Rural Development Opportunities in the Next Farm Bill: Aligning Rural Initiatives and Ag Policies in a "Regional Rural Innovation System"

Presented to the Farm Foundation 2007 Farm Bill Forum

Washington, D.C.
February 14, 2007

Charles W. Fluharty, President
Rural Policy Research Institute
http://www.rupri.org

Three Considerations

- Rural conditions and trends of particular interest in the Farm Bill discussion
- The current context for U.S. rural policy discussions
- Opportunities for regional rural innovation in the 21st Century Rural Development Title

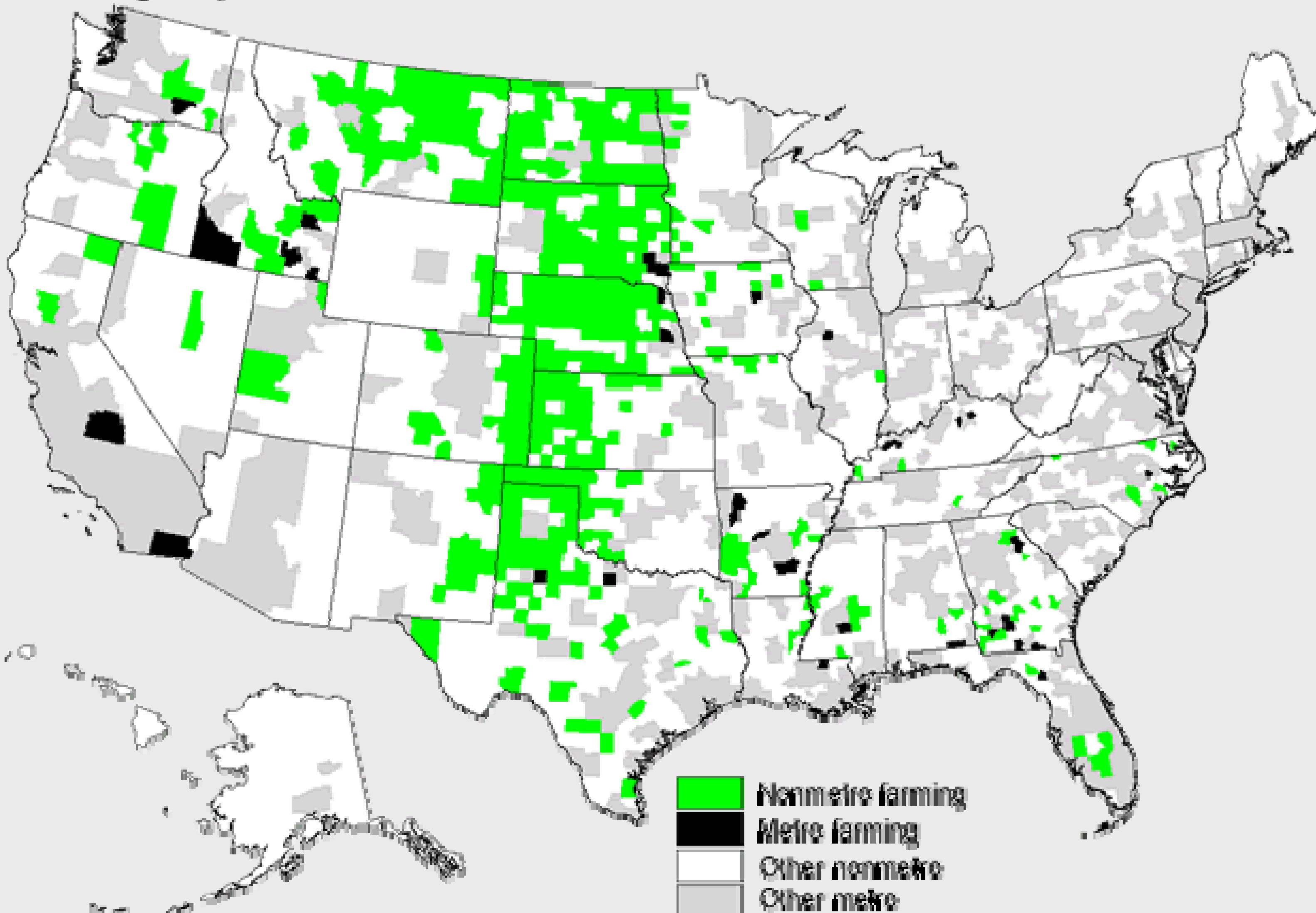
Rural Conditions and Trends of Particular Interest in the Farm Bill Discussion

- Rural is no longer synonymous with agriculture
- The rural economy is very diverse
- Rural poverty is deep and persistent
- Nonmetro areas continue to lag metro areas
  - Income
  - Educational attainment

Rural Is No Longer Synonymous with Agriculture

- Only 1 percent of Americans live on farms
- Farming accounts for only 1.7 percent of total employment and 6.2 percent of nonmetro employment.
- Only 440 counties are classified by the Economic Research Service as "farming dependent"

