

RURAL ECONOMIC DEVELOPMENT

Remarks by

Hugh D. Galusha, Jr.
President
Federal Reserve Bank of Minneapolis

at the

Western States Veterinary Conference

Las Vegas, Nevada

January 26, 1968

RURAL ECONOMIC DEVELOPMENT

Hugh D. Galusha, Jr.

When Don Shaffner invited me a year ago to speak to you, I accepted readily. He is a friend of many years' standing, and in a former career of mine had been a valued client. And a year is a long time. The topic, too, is an appealing one to a Federal Reserve banker coming from a six-state district that includes states counted in a population distribution sense among the most rural in the United States. I must admit to some uneasiness when the program arrived and I read some of the seminar titles, very few of which I understood even remotely. I was comforted, though, by the president's message which referred to the three R's -- rest, relaxation, and restoration. For those of you who would prefer a topic more immediately consistent with the restoration part of your program as he defined it, you may utilize the next twenty-five minutes as part of your rest and relaxation, and catch up on your sleep -- which, after being in Las Vegas for a week, you probably need desperately.

Instead of talking about rural economic development as if it were an isolated subject, I would like to talk about it as part of the total U. S. scene -- a scene composed of city and country. The relationship of city and country economic development is the essence of the new concept of rural-urban balance. This concept is an appealing one in its implication that no single segment of this country can be considered alone. Our history is replete with examples of programs launched at social and economic problems without regard to the impact these programs are bound to have on other sectors.

In solving one economic problem, a host of new ones -- often worse -- are frequently created for the next generation; leading one writer to the exasperated comment that what we really need is a moratorium on solutions. There are ecological relationships in social and economic environments, and an artificial change injected into these environments can be as catastrophic to the balance of a society, as in a biologic sense an artificial change can be to the balance of nature. Just as in the biologic community there inevitably follows a period of readjustment of the species until a new equilibrium is reached, so there follows a period of tension, dislocation, and often plain human misery, until new points of balance are found in the changed economic and social environments.

A case can be made, for example, that the ghetto is in substantial measure the result of attacks on agricultural problems. The land grant colleges and U. S. agricultural policies may have succeeded too well in increasing the efficiency and productivity of U. S. agriculture, for one of the by-products has been the obsolescence of a large part of our rural population, who once found employment on farms -- either their own now-too-small units, or on someone else's.

Out-migration from the rural areas into the cities has been an individual response for many. Unfortunately this has not always been a solution either for the individual or for society. Local governmental structures, adequate for the last century, are showing a distressing tendency to come apart at the seams faced with the pressures of continuous population expansion. Projected into even the near term future, the costs of providing adequate social services are horrendous to contemplate -- truly, the task of making the city a hospitable place to live is a staggering one.

The out-migration has hardly been a solution for the rural community either. The loss of a population base in the countryside around the small town has dislocated the fragile balance between the social services the town supplied the larger area and its own economic vitality; so in response to different pressures perhaps, but the same reasons, these rural communities, like their urban counterparts, are having their own problems providing adequate services to their populations.

It requires no straining of reason to observe that while the economic adjustment process we are going through may be solving some problems, it is also creating other, dire ones in a geometric progression both of numbers and severity. Out of the public soul-searching these problems have prompted has emerged the rural-urban balance concept as an element of public policy. This solution in simplified terms calls for the stemming of the migration flow, if not the actual reversal of that flow, from the rural areas into the cities through the absorption of the labor pool in rural areas brought about by the decentralization of industry. This would, it is argued, have the effect of 1) relieving the population pressures of cities and giving them time to alleviate their current problems, and 2) providing an economic stimulus to the rural areas. A final and central premise of this concept is that both public and private policy investment decisions should be guided so as to achieve a rural-urban balance. This last point is new and different. In recent times, there are some indications that natural economic forces have, in slow fashion, acted to decentralize industry and to a minor extent disperse the population. What the rural-urban balance concept suggests is that this shift toward decentralization should be actively sought or even accelerated.

The "balance", then, implies an evening out, throughout the entire nation, of the burdens and benefits of the growing urbanized society.

The achievement of this balance has been gaining acceptance as a legitimate goal of national policy. In the last six months, several high level meetings have been held to develop some of the implications of such a goal. They have been truly ecumenical efforts of agriculture and business leaders, with the presence and leadership of Secretaries Freeman, Wirtz and Trowbridge to indicate the total concern of the federal government.

When described in the way that I have just done, the concept of rural-urban balance is one that can generate enthusiasm; but when we look at it realistically we learn that it must be handled with care. In the first place, the concept is obviously not a cure-all for many of the current problems in either the major cities or the rural areas. Nor can it be expected to be much more than a long-run solution to a limited number of problems. Secondly, and more important, the sense of the rural-urban balance involves us in a new adventure with which our country has had little experience; that is, the purposeful redistribution of resources -- both capital and human. When we start putting valves in economic pipelines, the ecological warning I started with has a special significance.

