



March 2000

# *The* Main Street ——— Economist *Commentary on the rural economy*

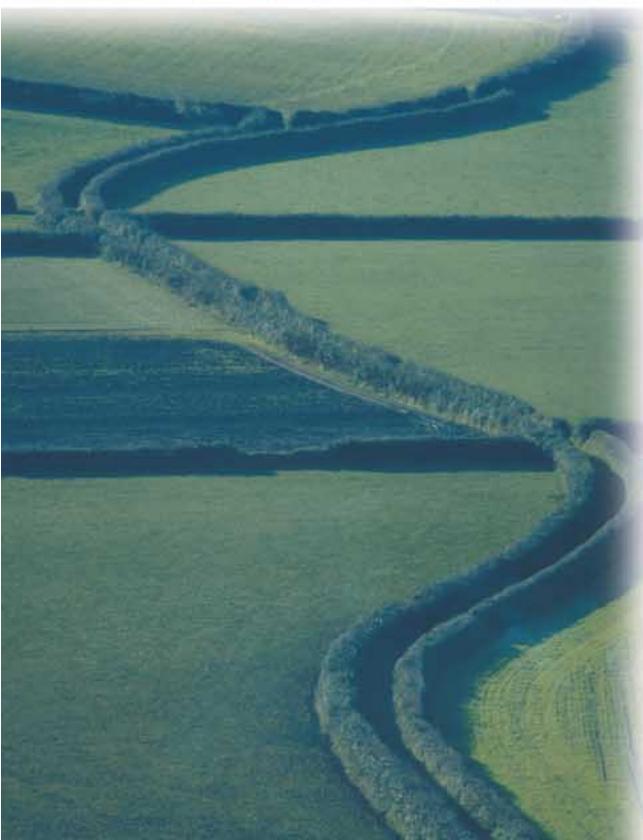


## New Rural Policies for a New Century

*Mark Drabenstott*  
*Vice President & Director*  
*Center for the Study of Rural America*

**F**or rural Americans, the 1990s were dominated by agricultural policy. When the rural economy was down, policymakers relied on farm programs to turn things around. But more and more people express frustration that significant rural economic challenges persist—even after hefty government payments to farmers, including a record payout in 1999. Will the traditional farm policy paradigm continue to prevail, or will another one will supplant it? And if another emerges, what will be its guiding principles?

The road ahead for rural policy is far from clear, but two things are certain. First, rural policy will need to address a handful of rural challenges that range far afield from farm issues alone. These challenges stand as sizable hurdles to a rural economy struggling to reach its full potential. And second, any new approach to rural policy will bring dramatic change to the policymaking process and how policy is implemented.



### A New Century of Rural Challenges

Is there a better way to meet rural America's challenges than farm policy alone? To answer this question, we need to identify the special challenges facing rural America in the 21st century. Five targets may be the north stars that guide the development of a new generation of rural policy.

*Closing the digital divide.* Helping rural America tap new digital technologies will be a good starting point, because such technologies offer the best hope of closing the distances that have historically left rural communities behind in the nation's economic race. Digital technologies offer a brave new opportunity—knowledge-based industries located anywhere.

Until now, such industries have mostly chosen not to locate in rural America. There are well-publicized exceptions, to be sure. Gateway 2000 is a visible example, although it recently moved its headquarters from South Dakota to San Diego. But the high-tech trend is decidedly metropolitan, with powerful evidence in Silicon Valley.

Whether rural communities can capture more of the digital age in the 21st century may be the biggest wildcard in rural America's future. Digital technology clearly has the potential to open up new economic vistas in rural places, but making that dream a reality will not be easy.

*Energizing entrepreneurs.* Entrepreneurs are the yeast in the economy. They may be a tiny part of the overall recipe but are the essential ingredient that makes the economy rise. But many observers now wonder if rural America has enough yeast to rise to the fullest.

Access to capital provides one window on the challenges facing rural entrepreneurs. A new business in suburbia can obtain capital from the local bank, the regional bank, the national

bank, the finance company, the venture capital firm, the local network of angel investors, or mezzanine finance companies. Rural entrepreneurs, on the other hand, generally have one source: the community bank. Ironically, even local farmers have more capital choices: the Farm Credit System, insurance companies, the Farm Service Agency, and foreign banks, like Rabobank.

Capital, of course, is only one piece of the puzzle a new rural business must put together to get started. Understanding input and product markets, assembling a business plan, putting together a management team, hiring workers, finding a location, ironing out logistics—all these steps must come together in a coordinated effort. But the fact is, many of these steps are simply more difficult in a rural location. And, a support group to help navigate this process is far more limited in remote areas.

Herein lies the opportunity for public institutions. Like the homesteaders of the 19th century, rural entrepreneurs need a helping hand. That help includes technology transfer, business and technical assistance, and assisting states and communities in building the infrastructure that will foster successful businesses. This field of opportunity for public universities and others is truly vast.

