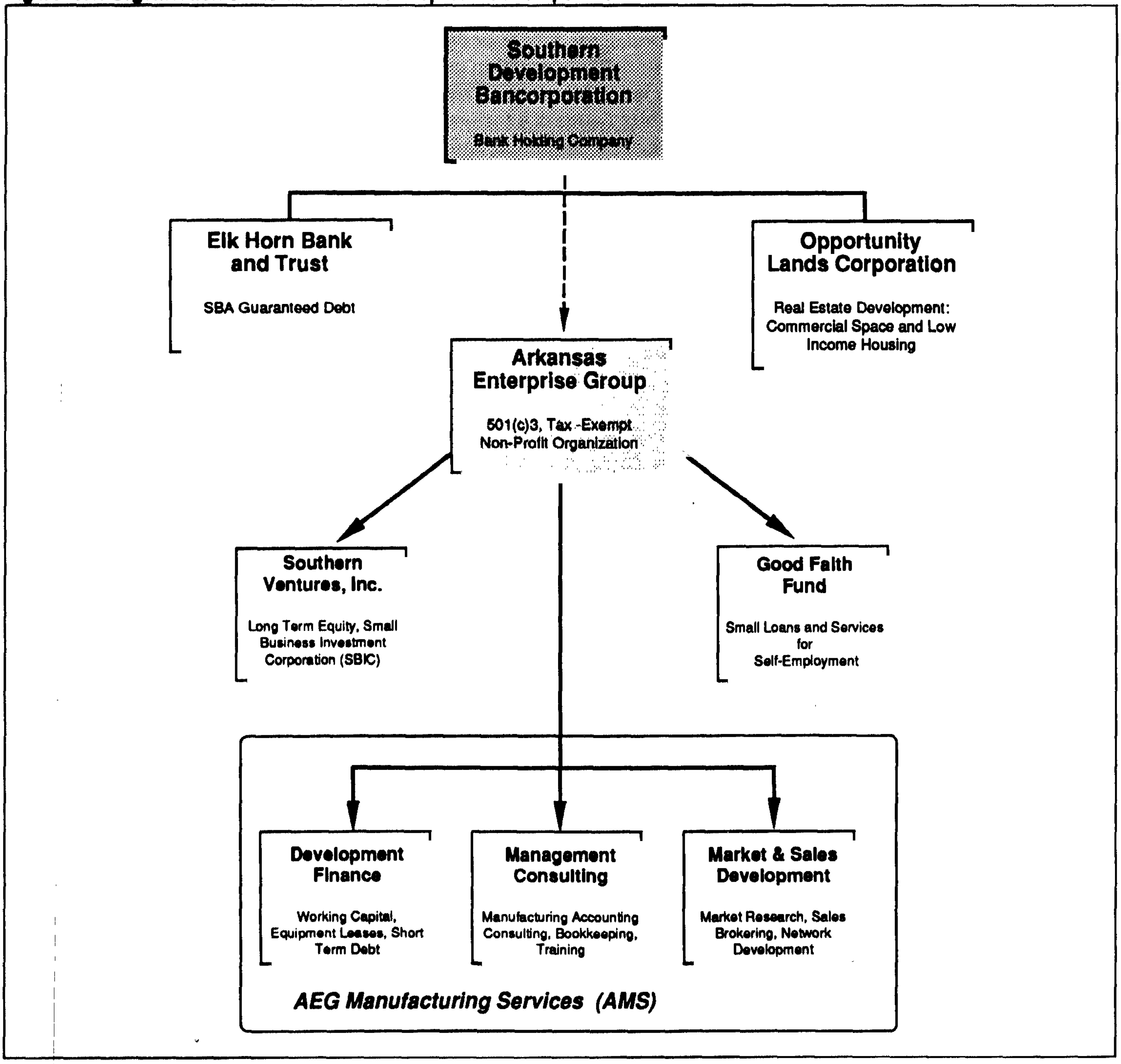
The final area of consensus was on the lack of a vision or a mission statement for rural America. If you don't first look at what your mission is, you are going to flounder. There is a lack of vision of what rural America can be among lawmakers, residents, businesses, and leaders. We tend to focus on rural differences rather than common abilities.

Rural Policy Efforts and the Federal Role

Brian Michael Kelley

Figure IV.1 shows a set of institutions that has been in operation for 5 years, expressly for rural economic development. We have a nonprofit organization, a small business investment company (SBIC), a bank, and a bank holding company. In structure, you could find such entities in many places all across the country. It's how they are used and how they are applied that is unique in this case.

Figure IV.1: Organization of the Southern Development Bancorporation



There are really two parallel paths—a profit side and a nonprofit side. The top entities, Elk Horn Bank and Trust and Opportunity Lands Corporations, are for-profit corporations that are no different than any other for-profit corporation in structure. Elk Horn Bank is a small, $50-million bank in a rural town of 10,000—Arkadelphia, Arkansas. Opportunity Lands is a for-profit real estate development group aimed at commercial development and low-income housing. Both of those are subsidiaries of the Southern Development Bancorporation, a holding company. The Southern Development Bancorporation is regulated by the Federal Reserve Bank.

The dotted line goes to a not-for-profit grouping. The Arkansas Enterprise Group is a 501(c)(3) not-for-profit organization. It has several parts. Southern Ventures, on the left, is a small business investment company aimed at bringing equity financing to rural America. The Good Faith Fund, on the right, is aimed at micro loans of up to $5,000 for self-employment.

In the bottom center are a group of programs, AEG Manufacturing Services. These programs are aimed at small and growing rural manufacturers, providing these manufacturers with money, management, and marketing assistance.

The Southern Development Bancorporation was created in Arkansas in 1988 by 26 investors. About half of the investors were from Arkansas and half were from outside. They included foundations, individuals, corporations, utilities, and insurance companies. We raised about $13 million over 3 years, some in ongoing support from foundations and some in actual stock investment in the holding company. About $6 million went into the for-profit side and about $6 million went into the nonprofit side. In a very rough sense, the Southern Development Bancorporation is patterned on the South Shore Bank on the South Side of Chicago. But that is an urban situation.

Since 1988 we [the Bancorporation] have put $10 million dollars into about 125 firms over our entire development area. Our development area is essentially the southern half of the state of Arkansas—35 counties and about 25,000 square miles. In general, unemployment in this area is usually about five points higher than the national average and median income is about $10,000 less.

About 20 professionals work on the total spectrum of activities. We have a very strong emphasis on nonfinancial as well as financial assistance.

Figure IV.2 shows how we bring to bear multiple tools—development finance, management consulting, and market development. Money, management, and marketing—that tripod is pretty key. Without any one of those legs, you do not have either a vibrant firm or a growing economy. And the output of that effort is increased manufacturing sales, profit, and employment.

