RURAL DEVELOPMENT STRATEGIES

by

Chester McGuire

July 1, 1971

Working Paper 162

TABLE OF CONTENTS

CHAPTER I

THE PROBLEM IN PERSPECTIVE

A. Poverty and Migration

A striking feature of the urbanization process is the high visibility attached to both its successes and failures. High rise buildings, industrial plants, and sparkling residential neighborhoods are testimonials to the extraordinary impact of modern technology on urban life. Although these symbols of our age are indeed impressive, they have not come without tremendous social costs. These same shining urban centers also contain the squalid ghettos and slums, stark by-products of society's failure to distribute adequately the rewards of production. But in this regard even the failures are highly visible.

The less visible elements of technological advancement and urbanization are to be found not in the cities, but in the hinterlands. It is in the country where technological change has also had extremely profound effects, especially in agricultural production. The advances made in agriculture are as impressive as any technological innovations in urban life. But a closer look at the countryside reveals that this progress has also not been without high costs in terms of human misery. This rural condition, although less visible and audible than our urban problems, is just as tragic for the nation.

That we are indeed an urban nation, and have been for quite some time, has been amply documented. But what had until recently been given slight coverage and analysis is the fact that of the 35 percent of the nation's population which is rural, at least 14 million people, or 20 percent of the total, exist in a state of poverty. These statistics become even worse when one considers that underemployment probably affects as many as 60 percent of rural residents.

During World War II, unprecedented numbers of rural Americans migrated to the northern cities for war-supported employment. Although this rural out-migration has slowed in recent years, it certainly has not terminated. Many rural Americans continue to migrate toward the large cities seeking employment opportunities. Unfortunately, when these rural migrants reach the cities, they do not find the "promised land." What awaits them instead is urban poverty, urban unemployment, and urban slums. In fact, the linkages between rural poverty and urban problems were dramatically illustrated during the city riots of the 1960's. The problems of rural America, transported to an urban setting, had finally been made visible.

The President's Task Force on Rural Development, observing this very futile flight from rural poverty to urban slums, made this statement:

> Rural migration to the city compounds the problems of metropolitan compaction. Yet, the answer to the problem of rural migration and the solution to the central city plagues are close by as American's countryside. In some respects, it is similar to downstream flood control. The best flood prevention measures are to catch and hold the

> water upstream in beneficial uses. Thus, both those living upstream and downstream are benefited.[1]

Many rural citizens would not seek a new life elsewhere if there were ample opportunities in the countryside. Unfortunately, this is not the case. In the countryside, there exists a vicious circle; no industry means no jobs and therefore, not enough money for the public facilities, schools and health which could attract industry. The result of this is a round of stagnation seemingly without end. Galbraith's analysis of this situtation is that

> The central feature of the poverty-ridden community is the absence of any tendency to improve itself. There is stagnation in output and income, and this perpetuates itself year after year, and from generation to generation. One cannot extend the analysis of the advancing society to this stagnation. And of the stagnation, we have no analysis.[2]

This, then, is the central problem facing rural development efforts -- to end the stagnation and to bring lagging and stranded regions to parity with the rest of the United States as quickly as possible.

The objective of rural development is to create economic opportunities and jobs where they do not exist. In this respect, lagging regions in the United States are akin to backward foreign nations. Although it may sometimes be misleading to make analogies between lagging regions in the United States and less developed countries, there are certain similarities.

---

[1]U.S. President's Task Force on Rural Development, <u>A New Life For the Country</u>, March, 1970, p. 2.

[2]John Kenneth Galbraith, <u>Economic Development</u> (Boston: Houghton Mifflin, 1962), p. 14.

As Galbraith has observed, "...the most prominant fact about the very poor country is not that it has free enterprise industry or socialist industry, but that it has <u>no industry at all</u>."[3]

The small rural town was built to service an entirely different type of economic activity. Although the technology of its agrarian base has changed dramatically, the function of the small town has remained virtually the same. There have been significant changes in farm production techniques and the economic organization of agriculture. These changes have tended to work against the small rural community. Its services are no longer needed by the agricultural industry since many of the services required by "agribusiness" are located in the large cities.

Another adverse condition affecting the small rural community has been the changing transportation network. The old network of small service roads has been supplanted by the interstate highway system, which is dominated by the freeway and expressway. Both are limited access roads completely bypassing most small communities and villages. In many respects, such communities are more isolated than ever, in spite of the new highways.

