

**RURAL DEVELOPMENT -- AN ALTERNATIVE APPROACH**

Remarks

by

Bruce K. MacLaury  
President  
Federal Reserve Bank of Minneapolis

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Last week, the President submitted to Congress his proposals for rural development. In addition to reiterating his earlier suggestions for a Department of Community Development and for a consolidated rural revenue sharing plan, he outlined his plans for a new Rural Development Credit Fund to guarantee and insure up to \$1.3 billion per year of loans for commercial and industrial development and for community projects. I'm sure Secretary Butz will tell you more about these proposals in a few minutes. There are a good many points in the Administration's approach with which I agree, but I'd like to spend my time this afternoon outlining a somewhat different philosophy toward rural development.

As you may know, I came to the Federal Reserve Bank of Minneapolis only seven months ago from the East Coast. So I can hardly claim to have much first hand knowledge of the problems facing rural America. But I have been trying to become more familiar with this vast Ninth District; with its rich agricultural lands, its stretches of natural beauty, and its strong and independent people. I've also been trying to learn something about the problems we face in the District, and how we might best go about trying to deal with them. On the basis of this limited experience, it's my distinct impression that while the problems of rural areas have many faces, most of these problems are rooted in the unemployment and, even more, in the under-employment caused by the reduced need for labor in agriculture.

There's little need to rehearse the figures that are already familiar to you -- they are summed up in the decline from about 10 million employed in agriculture at the end of World War II to about 5 million today. Actually, of course, this increased productivity of labor in agriculture is something of which we can be justly proud. It has enabled us to feed our growing

population with far less increase in food costs than if we had stayed with the old methods. And the shift of workers from the farms to the factories has likewise permitted us to diversify and expand at a pace we couldn't have otherwise.

But the rude fact is that this expansion has not absorbed in productive jobs all those who have been released from the land. And indeed, there is some irony in the fact that the very agricultural programs that have helped the farmer keep pace with changing technology have contributed to the supply of excess labor in rural areas.

If I am correct in focusing on unemployment and underemployment, with their related side-effects of lower wages and lower living standards, as the basic cause of most other problems in rural areas, then there are two alternative approaches that one could take to deal with the situation. The first is to try to stimulate the creation of jobs in industry and commerce in the rural areas themselves. The other is to try to facilitate the movement of the people who are underemployed to jobs in growth centers, a concept to which I will return later. Obviously one does not have to rely exclusively on either approach alone. The real choice is one of emphasis. And how that choice is made, it seems to me, should rest on the answers to two questions: 1) what is the problem we are really trying to solve; and 2) what are the relative costs and benefits of alternate approaches.

My reservations about previous efforts to deal with rural development -- and these reservations apply to some extent to the President's most recent proposals -- are based on the fact that they emphasize the development of places, whereas we should be focusing on how best to meet the needs of people. Nowhere is this emphasis more apparent than in the efforts to

bring jobs to "rural areas", rather than concentrate on how most effectively to provide jobs for "rural residents", even if this raises the possibility of transfers to new locations. Another way of saying much the same thing is that if one accepts a people-oriented rather than a place-oriented approach, then bringing jobs to the people is not the most efficient strategy; its costs per job created are higher than the alternative of encouraging people to move to the jobs. And in the end, the higher costs for benefits of this approach mean that it is less likely to be effective.

Obviously, not everyone agrees with this assessment of the problem, even in theoretical terms. And even if they did, it is not likely that we would very quickly abandon what I have called a place-oriented approach for several reasons. In the first place, when we speak of rural development programs, we are usually referring to government programs at one level or another. And governments are tied by jurisdictional boundaries to specific geographical locations. Quite understandably, politicians who are judged on their ability to get federal funds for their own constituents are not going to be indifferent to where the funds are used. This is true, of course, not only with respect to rural development programs, but with respect to virtually every function of government. Even though we are increasingly aware that political boundaries designed for earlier times are no longer very effective in carrying out a variety of governmental functions in a world that has seen a revolution in modes of transportation and communication, we find it very hard to accommodate our governmental structures to these new requirements. But that's a story in itself.

A second reason that we find ourselves using a place-oriented approach is that the very terms and concepts of rural or regional develop-

ment tend to focus attention on particular places, whether they be counties or multi-state regions. It's not surprising, for example, that the Upper Great Lakes Commission should state in one of its reports that "Labor should be trained for jobs in the region rather than largely for export to other regions." And probably the tenacity with which this kind of view is held is even stronger at the local than at the regional level.