Figure IV.2: Arkansas Enterprise Group Manufacturing Services

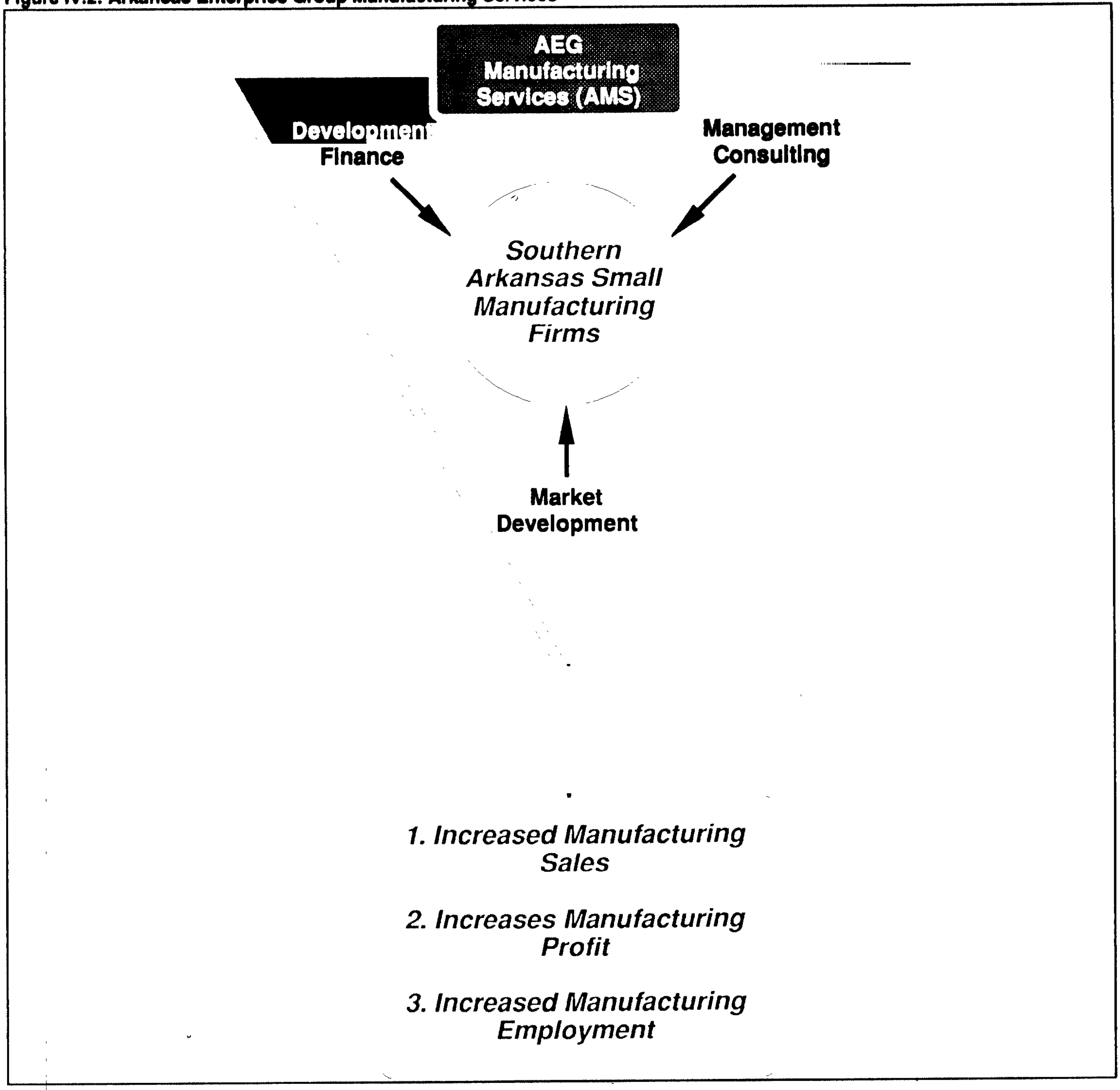
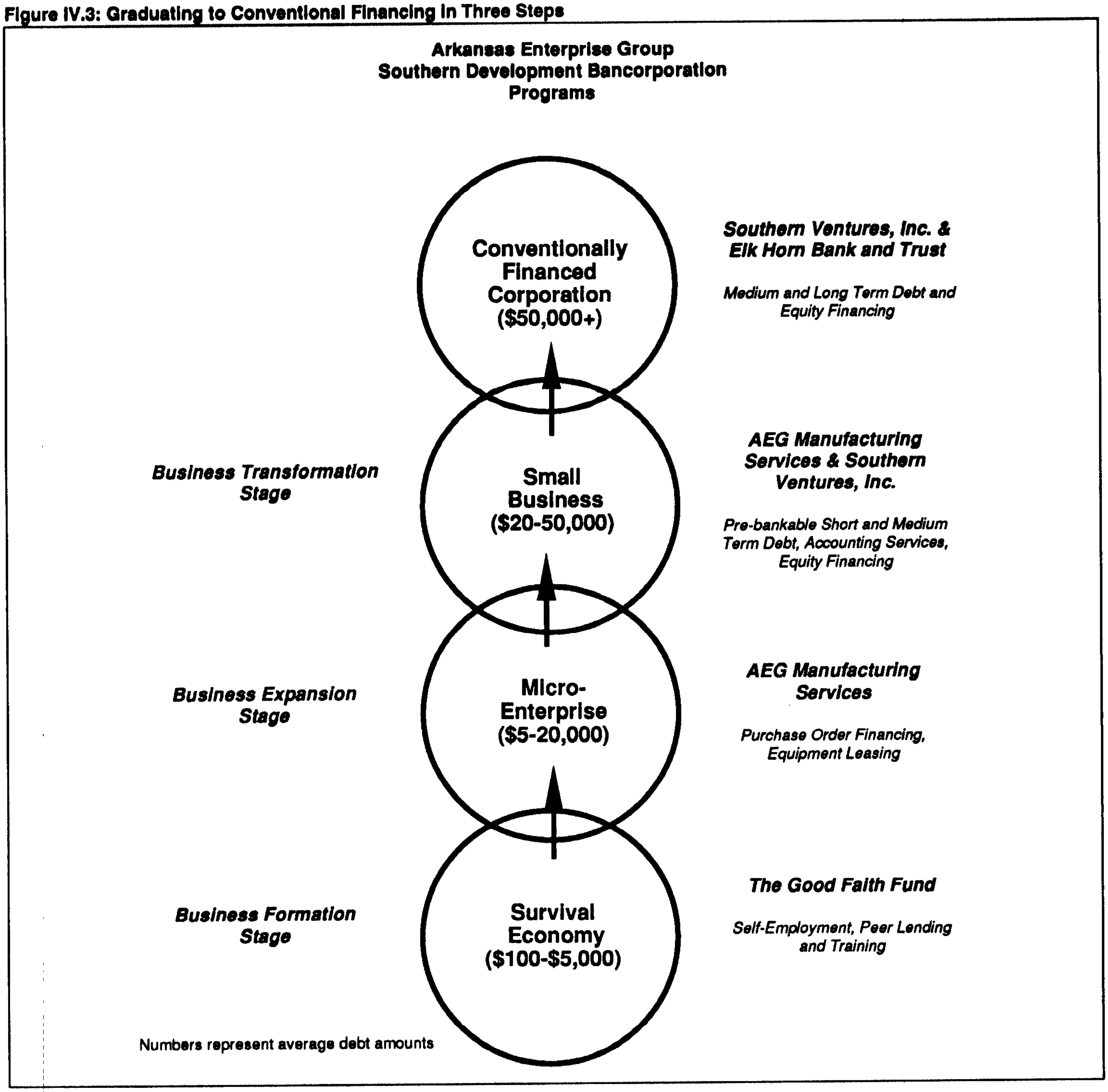


Figure IV.3 shows how we finance enterprises through different stages of development. You have got to have multiple tools, and you've got to be able to acknowledge that people will start at one place and you want to move them to another place.

Figure IV.3: Graduating to Conventional Financing In Three Steps



We start with $100 to $5,000 loans. These borrowers are frequently self-employed. The Good Faith Fund makes micro loans and provides heavy technical assistance. The business then graduates, as a micro enterprise, into AEG Manufacturing Services. At this level, loans are $5,000 to $20,000. The business then moves into a business transformation stage, potentially from self-employment to incorporation. The business might then be dealing with larger markets.

At the level of $20,000 to $50,000, the business may be eligible and appropriate for equity investment. Debt has taken the business as far as it can without that additional investment. This is also true for management systems and marketing channels.

Finally, the business moves into a more traditional style. The goal overall is to graduate to traditional financing, because nontraditional financing sources are just too small. There is not enough money out there to fuel a large region on nontraditional financing. For example, the Arkansas Enterprise Group has a portfolio of maybe $3 million; the Good Faith Fund, $500,000; and the Southern Development Bancorporation, $50 million. As you can see, there's really no way that you can pursue regional development unless you move businesses into traditional financing.

What were the principles that we used to organize, design, and create ourselves? I've got eight design principles. First, multiple tools are necessary to have a lasting and significant impact on the rural economy—essentially, money, management, and marketing. A range of nontraditional financial support should be available—from a $500 loan to a person seeking self-employment to a $750,000 loan for business expansion. Similarly, a range of technical assistance services, from simple management assistance up through manufacturing, accounting, and market development support should also be available. All the multiple tools do not necessarily have to come from one institution, but they should be available locally or regionally from a single institution or set of institutions.

Second, tools and resources must be synergistic, flexible, and innovative, and must be able to respond to changing situations and to experiment. The vision and the tools we have today are not 100 percent the same as they were 4 years ago. For me, this implies a private and a nonprofit structure with the dual goals of profitability and development. With no criticism at all intended, it is hard to find a nimble public sector institution. It's just not the nature of the process.

Third, we made the basic assumption that the consumer or service sector functions adequately. In general, the market works well. In contrast, the producer sector needs strategic interventions to fundamentally change and improve the rural economy. Manufacturers and creators of wealth for an area don't necessarily spring into being.

By and large, we don't work in the service and retail sectors. Partly, that's pragmatic. We don't have enough resources to cover all bases. But partly it really is because that's not where the leverage is. One of the basic rural community problems is that the total supply of dollars in the community—"community income"—is shrinking. Working with the service and retail sector will not affect that issue. All too often, given the zero-sum game of limited spending power in the community, putting one new retail business into operation means that another closes. The key is to expand the spending power of the community by working to expand community income via the growth of manufacturing or service-exporting firms.

Fourth, the Southern Development Bancorporation and the Arkansas Enterprise Group are enterprise-focused. Ninety-five percent of our work is with individual firms, not with communities, not with governments, and not with large groups of people. It is with firms—creating them, helping them grow.

