During the past decade my work has taken me into numerous rural communities throughout the United States. This work has been enabled by a grant from the W.K. Kellogg Foundation to Oregon State University. The grant made it possible to establish a National Rural Studies Committee (NRSC) for which I have served as Chair. The NRSC has investigated alternative means by which higher education might be of greater service to rural America. I draw heavily on this experience in these remarks.

There are three characteristics of rural America that are of particular relevance to the financing of rural people and places and to rural capital markets.

Rural diversity—It is difficult to exaggerate the extent to which rural diversity exists and the importance of this diversity to rural finance. Almost any generalization that can be offered about rural America is subject to exceptions. This means that what works well in one place is not applicable in another. Some rural places are growing, some are not. The prospects for some places are indeed bright, but dim for others.

Rural-urban interdependence—The rural and the urban need one another. Certainly the rural is dependent on the urban in many important ways. This is especially true for credit and capital. A great deal of this conference has been about ways rural people and places can tap into urban capital and obtain credit.

Rural and agriculture are not synonymous—There is an understandable tendency to equate rural and agricultural welfare, yet for many rural places the two are very different. To understand this difference it is recommended that for any given rural area, the sources of rural income be determined, as well as the occupation of the residents. As Barry and Ellinger have noted, rural banks tend to specialize in agricultural and rural nonagricultural lending. They report the interesting findings that agricultural banks tend to be among the least profitable of all banks, while those rural banks with a nonagricultural emphasis tend to be among the most profitable.

It is highly probable that economic growth in most rural areas will come from nonagricultural activities. Value-added agricultural processing may prove to be an exception. Thus if rural bank deposits are to increase, they probably will be stimulated by nonagricultural activities for many rural places. The high profit margin of nonagricultural rural banks, as reported by Barry and Ellinger, provide an additional incentive for emphasizing this aspect of rural banking.

This conference has, quite appropriately, highlighted rural economic development. Rural development is fraught with enormous uncertainty, of course. There are many more rural places that would like to attract new economic activity than there are firms and households seeking new locations. Under such circumstances, the worst thing that most communities can do is to make highly specialized investments to improve their infrastructure in the hope that “lightning will strike.” Perhaps the next worst thing they can do is to do nothing. The best that can be done in many cases is to develop contingency...
plans. Community leaders, with whatever help they can muster, should identify those community characteristics that are likely to be the greatest deterrent to new economic activity being attracted to the area and then decide how to overcome such obstacles. At several points in this conference rural housing has been identified as an especially acute need. It will not be wise for some communities to develop a new housing supply in anticipation of need but plans can be developed as to how the housing supply will be expanded if the need occurs. Financing is often of great importance in developing a housing supply. The local banker or lender may or may not be in a position to advance the necessary financing but their technical knowledge can be of great importance in identifying credit channels and sources of credit. Potential new businesses will be impressed if a community has formulated plans as to the best way of addressing local problems. Local lenders can be a valuable participant in the making of such plans. The papers by Vandell and Brophy are highly relevant here.

The presentation by Alton Gilbert on bank regulatory policies was indeed timely. I have formed some convictions about government regulation from my experience in natural resource and environmental policy. These convictions are quite general and apply equally well to almost all areas where social regulations are used.

1. Regulations take on a life of their own once they have been formulated. This should surprise no one because regulations usually must translate general legislation into specific rules. Once this has been done, sight is often lost of the principal objectives of the basic regulations.

2. No one is wise enough to anticipate accurately how a given regulation will affect human behavior if the regulation is applied to a complex social situation.

3. Because of 1 and 2 above, all regulation should be subjected to periodic review to permit what has been learned from past regulation to improve future regulation.

4. Regulations that are applied in an identical way regardless of circumstances often are unfair and may even be counterproductive. Lenders in rural and urban areas often operate under vastly different circumstances. It is most appropriate to determine if regulations applied uniformly to both rural and urban lenders are equally effective in achieving the original objectives of the regulation.

The three characteristics of rural America stated at the outset of these remarks provide insight about the structure of rural finance that is likely to best serve rural America in the future. The diverse nature of rural places, the interdependence of rural and urban economies, and the growth of nonagricultural business tell us a great deal about rural financial needs. There will be need for a pluralistic financial industry with numerous access points and channels into urban capital markets. It will also require the kinds of lending expertise that can help develop the nonagricultural rural economy.

This emerging rural financial industry probably will include increased branch banking in many locations but it is not at all clear this will mean the end of local rural banks. In fact, in some instances opportunities may be even more apparent if the local rural bank is willing to exploit places where branch banking is unresponsive or inflexible. There are examples of such successes in places where branch banking has been permitted for many years.