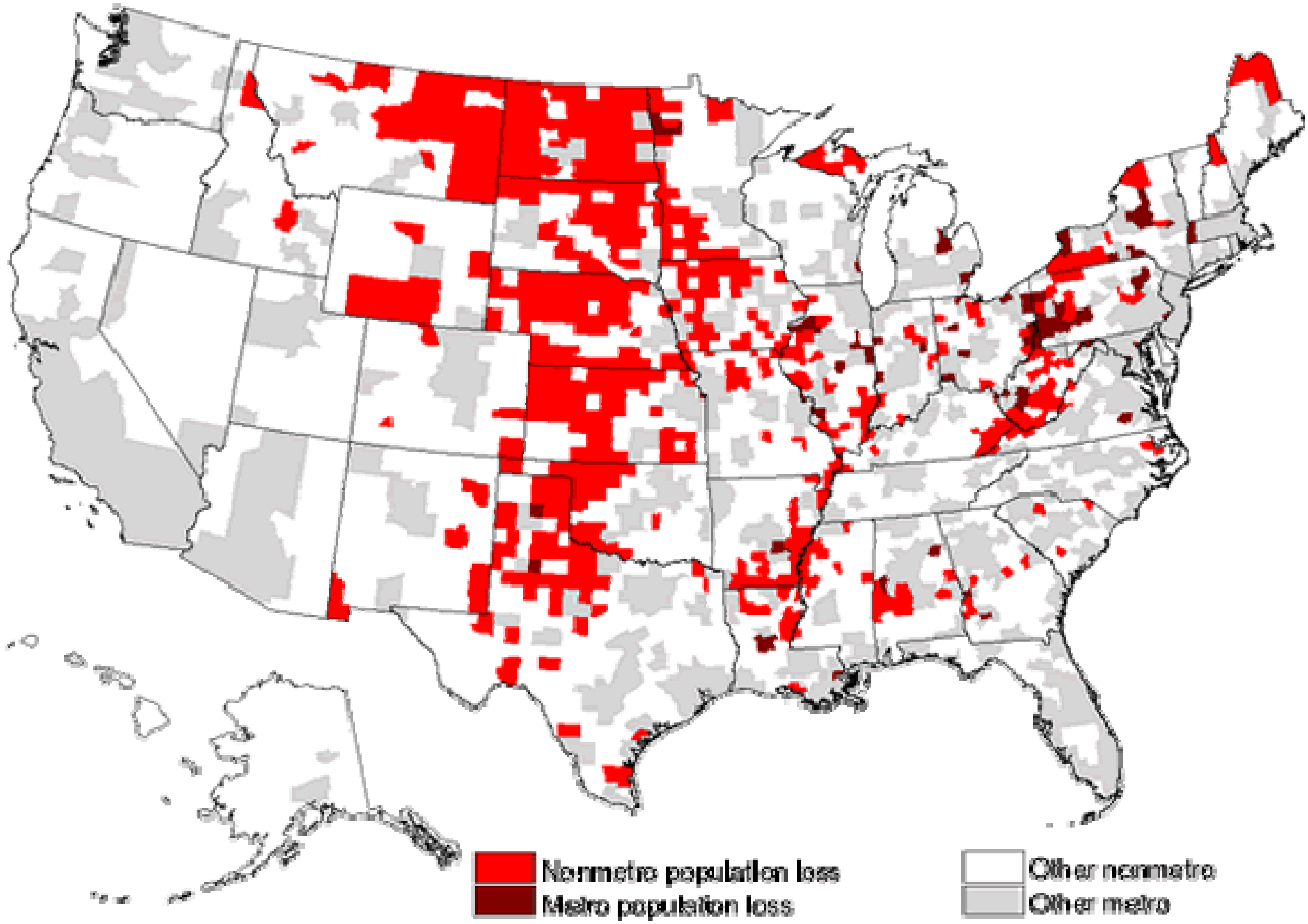
Farming-dependent counties, 1998-2000



Farming-dependent counties--either an annual average of 15 percent or more total county earnings derived from farming during 1998-2000 or 15 percent or more of employed residents working in farm occupations in 2000.

Source: Economic Research Service, USDA.

Population Loss Counties, 1980-1990 and 1990-2000



Population loss counties--number of residents declined both between 1980 and 1990 and between 1990 and 2000.

Source: Economic Research Service, USDA.

The Rural Economy is Very Diverse:

Percent of Nonmetro Employment in 2004

Farming	6.2%
Manufacturing	12.2%
Retail Trade	11.8%
Health Care and Social Assistance	9.3%
Accommodations and Food Services	6.7%
Local Government	10.4%

Source: Bureau of Economic Analysis

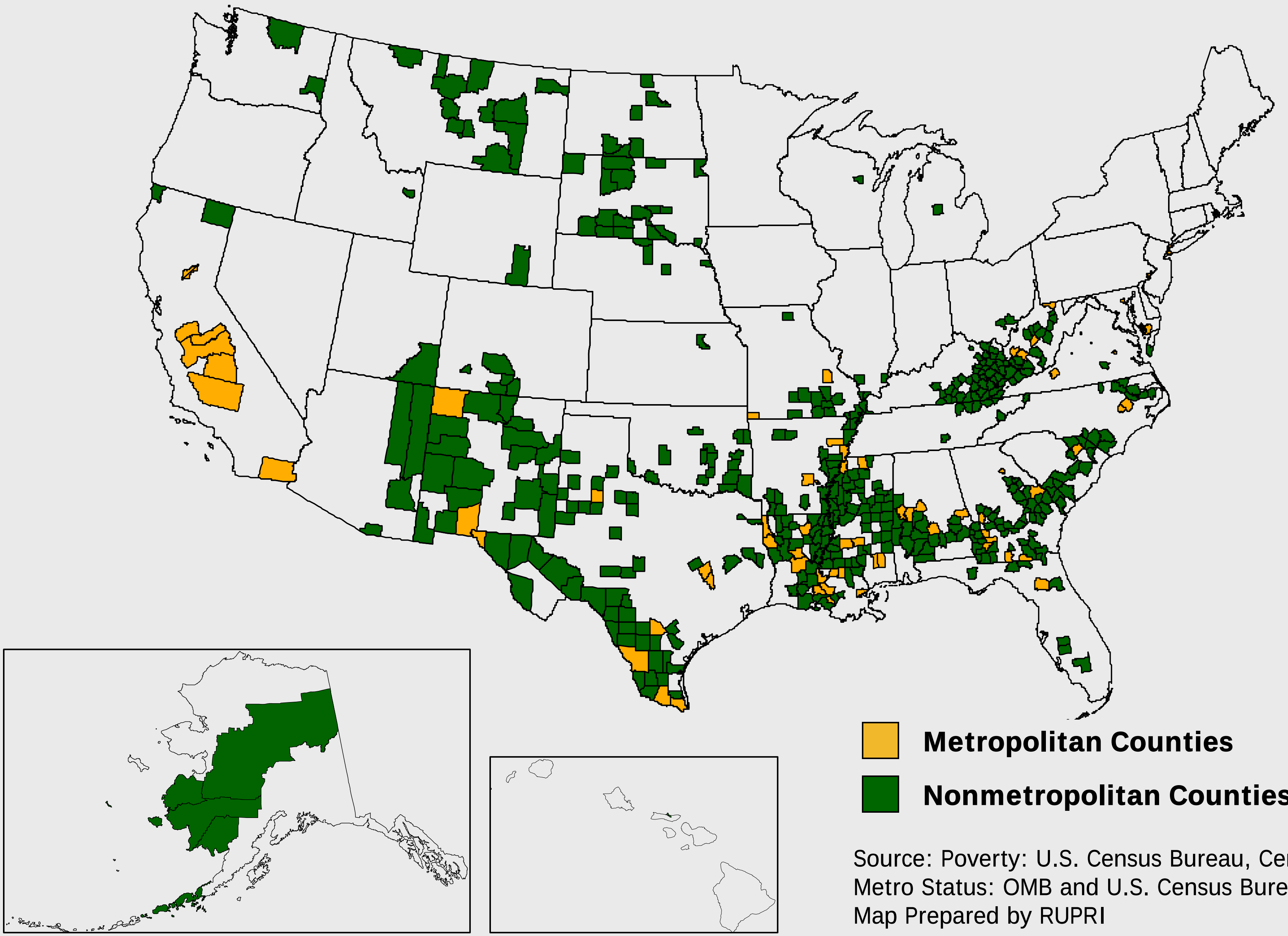
Rural Poverty

- Poverty rates in nonmetro areas exceed metro: The U.S. poverty rate in in 2005 was 12.6 %. The Nonmetro poverty rate was 14.5%. The Metro poverty rate was 12.2%.
- Poverty rates are highest in the most remote rural areas
- High poverty and persistent poverty is disproportionately rural (340 out of 386 total counties)
- High poverty and persistent poverty counties are geographically concentrated