Fifth, focus is key: focus in the types of businesses, focus in geography, focus in the sectors. We acknowledge that development is a long-term process, we talked with our investors, we talked with our strategists, we talked with ourselves. This is not a sprint, this is a marathon.

Sixth, we use private sector principles throughout our organization. Even though we have a nonprofit side and dual goals of development and profitability, every program is subject to goals that you would find in a normal private-sector corporate setting. These principles include: What's the return on your investment? What are the benefits? Is this profitable? How much are you going to move to sell funding? When will you sell funding? What is the development impact? Those are the tools we use to run ourselves.

Finally, the next steps in our ongoing research and development efforts are manufacturing networks, trade associations, sectoral focus programs, industrial incubators,[1] market development, and a trading company.

[1]An incubator is a facility in which small businesses can share premises, support staff, computers, telecommunications equipment, utilities, and other overhead expenses. In such incubators, businesses can also receive technical assistance and advice.

I would like to comment on federal policy implications. First, the crisis of the rural economy is a crisis of manufacturing—the ability to create and export a value-added product to an increasingly effective and efficient regional, national, and international market. That is the core of it. Unless rural economies can do this in general, we don't have a rural economy.

Second, the "come one, come all" free government business assistance cannot, and frankly will not, provide sufficient depth to make a difference. What is successful is business assistance that is focused, in-depth, subsidized but still fee-for-service, highly competent, and socially targeted. That should be the mode of direction for government assistance at all levels—local, state, federal.

Third, the use of intermediaries to reach rural communities should continue and increase. Our experience is that they are a successful way to deal with this balance between large resources and very intimate contact.

Fourth, interagency cooperation between the Small Business Administration (SBA), the Federal Reserve Bank, the Internal Revenue Service, the Department of Health and Human Services, the Economic Development Administration, and other relevant economic development entities should increase. The entities you saw in figure IV.1 are regulated by a variety of government agencies. All these agencies believe that no other agency exists. Trying to work with them is a real challenge and takes a lot of time.

Fifth, we need to move away from head- and job-counting and "evaluation schemes" to measurement of the type of jobs created, the amount of income and wealth coming into a region, and the competitive potential of industries in the region. Those are more qualitative, significant measures. Blunt measures, such as head-counting, misdirect funds that allow present, unhealthy trends to continue—the creation of low-wage, short-term, low-skill employment using government money.

Sixth, government should support (1) the creation of highly specialized market information centers that support product design; (2) market access through a market export manager for hire, which has been quite successful in a number of countries; (3) market information and research; and (4) international and national marketing assistance. Lack of access to markets with competitive products is the fundamental block to the growth of rural firms. Without this access, all else fails.

Market access. If a business needs money, management, and marketing, I have some really clear ideas and we have a lot of models. But how to get to market in the current environment? You can walk into a store and buy products from all over the world, and every firm is competing against everyone else. Increasingly, efficient markets are actually working to the detriment of rural producers.

Finally, I would like to close with some phrases: synergy, cooperation, focus, leverage, depth, and high-quality job measures. Those are key principles that have guided us and have worked for us so far.

Kelly Rosenleaf

The Montana Women's Economic Development Group (WEDGo) offers self-employment training, individual counseling, and capital access. We target low- and moderate-income women in western Montana. The program is designed to help women create jobs for themselves and others through business start-up and expansion. That is where the job growth is in the Montana economy and in rural economies in general. It is not coming from smokestack chasing, despite great expenditure of both time and money to attract such industry to Montana. In fact, traditional industries have left the state.

WEDGo is also engaged in developing leadership among women by allowing them to participate in the economy. WEDGo encourages women to participate in policy decisions that affect both their businesses and their personal lives in such areas as zoning, tourism development, and community planning.

I want to talk briefly about the Montana economy. We are a resource extraction state, and those industries are in decline. Additionally, most of those industries historically have been held by nonresidents, who take the profits out of our state.

We have had an exporting of profits and of jobs as industries have moved out of Montana. We lost over 12,000 jobs during the 1980s in these primary industries. That caused Montana's per capita income as a percentage of the U.S. per capita income to drop from 95 percent in 1973 to 78 percent in 1988.

Currently, the per capita income in Montana is approximately $15,000. The average income for a woman head-of-household is $11,000. These figures are considerably lower in rural areas. We have a very high unemployment rate—7-1/2 percent. That's the highest it has been in 8 years statewide. Some rural counties have an unemployment rate of 10 to 12 percent. Two rural counties in Montana have a 16-percent unemployment rate.

Eight out of 10 Montanans work for businesses that employ fewer than 10 people. Those businesses and self-employment in general do not create the kind of wages that replace the level of income that has been lost in the primary industries. That's a very serious problem. But these small firms are the only area of growth in the Montana economy.

Community-based organizations in Montana are very strong. Small Business Development Centers, Job Training Partnership Act programs, Carl Perkins vocational training, and the jobs programs are all based in community organizations rather than in state entities. The state contracts with local providers to design programs that meet state and federal guidelines while offering flexibility. This results in creative programming for services that fit the needs of each region.

I want to talk about why we should target women for self-employment. The most obvious reason: women are 51 percent of the population. In rural areas, they tend to have more education than men, and can and do provide leadership in local communities when given some support.

In addition, women-owned businesses play a significant and growing role in enterprise development and in the U.S. economy, particularly in rural areas. In the western states, women-owned businesses showed a 24 percent start-up rate compared with 9 percent for other small firms. In Montana, women-owned businesses comprise 11.3 percent of all the small businesses, third in the country behind Alaska and Oregon. Nationwide, twenty-five percent of SBA loan guarantees are going to women-owned businesses.

This growth occurs, in part, because women start businesses out of necessity. Often, to live in a rural area, you have to create your own opportunities. Historically, women have had businesses to supplement or provide the primary family income.

Women entering employment earn terrible wages. Nationally, women earn 63 cents on the dollar compared with men. In rural areas, it's 59 cents on the dollar. They also lack employer-sponsored health insurance in these smaller firms. Most pay for expensive child care or have no child care at all and face a long commute to poor jobs. It is not economically reasonable to commute. Because $11,000 a year is the average wage for women in Montana, starting a business does not appear as risky as it does to someone who might have to give up a good-paying job to start a business.

WEDGo centralizes some administrative services, such as writing grants, administering loan portfolios, and packaging loans. We use circuit riders to provide services in rural communities that have 1,000 to 5,000 people. Rural communities are not able to support the level of expense associated with the centralized services that we offer in Missoula.

Missoula has about 70,000 people. We are not an entitlement city for Community Development Block Grants (CDBG). WEDGo contracts in some communities with service providers on a part-time, as-needed basis. We look to the community and its leadership, and to opportunities for development. We have contracted with small enterprise owners to assist other business owners in their development efforts. We provide on-site training to business owners and train the local providers to offer those services themselves. We then provide back-up services to those contractors in the local areas and bring in our experts in loan packaging as the business progresses.

Our travel budget is very high. Sometimes when we submit a federal or foundation proposal, we get a call saying, "You have a very high travel budget. You people can't be flying around like that." Well, we're not flying around; we're putting a lot of miles on our cars. One area that we serve frequently is 175 miles from Missoula.

We provide self-employment training to JOBS (Job Opportunities and Basic Skills) clients. These are Aid to Families With Dependent Children (AFDC) recipients, primarily women. We provide this training on a contract basis in some counties and with Department of Health and Human Services' money in some other counties.

Current AFDC regulations really inhibit low-income women from pursuing self-employment. The regulations limit the value of the assets they can own and do not permit recipients to separate business and personal assets. WEDGo has sought an interpretation of these regulations on self-employment from the State Director of Social and Rehabilitative Services and from county welfare directors. Interpretation varies from county to county and results in confusion and different provision of service. We have gotten a determination from our state welfare director that these two categories—business and personal assets—are, in fact, separate. Many states do not allow this separation. If you are disqualified from welfare because you have too many assets, you lose your transitional 1-year health care and child care benefits. You do not lose those if you have too much income. If you have too many assets, you may not have any income from those assets. For example, if our client has some manufacturing equipment, that's fine. But if we want to loan the client money to buy the asset, the portion of the loan repayment that is for the capital purchase is not deductible as a business expense, according to welfare guidelines. It is seen as personal income to the recipient. But the recipient doesn't have the income, which is disallowed against her welfare benefit. Therefore, recipients are not able to get into businesses that need any kind of capital equipment unless they lease it.

We also have provided training to Joint Training Partnership Act (JTPA) recipients. We have done this on a contract basis. These programs also inhibit participation in self-employment because they are short-term strategies. They need to take a longer-term view of what it takes to get a business off the ground. They do evaluations of placement after 90 and 120 days. Businesses aren't profitable in that period of time. Therefore, JTPA programs are not likely to encourage people to be self-employed.

