

The Future in Rural America

Remarks by

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to

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Thank you. It's my pleasure to be here today at this conference on the Renaissance of Rural America, sponsored by the Federal Reserve Banks of Richmond, Atlanta, St. Louis, and Dallas. The active involvement of those institutions in this conference speaks to the diversity of our economy and of the Federal Reserve system.

Today's typical American is of the urban or suburban variety. Ties to, and therefore exposure to, rural America has declined substantially. Whereas in 1880, a quarter of Americans lived in cities, by 1990 the percentage had reversed itself so that only a quarter of Americans now live in rural areas. When I was a child, it was not atypical for a city or suburban dweller to have grandparents or others in the extended family living in rural America. The songs my children listen to on Barney -- "Down on Grandpa's Farm" and "Over the River and Through the Woods" -- have a direct meaning to me which probably escapes them. Today, for most of us, exposure to rural America involves recreation and escape: driving down country roads, enjoyment of the wide open spaces, hunting in the forest, fishing the beautiful lakes and rivers, trekking through the peaceful and quiet wilderness.

But sooner or later, the comment will come, mixed more often than not with a tinge of both curiosity and wistfulness -- how do these folks make a living out here? The direct personal experience of life in rural America that comes from family ties is gone for most urbanites. But, that loss of personal exposure

has left many Americans with a longing that goes beyond any distaste for urban living. The revolution in telecommunications has actually allowed Americans to contemplate life and work in rural America and to pose the question to themselves: Could I do it too?

Further, can the reality of life in the less populated regions of our nation ever square with the lore and the lure? The lore involves stories handed down from one generation to the next, many rooted in a cultural view of America which involves the pioneer spirit, living off the land, the fruits of hard work, and respect for the power of nature. The lure is, of course, the peace and scenic wonder of a region less developed and the desire it creates in most of us to pursue that quintessential American tradition - reinventing ourselves. Together, the lore and the lure have created some myths about rural America which I would like to address.

The first myth is that agriculture and farming is the dominant way of life in rural America. Although it is widely known that technological advances have fundamentally changed the business of farming, replacing labor with machinery to an enormous degree, the perception still remains among many that farming and its attendant industries comprise a large portion of the economic base in rural America. However, even in those counties with a substantial agricultural base, less than 35 percent of total employment is in farming and closely related industries while more than 65 percent of employment is in non-

agricultural industries. As of 1991, there were 1.6 million farm households, but 23 million rural households which were not farm households. Thus, some 93 percent of rural American households do not live on farms. In fact, not only is agriculture no longer the major source of employment in rural America, it is no longer the major source of income for the majority of farmers. So, if only 7 percent of residents in non-metropolitan areas are employed in farming, what is everyone else doing? Well, they work for government, they work in manufacturing, construction and mining, in financial, trade and other services.

The myth about the dominance of farming feeds into a second, related, myth about what constitutes a "rural" life style. Historically, of course, most Americans did live on farms. In 1890, nearly 40 percent of all Americans and more than 60 percent of rural Americans lived on farms. By 1990, there were 20 million fewer people living on farms than a century before, but 27 million more people living in rural areas. In fact, this four-fold increase in the non-farm rural population mirrors the four-fold increase in the overall population of the United States. While farmers clearly have declined as a fraction of the American population, rural residents of small towns and others have maintained their share of the U.S. population. Indeed, as Leo Meyer pointed out in a recent study, "Agricultural Change and Rural America", it is a net migration from farm to town that

tends to categorize rural population trends.<sup>1</sup> That should not surprise us. Rural Americans, like the rest of us, increasingly work in and rely on the type of services that naturally entail some degree of population concentration -- such as retailing and health care.

In one important respect the rural economy is leading the national economy -- exposure to world markets. We all know that a substantial share of American agricultural production is exported. But, this sensitivity to international developments also reflects the composition of the rural economy. Exporting and import-completing industries like the manufacture of textiles for instance, are especially important to rural economies. Moreover, industries that produce goods for export, which account for about two thirds of total U.S. exports, currently account for a much larger share of employment in rural areas than in urban areas. As America's exposure to international competitive pressures grows in the years ahead, one can expect that the importance of the international sector to rural America will increase.