There are many limitations on how far we can push the idea of achieving balance. The rapid growth of the major metropolitan centers did not happen by accident. Growth reflects in major part, good, sound economic forces: locational advantages, resources, markets, intra- and inter-industry relationships. In short, the many things necessary for economic efficiency were operative in the development of our cities, and they will continue to be operative in the future.

Economists use the phrase, "neutral projections"; freely translated, this means that based upon present trends and conditions, social and economic momentum, left undisturbed, will produce a reasonably predictable pattern in the future. I have emphasized "left undisturbed", and I will return to it later. The neutral projections for the Ninth Federal Reserve District indicate a growth in urbanization from 52.8% in 1960 to 59.9% in 1975. Contrasted with an urban concentration in 1960 of 70%, and a projected 80% in 1975 for the nation, this doesn't seem high; but included in the Ninth District are two states that are not yet 50% urban -- a point reached for the nation as a whole in 1917. My point is that whether or not it is desirable for our country, urban areas will continue to grow at the expense of the rural areas for a complex list of reasons, some of which have had economic validity -- and this growth projection and its pattern can only be altered significantly by changing in some way the factors causing it in the first place.

Stopping, or even reversing in some measure, the flow from country to city is hardly an answer in itself to the social and economic problems of the city slum-dweller. Many of these people have moved to the city because they were unable to cope with the technological change in agriculture; obviously, on an as-is basis, they cannot easily fit into an industrial urban society where skill is at an increasing premium.

Many of the technologically displaced who remain in the rural areas are not better off, and in some cases their prospects are worse, for they have less visibility. It's hard to stage a riot in Lame Deer, Montana that will attract much attention. No, holding people on their farms, without

regard to the economic viability of these farms, is no solution. The "family farm" has enormous appeal in a country grappling with geo-politics, space exploration, and other issues of like complexity and unpleasantness, but joining the words "family" and "farm" is a deceit. A farm in our economic system of restrained capitalism properly should be thought of as a food factory which, like any other industrial plant, has to make money not only to remain solvent (a term as tricky to define as the "family farm"), but to attract human and financial capital.

To adjust our agricultural programs to hold these people above the poverty level on the farm would require programs which would necessarily affect the gains in efficiencies that we have seen in agriculture. I doubt very much that the American urban society would accept a program of such a nature.

One of the neutral projections of promise going for the rural-urban balance policy is the emergence of the economic potential of some of our intermediate-size cities, for to a large degree, the pattern of such development is already set. We know that many industries or firms are not economically tied to specific locations, but are fairly flexible as to location within broad geographic regions. They can and would decentralize or relocate if they are given sufficient incentive. On the other side of the coin, we also know that there are many more communities than potential firms capable of decentralizing. We are also fairly certain that a kind of diseconomy of scale exists among cities. The largest cities have essentially reached the point of increasing per unit costs, and the costs associated with additional population exceed what the cities' resources can bear. But what, then, is the appropriate size community to become a critical economic mass, to paraphrase a term of my physicist friends, without necessarily adding to

the critical social mess of our largest cities? Stated differently, at what level does economic growth become self-generating without becoming a social cancer? There is no easy answer, although we can get some idea from the economic studies of city services. For example, James Conant estimated that the minimum efficient size high school, one of our major local governmental units, is one that graduates at least 100 students per year -- a graduating class which would require a population of about 10,000 people. Other studies indicate that the efficient provision of public services such as health, police and fire protection requires community populations of at least 50,000 and probably up to 100,000 persons.

Unless modified in some way, the major beneficiaries of a policy of rural-urban balance probably would be the intermediate size cities and smaller metropolitan areas. These are the communities that have the basic size qualities necessary to achieve industrial growth. Many cities in the Upper Midwest come to mind as examples. There are Fargo and Bismarck in North Dakota; Great Falls and Billings in Montana; Duluth, Minnesota; Spokane, Washington; just to mention a few. And let me hasten to add that I am not referring to the city limits but to metropolitan areas probably better defined in terms of reasonable commuting distances rather than political boundaries. Out of this development, we may expect to see new metropolitan areas, not necessarily in the sense of new cities, but in the sense of conglomerations of existing communities, or what are probably inappropriately called, "strip cities".

This means, of course, that the problems facing many of the smaller towns are not going to go away without assistance. The pressures they already feel in terms of economic stagnation and difficulties in providing the

necessary services for those who remain will continue to exist. The neutral projections are hardly reassuring for these communities. If they are to share in the economic growth rate of the U. S. as a whole, something new has to be added to alter the neutral projections.

