Rural Economic Development for the 90's
A Presidential Initiative

The findings and recommendations of the Economic Policy Council Working Group on Rural Development

The Honorable Clayton Yeutter
Secretary of Agriculture
Chairman

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Member Departments, Agencies and Organizations:

The Honorable Clayton Yeutter, Secretary of Agriculture, Chairman

The United States Department of Agriculture

The United States Department of Commerce

The United States Department of Education

The United States Department of Health and Human Services

The United States Department of Housing and Urban Development

The United States Department of the Interior

The United States Department of Labor

The United States Department of Transportation

The United States Department of Treasury

The United States Small Business Administration

The Office of Management and Budget

The Council of Economic Advisors

The Office of Economic and Domestic Policy

The Special Assistant to the President for Agricultural Trade & Food Assistance

The Special Assistant to the President & Executive Secretary to the Economic Policy Council

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INTRODUCTION

In March 1989, the President's Economic Policy Council formed the Working Group on Rural Development (WGRD) to explore how the federal government might better address rural America's problems.

Key officials from relevant federal departments and executive agencies and the White House came together and formed sub-groups to explore five areas of rural development programming:

Rural Education and Training
Rural Economic Development
Rural Infrastructure
Rural Housing
Rural Health Care

The report is broken into three sections.

Perspectives
Objectives and Strategies
Action Plan

It is in the interest of all Americans to improve the economic well-being of rural America. Urban and rural potential and problems are bound inextricably together.

One of the first priorities in addressing the situation is the gathering of more reliable information on which to base public policy decisions concerning rural America. The Department of Agriculture is now addressing this need.

Rural development is, above all else, an economic issue. Rural unemployment rates are higher today than in urban America, and job growth rates remain lower.

Federal rural development efforts must be better coordinated to deal with globalization, local diversification, as well as limitations in rural education, housing, capital formation and infrastructure.

A healthy farm economy is not enough. Diverse off-farm employment opportunities are needed for rural America to regain its full economic and social vitality. This is true for farm families as well as non-farm families; over 60 percent of all farm families now rely on off-farm income to help support their lifestyles.

Rural Development Perspective

Key Point 1

Recognize that rural America today needs help.

Until the 1980's, unemployment rates were consistently higher in urban areas than in the country. Then, during the 1981-82 recession, rural unemployment rates rose faster and peaked higher than city unemployment rates.

This was a significant break from past patterns, and represented a warning flag that fundamental conditions had shifted in rural America. Another symptom was the renewed outflow of people from the countryside.

After losing rural population to the cities throughout the 1950s and 60s, a brief upswing in the non-metro economy in the 1970's had brought hope of a "rural renaissance". But the new economic activity in non-metro areas proved to be an anomaly.

By the early 1980's, rural America had once again lost its economic momentum. People began leaving the country and small towns because they found limited opportunity for personal advancement in those areas.

> During much of the 1980's, about 400,000 rural people packed their bags and left rural America each year to seek employment in the cities.
>
> Non-metro median family income today is only about 75 percent of metro area median family income.
>
> The rate of growth in rural jobs is only one-third of the rate of growth in urban jobs.
>
> Non-metro unemployment hit 11.1 percent in 1982, and continues to run one to two percentage points higher than metro unemployment.

Key Point 2

Federal rural development efforts must look beyond agriculture.

Agriculture remains the most important industry in rural America, but now employs relatively few people; this trend is likely to continue.

> Today only about nine percent of all rural people work on farms or ranches.
>
> Fewer than 19 percent of rural Americans now derive their livelihoods from activities associated with agriculture.
>
> Only 500 of America's 2400 rural counties are now considered "agriculture dependent".

Any new lifeblood for rural America will be found primarily in off-farm employment opportunities, especially in industries such as tourism, retirement living and commercial recreation which all serve to bring additional income to rural communities.

Off-farm employment has become significant to farmers as well as non-farmers. Even though net farm income has improved dramatically, over 60 percent of all farm families still rely on some off-farm employment to maintain their lifestyles.

While a strong farm economy is essential to rural America, a strong farm economy is not enough, by itself, to assure rural vitality. The farm sector's economic recovery since 1986 has not revived overall prosperity in rural communities; non-farm jobs are essential.

Key Point 3

Rural development is, at the heart, an economic issue.

Only a fully diversified rural economy, based on a multitude of employment opportunities, will create new economic life, with accompanying social enrichment, in rural America.

Rural development efforts in the Nineties should be measured first and foremost by the economic activity generated in local rural communities; by the sustainable employment and income generated in the local free enterprise system.

Sub-standard housing, sub-standard education, or sub-standard health care are symptomatic of a weak local economy, a condition that can best be alleviated through increased employment opportunities.

Successful development programs in the nineties must be goal driven to produce a vibrant rural economy, not a subsidized rural economy. A shift in emphasis is needed.