rupri

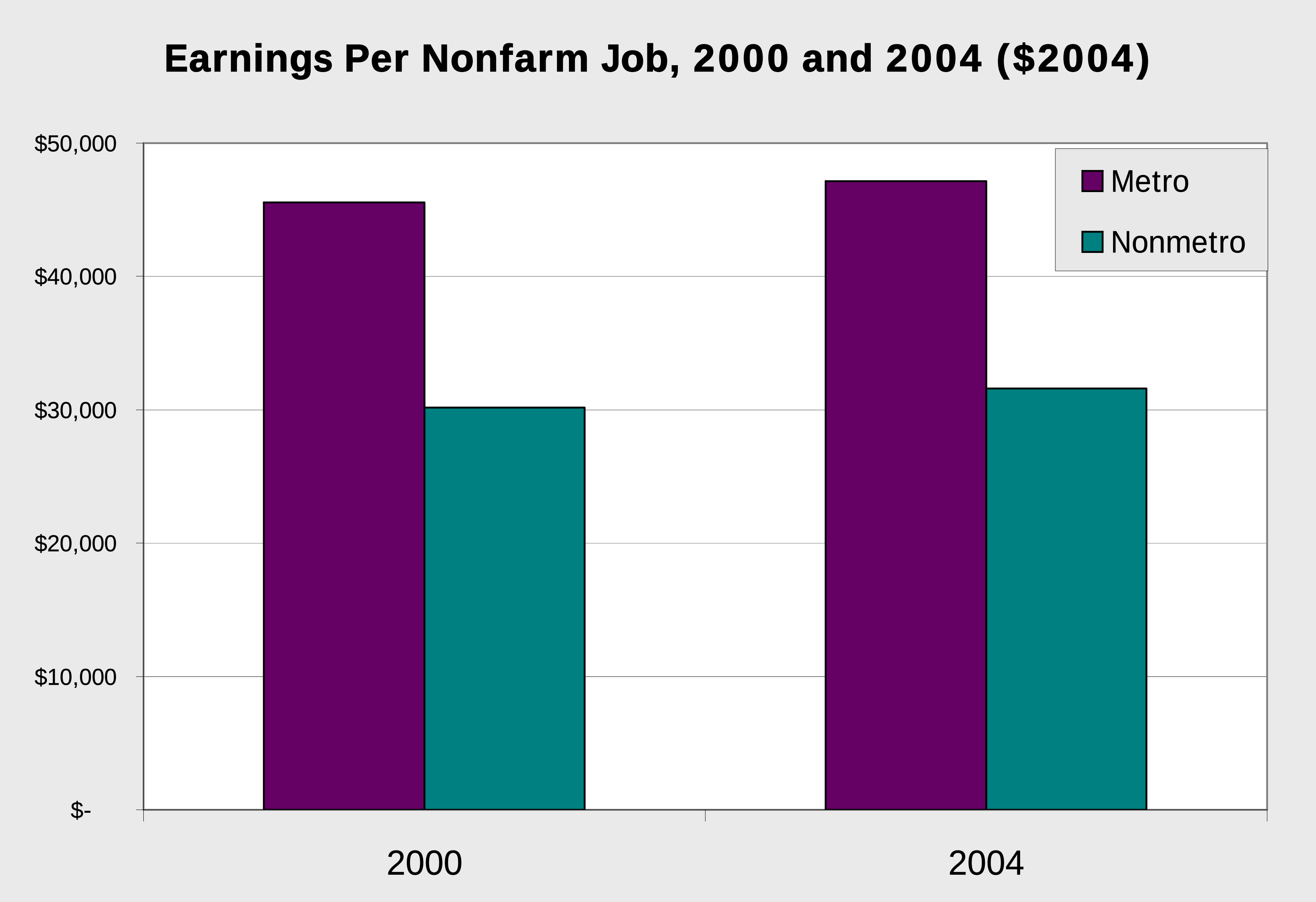
<u>High Poverty Counties are Predominantly Nonmetro:</u>

Counties with Poverty Rates of 20% or more in Census 2000



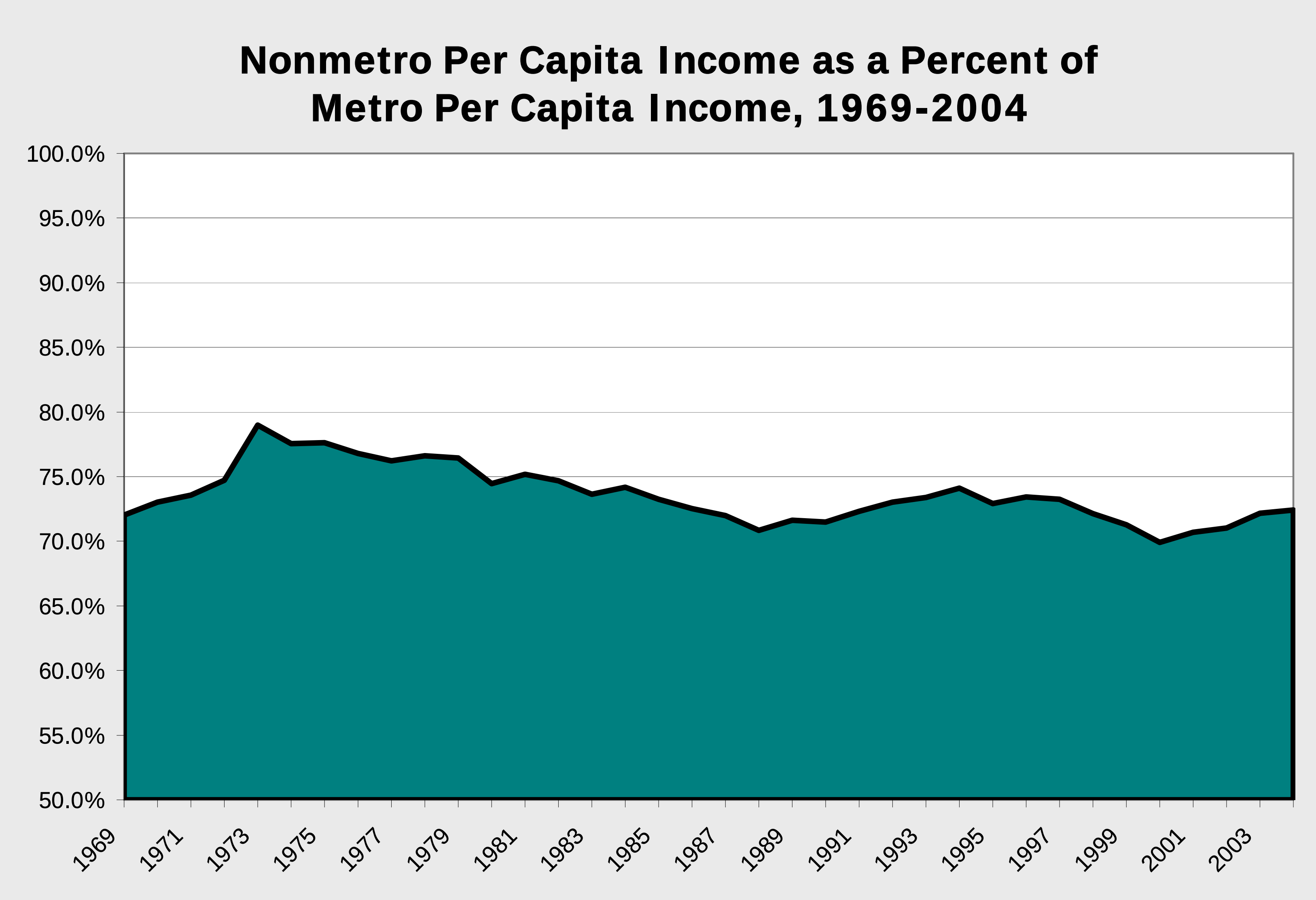
Source: Poverty: U.S. Census Bureau, Census 2000
Metro Status: OMB and U.S. Census Bureau
Map Prepared by RUPRI