What we are really talking about in implementing a better rural-urban balance is the creation of a way to alter the traditional allocation of productive resources. It would involve the shifting of labor and capital to locations other than those to which they would now move or develop. More specifically, we are calling for the movement of capital to the labor resource. Unfortunately, we know very little about the economic effect of such a redistribution; but one thing is certain -- there is a cost, much of which is hidden, to any movement of resources. For example, until recently the urban resident participated in the agricultural resource adjustment that has so severely racked our rural areas, primarily through ample and relatively cheap food supplies. To be sure, farm programs raised taxes to a modest extent. The full cost of the farm adjustment process, however, is still to be extracted, and part of that tab is descending on the city in forms never imagined. So when we embark on a new program designed to reallocate resources, we must be prepared to pay the cost. What are the costs? I don't think we know in quantitative terms. We can get some ideas, however. For instance, each time an individual moves from the rural areas to the city, the cost of public services associated with him is also transferred. These costs vary by community, and presumably they are lower in the intermediate size community than in the larger city. We can also assume that they are lower in intermediate size cities than in the small rural community, although the case is not quite

so clear. On the other hand, we do not know the precise nature of the impact of increased industrialization and population on the fixed plant - schools, hospitals, utilities -- in terms of scale.

Obviously we need to evaluate the overall effect on the nation's economy. For instance, it would be of no long-run benefit to reallocate resources in such a way as to shut off or impede national growth, for it is through national growth that we are able to achieve regional growth and gains in economic welfare. Stated differently, achievement of rural-urban balance must not come at the expense of economic efficiency and production. Especially in relation to world markets. The strength of our economy still lies in its ability to provide goods to our domestic economy at the lowest possible prices, as well as remaining competitive in world markets. Thus, the allocation of resources involves much more than a solution to the problems of our cities and countryside. One must consider the broader ramifications that it would have on the many sectors of our economy.

Perhaps this sounds less than enthusiastic -- that I really don't see much in the rural-urban balance concept. This is not true. What I am trying to say is that there are really no simple solutions to the problems we face today, and we can no longer afford to leap without a long look at where we might land.

The rural-urban balance concept as a national policy implies some modifications in the economic processes of both private and public sectors of the economy if economic growth is to be spread around. The achievement of "balance", just as the achievement of other national policy goals such as "full employment", "reasonable price levels" and "economic growth", will require consciously directed public-private effort to encourage decisions

consistent with the objective. The private sector on a national level is becoming aware of the social costs and benefits involved in corporate planning. Major U. S. corporations are becoming very much aware of the name of the game -- Survival. A failure to become involved in the social planning process is to surrender the political, economic and social value system of our country -- a system in delicate balance right now.

Quite obviously the same considerations must enter decisions to invest public moneys. It is impossible to think that spending by government is neutral in economic terms, and that the sheer size of direct government spending, along with other governmental influence on investment decisions, has no effect on the allocation of resources. To believe that the government can or should act in such a manner as not to interfere with the structure of the economy is simply hiding from the realities of life. Accepting the fact that the government does loom large in our economy, it follows that public actions should be considered with respect to their impact on the various regions of the nation. Again, may I add quickly, that there is recognition of this fact at the federal level, and actions are being taken to coordinate spending activities. General acceptance by Congress of the rural-urban balance concept will assure greater coordination and become an integral part of the governmental decision-making process.

I have said little about the specific tools of economic growth -- mostly because there are no new ones necessary. Education, tax incentives, and credit programs have been used as instruments of national policy for years. Vocational-technical education programs to train or retrain unskilled people; tax incentive programs on the federal level to shift part of the cost of building plants in areas outside the normal investment parameters -- areas

like the ghettos in the largest cities or untried rural areas -- from individual companies to society as a whole, where the social increment belongs; credit programs designed to equalize credit availability through the private sector by guaranties or participations; these are some of the applications being considered on a national level.

But whatever happens at these exalted levels, there is an essential role for those out where the action inevitably must be. An area must want economic growth, and the people in it must be willing to pay, and play, their part. First on the local list of tools is a political awareness and a desire to create a local environment in which growth can occur. Modernization of local government is an absolute necessity and the best way I know of to indicate to yourselves and the plant locator the seriousness of your intentions. There are other tools, like an inventory of the community, broadly defined, that can be used only by the people who are there; the others require national effort, partly by the nature of the tools, and partly, I suspect, because there is a vacuum most places at the state and regional levels. It need not be, but it is there, and no useful purpose is served in glossing over the fact. In looking about the Ninth District, I get the feeling we have recreated the city-states of ancient Greece. To get two communities to submerge their individual objectives for the greater good of a state or a region is not much easier than it was for Athens and Sparta, even if you have a taste for hemlock.

The strength of the rural-urban concept is its rejection of the view we citizens of the United States live in compartments. Economic and political apartheid make no more sense than racial apartheid. Rural America and urban

America, for all their differences -- many of which are worth preserving, incidentally -- have many things in common, first of which is survival. They do interact, and these linkages must be understood and used constructively. It is with this in mind I can become enthused about rural-urban balance as a national objective in planning economic growth.