> Today, the bulk of federal spending in rural areas can be classified as either income transfers or income subsidies. Only about six percent goes into actual economic development.

Key Point 4

Economic stresses currently affecting most rural areas are primarily non-agricultural in nature -- and global in scope.

No segment of the U.S. economy, including the rural segment, can be insulated from the impact of instantaneous global communications, faster dissemination of ideas, and more efficient shipping of raw commodities and manufactured goods to all parts of the world.

Globalization opens up new business opportunities and new markets, while at the same time bringing new competition to markets that in the past were supplied with goods and services provided by rural Americans.

A quick review of the 1980's illustrates the growing economic interdependence now hitting rural communities:

> Many rural manufacturing plants, employing rural people, are linked to the struggling American steel and auto industries -- which are locked into a competitive global battle for profitability.
>
> Mining and energy extractive industries are struggling to overcome a severe contraction of business, primarily as a result of the collapse in world energy prices.
>
> The manufacturing of textiles, clothing and leather goods, traditionally located in America's rural areas, now suffers from stronger import competition for comparable goods made and sold in the American market at competitive prices.
>
> Employment in the timber industry also fell in the 1980s, as it became more profitable to ship raw logs overseas to produce building materials, which in turn were shipped back for final sale in the American market.

With increasing frequency, rural Americans find themselves in direct competition with workers in other countries, particularly in basic manufacturing jobs--jobs which had previously been employment mainstays for many rural communities.

Improved worker skills in other nations, along with modern communications and transportation systems, make it economically feasible to quickly shift manufacturing from one country to another. For small town America this can mean a loss of jobs for less skilled workers.

Meeting this competition will take a long term commitment to improve rural Americans' job skills and productivity in knowledge intensive industries.

Key Point 5

Rapid change in rural America calls for tighter coordination of federal rural development programs.

Early rural development efforts were initiated to alleviate agricultural infrastructure limitations, or to improve farm family living conditions.

The Rural Electrification Administration was one such example, providing the basic infrastructure, the electricity and phones, needed by rural people. Such programs were usually administered by the Department of Agriculture (USDA), with a good many successes chalked up over the years.

Today's federal rural development efforts reach a far broader segment of rural America, but need better coordination. There are plenty of programs, but bits and pieces are scattered throughout the federal government.

And while each agency works to streamline programs, duplicate efforts, overlapping authority and contradictory guidelines exist.

The multiplicity of programs itself is confusing. One agency might offer an education program that is exactly what a town needs. Another agency has the ideal commercial loan assistance program to revitalize a local business. And a third agency can probably fund the local telephone system improvements needed by the computer company wanting to move to town.

A quick look at different government departments demonstrates the complexity of the thicket.

> USDA's Farmers Home Administration (FmHA), which makes farm operating loans, also has a number of loan programs to assist small towns and rural communities.

Business and Industry (B&I) Loans for rural business expansion and new business start-ups.

Water and waste water loans to provide waste treatment facilities crucial to small community development.

Rural Housing Loans to help provide single family and multi-unit housing for rural senior citizens and the less advantaged.

Rural Community Facility Loans to construct and expand critical infrastructure: roads, bridges, and hospitals.

When other USDA agencies such as the Forest Service or the Soil Conservation Service open up new roads and trails in the national forests, or fund dams for conservation purposes, these yield immediate recreational benefits which attract visitors and business to local communities.

USDA's Extension Service, which has offices in all rural counties, has joined with the National Agricultural Library to set up a national Rural Information Center (RIC) to gather and provide information about rural development.

The Small Business Administration (SBA) provides guaranteed business loans that benefit rural America. During FY 1988, the SBA approved $865 million in such loans to rural businesses, over 25 percent of their total business loans for the year.

The Department of Education offers vocational and adult education to rural people, serving over 400,000 participants in 1987.

It funds research and training centers for native Americans, and offers vocational assistance to migratory agricultural workers and their families.

There are nine regional educational laboratories designed to provide multi-state research, development and technical assistance to rural school systems.

The Department of Health and Human Services (HHS) administers a wide range of programs to enhance the health and living conditions of rural Americans.

There are special programs for the elderly, assistance for community health care, assistance to migrant workers, demonstration grants to help communities find new paths to self-sufficiency.

HHS has Area Health Education Centers that help rural people by providing a critical link between academic medical centers and clinical facilities in under-served rural areas.

The Department of Labor holds Rural Development Policy Workshops to help representatives of rural agencies formulate rural development policies.

The Job Training Partnership Act authorizes services for the self-employed, including farmers and ranchers.

The Department of Commerce provides a wide array of services to rural communities and businesses to help them meet the growing challenge of global competition.

It offers programs for export assistance, new ways of problem solving through introduction of new technology and technical assistance funds to help create local business and trade centers.