One of the attractions of rural America to the urban and suburban prospective immigrant is the lower level of housing costs. Indeed, housing costs represent only 19 percent of the income of the typical rural resident compared with 23 percent of

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<sup>1</sup> Leo V. Meyer, "Agricultural Change and Rural America," The Annals of the American Academy of Political and Social Science, September 1993, pp. 81.

the typical urban resident. But it would be a mistake to assume that all of this savings is necessarily translatable into lower overall costs of living. The distances that exist between remote rural areas and more densely populated ones can only be overcome at a cost. Technology can overcome space but only at a price. This often translates into lower levels of both nominal and real income in rural areas. The nominal median income of families in non-metropolitan rural areas is one-sixth lower than in urban areas. It is not clear that cost-of-living differences can overcome this discrepancy.

Remoteness can lead to concentrations of economic distress. Nearly 23% of all nonmetropolitan counties had high levels of poverty at the beginning of the 1990s compared with 4% of metropolitan counties. Rural poverty tends to be less event specific, that is related to death or poor health of the primary earner, and more related to long established factors such as the limited employment opportunities in the local economy.<sup>2</sup>

Of course, one of our concerns today in considering the renaissance of rural America is the access to credit as a part of the economic development process. Some of the challenges faced in accessing credit stem from the nature of rural areas. Julia Parzen noted in Credit Where It's Due, that "Operating costs are especially high for development lenders that operate... in rural areas because the deals they do are more distant from each other

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<sup>2</sup> Calvin Beale, "Poverty is Persistent in Some Rural Areas," Agricultural Outlook, September 1993, pp. 22.

and take more effort to monitor."<sup>3</sup> Complicating this is the desire for risk diversification, which often encourages rural banks to invest in government securities or in other opportunities outside the local market, rather than reinvesting more of their funds in the local economy.

Overcoming rural financing challenges requires the same type of entrepreneurial skill that is needed in depressed centers of America's urban areas and that CRA is intended to help. Typical of this creativity is Ron Johnson of the Neighborhood Housing Services of Dimmit County, Texas. The Dimmit County Neighborhood Housing Service (NHS) has brought access to low income housing to local residents. This includes a single family construction program providing home ownership opportunities to 35 very low income families in the county. But, the NHS was also instrumental in recruiting a pecan shelling business that attracted a substantial investment to an area where local government had been the primary employer. The key was networking and partnership with both the public and private sector.

Another CRA success in rural areas involves the Southern Development Bancorporation. This Arkansas based institution invests in a 32 county region and uses both for-profit and non-profit approaches to projects. The firm offers both financial and technical assistance. The latter can be a key adjunct to success for many rural enterprises since access to expertise may

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<sup>3</sup> Julia Ann Parzen, Credit Where It's Due, Temple University Press, Philadelphia, 1992, pp. 175.

be among the most difficult challenges faced by the firm. Southern Development Bancorporation is a rural analogue to the urban success story with which much of the country is familiar -- the South Shore Bank of Chicago.

In this regard, I believe that our recent efforts at reforming the Community Reinvestment Act should prove useful. As you know, back on July 15, 1993, the President asked the four banking regulatory agencies to revise the CRA regulations to make them more objective and focussed on performance. After receiving public comment from more than 2000 individuals and organizations on the first proposal, we released our second proposal last September.

One key concern was to preserve, to a maximum extent, the strength of the current system by allowing examiners flexibility in assessing bank performance in light of local conditions as well as the capacity and constraints of the individuals involved. Flexibility is the key both to past CRA successes as well as future ones. As a rule, local solutions to local challenges are more efficient than one-size-fits-all solutions from Washington.

In fact, rural areas may be the last bastion of the so-called character loan. One such loan I heard about involves a Florida bank and a local church. The church was in desperate need of funds and had always had trouble getting loans. The bank president became familiar with the situation through his contacts with the local Neighborhood Housing Services organization. He made the loan the church needed to fix the roof and otherwise

renovate the sanctuary. The loan was made because the bank president had personal knowledge of the particular situation and felt that a character loan was appropriate. He received high marks from CRA examiners, but low ones from safety and soundness examiners who were not as flexible as perhaps they should have been.