*Leveraging the New Agriculture.* One of the heralds of the 21st century is a New Agriculture, which will be defined by a new world of engineered and, in many cases, genetically modified products for food, medicine, and a host of other uses. While much work remains to realize its full potential, the New Agriculture poses a special set of challenges for rural

America.

Put simply, the New Agriculture has spawned a new way of doing business that will literally redraw the rural landscape—a trend that many now call supply chains. Supply chains form tightly orchestrated links between production, processing, and marketing, stretching from genetics to grocery. Historically, agriculture's impact on the rural economy was spread widely across rural America. In the 21st century, supply chains may locate in hubs, where the economic impact may be concentrated geographically.

How can the many benefits of the New Agriculture be leveraged in favor of rural America? One issue will be the number of new products moving into commercial production. The more new products there are, the more rural communities will benefit. This speaks to the overall amount being spent on research and development—by both the private and public sectors.

Another issue will be thinking seriously about which products will be well suited to parts of rural America where an economic boost is sorely needed. Some products may have unique geographic qualities. For example, cholesterol-lowering soybeans may grow better in some parts of the Corn Belt than others. Other products with unique geographic tendencies might be developed with some additional research effort.

A final issue will be helping communities position themselves to be supply chain hubs. This will require much more than just a viable product—it will involve infrastructure, local leadership, capital, education, and a host of other local factors. An overriding challenge will be putting together all these pieces into

---

*Historically, rural America has been the target of many policy initiatives, yet many if not most of these policies have had agriculture at their soul.*

---

viable community plans.

*Sustaining the rural landscape.* The countryside has always been a dominant feature of rural America. Many rural observers blithely assume that quality of life is a permanent rural asset. But to borrow the Gershwin line, it ain't necessarily so. Increasingly, economic forces are putting that vital feature at risk. Environmental concerns are mounting where supply chains are beginning to concentrate—especially where livestock is involved. Land use concerns arise in rural places that are booming, as congestion erodes the quality of the spaces that attracted people in the first place. Dwindling numbers of farms raise doubts about the “farmscape” of the next century. And falling population in many rural places prompt new calls to improve the quality of life for those that remain.

One piece of evidence that raises doubts about the future quality of life in rural areas is the ongoing outmigration of young people. Many in rural quarters lament the loss of their best and brightest to the nation's metroplexes. While some would argue the market is working, many of the younger generation might stay if rural communities offered more.

It's not easy to say exactly what will boost rural quality of life, but the issue certainly goes beyond providing rural electricity and mail delivery—two battles over rural quality of life in decades past. Digital issues clearly bear on this point, as do a host of intangibles, such as access to cultural events, sporting events, and learning opportunities. In other words, it takes a bundle of lifestyle accoutrements in today's world to make rural life richer. But in many parts of rural America, that bundle appears to be getting smaller, not bigger. Policymakers clearly have a new opportunity to help replenish the bundle.

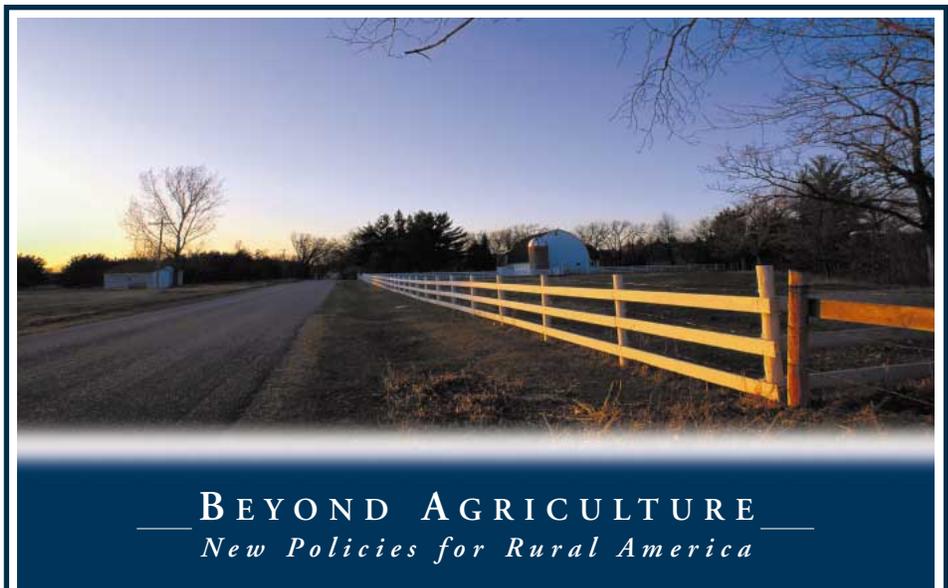
*Boosting human capital.* Lastly, building a new future for rural America depends more than anything on the people who

will make it happen. The transcending challenge will be to boost rural America's human capital.

Studies show that the percentage of people with college training is smaller in rural areas than in metro areas. This brain drain simply makes it harder to do a host of things in rural America—from stoking entrepreneurial fire to attracting high-skill jobs. Slowing that drain of educated minds will depend on creating more viable economic opportunities and enhancing rural quality of life.