Its Economic Development Administration gathers data for rural economic planning.

It also provides funding assistance for rural infrastructure; water and sewer lines, roadways and industrial park development.

The Interior Department's activities impact heavily on rural economies. The Bureau of Indian Affairs has health, education and economic development programs. The Bureau of Reclamation's dams program influences agricultural and power development. Many of the Bureau of Land Management's programs, timber, grazing, oil and gas, coal and mining, for example, have profound economic effects on rural populations in proximity to federal land holding, specifically in the West where the federal government owns large tracts of land. Likewise, the existence of a Fish and Wildlife Service refuge or a national park provide employment opportunities from the tourism generated.

The Department of Transportation provides funding to support non-urban transit assistance. It provides assistance for transportation of the rural elderly and handicapped.

Formula grants are made to small cities and towns to upgrade local transportation systems.

The Veterans' Administration (VA) provides health care for veterans living in rural areas, and in so doing is frequently the largest employer in many rural communities.

VA has an outreach program to assist non-VA health care facilities to provide nursing and outpatient care in rural communities.

The VA Loan Guaranty Program has helped rural Americans purchase over 52,000 homes.

The list goes on. As development activities in rural America have increased, so has the number of individual government programs. To the rural "customer" of federal programs, battling through the maze can be, at the very least, confusing.

Clearly, the federal government needs to design a more "user friendly" interface to rural development programming, along with establishing a unified strategy to underpin and guide overall rural development efforts.

Implementing such improvements does not require a drastic shift in current rural development programming or funding. Necessary elements are already in place. What is needed is a government-wide commitment to improved program guidance and delivery.

Key Point 6

Local community leadership is the key to successful rural development programs.

Federal rural development efforts must operate under a logically unified strategy; rural communities are too diverse in geography, resources and attitudes to be well served by a centralized development policy.

> States currently provide far more rural development assistance than does the federal government. More effort is needed to make federal and state rural development efforts complementary.
>
> Program administrators must have the flexibility to adapt rural development programs to a variety of local conditions. Building a tourism industry in rural Florida is different from locating a database management company in Iowa.
>
> Finding new ways to tap into local creative thinking will be the prime challenge to rural development program administrators in the nineties.

Ultimately, with or without federal assistance, only local people working through private sector initiatives can breathe lasting economic life into their own communities.

Recommendations for Change

OBJECTIVE: **Improve coordination of all federal, state and local government rural development efforts.**

Strategies:

* Encourage regional planning and coordination of educational programs in rural areas to better allocate scarce resources.

* Seek improved coordination and cooperation among existing financial and development assistance programs now administered by all relevant federal departments and agencies.

* Build greater flexibility into federal program administration to foster more effective adjustment to ever changing rural circumstances.

* Reduce redundant application procedures and review management procedures on housing projects requiring multiple funding sources.

* Eliminate or reduce duplicate efforts between housing agencies by reviewing and adopting a consistent statutory and administration definition of "rural". Construct a consistently defined database based on these "rural" designations.

* Promote the use of combined state, local, and private resource funding for housing projects.

* Create a Federal Rural Health Working Group composed of all federal agencies with health-related missions.

* Encourage further resource-sharing among federally supported and operated health care delivery programs.

* Direct all federal agencies to review and amend regulations which disadvantage rural hospitals.

* Make the Secretary of Agriculture a member of the interagency Tourism Policy Council chaired by the Secretary of Commerce and instruct the Council to formulate a national policy on tourism development in rural America.

OBJECTIVE: **Improve the support and training of local community leaders in the development process.**

Strategies

* Utilize the community college system as well as land grant institutions to help transfer technology and development knowledge to rural areas.

* Help rural communities assess their potential economic futures and make rational judgments through the development of local people into skilled community leaders.

* Increase technology sharing and communications between rural and urban communities, particularly in the private sector.

* Enhance the ability of local government personnel to prepare financial packages for housing and other rural development projects.

* Direct responsible federal agencies to provide the leadership for educational outreach programs in rural tourism development.

OBJECTIVE: **Improve the education and job skills training of rural people.**

Strategies:

* Emphasize satellite learning programs to provide rural students access to advanced courses in math, science, and foreign languages.

* Expand or create state efforts to utilize retired military and corporate personnel as teachers in rural communities.

* Promote alternative certification programs to assist rural areas in meeting teacher shortages by drawing upon all potential sources in the community.

* Redirect educational programs to provide flexibility to address needs for continuing education and the problems of illiteracy.

OBJECTIVE: **Assist rural communities in providing the necessary infrastructure for expanding local business enterprises as well as attracting new economic activity.**

Strategies:

* Establish federal rural enterprise zones to provide regulatory relief, promote regional planning, tax abatements, relocation and/or expansion incentives for business. Rural enterprise zones could also be used to promote regionalism and targeting of federal resources.