B. <u>Rural Development as a Concept</u>

Rural economic development has been looked to as a way of expanding opportunities for the 35 percent of the population still residing in rural areas. Through rural economic development, many of the 14 million poor rural residents would be lifted above

[3] <u>Ibid</u>., p. 18.

the threshold of poverty, and pervasive underemployment would be reduced. As stated by the President's Task Force,

> The purpose of rural development is to create job opportunities, community services, a better quality of living, and an improved social and physical environment in the small cities, towns, villages, and farm communities in rural America.[4]

The concept of economic development implies that the government will invest in a particular region in order to reap a return at some time in the future. Thus, the process of development implies a willingness to invest scarce resources, which have alternate and competing uses in society, to achieve a future output. This process implies that economic development can take numerous forms. What is required for a development program to be successful is that those resources which are invested today must at some future time produce a yield, or payoff, commensurate with that investment in light of the alternatives currently available.

The result of any development program should be an increase in the welfare of the people affected. An increase in welfare, although theoretically the correct concept, is extremely difficult to measure. Individual welfare encompasses not only income, but also health and general well being. However, the indicator that can be measured, and the one that is most often used, is the increase in per capita income. We define poverty in this country on the basis of income, although we know that poverty embodies other cultural elements. We consider that, when incomes are raised sufficiently, the individual has the means to improve himself in non-economic areas, such as health and education.

---

[4] Task Force, p. 1.

A rural development strategy for lagging regions in the United States is, in one important way, different from a comparable strategy for an underdeveloped country. The United States, as a whole, is not resource poor; there is much wealth within the nation. The problem of the underdeveloped country is that there are no resources. However, the problem in the developed country is to decide whether or not income redistribution on an area basis is warranted, and if so, what form of investment this redistribution should take. As Cameron has stated, the goals of a development program are

> first, to favorably alter the supply characteristics of the depressed communities by investment in public infrastructure; second, to encourage new private investment and induce self-generating growth; and finally to prevent the re-emergence of the depressed are a problem by creating joint Federal-multistate institutions with powers to initiate and coordinate regional plans and advise all levels of government on cooperative devices for promoting a satisfactory rate of regional economic growth.[5]

There is considerable discretion as to how local and federal money should be spent in a development response. The programmatic problems of rural development are in making those decisions regarding alternative investment strategies such as investment in roads and other infrastructure, or investment in services for the population, or direct investment in human capital. Each investment strategy has a different payoff. Also, the evaluation of the benefits from these alternative investment possibilities is exceedingly difficult. But fortunately, these different kinds of development strategies are not mutually

---

[5]Gordon C. Cameron, Regional Economic Development, The Federal Role, (Baltimore: Johns Hopkins Press, Resource for the Future, 1970), p. 5.

exclusive. In reality, most development programs contain elements of all three. There are, however, differences of opinion as to which strategy has the most relevant payoff.

CHAPTER II

REGIONAL APPROACHES TO RURAL DEVELOPMENT

A. The Tennessee Valley Authority

Rural economic development programs in the United States have traditionally been tied to specific regions. Very little emphasis has traditionally been placed on rural people or rural industries, per se, but rather upon rural interests and groups in particular geographic areas. The first and most notable modern government rural development effort was the Tennessee Valley Authority (TVA). TVA, by its very name and organization, is concerned specifically with the geographic area around the Tennessee River. Its creation was a deliberate investment by the federal government in a lagging area. It must also be remembered that, at the time TVA was formed, the nation was climbing out of its worst depression, and a new policy of public investment had surfaced. TVA was a unique creature of its time.

TVA was for many years following its inception a very controversial program. There were many who believed that the incursion of the federal government into regional economic matters was a step toward socialism. These arguments are no longer heard, nor are they relevant today. In fact, TVA stands out as an example of what government intervention can do to provide an economic uplift to a lagging area.

The Tenneesee Valley is geographically defined as encompassing Tennessee and part of Virginia, North Carolina, Georgia, Alabama, Mississippi, Kentucky. The development aids provided to jurisdictions in the TVA area are planning and technical assistance.

> TVA provides technical assistance to areas of the Tennessee Valley where special problems inhibit economic growth, where specific opportunities exist for substantial development of resources, and where local groups are prepared to take part in cooperative activities to bring the coordinated and cooperative efforts of TVA, local and State agencies to bear on local problems. Assistance from TVA includes: (1) inventory of basic resources, (2) evaluating problems and opportunities, (3) assisting in studies of the need and feasibility of water control structures, and (4) aiding in the development of all resources of the region. This assistance is provided through programs of Industrial Development; Multiple-Purpose Water and Resource Development; Tributary Area Development; and Unified Resource Development.
>
> TVA also administers the following specific programs which are significant to communities in the area:
>
> Local Flood Hazards
> Agricultural and Chemical Development
> Electricity Supply and Utilization
> Forestry, Fish and Wildlife
> Mineral Resources Development
> Navigation Development and Waterway Transportation
> Recreation Development
> Topographic and Navigation Maps
> Water Quality Control[6]

B. The Appalachian Regional Commission

The Appalachian Regional Commission is another response by the federal and state governments to the problems of a lagging economic area. The Appalachian region, a very large section of the eastern United States, stretches from Mississippi through

---

[6] U.S. Vice President's Handbook for Local Officers (Washington: U.S. Government Printing Office, November, 1967) p. 47.

