

Remarks by Governor Mark W. Olson

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Economic change in rural America

Good afternoon. I am delighted to have this opportunity to talk with you, and I am enjoying being among old friends and neighbors here in Fergus Falls. When I considered my remarks for today, I reflected on my years in Fergus Falls. My reflection included the benefits of the small-town quality of life that I experienced both while growing up and as a banker focusing on the economic realities of small towns.

I am sure that many people throughout rural America have experienced the conflicting realities of rural economic life. On the one hand, the appeal is enormous. People born and raised in small towns often want to raise their families in such an environment. Less common, but not rare, are people who spent formative years in larger cities and want instead to experience the more hassle-free style of small-town life.

For many people who feel so inclined, the barrier to staying, returning, or moving to rural America is finding a job. For most of the last century, rural America experienced a continual outmigration of its young people, who moved to population centers where job opportunities were more plentiful. That pattern was certainly true of my generation. But I was both surprised and pleased upon moving back to Fergus Falls at age thirty-three to discover that a significant number of the people moving back here were professional people who could have found similar employment virtually anywhere in the country. Numerous doctors, lawyers, dentists, educators, and other professionals of my generation actively sought a combination of life style and professional opportunity in communities such as Fergus Falls.

It struck me at the time that, if professional people see the opportunity to live in rural areas as a first choice rather than as a default option, and if job opportunities permitted, rural America could experience renewed growth. Further, I thought that if this situation was true for Fergus Falls, it was also true elsewhere in rural America.

Therefore, I was not entirely surprised to learn that, since the 1990s, rural America has been experiencing a resurgence of economic opportunity. Consider the following:

- During the 1990s, rural America saw population growth, reversing a trend of several decades.
- More than half the rural counties in the nation experienced such growth.
- Between 1990 and 1999, 2.2 million more Americans moved from the city to the country than moved from the country to the city.
- There are 2 million more jobs in rural America today than there were a decade ago.

These facts are good news for rural America, but it is also true that the benefits of the migration to rural America fall unevenly. For communities in rural America to provide the benefits of rural living to more residents and, in turn, for communities to benefit from an

increased population base, they must first understand the economic changes that affect the rural economy. Today I will begin with a brief historical review, then discuss the changing dynamics of economies in rural America, and close by identifying the factors that will influence development.

For more than a century, change has been the norm for rural communities. Perhaps the most profound shift has been the transformation of the economic base from a primarily agrarian system of small farms to a more diversified structure with not only some farming but also service and manufacturing activities. As late as the 1920s, about one-third of the U.S. population lived on farms. But early in the last century, farmers began to substitute tractors and combines for horses and mules, and the resulting gains in efficiency meant that, over time, fewer farmers were needed to keep production at a high level. This push from the farm sector worked with the lure of salaried jobs in urban areas to spark a massive exodus of rural residents to the cities. Later, around World War II, crop yields increased dramatically, boosted by the widespread adoption of hybrid varieties and the use of commercial fertilizers and chemicals; the production of livestock products increased rapidly as well. These further gains in farm productivity helped continue the migration from rural areas to urban ones; and for decades, rural areas, in general, lost population. The population of Otter Tail County, for instance, fell about 5 percent in each decade from the 1940s through the 1970s.

For a time, the widespread population declines in rural communities seemed inexorable. But around 1990, demographers began to notice an upturn in the population of many rural areas of the country. To examine the extent of this apparent change in migration patterns, analysts at the U.S. Department of Agriculture, using data from the Census Bureau, compared population changes in the first half of the 1990s with those in the second half. They found that roughly 480 rural counties lost population in both five-year spans but that almost three times as many gained in both periods; another 480 or so had mixed changes in population.

Here in Otter Tail County, one can easily see the two extremes in these recent demographic patterns. We are on a dividing line between regions that in the 1990s experienced persistent population declines and regions that seem to have begun an upswing in residents. To our west and south--in Minnesota and fanning out through North Dakota, South Dakota, Nebraska, and Iowa--most rural counties lost residents throughout the 1990s. In contrast, counties to our east and north generally saw substantial gains in population throughout the decade. Otter Tail County is solidly among the growing counties: According to the Census data, our population increased 12-3/4 percent over the 1990s.

Why have counties such as Otter Tail been among the winners in the population migration? To examine why some counties emerged from the 1990s with population increases, we need to review the changing nature of the rural economy.

The most notable change in our rural economy is the decline of agriculture as a dominating industry. This statement is not news to Otter Tail County residents for the county has experienced a continual decline in the number of full-time farms. From 1992 to 1997, Otter Tail County experienced an 11 percent decline in the number of full-time farms. However, over that same five-year period, the market value of farm products sold from Otter Tail County farms increased 18 percent, to more than \$200 million. This pattern is typical of rural areas throughout the United States. The total output of agricultural products continues to grow, but fewer people and fewer full-time farms are producing and selling our nation's crops and livestock.

A less evident, but still important, trend is in the manufacturing sector. Though manufacturing was thought by many to be the primary alternative to agriculture as a source of employment in rural areas, a recent study indicates that manufacturing jobs in rural areas have increased only slightly since the mid-1970s. Though job growth in the manufacturing sector has been slow, it is important to note that manufacturing is the largest category of employment in one out of five rural counties.