The Earnings Gap



Source: ERS Analysis of BEA Data

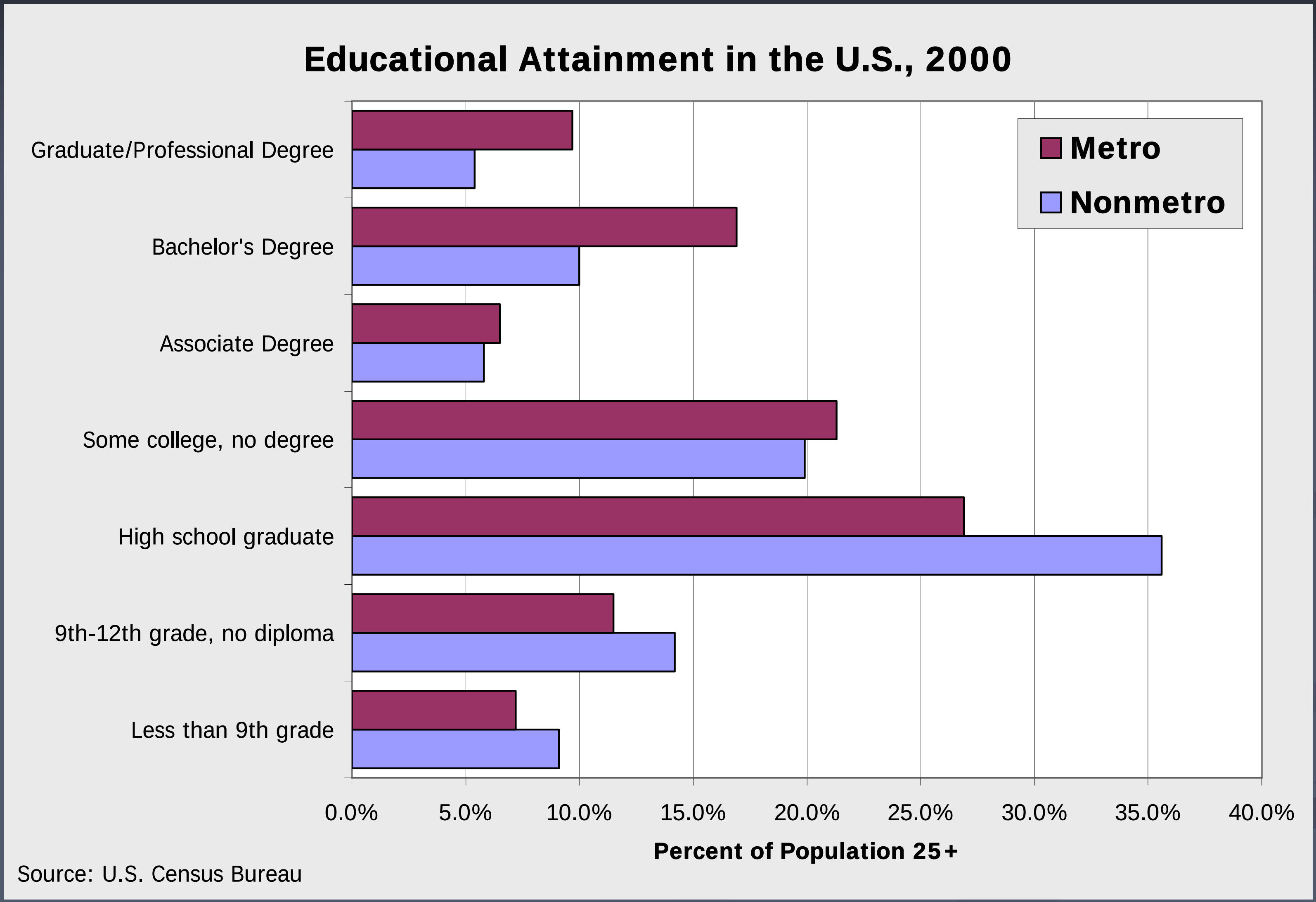
The Per Capita Income Gap



Source: Bureau of Economic Analysis

rupri

The Educational Attainment Gap



Framing the USDA / R.D. Farm Bill Alternatives (Executive Summary – July, 2006):

- Alternative Approaches to Rural Development
  - Maintain the structure and tools of existing programs, but refine program targeting.
  - Focus on new business formation, supported with rural private investment.
  - Move toward greater regionalized funding.

Three Farm Bill Questions

- What are the principal policy goals of rural initiatives and farm programs?
- Who are the constituencies of each, and how are they benefited by public investments?
- Since almost all producers are rural people, why have these programs historically been viewed as inherently competitive or contradictory?