Virginia, Pennsylvania and up into New York. It can be observed that this region, although impoverished, lies between the two most productive areas of the United States: the Atlantic Seaboard area and the highly industrialized Midwest.

The Appalachian regional economy had over the years been dependent on mining and natural resource developing, farming, and primary manufacturing. Associated with these activities was substantial employment in railroad and railroad related activities. During the past twenty-five years, these activities have all declined sharply, leaving Appalachia in a state of economic depression. The area has tended to stagnate because there has been no replacement of lost jobs and lost economic opportunities. Appalachia is an example of a "stranded" region.

The problems in Appalachia are not the problems of an individual state alone. In fact, the Appalachian region extends through parts of eleven separate states. Therefore, any agency established to cope with the problems of the Appalachian region would have to be multi-state in composition. Although the idea of an association of states to tackle the economic problems of Appalachia had been simmering for many years, it was not until 1965 that the Appalachian Regional Development Act (79 Stat 5) was passed by Congress, as the first of President Johnson's Great Society programs.

The Commission is an independent body which is a partnership between the federal government and the eleven member states. The states and federal government divide the expenses of operating the Commission evenly. The states elect one co-chairman, and the federal government's representative is the other co-chairman. Any issues must be decided by a majority of the states with the concurrence of the federal co-chairman, an arragement which gives the federal government de facto veto power.

The Appalachian Regional Commission receives funds directly from the federal government. This enables the Commission's member states to operate independently of their state legislatures. All eligible programs are located within the Appalachian region and do not include other parts of the individual states involved. The federal government and state governments of the Commission fund a highway construction program, various demonstration projects, development of educational facilities, and various conservation and beautification projects on a matching basis. In addition, the federal government issues to the Commission supplemental grants which are used for programs for which the states cannot or will not put up the necessary money. These supplemental grants often amount to 80% of the total project cost.

Specific programs for Appalachia are:

1. Administration and Research in Economic Development Programs in Appalachia. A technical assistance program for local development districts.
2. Demonstration Health Facilities. A program of grants for building and operating health facilities.
3. Education and Training Facilities. A program for the construction and operation of vocational schools.
4. Mining Area Restoration. A program to provide funds to rehabilitate and beautify natural resource areas.

5. Development Highways and Access Roads. A program to provide funds for highway construction in order to make rural communities more accessible.[7]

To date, the Appalachian Regional Commission has authorized programs amounting to a total of 2.9 billion dollars, of which the federal government has appropriated 1.4 billion. The largest component, more than 800 million, has gone for construction of the Appalachian highway system, which, unlike the interstate highway system, seeks to connect rural small towns and villages.[8]

The Appalachian region is divided for convenience into four sub-regions:

1. Southern Appalachia consists of that portion covering Mississippi, Alabama, South Carolina, and portions of Tennessee, North Carolina and Virginia.
2. Northern Appalachia is the southern section of New York, extending into Pennsylvania, Maryland, Northern West Virginia, and southern Ohio. This region has been tied to the coal, steel, and railroad industries.
3. The Appalachian Highlands, the third sub-region, encompasses portions of Georgia, South Carolina, Tennessee, North Carolina, Kentucky, Virginia, West Virginia, Pennsylvania and Maryland.
4. Central Appalachia is portions of Kentucky, Southern Western Virginia, and Tennessee. The ARC has made a heavy investment in highway construction in this region.

---

[7] Ibid.

[8] Appalachian Regional Commission, Annual Report, 1969.

C. The Title V Commissions

After the Appalachian Commission had been established, there was a corresponding clamor from representatives of other sections of the country for similar treatment. After all, poverty is not an exclusive product of Appalachia but exists throughout many portions of the United States. As a result, the Economic Development Act of 1965 (75 Stat 522) established under Title V a series of regional commissions similar in nature to the ARC. However, one significant difference is that the new regional commissions are administered by the Department of Commerce, whereas the ARC is independent.

New Commissions, known as Title V Commissions, were originally set up for New England, the Ozarks, the Upper Great Lakes regions, and the Four Corners (that portion of Arizona, Colorado, Utah, and New Mexico which is contiguous) and the Coastal Plains region of North Carolina, South Carolina, and Georgia. In addition to the five original commissions, Congress has recently appropriated funds for two new development commissions: Upper Missouri and a Mid-South region.

Title V Commissions operate in much the same manner as the Appalachian Regional Commission. Representatives to the Commission are delegates from each state involved, in addition to one co-chairman from the federal government. As with the ARC, concurrence on any measure requires the majority of the states plus the affirmative vote of the federal representative. These Title V Commissions have not been in active operation as long as the Appalachian Regional Commission. The original regional commissions have only recently finished their planning phase and have only a few demonstration projects underway. However, they have not received the level of funding that the Appalachian Regional Commission has received to date.