* Utilize existing state rural enterprise zones when appropriate to increase private sector participation in economic development.

* Improve opportunities for private involvement in infrastructure development by reviewing statutes and regulations to remove impediments to such involvement.

* Provide incentives for private sector rehabilitation of rural properties for rental housing in rural areas.

* Leverage federal housing funds available for use in rural areas by establishing consistent housing subsidy programs among all participating agencies.

* Encourage private lenders and investors to make loans for low and moderate income housing in rural areas.

* Review rural and urban hospital payment rates under Medicare's Prospective Payment System to assure high quality care in rural areas as well as urban.

* Revise the Rural Health Care Transition Grants Program to assist rural hospitals to provide better health care services.

* Encourage the systematic improvement of rural roads and infrastructure in areas with tourism resources and potential.

* Study the feasibility of designating "tourism development zones" within federal rural enterprise zones to encourage the orderly planning, development and clustering of necessary tourism services and to facilitate the establishment of enterprises of high economic impact, such as year-round resorts and retirement communities.

Plan of Action

1. **Announce Presidential Initiative on Rural America, spot-lighting the formation of the President's Council on Rural America.**

The President should outline his commitment to build a strong, vital rural economy, emphasizing the many contributions of rural people and the rural way of life to our nation.

The President should simultaneously announce an award program to acknowledge and honor those rural individuals and communities who have made outstanding efforts to build a bright future for rural America.

This annual award would be presented by President Bush, joined by Secretary Yeutter, Chairman of the President's Council on Rural America.

Goals of the Award Program would be to:

Spotlight individuals' service to their communities, i.e., how they have worked to make those communities better;

Build rural community awareness of successful development strategies by identifying and publicizing those strategies;

Energize rural community leaders with respect to what they can do about rural economic development potential;

Establish a network of rural community leaders who can share creative ideas.

2. **Presidential Announcement of a Rural Development Demonstration Program, setting up a coordinated series of regional rural development demonstration projects.**

The demonstration projects would be designed to: 1) identify a rural development need; 2) develop a plan of action to meet the need; 3) bring together the resources required to complete the project; and 4) measure and evaluate the process and results for possible application on a broader basis.

This undertaking would be a high visibility, working program to identify and document the actual rural development process, as carried out within chosen communities. It would spotlight how the development process actually works within varied local parameters, and also demonstrate the "art of the possible" in linking diverse federal agencies into a more workable network.

3. **Establish a structure to coordinate government rural development efforts:**

* **At the National Level:**

Through a Presidential Council on Rural America to be comprised of representatives from:

Production Agriculture;
Agri Industry;
Small town business;
High Tech Industry;
Traditional manufacturing;
Tourism and Commercial Recreation Industries;
Finance;
Nonprofit Organizations;
State Governments;
Local Governments.

The purpose of the council will be to:

Focus attention on the importance of rural development to the national economy;

Advise on how an improved federal rural development policy can be implemented;

Apply innovative thinking to improve the development potential of rural America;

Serve as an advocacy group for rural development;

Encourage federal and state government departments and agencies to establish better program coordination and cooperation.

* **Make the Cabinet-level Working Group on Rural Development a permanent standing committee:**

To implement the national, rural development initiatives developed by the Presidential Council on Rural America.

To assure that relevant agencies work to implement the Presidential Council's guidelines for cooperation and coordination on rural development.

To carry to the President's Council on Rural America any federal agency recommendations to enhance rural economic development.

* **At the State Level:**

Form State Rural Development Councils in each state, chaired by the State Director of FmHA and including state representatives of all relevant federal agencies along with a representative from the Governor's office. The State Councils on Rural Development would:

Serve as the coordinating vehicle for delivery of federal rural development programs in each state;

Identify, assess and address current local rural development needs;

Serve as the focal point for localizing and implementing federal rural development initiatives;

Provide personalized leadership and assistance to local community leaders desiring federal rural development assistance.

4. **Resource Targeting and Redirection: the President will outline a carefully planned commitment to more effectively target federal rural development efforts.**

* **Areas to consider:**

  Cognizant of the federal government's limited resource base, federal rural development efforts should be targeted for maximum economic benefit and effect.

  Where economically feasible and when consistent with department/agency missions, we should move federal jobs to rural areas exhibiting high unemployment.

  Economic development funds should be targeted to those rural communities having a high probability of launching successful free enterprise ventures.

5. **Establish a rural development technical assistance center and hot line. This could be developed as a logical extension of the Rural Information Center already initiated by USDA, with all relevant federal agencies participating.**

* **The Center will:**

  Help callers wanting information or assistance;

  Link callers with the state and/or regional program officials who can provide assistance;

  Track local assistance provided and outcome obtained;

  Form a database for people interested in rural development.