We offer both direct and guaranteed loans. Our loans are limited to $15,000, which is larger than the loans of a lot of microenterprise programs. There are two reasons for that. First, our model is designed to create jobs through expansion and start-up of businesses. It is not particularly an income-enhancement program. Our kind of program often requires more capital.

A lot of the microenterprise programs are in the $2,000 to $5,000 range. We feel we need a different kind of capital than we currently have to offer that kind of program. We would like to add that to our strategy when we have other capital sources.

It is also critical that the microenterprises reach into the regional economy, which requires capital. We have offered a loan guarantee program and a direct loan program. The loan limit is $15,000 with a maximum 5-year term. We need to back up that loan program with extensive technical assistance to the individual borrowers. We do that, and we require that they participate in follow-up consulting with us once they receive a loan.

The WEDGo loan fund is capitalized in several ways. We have old Urban Development Action Grant money on loan to us from the city of Missoula. We also have some old Community Development Block Grant payback money. And we have a couple of loans from the state of Montana.

The Micro Business Development Act is the largest state capital investment in microenterprises—$3.25 million for loans, in $250,000 annual increments, to programs such as WEDGo. These programs then lend money directly to microenterprises. Under this program we must offer technical assistance. The community has to provide $83,000 in matching funds in order to get $250,000, and it has to provide operating capital. The Micro Business Development Act does not provide any operating capital to local service providers.

The guaranteed capital funds are deposited in financial institutions, and we leverage these funds at a three-to-one ratio. Consequently, against our $350,000, we can obtain about $1 million in loan guarantees at banks. This arrangement also introduces our borrowers into a commercial banking relationship. In some cases, they are able then to move on to their next stage of financing and get additional capital as their business grows. Unfortunately, a lot of our borrowers still lack the collateral and equity to get that next piece of financing. We really see a gap in the $30,000 to $75,000 range.

Only five or six banks in Montana participate in the SBA program. We are frequently at the top of our region for SBA lending, but that just points out how much other banks are not participating. The banks that are participating tend to be locally owned, independent banks.

I really think there could be a change in the CDBG regulations that would allow CBGD funds, which are a substantial source of federal money, to be used for business loans.

Small cities are receiving the money, but it is difficult to pull these cities together to make CDBGS work in a regional loan fund. There might be a way at the federal level to encourage that as well as to allow grants to provide the administrative funding to pass through to service providers. States and counties are currently keeping the CDBG administrative money.

In conclusion, failure to respond to the current economic shift or to gain local control of economic development will push Montana and other rural states further into the status of developing countries within our national borders. Failure to involve women in positions of economic leadership undermines any strategy by excluding over half of the available talent and by exacerbating social problems that stem from the fact that vast numbers of women and children live in poverty.

Howard J. Grossman

NADO, the National Association of Development Organizations, is like a trade association. We represent 250 to 260 regional, substate, multicounty organizations across the United States as well as about 40 affiliate organizations that are important to economic development.

The substate regional movement represents much of the United States. In 47 of the 50 states, there is at least one substate, multicounty, regional development organization. In many states we have quite a few. In my own state of Pennsylvania, we have seven of them.

Substate regionalism is a domestic policy written in two federal acts that were created in 1965. One is the Public Works and Economic Development Act, which resulted in the Economic Development Administration (EDA). The EDA program has over 300 substate regional agencies across the United States. The second is the Appalachian Regional Development Act, which resulted in the Appalachian Regional Commission (ARC) and 69 local development districts in 13 states.

We would like to see a greater use of public/private-sector partnerships for economic development. In Northeastern Pennsylvania, we have a tendency to emphasize private sector investment, using the public sector as an incentive to cause private investments to take place.

But without the private sector, in my part of the world, we wouldn't have an organization called the Economic Development Council of Northeastern Pennsylvania. About 35 years ago, we had one industry, coal, which closed up. Then we had 20 percent unemployment rates. A few folks decided to pull together money, the banks, and some other employers, and they created a community industrial fund.

Our region has two major goals that I would like to bring to your attention. One is economic development and the other is quality of life. Economic development is the centerpiece. The other kinds of activities have to do with recycling and waste management, housing affordability, work force development, and all the other things that are important.

We carry out an enterprise development program using revolving loan funds. We administer about six or seven different types of revolving loan funds. We have $9 million out in loans; about 140 projects have created several thousand jobs over the past 9 years. Where do those moneys come from? They come from EDA, from ARC, from the Community Services Block Grant Program, and from the state of Pennsylvania through its capital loan fund. We would like to have one fund to make our life a lot easier. We also administer the SBA 504 Program, the Certified Development Corporation, and lots of other programs for development financing. We encouraged the establishment, for example, of a venture capital fund in northeastern Pennsylvania.

This fund was capitalized at $11.5 million. It has now completed a second round of capitalization for about $6 million or $7 million. This is important because prior to 1983 and 1984, we didn't have any venture capital fund. In fact, the state of Pennsylvania had very little venture capital fund money. Now there is much more of it. We also get involved in the financing of state-funded programs. Pennsylvania, for example, has the Ben Franklin Partnership, which is probably the finest state technology initiative in the country.

We also have a new idea that I want to bring to your attention. We have nine industrial resource centers around Pennsylvania organized and funded by the governor. They are like an agricultural extension service, only they provide a manufacturing extension service to help the manufacturing community.

To give you an example of how we have used the revolving loan fund, Pike County—a rural county with about 27,000 people—lost a company to the Midwest. Some of the employees didn't want to move with the company and decided to start their own company. We loaned this new company $200,000, twice. This group went into the microwave business, and they're going to be and are an outstanding success.

In another instance, we have provided two loans to a women-owned operation, J.R. Slaw and Company. It makes the concrete barriers that you see on highways. The company is located in a county of 50,000 people and has grown to about 45 employees. That's the kind of investments we are trying to make.

We also administer what I call a mom-and-pop loan program in one of our counties. It is a microenterprise-type program for $10,000 to $20,000 loans because the county wanted to structure it that way.

The enterprise development program in our region also includes small business procurements. We work with a business or industry to help it compete for federal dollars, especially from the Department of Defense but also from domestic agencies. About $100 million in new money has come into our region because of that program. Our enterprise development program also includes export promotion—we are trying to open up new markets overseas. We have a lot of policies on international trade in a broad, generic sense. We have very little money being committed by the federal government to help local organizations and local governments.

Let me close with some of the things that I think might be important from a public policy perspective. First of all, we have a model in this country that needs to be replicated. Twelve years ago all but one of the multistate commissions—the Appalachian Regional Commission—were eliminated. The Appalachian Regional Commission is a marvelous institution. We need to look at it as a model because it includes federal, state, and local activities. Second, we could have a presidential executive order to establish substate regionalism and local government involvement as national policy across the board. Third, public/private-sector partnerships should be enhanced at the federal level as a conscious public policy. The Urban Development Action Grant (UDAG) was that. It doesn't exist anymore. Fourth, we don't have an infrastructure policy that has any meaning. Our state largely created Pennvest as a substitute for previous federal involvement in infrastructure. Fifth, interagency coordination is absolutely essential. Sixth, enterprise development as a program in Pennsylvania has been immensely successful. It should be replicated across the United States. Last, we need to have models of community leadership.

Questions and Answers

Audience Member. I've been wondering how you, in talking with the business and community leaders that you work with, are finding that people respond to the global implications of competition. I think that it is difficult to communicate, especially to rural people, how things have changed.

Ms. Rosenleaf. People know that it's happening, and they're terrified. They have lost their jobs, and their families have lost, perhaps, what has been their livelihood for generations. The first response to fear is protectionism. People will say, "Well, you know, you've got to buy locally and you've got to buy American-made," and "We need to erect trade barriers." I think, unfortunately, that those solutions are too simplistic and that we need to have a longer-range view about it.

Mr. Kelley. People here don't listen until they really hit bottom. If you go to Europe, you are relatively quickly talking about the dollar, or the deutchmark, or matters of economy and economic competitiveness. We don't have that cultural interest here. We don't talk about the nature of this country or the business system or being competitive or anything like that in our educational system. I would hope that the educational system could help fix this. If we could start that a little earlier, then some day somebody might come to Arkadelphia, Arkansas, and have a conversation about the value of the dollar versus the peso. That's what is going to drive jobs.

Audience Member. The three forms of assistance that Southern [Development Bancorporation] provides—finance, technical, and market access—have all been provided in some form by the federal government. The perception of Southern is that it is very successful, yet the perception is that federal programs are not successful.

Mr. Kelley. Southern is a single entity that can make consistent choices. One of the things we can achieve is some synergy, and that's different. It's more difficult to do that across agencies. Second, private entities can make choices about what to do. That really means making choices about what not to do. For example, the Small Business Development Center, funded by the SBA, has got to take, essentially, everyone who comes in. That may have worked 20 years ago, but it really doesn't work now. One of our groups, Southern Ventures, chooses to finance innovative businesses and not a whole bunch of other businesses. The manufacturing group makes a choice to do manufacturing and not other types of work.