The Regional Commissions see their role as providing leadership and funding for the economic development of their regions. For example, the Ozarks Regional Commission sees its function in this way: "The Ozarks Regional Commission is a federal-state-local partnership arrangement formed to promote the economic growth and development of the three billion people living in the one hundred thirty-four county Ozark region."[9]

Each Regional Commission must decide the scope of its operations, and the program areas in which it will place its greatest emphasis and funds. As an example, the Upper Great Lakes region announced that its program would encompass:

1. tourism
2. transportation
3. natural resources
4. industrial development
5. human resources

All of the Title V Commissions have similar development goals.

---

[9] Ozarks Regional Commission, Annual Report, 1969, p. 1.

CHAPTER III

OTHER FEDERAL RURAL DEVELOPMENT APPROACHES

A. Economic Development Administration

The Public Works and Economic Development Act of 1965, in addition to producing the Regional Commissions, gave birth to the Economic Development Administration. The EDA was established under the Department of Commerce. Its function was to assist the economic development of lagging areas of the United States. The EDA was the successor to the Area Redevelopment Administration, which had been established in 1961. The purpose of the now defunct ARA was to make loans for industrial and commercial development and public facilities and to provide technical assistance to county units as required. However, this program was considered to be much too limited in scope, and Congress decided to replace the ARA with an agency which had much broader powers.

In order for an area to be eligible for EDA assistance, it has to demonstrate:

1. very high unemployment rates that tend to persist over long periods of time, and;
2. median family incomes which are less than 40% of the U.S. median income.

> These areas tend to be thinly populated counties containing fewer than 25,000 residents. Areas qualified for EDA's full range of assistance are usually designated on a county basis. Very few large cities have an overall unemployment range high enough for qualification.[10]

There are several cities that do qualify under EDA's income qualifications. These cities are Newark, Oakland, Cleveland, Washington, D.C., the Chicago stockyard area, the Brooklyn Navy Yard area, Watts, and the Omaha stockyard area. As of 1969, San Diego and St. Louis, which were formally on the list of eligible cities, were dropped because of increases in income and decreases in unemployment.

EDA assistance is designed to aid eligible organizations in one of three geographical groupings:

> 1. Redevelopment Areas. Counties, labor areas and cities over 250,000, where employment or income figures indicate conditions of economic distress.
>
> 2. Economic Development Districts. Multi-county organizations of at least two distressed areas and a redevelopment center, which are centers of economic development activity containing no more than 250,000 people and having the potential to stimulate the economic growth of the district as a whole.
>
> 3. Economic Development Regions. Multi-state regions where joint Federal-State commissions carry out comprehensive, long range economic planning to solve problems too large or too complex for narrower approaches.[11]

The basic organization of EDA consists of the individual districts. A district is an area composed of at least two counties containing a growth center, a city of not more than 250,000 population. It was thought that one county generally does not have enough resources to adequately engage in development activities. Therefore, if

---

[10] Economic Development Administration, 1969 Progress Report, p. 1.

[11] Vice President's Handbook, p. 42

more than one county are brought together, they can utilize their collective strength. In addition, the rural counties should be connected to a growth center, or city, which contains infrastructure needed for developing the outlying areas. The EDA feels that these growth centers should be small communities and has set an upper limit of 250,000 persons.

The individual district prepares an Overall Economic Development Program (OEDP), which analyzes the problems and potentials of the area. Included in the OEDP are strategies for development and a listing of priorities as perceived by the district. EDA has considerable power to spur economic development, but only in specifically designated districts. The primary function of EDA is to stimulate the creation of jobs in these designated areas. "And so, by stimulating the creation of good permanent jobs in lagging rural areas, EDA programs make it possible for the residents to remain at home or in their regions."[12]

EDA believes that municipal facilities and infrastructure are needed in order to attract industry. Therefore, EDA will provide grants and loans to development districts for the construction of public works consistent with their OEDP.

> Grants and loans may be used for the following purposes: to acquire, develop, and make improvements in land for public works, public service, or development facilities; and to acquire, construct, rehabilitate, alter, expand, or improve such facilities, including related machinery and equipment. Proposed projects must fulfill a pressing need of the area and must be consistent with an approved Overall Economic Development Program for the area. Projects must directly or indirectly:

---

[12]EDA, 1969 Progress Report, p. 1.

1. Improve the opportunities for the successful establishment or expansion of industrial or commercial plants or facilities.