This discussion of CRA brings to mind a third myth -- that urban areas have nothing in common with rural ones. For while it is true that there are many profound differences between urban and rural areas, there do exist important similarities. Within distressed areas, both rural and urban America may suffer from disinvestment. Capital can be scarce in both places. In both, the need to find ways to combine resources and to collaborate across program lines and across county lines, for that matter, has never been more important. This is true not only for financial capital but for human capital as well. It has been apparent to me in my travels around the nation, that it is the skills and entrepreneurial drive of individuals committed to their neighborhoods, towns, and regions that ensures successful and economically healthy communities. These folks can't do the job without capital, but capital alone is not enough without the commitment of talented people.

So, how does our society spread successful programs and share the energies of talented people with all of the areas that need them? Twenty years ago, the facts indicated the answer was, "Slowly -- if at all". But today, we can be much more

optimistic. And one word says it all -- technology.

The fundamental challenge that exists in rural areas involves distance, and the costs associated with overcoming that distance. In fact, those regions of rural America located away from metropolitan areas that have performed the best, economically speaking, were those areas that benefitted from what Emery Castle calls the three R's -- recreation, retirement and residences.<sup>4</sup>

While the three R's will undoubtedly continue to be an important means of economic development in rural areas, there exist other ways to alleviate the distance problem. Certainly the advent of the telephone and the television were instrumental in helping us move toward a solution. But it may be the arrival of interactive technologies that will overcome the distance problem for good. While all of the U.S., and the world for that matter, will benefit from the rapid advances in telecommunications technology, I believe that the impact of technology on rural communities will provide positive, powerful and long-reaching opportunities.

A glimpse of the future today is provided by satellite down-link dishes. This technology already provides opportunities for teleconferences between students in a small rural community and instructors located in the next county or the next state. And

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<sup>4</sup> Emery N. Castle, "Rural Diversity: An American Asset," The Annals of the American Academy of Political and Social Sciences, September 1993, pp. 19.

just as this technology can link a student with a needed teacher, it can bring community development specialists from a community far away to the local planning board meeting. Computers can be linked to national networks, allowing rural residents, perhaps at their local community college or library, or at their own kitchen table, access to knowledge and expertise that will enhance the quality of their education, their personal productivity, the profitability of their business and the overall quality of their lives.

Increasingly, we find that technology has the capacity to overcome space. But just as distance increases costs, so too can technology. This cost hurdle will undoubtedly be overcome by two forces. One, technological: innovation tends to drive total costs down over time. Two, regional partnerships can produce substantial economies of scale. Just as Wal-Mart locates its stores so as to be accessible to a number of communities, so too will communities discover the cost benefits of regional coalitions.

Ted Bradshaw noted in his 1993 article on multicommunity networks that coalitions of small communities can overcome some of the challenges inherent in rural life. For example, "housing rehabilitation programs can take advantage of bulk purchases of materials or negotiate more advantageous contracts with specialized providers. In many community projects the largest single real cost is the administrative one of setting up and managing the work that is being done. In joint projects this

cost is shared and the tasks often done better."<sup>5</sup>

The transition of rural communities can be aided by "better telecommunications and transportation [allowing] many types of businesses and firms to locate quite specialized functions in rural communities ranging from back office data processing or telephone customer service operations to specialized high technology manufacturing plants [such as] computer software, publishing and printing, agricultural machinery, sporting goods equipment, and mail-order sales."<sup>6</sup> My credit card bills and my catalogue sales receipts from my Christmas shopping tell me that the rush of businesses to relocate to rural areas of the country is already in full force.

I believe that the future of rural America will be a bright one. But the transition that rural regions will undergo in the telecommunications age will entail choices. As more city dwellers and suburbanites consider the possibility of building their lives in rural areas, the challenges created by development and economic and population growth will have to be faced. There will be increased pressure on the original residents by newcomers. Some areas attract retirees and aging baby boomers who want amenities that don't exist and clamor for rules and structure where none had existed before. The challenge of

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<sup>5</sup> Ted K. Bradshaw, "Multicomunity Networks -- A Rural Transition," The Annals of the American Academy of Political and Social Science, September 1993, pp. 175.

<sup>6</sup> Ibid., pp. 166.

preserving the rural landscape and the ambiance of small town life in this new age will be difficult. We will all need to be flexible about our expectations.

However, by building coalitions and exploring the use of technology to gain access to specialized knowledge and information that may not be readily available locally, rural residents will be able to create strong communities, linked not necessarily by geography but perhaps by fiber optic cable. As America increasingly moves toward a service oriented economy, rural America in the telecommunications age is poised to take a seat up front.