The substantial growth in jobs in rural America over the past decade has occurred in the services sector. This sector includes such producer services as financial, legal, and business support services. It also includes important social services such as health and education. Finally, it includes the consumer services involved in providing recreational and personal services. Other areas that are growing, though more slowly, are retail and government services.

The various parts of the service sector of the economy have grown for numerous reasons, but for purposes of today's discussion an important reason is that these job categories are largely independent of the natural resources of a given area. Earlier in our history, the areas with the most abundant natural resources, such as rich agricultural land and mineral or energy resources, determined, to a great extent, the viability of a local economy. With the dramatic shift in job growth to service-related industries, many other factors affect the economic viability of a given rural area.

Examples of such factors are the proximity to metropolitan areas and the access to major highway systems. For the past two decades, these two factors have been the most important in distinguishing strong economic performers in rural areas. Though the statistics do not yet indicate it, these characteristics will likely fade in importance as the growth in electronic commerce continues to minimize the need for proximity to urban areas.

A factor that has been important for economic growth for two decades in rural areas is the availability of scenic and recreational amenities. Several Northern Minnesota counties, including Otter Tail, have benefited from these natural amenities. An important component of the growing economic base of counties with this characteristic has been the impact of retirees, who now represent a significant and highly mobile economic force. The phenomenon of aging baby boomers has made retirement more than just a demographic fact of life; it is an economic source of strength for rural areas that retirees find attractive.

A consistent factor identified with rural economic growth is lower labor and business costs. A recent study by the Federal Reserve Bank of Minneapolis identified "underemployment" as a characteristic of the rural economy in this area. As communities assess their availability of labor resources, they discover that low unemployment does not always accurately reflect labor availability, such as when higher-paying opportunities generate job applicants in numbers disproportionate to the unemployment rate for that area. A challenge for rural areas, however, is not to be content with being the low-cost option of available labor. Instead, rural America's communities are working to grow value by generating higher-skilled jobs in order to attract better-paying and more stable career opportunities.

Two other factors affect the economic viability of rural areas. First, good educational facilities, such as colleges and technical training schools, and a better-educated work force correlate very strongly with economic growth. Second, as highlighted by a recent Federal Reserve study, high agglomeration--a concentration of business activity--tends to lower business costs by facilitating access to specialized materials or business services.

In summary, the economic prosperity of rural America is no longer tied exclusively to the geographic or natural resources of the immediate area. Communities in rural areas can affect their economic future by understanding the changes that have occurred in rural America and adjusting to them.

I would like to take a few minutes to consider the roles of the financial sector and of the Federal Reserve in rural development. Certainly, a strong and active banking community is a tremendous asset in an area's development. Experienced loan officers who are well acquainted with their markets can channel funds into those loans that are most likely to benefit the local economy.

With regard to my institution's role in promoting the growth of rural communities, the Federal Reserve is charged with maintaining credit conditions that are conducive to our nation's overall economic progress. To be sure, our main tool, monetary policy, is a blunt instrument that cannot effectively be targeted toward individual industries or particular regions. However, the Federal Reserve can help create a credit climate that fosters rural progress in general, a climate in which the natural advantages of individual communities can be realized.

We nurture this progressive credit climate by striving to maintain low inflation, which makes it easier for entrepreneurs to bear the long-term risks associated with creating new enterprises. We also strive to maintain strong banking organizations that can dependably offer the wide range of financial services that a growing community requires. Finally, we promote sound lending practices among banking organizations so that solid enterprises have adequate access to credit and so that the accumulated capital of the community is not dissipated by lending for overly risky schemes.

As I mentioned earlier, we cannot target our monetary policy toward particular industries or regions. However, the Federal Reserve has developed a number of ways to monitor the effects of its policies on various parts of the economy. For instance, we conduct a quarterly Survey of the Terms of Bank Lending to Farmers, which we use to follow credit conditions in the agricultural sector, and we publish these data with other information on farm financial conditions in the Agricultural Finance Databook. In addition, our Reserve Banks--the Minneapolis Bank covers the Fergus Falls area--are a vital source of information on regional economic developments. This information includes the Beige Book reports that are compiled by the staff at each Reserve Bank before meetings of the Federal Open Market Committee.

The Federal Reserve Banks have initiated various programs to study rural trends and promote economic development in their regions. In broad terms, the Federal Reserve Bank of Kansas City recently established the Center for the Study of Rural America, which is intended to furnish the Federal Reserve and the nation with timely data and analyses of the progress of rural areas. Locally, the Minneapolis Bank has a Community Affairs Department that has been involved in several programs to disseminate information about rural development in this region.

The Federal Reserve Banks of Minneapolis and Kansas City together with staff members at the Federal Reserve Board in Washington, D.C., are primarily responsible for assembling today's analysis.

To conclude, as a product of rural America, I find that being an advocate of the benefits of small town life is quite natural. Also, having participated for many years in the economic

development effort of this community, I have been very aware of the traditional difficulty in attracting people to our communities. The trend that began within the past ten years to reverse decades of outmigration is encouraging, but the benefits will not fall evenly in all areas. As economic growth in rural America becomes no longer tied primarily to the natural resources of their immediate area, individual communities will have more opportunity than ever to affect their own growth and economic prosperity.

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