2. Assist in the creation of additional long-term employment opportunities.

3. Benefit the long-term unemployed and members of low-income families or otherwise further the objectives of the Economic Opportunity Act of 1964.[13]

Examples of the variety of special purpose public works projects funded by EDA in 1969 are:

1. Under the category, "Natural Resource Development," a grant of 1.9 million dollars was given to expand the coal mining operations in Boone County, West Virginia;

2. A grant of 1.2 million was given to Tuskegee, Alabama, to expand its water and sewage system to assist in industrial park development in the community;

3. A grant of 3.2 million dollars was given for a convention center in the Catskills;

4. In the Ozarks, a 2.1 million dollar grant was given for a folk culture center;

5. A grant of 1.4 million was given to improve a camping and beach area near Gainesville, Georgia, to stimulate tourism.[14]

EDA is active in providing vocational educational facilities. For instance, grants amounting to a total of 5.8 million dollars were given in 1969 for a skill training center in Newark, New Jersey. EDA financed an automotive training center in Waco, Texas, at a cost of $500,000 and a vocational technical high school near Wayne, Okalhoma, for 1 million dollars.[15]

Another form of EDA assistance is the direct business loan. Generally long-term, low-interest loans are made to existing

---

[13]Vice President's Handbook, p. 44.

[14]EDA, <u>1969 Progress Report</u>.

[15]<u>Ibid</u>.

businesses in the area or for the creation of new plants. The loan proceeds may be used for land, building, machinery, or equipment. The restriction is that the project must be compatible with the OEDP.

> Approximately 75 per cent of EDA's business loan funds was invested to help existing companies expand or establish new plants in EDA areas during the year. The other 25 per cent was invested to help new ventures.[16]

EDA also offers a wide range of technical assistance. The technical assistance is basically for industrial and natural resources projects in an EDA area. EDA offers to qualified businesses in the district various management and operational assistance, including vocational training.

> At the close of fiscal 1969, implementation reports on 290 industrial and resources projects -- completed since 1965 -- indicated that each program dollar in technical assistance helps stimulate an average of $33 in new investment, most of it from private sources.[17]

A crucial element in EDA strategy for rural economic development is the growth center, which is the catalyst in the development of the larger district. A growth center is a small community of not more than 250,000 persons which can provide the services and facilities necessary for the hinterland's growth and development. The growth center is, therefore, the locus of tertiary activities necessary for the development of business and industry such as banking, financial institutions, schools and other supporting institutions. In 1969, EDA investments in growth centers totaled more than 36 million dollars in public works grants and business development loans.

---

[16]*Ibid*., p. 13.

[17]*Ibid*., p. 19

B. Office of Economic Opportunity

The Office of Economic Opportunity has recently become more active in the field of rural economic development. The OEO programs that came into existence with the passage of the Economic Opportunity Act of 1964 were originally urban programs. The emphasis gradually began to widen, and currently OEO is quite active in rural areas. New legislation has broadened OEO's authority to operate in rural areas.

> That the 90th Congress was aware of the migration trend is indicated in the direction it gave to CAP in OEO in this past year: to provide for basic education, health care, vocational training and employment opportunities in rural America to enable the poor living in rural areas to remain in such areas and become self-sufficient therein. It shall not be...the policy of OEO to encourage the rural poor to migrate to urban areas, inasmuch as it is the findings of Congress that continuation of such migration frequently is not in the best interest of the poor and tends to further congest the already overcrowded slums and ghettos in our nation's cities.[18]

The OEO rural program consists of its rural loan function, its provision for vocational counseling and health services, and its support by the local CAAs of local self-help projects.

The rural loan program authorizes loans up to a maximum of $3,500 per individual. According to OEO:

> Of the 44,438 loans to individual borrowers, approximately 56 per cent financed investment in farming. The remainder provided capital for hundreds of different types of non-farm enterprises. Among these are commercial fishing, small retail stores and service outlets in rural communities, handling and hauling timber, farm machinery repairs, and production of handicrafts.[19]

OEO has been successful by working through the rural CAAs in giving support to many local cooperative and self-help programs.

---

[18] Office of Economic Opportunity, Annual Report, 1969, p. 49.

[19] Ibid., p. 50.

With the cooperation of the Farmer's Home Administration and Department of Housing and Urban Development, local non-profit housing cooperatives which have been supported by local CAAs have been active in building rural housing. Programs of self-help on an individual and cooperative basis have been successful. In addition, the CAAs have started local credit unions, craft cooperatives, and farm cooperatives.

One of the most successful OEO rural demonstration programs has been the Southwest Alabama Farmer's Cooperative (SWAFCA). This cooperative is composed of farm families extending through ten counties located in the Alabama "black belt." This particular cooperative development has received a considerable amount of attention in the national press. It has become somewhat of a showpiece for what can be done in the area of black economic development in the rural south. OEO says the following of this project:

> As a result of a grant, the cooperative achieved the following results in fiscal 1968:
>
> --One million pounds of vegetables were harvested and sales earnings were $52,000.
>
> --The coop's loan insurance fund was used to establish a line of credit for fertilizer and seed.
>
> --Membership in the coop increased from 800 to 1800.
>
> --The coop has affected a more equitable price situation with major companies in the area.
>
> --SWAFCA received an $85,000 technical assistance contract.[20]

[20] *Ibid.*, p. 53.