“If you do the same things,

over

and

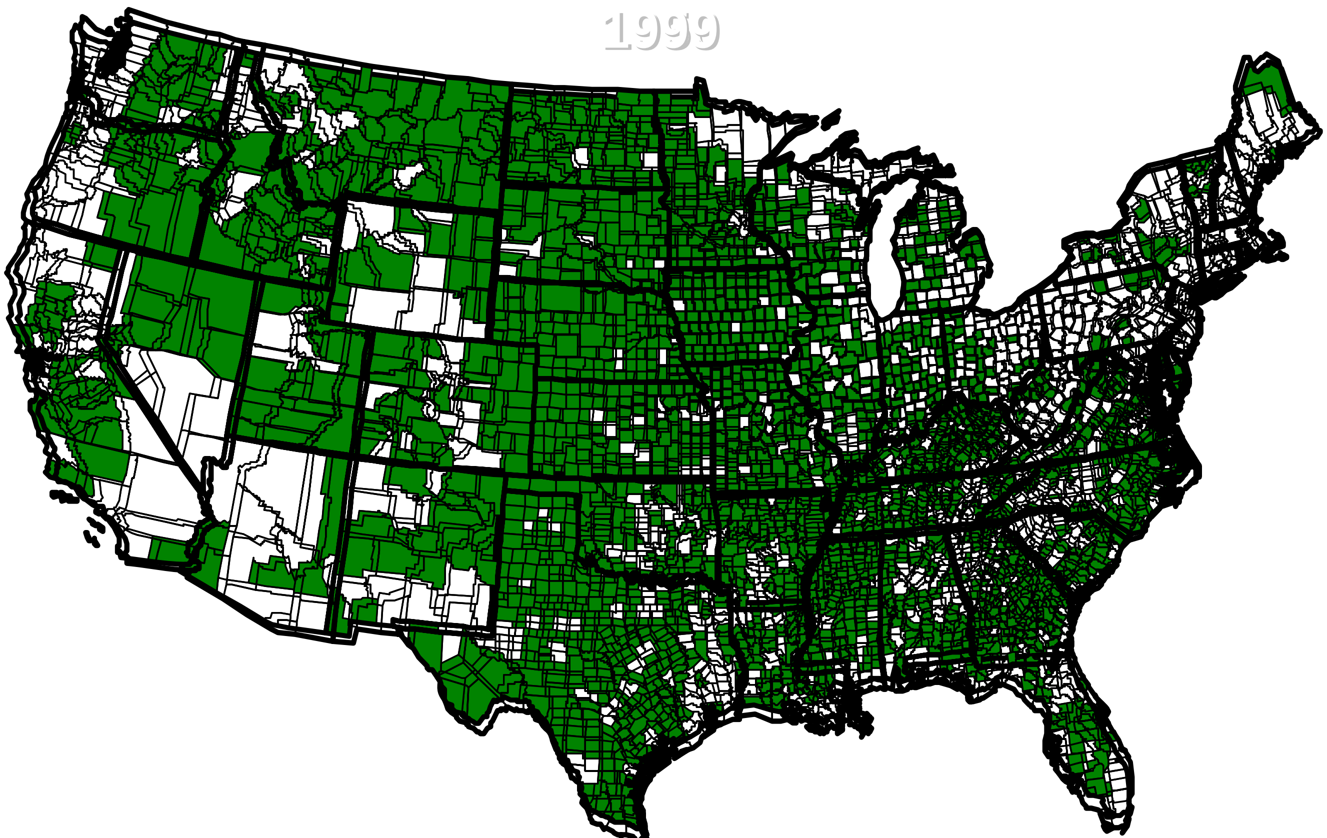
over,

you’ll probably get the same outcomes!”

Ag Policy and Rural America

Farm Dependent Counties

The rural economy is too diverse for ag policy to be effective "rural development policy."