There is, in fact, a much greater ability for private entities, whether they are nonprofit or profit-making, to make choices about where to focus their resources. If I look at public-sector development agencies in Arkansas, of which there are many, especially in rural areas, everybody has a little bit of everything. These agencies are spreading very little water across a lot of territory because it's a political process that they have brought about. It's hard for them to gather their efforts together. That is not to say they aren't good people and competent people. Those are the issues. If you look at some of the export development work done on a national or regional level, you have the same issue as well.

Partly because of that and partly because of history, small businesses don't look to the academic world or the public world to give them the help they need. They know that they might get "Business 101" or maybe "Business 102." But what they really need is "Business 401 and 403" in their sector to help them sell and design products.

Ms. Rosenleaf. Some of the public-funded programs are not evaluated on the right criteria. The Small Business Development Center is a fine example of that. It is evaluated on how many units of business consulting service and how many units of workshop training it provides. It is not evaluated on the outcomes: Does the business start? Is it profitable? Are there any jobs? What's the economic impact? If we want these programs to have an impact, we need to change their focus.

Walter E. Hill

You can almost define rural areas by their economies. They are essentially natural-resource-based economies—agriculture, mining, oil and gas—or economies that rely on low-wage, low-skill manufacturing activities.

Over the last 3 to 4 decades, the economy has been changing. The percentage of gross national product from those basic industries that support rural America has been in a straight downhill decline. But if you look at the dollar value of those economies over the same period, they really have either grown a little bit or remained steady. That is, the basic economies have not declined all that much; the resource base has not really declined all that much. Those economies are still very important.

But the rest of our economy is growing at a much faster rate. Rural America, quite honestly, has not participated in that diversification or growth. I think we all understand that that is a basic problem. Over the past 15 years, advances in technology, communications, transportation, and computer technology have opened up the rest of the world and essentially made other countries competitors with what we have traditionally produced in rural America.

Rural America has to overcome isolation, distance, and sparsity of population. Fifteen or 20 years ago, the absence of technology really kind of isolated mom and pop on Main Street, U.S.A., from competition from urban retailers and others.

But that isolation has been wiped away. Now it's easy for Sam Walton or other folks to come in and compete with mom and pop on Main Street. Rural America has just not done a good job of adapting to that. That is a challenge that rural America faces. It is very difficult for rural America and the folks who live in our small communities to diversify their economy and to take advantage of this global economy and the opening up of all these markets.

But the opportunities are there. The challenge for rural America is to learn how to take advantage of those opportunities. If you think about government, the same kinds of factors that have affected rural America have also changed the way government needs to react to help rural America. Government can no longer afford to do the same kinds of things in the same old ways. Government at all levels needs to adapt from being strictly regulators, directors, providers of resources—wrapped up very neatly in a lot of red tape—to being facilitators, enablers, and supporters of small, rural communities.

Over 3 years ago, the Bush administration recognized this challenge for governments, particularly the federal government. That, essentially, is what this President's Initiative on Rural America is all about. The things that affect small, rural communities are much more than just agriculture. They are health care, the environment, transportation, communications, infrastructure, and so forth. They involve all of the federal government, not just the U.S. Department of Agriculture.

The organization of the federal bureaucracy essentially mirrors the Congress. The Congress is neatly compartmentalized into special interest areas and a lot of subcommittees that specialize. It is very difficult for the Congress to think comprehensively at any one time because its focus is on the special interest areas. Traditionally, it has been very difficult for the federal government to communicate, cooperate, and collaborate on these issues. One of the reasons, obviously, is that there is no institutional capacity to deal comprehensively with these issues.

The first thing the Bush administration tried to do was to create this institutional capacity. We created a subcabinet-level working group of the President's Economic Policy Council. This group is made up of policy-level decisionmakers from all the federal departments (about 16), two free-standing agencies, and a couple of other organizations.

The goal is to help the federal government coordinate rural issues. I think that over the last 3 years we have made a tremendous amount of headway. I probably wouldn't be straight with you if I didn't tell you that there is a lot yet to be done. But I think we have positioned the federal government to begin to think and act and talk with one voice about rural community development issues.

Underneath that policy-level group, we have established a group of political appointees and senior career officers from a large number of federal agencies. This group, known as the Monday Management Group, meets twice a month to help us solve problems on how to advance this President's Initiative. Those folks are helping us identify and find solutions to rural community problems.

We also understood that the federal government does not have the total responsibility for this issue. It is shared by many other governments, including state, local, and tribal, and also the private sector, both profit and nonprofit. Just like the federal government, all these levels and layers of government have really not worked very well together. Quite frequently, we pull in different directions on the same issue.

The second thing we have tried to do is creatively harness that kind of activity and put it to good use. To do this, we established state rural development councils. With these councils we are trying to bridge the gap between all of these various levels of governments, the private sector, and the tribes. We want to bring a group of people together who can begin to solve government's problems.

We recognized early on that the only way we had a chance of being successful was to do this as a pilot project. In early 1990 we began to organize that process in eight states. We had the first meetings in October 1990. We were trying to create a collaborative partnership with this very diverse group of folks.

Let me say that this is a very difficult task. I think it is important to lay out some of the things that make this difficult. For example, there is a lot of turf protection among some of the local governmental entities. There is also some turf protection among the nonprofits and in the private sector.

The 18-to-20-month history of these state councils shows some successful activities. That success led the President last October to invite the governors of the other states and territories to participate in this process. We have received about 36 applications from governors to participate. We have also received communications from three or four others who said they wanted to participate but hadn't submitted an application. In the last 3 months I have signed memorandums of understanding with 14 governors. In the next 90 days, we'll add another 26 states.

We have tried to challenge these councils to build an effective team. We don't tell them how to do it. We try to support them. We don't go out with a bunch of rules and regulations. We want them to assess their needs and to build comprehensive, long-term strategies for rural community development. We believe that in the process of implementing these strategies, they're going to come across some of these barriers that prevent governments from being the enablers and nurturers of small, rural communities.

In Kansas, for example, the council recognized that it had about five or six federal and state agencies administering financial programs. Local community folks had to go to those five or six different entry points and fill out a different credit application for each one—a very frustrating system. The Kansas council decided to try to solve that problem and has developed a single application process. The Certified Development Corporations (CDC), which are nonprofit private sector groups organized under the Small Business Administration, are being utilized as the entry level for all the federal and state agencies, and they have one application form. The goal of the CDCs is to take the frustration and the mystery out of this fragmented federal and state financial delivery system.

In South Carolina, the state council had helped six small rural communities respond to a mandate to create a water and waste system. Individually, these poor communities did not have the resources to do it. The state council has helped them put a regional water and waste system together and has made it work.

The South Dakota council sent us three white papers on three separate issues. For example, the council had identified an audit requirement in the Farmers Home water and waste program. One community had brought this to their attention. The community had a water and waste loan from Farmers Home on which the annual principal and interest payment was about $10,000 a year. We have an audit requirement that affected this community and would have cost about $7,200 a year. The council did not think that this requirement was logical or necessary and suggested that we might check into it. Our program managers in Farmers Home say that there is absolutely no evidence that this audit requirement reduces the federal government's cost of administering this program. Therefore, we are trying to modify that audit requirement.

That's a small thing. But it can lead to a lot of bigger things. We have about 4,000 borrowers, the smallest of rural communities, that are affected by that requirement. Eliminating the requirement will save communities at least $3,000, on average. That's $12 million a year for the life of the loans, which is about 25 years.

But the point is that we are talking about a lot of money. We discussed this issue with our Monday Management Group [composed of senior program managers from agencies that make up the President's Policy Coordinating Groups' Working Group on Rural Development]. Some folks in that group said, "You know, we may have some similar kinds of requirements for some other programs that really don't make sense." We have got to start using some common sense about how we levy these kinds of requirements on small, rural communities.

I want to close by saying that when we started this initiative, our goal was to change government. We have to take advantage of opportunities like these state councils. They can work.

Beryl A. Radin

Those who have been thinking about the appropriate federal role in rural policy face challenges that go far beyond the rural field. Let me list some of the characteristics about rural policy that we've heard during this conference that I think are relevant to other issues as well.

We have been confronted with the diversity of 50 states and thousands of very different communities. We see rural policy as an area that is characterized by interdependency between public and private and multiple policy systems. We have looked at a policy area in which no one really has sole power to act. That authority is fragmented and overlapping. It involves federal, state, local, and other participants. There is no simple fix, no magic bullet.

What is the appropriate strategy for the federal government to adopt as the various actors within the federal system think about policy design? Who are the appropriate recipients of federal support however it is constructed?

I think there are seven possible ways of thinking about the federal role. Some of them can be combined and clustered, but others are diametrically opposite.