OEO assistance to cooperatives is an important program for the many small farmers wishing to remain in agriculture. In the current era of "big agri-business" it offers the small farmers a chance to remain competitive by banding together. The cooperatives are often the only way in which small farmers can market their produce.

In addition to the direct aid given to local cooperatives and individuals, OEO has been active in attempting to coordinate economic activity among other federal departments. It has now established a program with the Department of Agriculture for providing technical assistance in the modification of USDA programs to assist the rural poor. OEO is also working on pilot projects with the Department of Transportation and Department of Labor which provide some economic benefit directly to rural residents.

C. <u>Department of Agriculture</u>

The Department of Agriculture does not have extensive programs in rural economic development. The primary mission of the USDA is to provide an orderly market for agricultural products and to assist agribusiness.

During the Depression of the 1930s, the relationship of the Federal government to agriculture took a sharp turn in a new direction. Because of the widespread distress in farming (as well as the rest of the economy), the Federal government enacted legislation to stimulate the agricultural economy. The farm problems could be ameliorated only if farm incomes could be raised. However, it was impossible to raise incomes with farm produce selling at distress prices.

Price support programs were introduced in 1933 with the establishment of the Commodity Credit Corporation under the Department of Agriculture. The price support program (for selected crops) is based upon the concept of parity, or the relationship of farm prices and costs which prevailed between 1909-1914. A support price is established for eligible commodities, and a farmer may borrow from the Commodity Credit Corporation pledging his production as collateral. The value of the crop is established using the support prices. The loans are non-recourse loans to the farmer. That is, if the price of the pledged commodity drops below the support price, the farmer is not liable for the difference. Thus, the farmer is guaranteed a certain level of income based upon the support price and upon his production.

In 1936, income supports were established by the Soil Conservation and Development Act. Farmers were paid to shift their production away from soil depleting uses to soil conserving uses such as grasses and legumes. Although no market crops were produced, income could still be maintained. This concept was further broadened with the Soil Bank of 1956, which, in effect, paid farmers to reduce the acreage allotted to certain crops.

The effect of the farm parity programs has been to stabilize both farm prices and incomes of merchant farmers. It has assured that the market would be free of distress conditions and that a reasonable return could be obtained from farm produce sales. It has enabled many farmers to keep acreage out of production and to maintain a relative market scarcity of products.

During the 1930s through the 1950s, these price support programs undoubtedly kept a bad national situation from becoming a calamity. The various support programs kept farm employment at a reasonably high level, if one considers the changes which were taking place in the farm industry.

The productive capacity of the farm industry has greatly outstripped its need for farm labor. However, there has been a lag in finding adequate alternate opportunities for the farmers and farm laborers who have found themselves superfluous to the needs of the agricultural economy. The tragedy of farming is the rapidity with which the revolution has taken place and the fact that it has not yet run its course.

> Because the U.S. is already a well-fed nation, its demand for farm products is increasing only a little faster than population -- say, at around two per cent a year. But farm productivity (output per man hour) has been increasing more than three times as fast, at better than six per cent a year. That is why 7,500,000 farm workers produce 75 per cent more than 12,700,000 workers produced twenty-five years ago, why the U.S. is in the enviable position of being able to devote not merely a steadily smaller <u>share</u> but a steadily smaller <u>amount</u> of its total resources to winning its daily bread, and why it will need even fewer farms and farmers in the future.[21]

Until this situation finally runs its course, and an equilibrium is ultimately reached in farm capacity, farm price and income supports will be required as necessary stabilizing measures.

The USDA's most effective program for rural development is its <u>Financial Assistance to Small Towns and Rural Groups</u>. Under this program, loans are made to non-profit groups, cooperatives, and small towns (under 5,500 population) for municipal improvements.

---

[21] Niles M. Hansen, <u>Rural Poverty and the Urban Crisis</u> (Bloomington: University of Indiana Press, 1970), p. 170.

The Farmers' Home Administration, a part of the USDA, provides loans and loan insurance (much like the Federal Housing Administration) in rural areas. Through the Farmers' Home Administration Rural Renewal Loans are available to small towns that prepare renewal plans.

The USDA also provides planning assistance to jurisdictions upon request. This is accomplished through Technical Action Panels that provide information to rural communities concerning the availability of USDA and other federal services and resources. The USDA also operates information services through the land grant colleges.

D. Department of Labor

The Department of Labor is not in the business of rural development per se. However, DOL does offer services in rural areas which have some relation to rural economic development.

The Manpower Development and Training Program provides an opportunity for training and upgrading the skills of rural workers. However, this program will only provide training when there is a demand for certain kinds of skills in a labor market area. The program is not relevant where industry does not exist. However, in some rural areas which are having success in attracting industry, the program can be valuable.