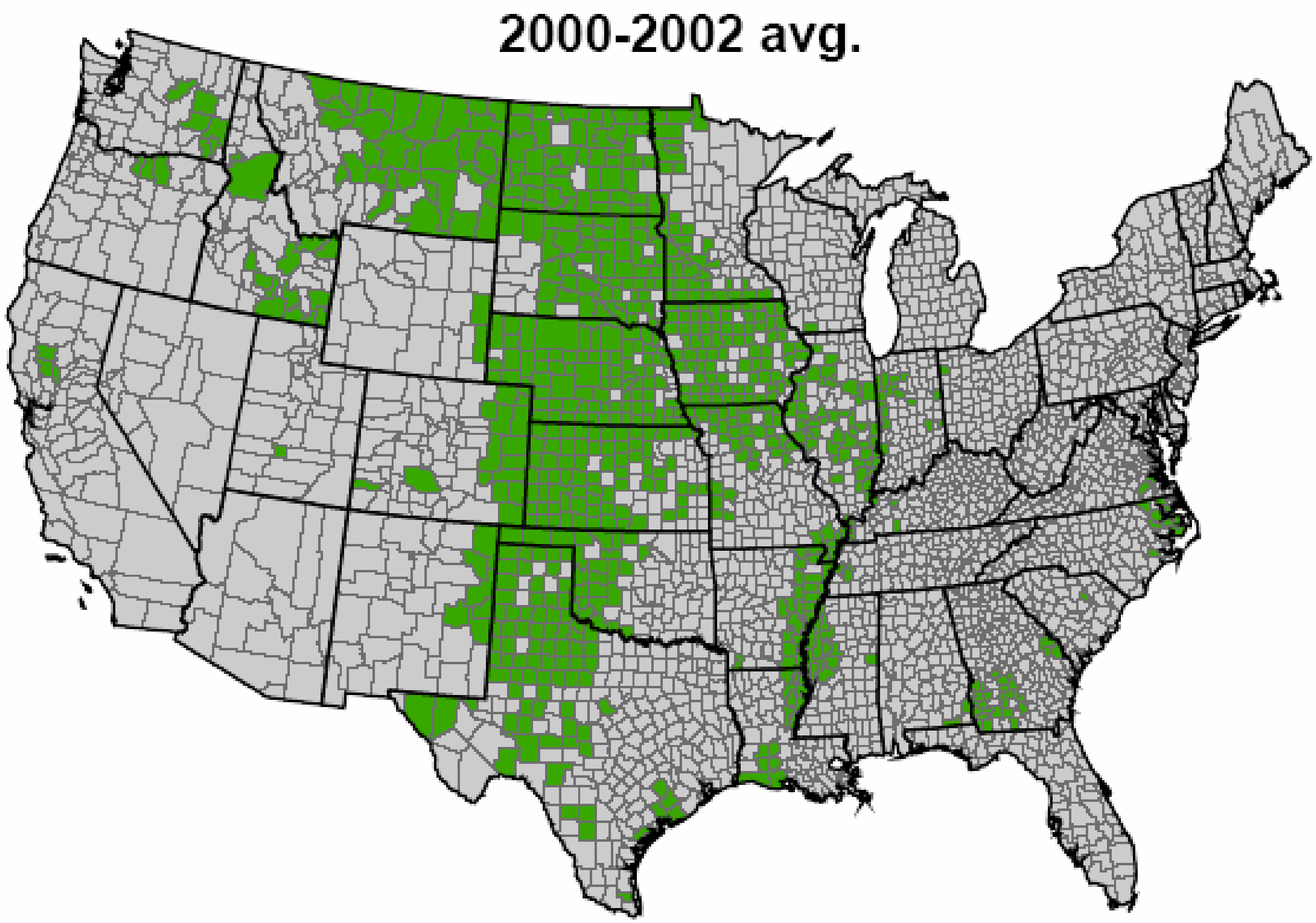


Source: USDA

Center for the Study of Rural America, FRBKC

Ag Policy and Rural America

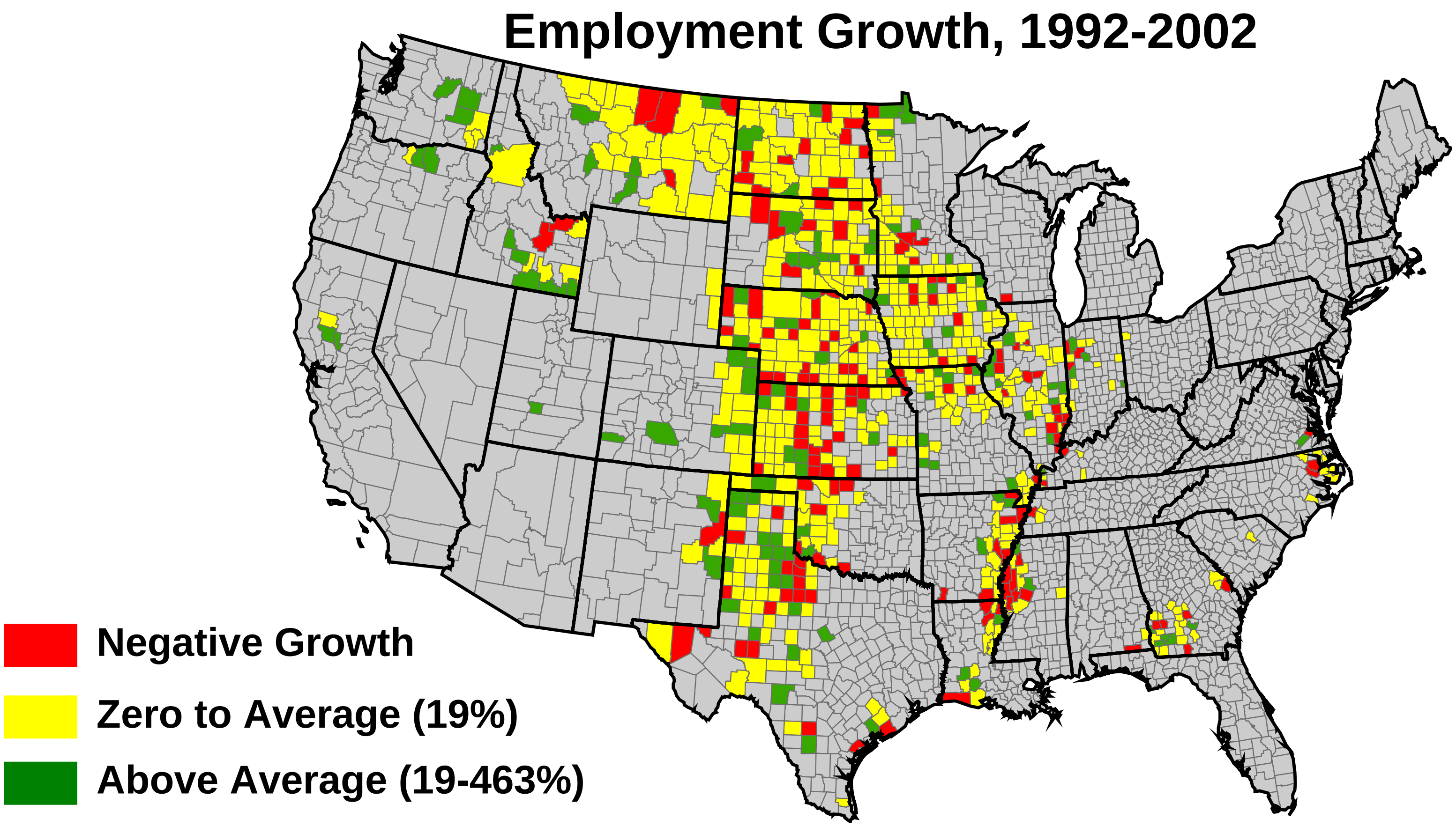
Top 25% of counties dependent on ag payments



*Note: Dependency determined by Farm Payments as share of Personal Income, 2000-2002 average
Source: Bureau of Economic Analysis, REIS

Ag Policy and Rural America

Commodity payments do not spur rural economic growth.



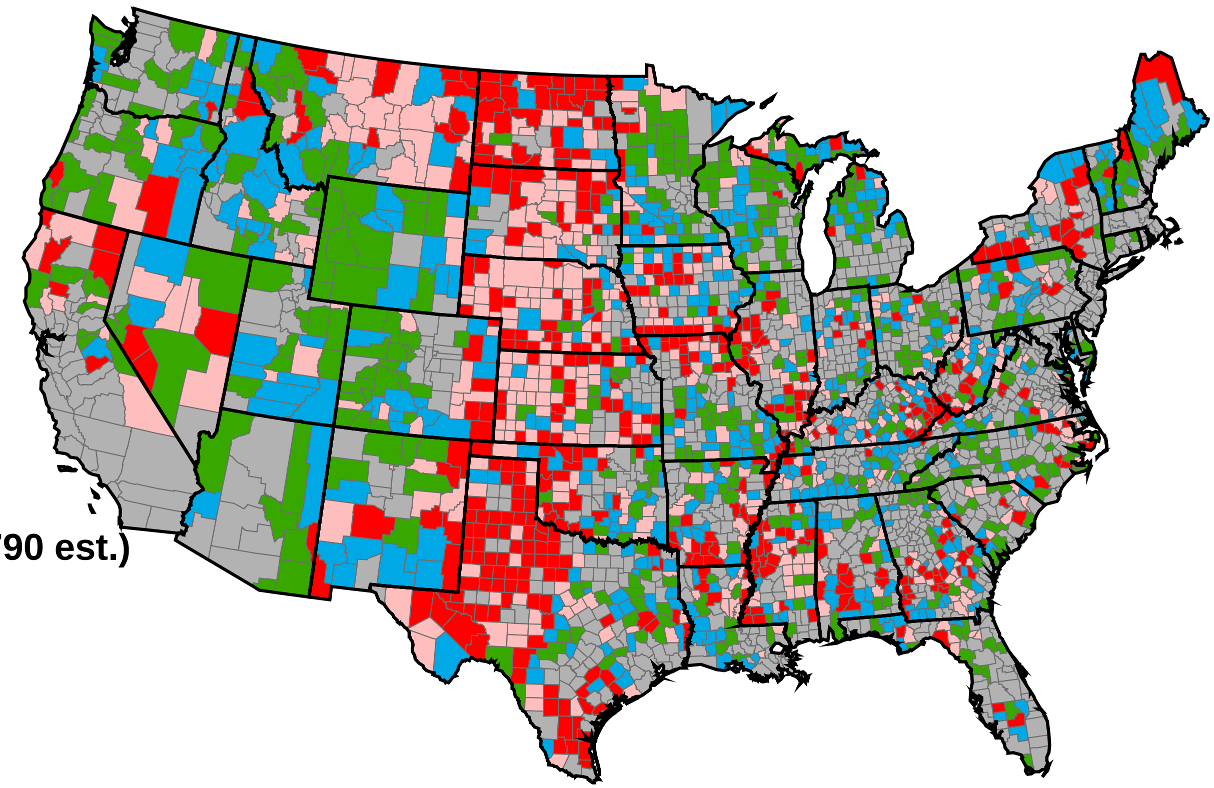
*Note: Dependency determined by Farm Payments as share of Personal Income, 2000-2002 average
Source: Bureau of Economic Analysis, REIS