Another key challenge will be to lift

the skills of rural workers and entrepreneurs. Higher working skills will be a major plank in building a brighter rural economic future. In the 1990s, rural wages rose less than half as fast as metro wages. Narrowing this gap will require more skills and more rural entrepreneurs—which presents something of a “chicken and egg” problem. Which comes first, better firms or better workers? The answer, of course, is *yes*. It takes both. Rural workers will be a crucial target for new lifelong learning initiatives. And rural firms need access to the information



## BEYOND AGRICULTURE

*New Policies for Rural America*

Rural America faces a new century of challenges to its economic viability. Yet rural policies remain rooted in the 20th century.

To help improve the rural economic outlook, the Center for the Study of Rural America will host a conference, “Beyond Agriculture: New Policies for Rural America,” April 27–28, at the Westin Crown Center Hotel in Kansas City, Missouri.

A distinguished group of rural experts from the United States and beyond will be on hand to discuss the policies that will shape the future of rural America. Our audience will include national leaders from government, business, finance, and academe.

This conference is by invitation only due to hotel space constraints. If you have not received an invitation but are interested in receiving registration information, please call Cindy Douglas at (800) 333-1010, ext. 2798. The conference proceedings should be available this fall.

superhighway, and they need to be adept at the art of traveling it.

Finally, rural communities need strong local leaders. As never before, firms have myriad choices when they locate. Those choices now cross county lines, state lines, and even national borders. Rural communities simply have trouble competing in this race due to their small scale. So, rural leaders need to be especially effective in attracting new businesses. Training effective rural leaders will be a key to helping rural communities remain viable in the new century.

### A New Generation of Rural Policies

Ultimately, rural America must meet its own challenges. But the degree to which public policy can play a supporting role is a critical question—and a wide-open one, given that history is probably not a reliable guide.

Historically, rural America has been the target of many policy initiatives, yet many if not most of these policies have had agriculture at their soul. Rather than formulating a coherent “rural” policy, the United States has pieced together a collection of programs, each of which may have affected rural America. This collection includes interstate highways, rural utilities, and a passel of other federal programs. But the collection lacked a comprehensive slate of goals and a coordinating mechanism to guide them.

The agricultural soul of the nation’s policy legacy is evident throughout the institutions that will shape rural America’s future. Congress has agriculture committees, not rural committees. The same is true in most statehouses. Land grant universities have colleges of agriculture, not colleges of rural studies. (Interestingly, many universities do have urban studies programs.) The extension service remains targeted mainly at agriculture, although some states have begun to make rural issues a priority.

The big question for rural policy going forward may be less a matter of *what* than of *how* and *who*.

Surely, there will be some disagreement on the exact priority of rural America’s challenges in the next century, but the general tenor of those challenges is clear: We need to meet the five challenges to rural America discussed above:

- Close the digital divide so rural America can compete in the new high-tech race.
- Urge on rural entrepreneurs, who will provide new fuel for a sputtering rural economy.
- Leverage the New Agriculture to help more rural communities benefit from the new frontiers of agricultural science.
- Sustain the rural environment to provide a rich, vibrant countryside that attracts and retains those who value rural lifestyles.
- Boost our human capital—that is, equip our rural workers and leaders for a new century of challenges.

Much less clear is who will craft rural policies and how those policies will be debated and implemented. Will federal, state, or local institutions take responsibility, or will there be cooperation on all three levels? Which committees in Congress might initiate new rural policy discussions? Which state agencies will provide oversight for new rural initiatives? The answers to these questions are not clear, especially in a world where rural has meant agriculture for so long.

There are signs that institutional innovation may be under way. Thirty-six states have rural development councils, cross-cutting groups that examine rural issues at the state level. These councils grew out of a pilot program tucked away in the 1990 farm bill, which spawned

councils in eight charter states. These councils have now pooled their efforts as the National Rural Development Partnership, an organization that may become a forum for more active debate and development of rural policies going forward.

Rural America has entered a watershed period for the policies that will shape its future. While a new century of challenges ultimately falls to rural communities themselves, public policy can play an important supporting role—but it must be a role different from the one it has played in the past. Agricultural policy, the historical response to rural matters, by itself can no longer address the broad range of challenges facing rural America today. How the nation moves beyond agricultural policy to rural policy may be one of the most interesting questions awaiting an answer in the new millennium.

#### Center Staff

Mark Drabenstott  
Vice President & Director  
mark.drabenstott@kc.frb.org

Alan Barkema  
Vice President & Economist  
alan.d.barkema@kc.frb.org

Brian Staihr  
Senior Economist  
brian.k.staihr@kc.frb.org

Kendall McDaniel  
Associate Economist  
kendall.l.mcdaniel@kc.frb.org

Kristin Mitchell  
Research Associate  
kristin.m.mitchell@kc.frb.org

Nancy Novack  
Research Associate  
nancy.l.novack@kc.frb.org

[www.kc.frb.org](http://www.kc.frb.org)