In addition to MDTA, the DOL has programs to assist migrant workers; the Farm Labor Services assists migrant farm workers by counseling and vocational training.

E. Department of the Interior

The Department of the Interior provides various assistance to Indians on reservations and on federal lands. The Bureau of Indian Affairs has been actively promoting the relocation of industry onto reservations. The program has had partial success. Hansen reports that

> In 1960 there were only nine plants, with a total of 599 jobs, built on or near reservations. By September, 1967, the number of such plants had increased to 113, employing 5,510 Indians. The reservation unemployment rate, as defined by the Bureau, fell from 49 per cent in 1962, to 41 per cent in 1966, and then to 37 per cent in 1967. When applied to the 1967 labor force of 132,000 this reduction means that 15,000 more Indians were at work in 1967 than would have been the case if the 1962 unemployment rate had persisted. Thus, the Bureau's efforts to create employment opportunities on or near reservations, combined with sustained national prosperity, has resulted in significant gains. Nevertheless, the magnitude of the task remaining is formidable, especially when it is not known how many of the 82,500 Indians who were employed in 1967 were actually fully employed.[22]

---

[22] Burck, Gilbert, "Look No Price Supports," Fortune, May 1960, p. 130.

CHAPTER IV

THE PRESIDENT'S TASK FORCE ON RURAL DEVELOPMENT

A. Function of the Task Force

President Nixon has established a Task Force which has as its charge the exploration of prospects for rural development. In March, 1970, the Task Force delivered its first report entitled "A New Life for the Country." There have been other Presidential fact-finding bodies which have looked into the problems of the rural poor, such as the President's National Advisory Commission on Rural Poverty. However, this new Task Force has as its specific charge rural development, unlike previous commissions which made inquiries into the nature of rural poverty. Now that we have established the fact, through commissions and their reports, that rural poverty does in fact exist, this Administration is considering ways by which rural poverty areas can be improved and developed. According to the Task Force:

> The most effective program to deal with rural underemployment and lagging incomes is to create job opportunities through private enterprise, accompanied with education and job training to better fit rural people for these jobs -- plus one more ingredient; bringing the jobs and job seekers together.[23]

---

[23] Task Force, p. 6.

B. Recommendations of the Task Force

The view of the Task Force is that industrialization must be induced in rural areas. To accomplish this goal, they believe that United States industry should be persuaded to locate some of its fixed investments in rural areas. In advocating rural industrial development, the Task Force urges that Congress enact programs of tax incentives to encourage private investments in these lagging areas.

In its initial report, the Task Force made several recommendations for an active rural development program. The following are the various kinds of recommendations that were made:

1. The establishment of rural development credit banks: this would require an amendment to the Farm Credit Act. The rural development credit bank would issue bonds in the money market and would use the proceeds to lend in rural areas. Eligible loans would be for farm uses, rural housing, water and sewer and other infrastructure items, and rural electricity and telephone.

2. Local development corporations for those states which are currently without such enabling legislation should be established.

3. The separation of government programs dealing with agricultural commodities and supports and rural development programs should take place. The two kinds of programs, both administered from the Department of Agriculture, are philosphically and diametrically opposed and therefore ought to be separated.

4. A variety of tax credits, such as investment credits and accelerated depreciation allowances for investments in rural developments should be set up.

   During the Korean War the federal government issued certificates of necessity which entitled firms to rapid writeoffs for new facilities which were related to the war effort. For qualified assets, a firm could amortize the costs over a period of five years. This is an example of the kind of tax incentive which could be given to firms locating in designated rural poverty areas. These tax benefits are substantial.

> Another possible form of tax incentive is a special investment credit, similar to the one in use from 1962 through 1969, which enabled firms to deduct up to seven per cent of the cost of equipment and machinery against their current tax liabilities. This had the effect of increasing the rate of return on new investments, and it also stimulated the capital goods industry.
>
> Tax incentives are powerful tools for a government to use to direct economic growth. Various special interests are currently the beneficiaries of preferential tax treatment. The extractive industries and real estate investors are but two examples among many of those receiving preferential treatment. The Treasury Department has recently been campaigning strongly against the legislation of further tax benefits for social and economic purposes. However, ample precedent has been set, and tax concessions for the promotion of governmental aims is a fact of life.
>
> 5. United States business should actively campaign to establish new plants and new businesses in rural America.
>
> 6. All rural development programs should contain, as high priority items, health and housing measures.

The President's Task Force is composed of members reflecting various positions and interests in rural America. Their aim is not only the hope that they can uplift the people in rural America but that they can also aid the preservation and upgrading of the countryside. Their position is that, with adequate industrial development, the migration flows from farm to city will not only be slowed, but perhaps terminated.