Center for the Study of Rural America, FRBKC

Ag Policy and Rural America

The Catch 22 of Ag Policy:

Commodity subsidies wed regions to commodities and thwart innovation.



Change in Number of Establishments

- Top 25% of counties (92 to 1790 est.)
- 25-50% (27 to 92)
- 50-75% (1-27)
- Bottom 25% (-242 to 1)
- Metro counties

Source: County Business Patterns 1990-2002

Center for the Study of Rural America, FRBKC

"The social and economic institutions of the open country are not keeping pace with the development of the nation as a whole . . . "

- President Teddy Roosevelt's
Country Life Commission

Four Key Questions for Rural Policy Change:

1. Why should America care?
2. Can a meta-policy shift occur?
3. What are the key elements in such a shift?
4. Where are the current and future opportunities for such an approach?

Why Should America Care?

- Structural challenges in rural community and economic development capacity:
  - Current federal policy
  - Foundation grantmaking
  - Corporate grantmaking

Structural Rural Disadvantage in U.S. Federalism

- Consolidated Federal Funds Report (2001):
  - $6,131 per capita (urban)
  - $6,020 per capita (rural)
  - $6 billion annual rural disadvantage
- Nature of these Federal Funds
  - Direct payments:
    - 50.5% metropolitan
    - 63.9% nonmetropolitan
  - This 13% differential builds much of urban community capacity / infrastructure

Rural Community Capacity Disadvantage (1999-2001)

- Federal spending on urban community development 2-5 times higher than rural, per capita
- Federal spending on rural community resources one-third that of urban, $286 per capita less
  - A $14 billion annual rural disadvantage

The Rural Disadvantage in Foundation and Corporate Grantmaking

- $30 billion annual foundation giving
  - Only $100 million committed to rural development
- 65,000 active grantmaking foundations
  - Only 184 engaged in rural development
- 20 foundations account for 80% of total
  - W.K. Kellogg Foundation and the Ford Foundation account for 42%
- $12 billion annually in corporate philanthropy
  - 1% of total to rural organizations
  - 153 of 10,905 grants

Globalization is changing the framework for rural policy and programs:

- Commodity industries driven by cost pressures
- Widespread consolidation
- Impacts are most often regional in character

Capturing regional competitive advantage must be the new goal:

- Regional assets identification
- Niche approaches
- Innovation / entrepreneurship / collaboration / new governance
- From single firms, single sectors, single places toward a regional, systems approach

A new rural policy should:

- Acknowledge current ag policy has many goals, but has failed to adequately assure broad-based rural economic growth
- Build innovative new regional approaches for global competition
- Support necessary institutional innovation
- Assist in easing current agricultural trade conflicts

Key drivers which offer the potential for a new "win-win" approach:

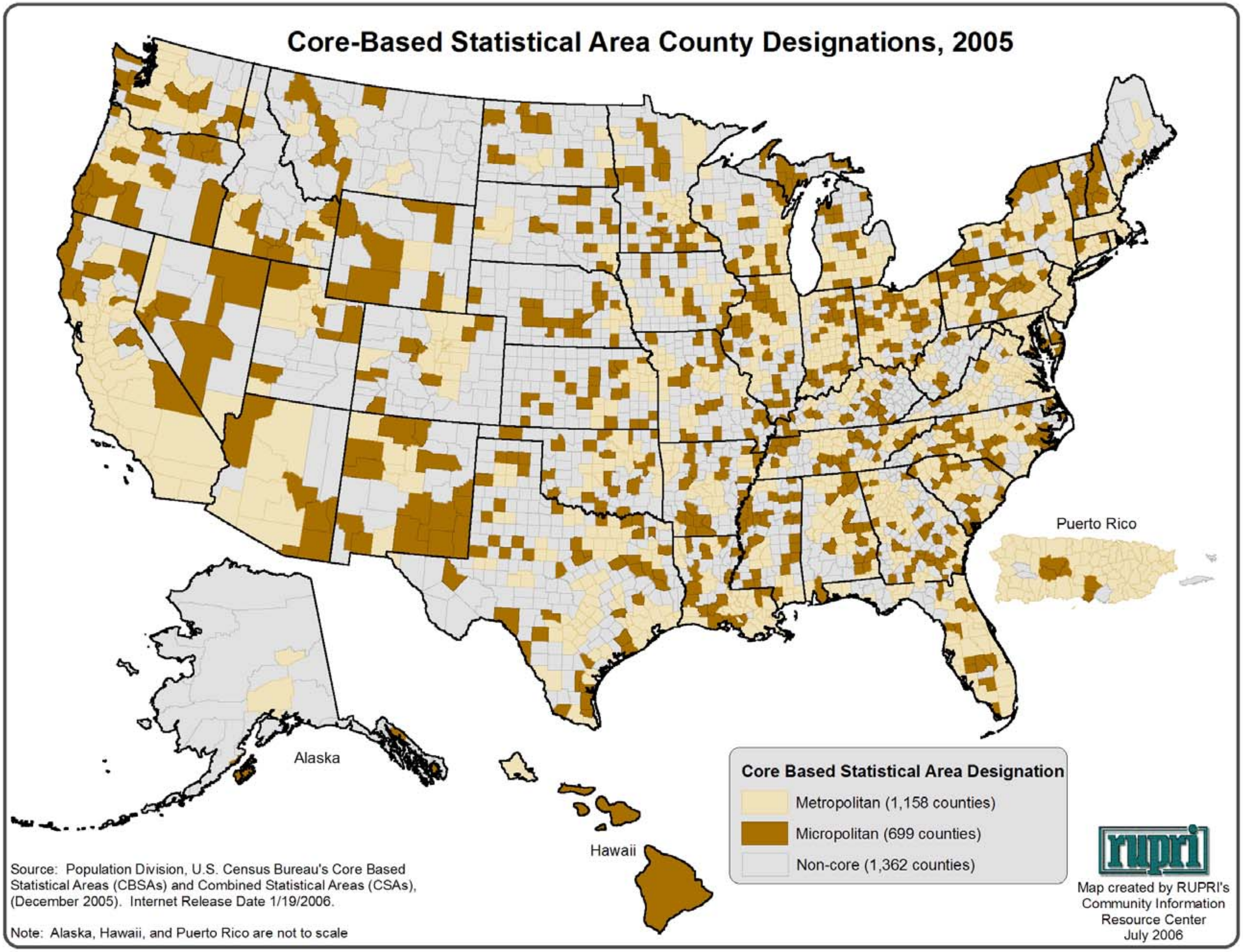
- New Farm Bill
- WTO dynamics
- New regional innovation / entrepreneurship vision within USDA Rural Development
- A second generation Rural Strategic Investment Program (2002 Farm Bill)
- Retargeting rural competitiveness policy