The first is the command-and-control federal role. This is the model that assumes that the federal government knows best, and it establishes clear, consistent policies and programs that are implemented across the country. I believe there are very few federal programs that actually behave this way. When you look at their implementation, you find flexibility within them. But that's often buried within the system. This is the "bogeyman" image of the federal role that is built into the deregulation movement.

The second way of thinking about the federal government is as a conditioner of funds based on the attainment of certain process goals. Head Start or the community action programs had planning requirements, participation requirements, monitoring or evaluation requirements. The federal government was concerned about the process of decision-making rather than prescribing what the recipient should do substantively with the funds.

The third way of thinking about the federal role is as a targeter of specific populations. This is an area in which the federal government focuses on equity and distribution issues and tries to provide resources to those who are underserved by either public agencies or the private sector. This is what we have done historically in education and with Medicaid. In these cases, without federal interventions, the political realities of states or localities may make it difficult to serve those populations.

The fourth federal role is as the provider of incentives, rewards, or guarantees. Here the federal government defines certain areas for change and rewards grantees with incentives or guarantees to minimize the risk that would ensue. I think we can see pieces of this in the Farmers Home Administration and in SBA.

The fifth role for the federal government is as a facilitator of change. In this case, the federal government provides technical assistance, information, communication assistance, and so on. The federal government does this either actively, or passively as a facilitator. The cooperative extension model is being used in this way, as are efforts to provide assistance to businesses in rural areas. I think that some aspects of the rural development council effort are very much in the tradition of this federal role.

The sixth type of role is the federal government as a passive or silent partner. DeWitt John suggested that rural development is really a state or local policy issue and that the federal government should take over some functions, such as welfare, and relinquish others, such as rural development. That approach assumes there can be a clear sorting out of intergovernmental roles and clear responsibilities between levels of government.

The last role is the federal government as a partner in collaborative problem-solving. This assumes that policy issues such as rural development require an interdependency among the actors. This approach is really at the heart of the current rural development council initiative.

Michael Springer

I have been Treasury's representative in the Working Group on Rural Development, which began as part of the Economic Policy Council. This particular working group and the subsequent Monday Management Group that evolved have had a remarkable degree of seriousness and commitment to rural America. The Monday Management Group is going to be a continuing body with ongoing responsibilities for staff-level management of the group.

I see a set of implicit contracts between the federal government—in this case, the working group and the Monday Management Group—and the state rural development councils. On one hand, the members of the councils are being encouraged to take risks, harass the people in Washington if they are federal officials, harass the people in the state capitals if they are state officials, and come up with innovative ideas and implement them. In return, we have an obligation to back the councils by providing information and to deal with what we'll describe as federal impediments.

As the councils are attempting to do the things that Walt Hill described, they will run into a large rock sitting in the road that says "property of the federal government" on the bottom of it. These impediments may be an auditing requirement or a bizarre application procedure. It was always understood that after the councils ran into these impediments and did what they could to deal with them, they could bring them to our attention.

We have heard from three states about Medicaid rules that limit the development of alternative methods of health care delivery for rural areas. We also have concerns about duplicative and costly environmental impact statements. We would like to be able to solve these problems in the same way as we have been trying to administer the program—by putting together groups of people who are a party to the problem and trying to build some consensus about solving it. Ultimately, we may have to go to some higher level. For example, with auditing requirements we're going to have GAO people who are responsible for a lot of the auditing requirements sit down with us before we even fully define what the problem is and begin to work on it. We are doing that in a number of areas.

Robert Rapoza

My job is largely to represent a number of different community-based development groups that are concerned with low-income housing, water/sewer development, and business development in poor communities. These groups are mostly, though not exclusively, interested in Farmers Home and the Rural Development Administration (RDA). Much of what I say will be related to those agencies and to the debate over rural development issues over the last 2 or 3 years.

I'm sure that you have heard about the problems that communities face in lack of decent housing, bad drinking water, the need for local economic diversification, and the rising tide of the poor in the small towns and the rural areas of our country. My clients think the federal government has an important role in dealing with those problems. We also think that the federal government has largely not played that role very well in the last 10 to 15 years.

We have a policy but not programs. We have constituencies that focus on Farmers Home housing, on water/sewer, on solid waste, or on community development. But we don't have the policy that goes with these issues. We don't have the commitment from the federal government to support the programs and the agencies in a way that makes it very easy to get things done.

During the 1970s the federal government made a commitment to improve the way things were and are in our towns, in the farming areas that make up the nonmetro part of the country.

What we face now, because of the budget and because of the lack of support from most parts of the Congress, is a fight over who is going to be responsible. Is it going to be Farmers Home? Is it going to be the RDA? Is it going to be the states? Is it going to be the community development groups? That fight has been destructive, disappointing, and not productive.

The housing groups support housing. The water/sewer groups support water/sewer. The community economic groups focus on the remainder, and there is no consensus on what to do about the whole. A way has to be found to develop consensus about all the issues that face rural America. We think that consensus ought to include a strong federal role and that it ought to focus on the real needs of poor communities and the low-income households that live in degrading, grinding poverty and drink bad water.

Jeffrey Schiff

A couple of years ago, some very smart folks started calling us "the voice of small-town America in the nation's capital." We thought that sounded really good so now we call ourselves "the voice of small-town America in our nation's capital."

My organization, the National Association of Towns and Townships, has 13,000 local government members nationwide—mostly rural, mostly small. We put our resources into small-town America programs and policy formulation. We have only been around for 18 years. We try to reflect the rugged individualism, the common sense of our members, and we want to do things. We are down to earth. We want specific answers to specific problems.

There are today 39,000 units of general-purpose local government in America. Eighty-six percent of these units have populations under 10,000. Seventy-five percent have populations under 3,000. Fifty percent, fully half of all the local governments that exist in America today, serve under 1,000 folks. That is reality. That is the reality that everybody who makes policy should be dealing with. That small size brings with it many pieces of baggage—such as part-time officials, volunteers, no staff, few computers, and little money to buy consultants or attorneys to go to far-flung training exercises all over the country. Policy should take these things into account.

Since the revenue-sharing program expired in 1986, our research indicates that today 80 percent of American localities receive zero money from Washington, D.C. That does not mean that these small communities do not have a relationship with Washington. As you can imagine, what is left is a burgeoning, geometrically increasing number of federal mandates with no funds to meet them.

Around Washington, we find one of two things: either complete misunderstanding or nonunderstanding of this environment or a lot of lip service to the problems that face rural and small-town America. But those words never get connected with doing anything about the problems. Partly because of the Los Angeles riots, we expect issues will be redirected to the problems of urban America, just like in the late 1960s. Also, after the November 1992 elections, we will have a huge number of new members in the policy organs up on Capitol Hill, and fewer and fewer of them will come from small towns and rural areas. These members are not paid to worry about the issues we are talking about here.

There is a lot of talk about letting the states do something. The state governments are organized a lot differently than the government in Washington. The state legislatures get much more involved in the formulation of policy than the Congress does in the formulation of national policy.

There is only one state in the country today where the legislature is controlled by rural or small-town interests, and that is the state of Vermont. When I go and speak to the Vermont delegation to the Congress, they tell me none of the problems that I'm discussing ever happened in Vermont. That's because everybody in Vermont gangs up on Burlington, which is the only community of 50,000 in the state. The state legislatures are apportioned one person, one vote. Look at any other "rural" state. Look at Nevada. How rural is that? Most people live in Las Vegas and Reno. They are in the legislature. They control what happens.

Certain federal mandates are good mandates. Those are the mandates that require state government to do things on behalf of rural America. If left to their own devices, these state legislatures will naturally gravitate toward the people who put them into office.

However, federal mandates are also a major problem. I could go on for hours about a piece of legislation that we found out about when the revenue-sharing program was yanked out from under us. And we asked, "What are we going to do about this situation of no money and lots of mandates?"

The Regulatory Flexibility Act of 1980 is not being carried out. This act tells federal agencies to be creative in responding to federal mandates. We now have a dispute going on with the Department of Justice, which completely ducked on the rules for the Americans With Disabilities Act. They did not do a RegFlex analysis nor did they avail themselves of the loopholes in the law, and now they will not talk to us. The White House has become involved to find out about that. But this is a major problem.

Let me just quickly go through several other points. Time after time in federal programs, small communities are defined as all those areas with populations under 50,000. That means that the federal government, the Congress, is putting itself in the situation of saying that a community of 49,000 people—for policy purposes—is identical to a town of 1,000 or fewer because they are all eligible for the same pot of money. That's ridiculous.

Other problems deal with assumptions that creep into federal agencies. One assumption is that if you don't throw at least $150,000 to $200,000 at a community, you can't possibly do anything worthwhile. That assumption is made because those making it live in Washington and not out in the rural areas. Our research indicates that many small communities can do a lot of things with $20,000 to $50,000, or even $5,000. What could you do with $5,000? If we're talking about local development, if we are talking about infrastructure, you would be surprised about what could be done in a small town. Yet, for policy purposes, these small amounts are not encouraged in federal agencies.