Finally, it's not only the politicians in a particular area who are anxious to hang onto their voters, but it's the voters themselves who quite understandably adopt a place-oriented approach toward development. As residents of the area, their civic pride tells them that this is a spot where people ought to want to live. But even more than this, they have a positive dislike for migration, because it is undeniably painful to see friends or family leave. Moreover, even if one accepts the idea that it is better to be productively employed in a city than underemployed on a farm, there is always the argument that the cities have more problems than they can cope with anyway, so why encourage more people to move in. There are two answers to this argument -- 1) you don't have to encourage people to move to the large cities, and 2) you hopefully prepare them to be productive citizens no matter where they go. Nevertheless, the image of overcrowded, decaying inner cities is still a hurdle for the advocates of migration.

If a place-oriented approach has such strong appeal at the political and emotional levels, why not just relax and enjoy it? Mainly, in my view, because it hasn't worked. It's quite true, of course, that if we were prepared to concentrate enough money and resources in one spot, we could probably create cities in the desert. But there are not many

advocates for such an approach, simply because it would cost far more in tax dollars than comparable expenditures elsewhere. Even those who believe most strongly in bringing industry to rural areas agree that it would be absurd to try to industrialize the whole countryside. Thus the choice we face again is one of degree -- where can job-creating tax dollars be spent most efficiently to reduce the problems of rural underemployment and income inequality.

(I should note that while I've used the phrase "tax dollars", the logic applies as well to credit programs, since we're really talking about the efficient allocation of resources, no matter how they are directed to their end use.)

Why is it that spending our job-creating dollars in selected growth centers rather than in trying to bring industry to rural areas is more efficient? The answer isn't very profound -- it's simply that the momentum of the past has endowed these centers with a very large investment in social and economic overhead that is difficult, or at least very expensive, to duplicate. And I'm not speaking of the bricks and mortar alone; in a complex society such as ours, it is as much the intricate organization of people in an urban setting, as it is the transportation network or office buildings, that provide the framework for growth. To avoid misunderstanding, let me say right away that nobody knows with any precision what constitutes a critical mass in the size of a city, a base for self-sustaining growth. But there are obviously a number of locations in North Dakota that fall in this category, and I'd like to return to this point later.

One interesting observation made by those who have spent a good deal of time looking at patterns of population growth is that most of our

larger cities, that got their start as a result of their location near natural resources or as a seaport, have long since come to depend not on these early advantages, but on the economies of scale and other attractions that come with the attainment of a certain size. The Twin Cities of Minneapolis and St. Paul, for example, hardly owe their present-day growth to their position at the head of a navigable river or the power-generating capacity of the falls, important as these were in an earlier era.

But suppose there weren't any difference in relative costs between job-creating investments in urban areas and rural settings. I still question whether it would make sense from the point of view of those living in rural areas to spend large resources on trying to bring industry to the countryside. For one thing, when we use the word "industry", we usually mean manufacturing. And yet we overlook the fact that only about twenty percent of our labor force is now employed in manufacturing, and that that proportion is continuing to decline. In fact, we hear all the time that we are living in a post-industrial society, yet we forget to read the implications of that phrase for our efforts in rural development.

Rather than manufacturing, it is the service sectors of our economy -- trade, finance, insurance, real estate, government, professions, repair services, etc. -- that are providing the impetus to job growth. Yet if we look at the service sector, we find that with the important exception of recreation facilities, the components of this sector depend far more on the social and economic complex that constitutes our urban centers than on manufacturing.

Moreover, even within the manufacturing sector, the record seems to indicate that those firms that do move to the countryside are usually in search of low wages. This was certainly true of the shift of the textile

industry to the South. And yet I'm sure you see the irony of trying to achieve income parity between rural and urban areas by bringing manufacturing to the country when those most likely to accept the inducements offered are the firms seeking low-wage labor.

The record also seems to indicate that within the manufacturing sector, quite apart from low wage scales, the labor-intensive firms that are likely to move away from urban centers are also in the slower growing category of manufacturing industries, again raising questions as to the amount of help they will provide for job growth.

And finally, even if a sizable manufacturing plant can be "caught" for a given locality, the incomes generated will not have the same "multiplier" effect in the region that they could be expected to have elsewhere, simply because without the corresponding array of satellite businesses, the incomes will be spent elsewhere.

For all these reasons, then, the concept of pulling industry to rural areas has to be looked at with some skepticism. But the proof of the pudding, they say, is in the eating. And while I'm sure that each of you could cite examples of where some new idea or new plant has made a big difference to a particular town, this doesn't refute the fact that we have almost no evidence that efforts to shift industry to less crowded regions have had much overall effect. The record of such efforts in France and Italy, where the governments have been devoting considerable resources to the idea over a period of years, just doesn't justify much optimism. And the same is true by and large for the less comprehensive efforts in this country. Again, of course, in making this judgment, the question isn't whether some jobs have been created in rural areas that wouldn't have been

there without efforts at redeployment, but whether more jobs couldn't have been created for the same people by a different strategy.