Defining Rural America

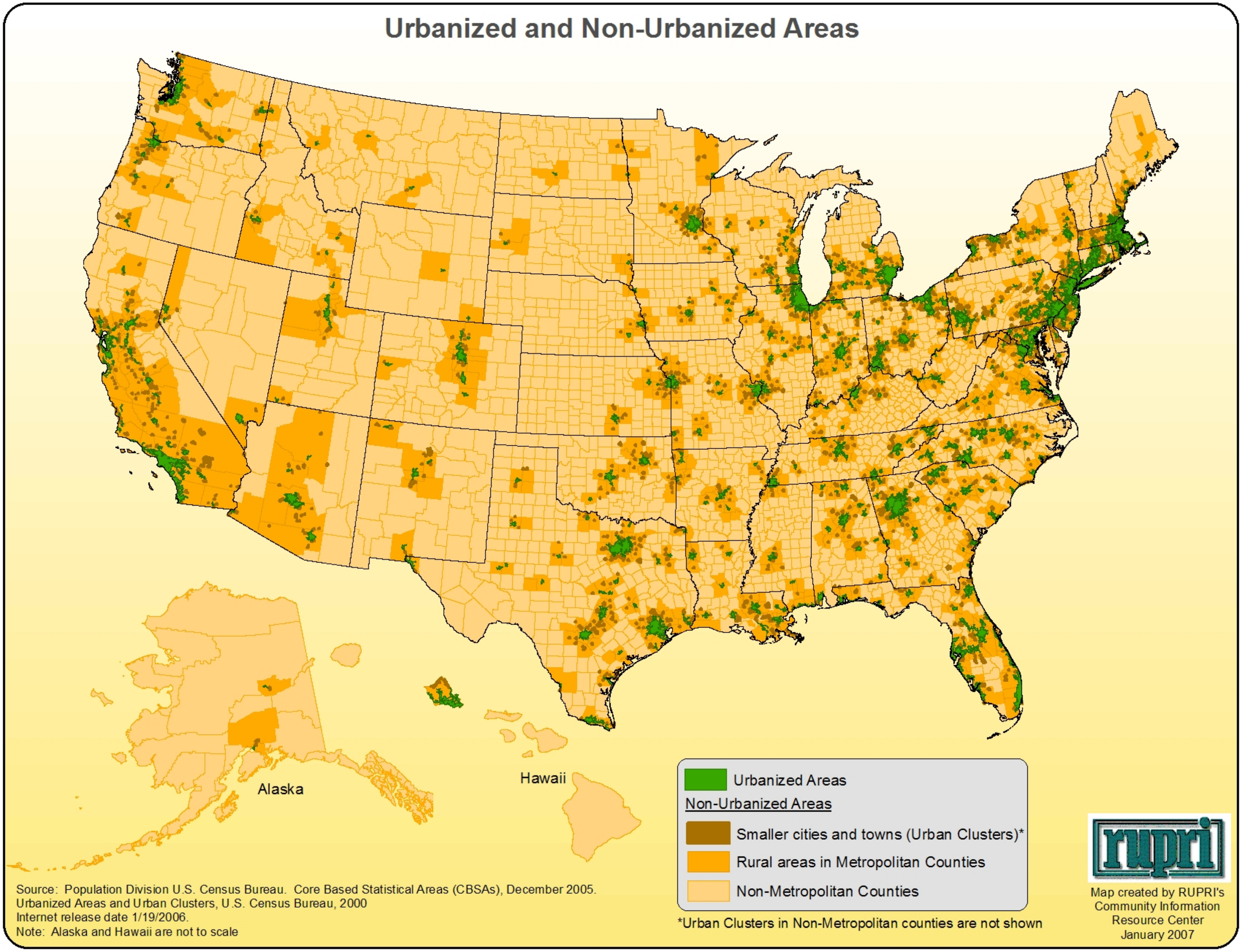
- The metro/nonmetro definitions used in most policy targeting are not the same as urban/rural definitions.
- Metropolitan areas contain rural places and nonmetropolitan areas contain urban places.
- In fact, 51% of all rural residents (30 million people) live in metropolitan counties!
- Another 10 million people live in small cities and towns in metropolitan counties.
- These people are excluded from almost all rural policy/program eligibility
  - Rural programs usually target only nonmetropolitan counties
  - Urban programs usually target only large cities

rupri

County level designations are a good place to start...



But we can't ignore the 40 million non-urbanized residents of metro counties!



Distribution of Population

	Urbanized Area	Small Urban	Rural	Total
Metropolitan	192,064,228	10,338,988	30,176,724	232,579,940
Micropolitan	255,305	14,976,437	14,299,972	29,531,714
Noncore	18,588	4,704,763	14,586,901	19,310,252
Total	192,338,121	30,020,188	59,063,597	281,421,906

48.8 million people live in nonmetropolitan counties

40.5 million people live outside urbanized areas in metropolitan counties

rupri

A U.S. Rural Policy Renaissance: Three Critical Components

- Maintain Current Level of Federal Rural Investment
- Create a New Rural Policy Framework: Regional Rural Innovation
- Support Key Operational Principles