In addition, although affirmative steps are taken for other kinds of bona fide majority or minority interests in our community, there are no such affirmative accommodations in federal policy for small towns.

In order to deal with the disadvantages facing small communities, the federal government should take affirmative, pro-active steps. Conceptually, these could include funding set-asides for small places, so that similar communities with similar resources are competing against each other; active technical assistance and outreach tailored to the needs of small places (i.e., doing more than sending a set of rules or a funding notice and then wondering why small places don't apply); and modest funding for regional organizations, which could apply for and administer grant and loan programs on behalf of small towns. Steps such as these would work to level the playing field.

Anne S. Berblinger

Who are the appropriate recipients of federal government assistance in rural development? Rural citizens are the proper recipients, or better yet, the proper partners. However, local government is clearly very often the right partner for rural development.

Economic development occurs in a local community. It doesn't happen in a state. Business decisions are based on the circumstances in a local community. Local government is the level of government that is closest to where these economic development decisions are made.

To some extent there may be some rural development programs that are developed best through states, with funds coming from the federal government in block grants and then transferred to the local communities. For example, for states with state-run education programs, this statewide approach might be effective. However, in Oregon, that would be a horrible way to do a lot of these programs because we have something like 120 independent, elected local school boards that are responsible to the voters.

With local government, we are dealing with the government as a partner. In a partnership, everybody brings something to the table. In this model, the federal government brings investment, with the hope of getting a return in terms of solving national problems, taking advantage of national opportunities, and meeting national goals. The federal government's expectations for its partner should be very high. Among those expectations should be realistic and inclusive planning; attention to the requirements of minorities, women, youth, workers, and citizens with special needs; cooperation and collaboration with neighboring communities and with the private sector; and, probably most important, real commitments of time, energy, and local resources to the development objective over time. And federal investment programs that are made in partnership and in cooperation with a state should ask the state to have this same kind of expectation of the local government it is working with.

How can the federal government, as it creates or changes the resources it offers to rural communities, interfere least with and support most existing programs and delivery systems that work? It doesn't matter whether these programs and delivery systems have been created locally, by states, or even by other branches of the federal government.

My agency, the Economic Development Administration, has created regional economic development districts, some of which have been in business for 25 years. Organizations that get a $50,000 grant annually from the federal government—and that is their main outside source of funding—don't maintain their existence over 15 or 20 or 25 years unless they are doing something. The main support for these organizations comes from the local communities, from local government dues, private sector contributions, or fees for services that the organizations provide.

The Oregon Rural Development Council and the other state rural development councils are dealing with state and federal agencies that are getting into rural development and are either ignorant of or ignoring the existing delivery systems that already work.

How can you deliver new or changed resources with the least disruption to existing programs? First, those in the position of creating or changing rural programs need to know what does exist and what does work. Second, programs need to be designed to be flexible and responsive so that they can easily be coordinated with existing programs and delivery systems that work.

What is the federal government's proper role with respect to rural development? First, we need to do a better job taking care of national business—regulating banks properly, dealing with health care financing systems, changing the destructive rules in the rule book that probably all of you are familiar with, managing land properly, and making the necessary investments for proper stewardship.

One of the speakers suggested that maybe rural development isn't properly a federal function. I find it hard to fathom that idea, coming from a state where maybe 80 percent of all the land and productive resources in rural areas are owned and run by the federal government. The federal government has a role. My part of the West is not the only place where there are national interests in dealing with economic development. Certainly a lot of the rural development problems that exist in the South come from 400 years of national history that created an underclass in the South. That is a national responsibility.

The second role for the federal government is to provide resources in a flexible and coordinated way at the national level. So often the responsibility for coordinating programs and at the same time protecting the integrity of individual programs falls on local government. One agency will have a planning requirement. Another agency will have a planning requirement. A third agency will have a planning requirement. A local organization that wants to use resources provided by each of these agencies will have to submit a different plan for each. It's easier now that we have computers but it still should not be the responsibility of local government, local nonprofits, and local organizations to maintain the integrity of federal programs.

I think the federal government has a role in infrastructure investment in our future, particularly in traditional public works; in the new infrastructure of the information economy; and the human infrastructure of paid and well-trained professional staff.

Group Sessions: The Federal Role and the Barriers to Achieving It

Five groups were formed to discuss appropriate federal roles and to identify the five most important roles and barriers to achieving those roles. The group leaders' reports on those sessions are summarized below.

Finance Group

Susanne Smith. The finance group came up with five roles for the federal government. I will tell you that "no role" was on the list but it didn't make the top five. It didn't even get a vote. Here, not in any order of importance, are the five roles.

The first role is the promotion of a healthy financial environment through regulatory structures, through getting our own house in order here in Washington, and through promoting a healthy economy.

The second role was filling the market gaps and providing financing to small communities. We have seen that in water and sewers, an area that might be too risky for some local banks. This is a valuable place for the federal government to play a role.

Third, the federal government could help the National Institute of Standards and Technology (NIST) assess risk in some of these projects and assist by providing information about trade market access.

A fourth federal role is working in partnership with traditional financing. I think we have all heard that over and over, and it is not to be forgotten here.

And last, secondary markets can be used to put capital from our capital centers in Chicago, Los Angeles, and New York back into communities. We have housing mortgage programs that transfer well, and now we have programs for farming through Farmer Mac.

We listed several obstacles to a federal role. I was surprised, though, that our list wasn't longer. We listed inflexibility in regulations and requirements—for example, the matching requirements for some small communities to be able to participate in some federal programs. Also, we cited the lack of consistency in interpretation of these programs across the country.

One issue we saw as both good and bad. Should we have decisions made in Washington if it complicates things to have all of the documentation sent to Washington, or should we have decisions be made out in a rural county in Montana or Oregon?

Another obstacle is that, in some cases, the government is not working with the private sector. We are on parallel tracks, and we could be working much more efficiently if we were working together.

A final obstacle is lack of access to capital. The federal government can play a role in providing access.

Environmental Group

Cornelia Butler Flora. We have listed five general areas that we feel are the federal government's role. Let me preface that list by saying that we are convinced that, on the one hand, the environment is our national patrimony and that we have a collective obligation to make sure that our children's children's children have access to the same environmental quality that we have had.

On the other hand, we also feel that protection of the environment has to be location-specific: One size doesn't fit all in either environmental regulation or in stimulating environmentally sound behavior.

On the basis of these premises, we identified the following general roles for the federal government. The first is planning long-term stewardship.

Second, we believe that a large part of environmental stewardship can be done voluntarily. But we believe that the people who benefit from environmental stewardship should pay the cost. There are times when it is a federal role to pay the costs of local stewardship, applying the benefit principle to environmental protection. Furthermore, it is very important to invest in the development of economic alternatives for local communities, because often our collective long-term benefits will be gained at the cost of economic dislocation for the community. The proper role of the federal government is helping develop alternatives when that is the case.

Third, we think that a role for the federal government vis-a-vis the environment is to speak for rural America, to understand the trade-offs between environment, economy, and quality of life.

Fourth, we believe that there is a regulatory function for the federal government but that this regulatory function has to be tailored to the local situation. For example, the standards for public health that the federal government has the constitutional obligation to provide should be applied in site-specific ways. The federal government must be imaginative in reducing the trade-offs between the environment and the economy, taking cost into account, and the risk should be tracked cooperatively by federal and state governments. We need to ensure that the rules that make perfect sense for urban industrial areas are not necessarily applied to rural areas.

And finally, we believe that there is a huge need for coordination and consistency and simplification of the regulatory environment for rural areas. There should be a single source of information. There should also be consolidation and coordination of regulations across federal agencies and with state and local governments so that communities and individuals in rural areas have some consistency and predictability in their regulations and incentives.

We have also identified some barriers to achieving this kind of overall risk-benefit analysis. First, we see the diminishing clout of rural America, both financially and politically. As a result, there is more of a tendency to impose rules on local communities that the communities feel they can't resist.

We have noticed that states like California can say, "We don't like your rule, and we're not going to follow it." Those states can do that with some sort of impunity. But for a small local community, that's much more difficult, and the community can be forced to apply some very stupid rules simply to continue its development.

Second, we put together a cluster of barriers that we see as a general sort of congressional problem. We feel that powerful special interest groups, congressional cowardice, and a fragmented congressional committee system tend to keep us from having the kind of consolidated, coordinated environmental policies—both the sticks and the carrots—that we believe are necessary.

Third, there is some problem at the regulatory level: a sort of bean-counting, regulatory attitude and almost a culture in which there is very intellectually rigid and bureaucratic following of the rules. The rules say there are disincentives within the bureaucracies for creativity and risk-taking. There's an audit syndrome and risk aversion at every level among regulators.