I'm sure that what I've been saying must sound pretty negative in the context of the Ninth Federal Reserve District, and of North Dakota in particular. But I don't think it is, and let me try to explain why. What I say will make sense, however, only if you agree with my premise that development efforts ought to be people-oriented rather than place-oriented.

There are basically three elements to such an approach. First, it calls for spending most of the resources we plan to devote to creating jobs in selected growth centers rather than scattering our efforts over the whole countryside. Given what we know about the size of urban areas that provide the needed base for self-sustaining growth, this would imply concentrating our efforts on towns of at least 10,000 population, with the knowledge that our efforts are likely to pay off better in places of 25,000 or more. Fargo-Moorhead is a prime example of such an area. It's not just chance that the population of Fargo, for example, increased nearly 15 percent between 1960 and 1970, a decade in which the population of North Dakota as a whole dropped 2 percent. And there are probably half a dozen other centers in the state that could serve as focal points for special development efforts to create jobs for the surrounding territory.

Let me emphasize that this selective approach to job-creating expenditures, concentrating on proven growth centers, is not designed to leave places below 10,000 people without job assistance. On the contrary, it is based on the belief that by building on success, we can provide greater opportunities for employment for residents of these areas. It should also be obvious that I am in no way writing off local efforts to create jobs

"at home." As I said earlier, there are many examples of success stories brought about by the imagination and hard work of local residents, and that's great. What I am saying is that one can't count on taxpayers from outside the region to provide continuing subsidies for local industries when there are more efficient ways of providing the jobs.

The second element in a people-oriented approach follows from the first, and that's the need to take a more tolerant attitude toward migration from rural areas to identified growth centers, and indeed to facilitate such migration in the interests of productive employment. Please understand that this does not necessarily mean further loss of population from North Dakota, since, as I've said, there are a number of growth centers within the state. Bismarck, for example, increased in population some 25 percent in the decade of the 1960's, nearly double the national average.

I mentioned earlier that a policy that takes a more tolerant view of migration does not automatically mean increased woes for the major cities. I think we need to distinguish at least two different types of migration that have occurred in the past. First, there were the people from agricultural areas such as North Dakota that moved to the urban centers after exposure to high quality education, and, far from adding to the problems of the cities, made a real contribution to their growth. On the other hand, there were also large numbers of rural poor from areas of our country largely untouched by the agricultural and educational programs, who were simply not equipped in training or temperament to participate in urban life. Naturally this latter group was bound to add to the burdens of any city. Migration in other words, need not add to the problems of the cities, especially if, as I've indicated, we concentrate our efforts on the middle range of cities in terms of size.

The first two elements in what I've called a people-oriented approach to rural development have focused on the creation of job opportunities and the process for bringing the people and the jobs together. The third element looks toward federal assistance in the areas of education, health, and welfare. Here the logic is not for concentration of such assistance in limited areas, but for helping to provide these benefits to all citizens, no matter where they are located. This logic is two-fold. First, it would be futile to provide job opportunities in growth centers only to find that residents of rural areas were not equipped to handle the jobs when they got there. We've already seen the results of that kind of disjointed policy. Thus emphasis on health and education has got to be an integral part of any federal contribution to rural development. And note that I emphasize here federal contribution, because it is perfectly understandable that people in areas of declining population should question why they should bear the full costs of educating their youth, only to see many of them leave the region. Education and health are national resources, not local ones, and unlike subsidies to local industries, it therefore makes good sense for all taxpayers to share in the costs of providing these services.

But beyond the question of equipping people to lead productive lives, no matter where they settle, the federal government also has an obligation for the welfare of those who choose to remain in rural areas, and even more to those who have no opportunity to move. Because if it makes sense to take a more tolerant attitude toward migration as a means of bringing jobs and people together, we have to recognize that this can mean added burdens for those who remain behind, even though over a period of time they too will be better off. For example, there is no denying that the cost of caring for the

elderly in a region where there is outmigration of youth imposes added burdens on those who remain, even if only temporarily. The answer, it seems to me, is not to hinder the shift of people to more productive jobs, but for the Federal government to share the burdens of those who remain.

For years, able minds have been struggling with the problems created by the declining need for labor in agriculture and the growing paralysis of our large urban centers. We have come to see that there is a direct connection between the two, and are now trying to structure our solutions to both problems in a compatible and integrated way. My own view, however, is that we are still concentrating too many of our resources on efforts to bring industry to rural areas where, for its own good reasons, it is not naturally inclined to go. Not only is this likely to be an inefficient use of resources, but in the end it is not likely to be an effective one either. I think we are more likely to be able to resist the strong political and emotional forces that pull us toward this approach if we remember that what we are really trying to help is not places, but people.