Finally, we see barriers at the local level: lack of trust of the federal government, sometimes well earned; and disinformation and hysteria, which tend to polarize environmental issues rather than allowing people to deal with them cooperatively.

Work Force Issues Group

Bonnie Naradzay. We focused on adults who are scarcely literate and have no job skills. They are unemployed or underemployed and have little hope of being employed consistently.

We saw many ways in which the federal government could be involved profitably. It could invest in the substandard educational facilities in rural areas. It could help fund and promote the replication of technical models for school-to-work transition that have worked elsewhere. It could provide assistance in promoting the implementation of these models.

The federal government could make receiving a driver's license dependent on having first received a high school diploma, passing a literacy test, or having held a job for 3 months.

Accountability was a way we identified that the government could also be involved in working with—creating—the work force. To achieve that, the government would need to develop a policy, an overall policy, on education and job development rather than having the disparate programs that are now in place.

Let me discuss some of the impediments that we saw. National policy is, we think, only implicit. We saw some tendency to blame the workers for not fitting in, when, in fact, the earth is shifting under their feet.

One impediment is that we don't do preventive funding. We tend to try to catch the worker after the worker has been dislocated and, at that point, attempt to retrain him or her rather than working on job skills and educational skills while the worker is still employed.

Another impediment is what we call the design impediment. Our present job training programs are not particularly designed for sparsely populated areas. We want to see a shifting of paradigms at the federal level.

Another impediment is that the federal sector doesn't necessarily see training and retraining as a continuous activity. It focuses on stopgap solutions.

We also don't anticipate the fact that people do have to change jobs. Our programs tend to be fairly static, and they are not responsive to local demands. We would like to see more flexibility.

In addition, there's not enough strategic linking of economic development to work. Very often, states don't have the ability to anticipate their job needs by looking at their economic development.

Finally, we have an operative world view that is out of sync with the way things are. It would be very profitable if we could look at some models, especially in European countries, and promote and use those models at the federal level. I'm talking about school-to-work transition and the ability of the private sector to work with students before they graduate from high school—when it's usually too late—or before they drop out of high school.

Community Development Group

Ellen Hagey. We initially started out specifying roles for the federal government to play in community development and rural development. But then we realized there was some degree of discomfort with that because community development is such a broad topic.

We decided instead to try to define community development and, perhaps, advise the federal government on how to determine its role.

We listed the areas in community development: economic development, housing, infrastructure, people, social services, natural resources, health care, transportation, and education.

We would advise the federal government to facilitate policy discussion with the key players—the states, local governments, the nonprofit sector, the private sector, and rural community residents. We would get the input of these groups on what the federal government should do. We felt very strongly that the federal government should have a passive leadership role. It needs to have that bottom-up input.

We have a guide for how the federal government might determine its policy or its role in each of these different dimensions. For instance, in some of these areas, perhaps in housing, targeting is an essential component of the federal government's role.

Perhaps the federal government could provide technical assistance for infrastructure, but it may not be the best source for local economic development. Some local intermediaries may be better suited for that role.

Enterprise Development

Joyce Kline. We came up with three areas for a federal role. First, investment. Specifically, we looked at the federal government as a provider of capital to local intermediaries, who can then be the delivery system for providing financing and other kinds of assistance to local enterprises in rural areas. We have some suggestions that programs like SBA's new micro loan program, the Economic Development Administration's title IX program, and maybe the Community Development Block Grant Program might be models for doing this. But there are some problems with using some of those programs in that kind of mode.

If the federal government is to deliver that kind of investment capital to local intermediaries, there are several things it should think about.

First, it should consider giving incentives for cooperation among different kinds of organizations. There are, in many cases, many different kinds of organizations operating in rural areas. Some of them have some expertise and others don't.

Second, investment should be targeted to achieve policy goals. Small Business Development Centers were used as an example of groups that were serving everyone rather than focusing on specific enterprise development goals for a particular community. In a lot of cases, the federal government hasn't defined what its policy goals are. The federal government would first need to sort out what it is trying to achieve and target its investments accordingly.

Third, we talked about the federal role in demonstrating new ideas. One of the issues for this role was that sometimes the federal government, not unlike foundations, gets involved in demonstrating ideas and then walks away from the concept. Is the government walking away before the concept gets institutionalized? How can we try to address that? Moreover, in order for there to be some follow-up, there needs to be some definition of success or clarification of what the measures of success are. Others in our group said that the demonstrations need to be more than 1 year long. Enterprise development is a long-term process.

Fourth, we saw another federal role in learning and information. You can advance development by bringing people together to share their experiences, both the federal funders and the practitioners. It was also suggested that there may be a role for the state rural development councils in facilitating that learning process.

The fifth role we identified was technical assistance to the zero-employee governments. One of the barriers to local groups in getting federal funding is they can't understand or can't interpret the Federal Register.

We identified several obstacles to government's taking on these roles. First, for investment, we saw that it may not necessarily be the case that there isn't enough money out there but that the money is currently going to other priorities. To make more investment capital available, we have to reorder some federal priorities.

Second, there are barriers or problems with targeting. And third, it is sometimes difficult to put targeting into operation because of either definitional problems or numbers problems. In certain communities, for example, the definition of need may be different. There is also the question of whether you target those areas that are in the most need or those areas that have the capacity to do something effective with the money.

Fourth, we talked about the fact that if some federal regulatory policies were changed, particularly some policies regarding banking and tax policy, there might be less of a need for the federal government to directly provide capital because there would be more money available through federal sources.

Finally, we talked about the need to bring entrepreneurial organizations working in the field into the learning process. Sometimes the delivery systems that the federal government is used to working with aren't necessarily the local organizations that are doing interesting things.

Conference Summary

June Holley. I have heard that there aren't any easy answers. Basically, uncertainty and change are going to be around for a long time.

I want to try to go underneath all the kinds of policies and suggestions that have been made. I want to suggest that what we really need to think about is reframing. Unless we look at policy-making in a new and different way and begin to act in some new and different ways, we are not going to be able to come up with the type of solutions our communities need.

I think part of that reframing involves two dynamic tensions. One of these tensions is that we need all the creativity that we can muster to develop solutions for rural communities. Moreover, creativity is directly related to diversity. To have really sustainable, workable, creative ideas, we need to bring together diverse groups. At the same time, we are talking more and more about cooperative solutions. How are we going to get people to cooperate and work together when more and more we are trying to bring diverse groups together?

The other dynamic tension involves power and possibilities. A lot of people talked about empowering communities to be part of policy design, because communities are the only ones that can customize solutions. However, we don't want to be helping people follow antiquated strategies that just get them deeper in the hole. We have to have some way of getting new possibilities into rural communities. Our group had a interesting discussion about networking. And I think that networking is not just bringing together practitioners and policy people from across the country but even internationally.

The crucial issue is promoting and coordinating diversity. That's the task of the next decade.

I want to close by suggesting that for policy-making to be a process in which we're learning how to do things better and better, it must include women and people of color. It must include people who have low incomes. We are not going to come up with good enough ideas unless those groups are part of the process.

Objective, Scope, and Methodology

In a December 5, 1991, letter, the Chairman and Ranking Minority Member of the Senate Committee on Agriculture, Nutrition, and Forestry and Senator Thomas Daschle asked us to systematically identify issues that are affecting or will affect rural America. The requesters intend to use this review as the basis for constructing a rural development policy that would in part coordinate the many state and federal programs available to rural areas.

To address this request, and in agreement with the requesters, we convened a symposium of experts in the field of rural development. We hired a consultant, Dr. Ron Cooper, to advise us on rural development issues and to help us plan and develop the symposium. The agenda that we developed for the symposium was reviewed by several specialists in rural development. We incorporated their suggestions for revisions and specific topics as appropriate.

The list of speakers for the symposium was developed with the advice of these specialists, our consultant, and people we had previously contacted in finance and agriculture. We interviewed each potential speaker on his or her area of expertise to determine who most appropriately met the symposium's needs. We reviewed our selections with our specialists and made revisions where appropriate. Over 30 symposium participants gave formal presentations or summarized the results of the small group discussions.

We also identified the federal agencies concerned with programs affecting rural America and asked each agency to send up to two representatives to the symposium. In addition, we invited representatives from the President's Initiative on Rural Development.

We asked all the speakers to submit papers in advance of the symposium in order to assist those who commented on some of the presentations. We had the proceedings of the symposium transcribed, and we edited each speaker's remarks. Speakers reviewed and made changes to these edited transcripts, now included in appendixes II through IV. Our report is based on the unedited transcript, and we did not verify the factual information presented.

We began planning the symposium in January 1992 and completed our work in September 1992. The symposium was held on June 11 and 12, 1992, in Washington, D.C.

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