> Both farm and rural town people are pressured to migrate to cities. Some of them are the flower of the farm and rural countryside youth -- vibrant, trained, capable, purposeful, filled with a dream of achievement, and fired with an ambition to succeed. They are enticed with the brighter challenges in distant places. Cities, national commerce and government have gained immeasurably from the transfusion of fresh blood of country youth -- youth who have been prepared and educated for life by rural people at rural expense.[24]

---

[24] Ibid, p. 5.

It should be noted that the President has established a Council for Rural Affairs by issuing Executive Order 11493 of March 13, 1969. Its membership is composed of cabinet members, in the same manner as the Domestic Affairs Council. The Task Force views this as a very important and necessary step if rural development is to have a high priority within the Administration.

CHAPTER V

REVENUE SHARING AND RURAL DEVELOPMENT

A. The President's Proposal

President Nixon's proposals for revenue sharing would drastically alter the institutional arrangements for rural development. The Nixon Administration has examined the rural development question and decided that regional commissions are an unnecessary layer of government. The Administration believes that funds should be given directly to states to undertake their rural development programs through proposed special revenue sharing.

> Under the President's proposal, the Appalachian Regional Commission, one of the most popular Great Society Programs, would be phased out with the Commission's funds transferred to a new 1.1 billion dollar revenue sharing fund for rural community development. This money would be handed to the states with virtually no strings attached.[25]

This proposal would have other far reaching effects, such as dismantling much of the apparatus of EDA rural development programs. Funds, instead of being channeled through EDA, would pass directly to the states. The states, without the assistance

---

[25] Jamie Heard, "Rural Report/Powerful Forces Mount Defense and Appalachian Regional Commission," National Journal, (March 20, 1971) p. 616.

of EDA and the Department of Commerce, would utilize these funds for internal rural development programs. Under the President's proposal, the Department of Agriculture would be in charge of administering the special revenue sharing funds for rural community development. "The only restrictions on the use of the funds would be that the states would have to spend them on rural projects and that there could be no racial discrimination."[26] Funds would be distributed to the states on the basis of rural population and the income of its rural people.

B. <u>The Congressional Response</u>

Recent events in Congress indicate that these changes in the institutional arrangement of rural development will probably not come about -- at least not of the magnitude envisaged by President Nixon. The Appalachian Regional Council's governors and their friends in Congress are firmly opposed to either the ARC being phased out as an organization and/or money being given directly to states. The governors are apprehensive that state legislatures, with other pressing needs for other projects throughout the states, would not be as willing as the federal government to finance special rural development projects.

> Most of them were apprehensive that the firm control they have over federal funds in the Appalachian program would be lost under the rural revenue sharing proposal, and that, as a result, they would be unable to complete or continue projects now funded under the ARC. Most of them singled out the Appalachian highway program as particularly vulnerable.[27]

---

[26] *Ibid.*, p. 617.

[27] *Ibid.*, p. 618.

It is currently the sentiment in Congress and in the governors' mansions that the Regional Commissions should be given new life. In fact, there is a concerted move within Congress to make the Title V Commissions independent, in the manner of the Appalachian Regional Commission. The independent Title V Commissions would no longer exist under the aegis of the Department of Commerce. The EDA has never shown much interest in strengthening the Title V Regional Commissions throughout their young existence. The bulk of the EDA's activity in rural development has been funneled through the programs of the EDA districts.

CHAPTER VI

EVALUATION OF DEVELOPMENT STRATEGIES

A. Evaluation Criteria

A comprehensive evaluation of specific rural development programs is impossible to do at this time. The Commissions have not been in existence long enough to have had meaningful programs in operation. Of the Commissions, only the Appalachian Regional Commission has had a high enough level of funding to enable it to have any kind of a track record. The Title V Commissions have now finished their preliminary planning stages and have only recently (within the last two years) had active development projects underway. However, for the past four years, the Appalachian Regional Commission has had development projects in progress. As of today, no detailed and systematic evaluation of the varied projects of EDA has been made. Therefore, in order to evaluate any of the rural development programs, one is restricted to an evaluation of the strategy involved.

Rural development, as stated previously, is an investment of funds in lagging areas with the expectations of a return on this investment in the future. Rural development must be distinguished from rural transfer payments i.e., those funds which are given to rural citizens for income and health maintenance.

Rural development implies investment; rural transfers are funds directed at rural consumption and personal maintenance.

The strategy implicit in the Regional Commissions, the EDA programs, the OEO rural assistance programs, and the recommendations of the President's Task Force, are all based upon an assumption that industrialization of lagging areas is not only desirable but also feasible from a public investment standpoint. In various ways agencies make public investments in such infrastructure items as roads, water, sewer, and vocational training and by financing industrial plants. These investments are viewed as essential to attracting industrial development -- either new plants from other regions, or the expansion of existing businesses in lagging or stranded areas.

Although there is popular belief that the upgrading of lagging areas is in the national interest, there is considerable doubt that the present programmatic thrust is at all appropriate for real industrial development. The policy of investing in the infrastructure of lagging regions, as evinced by the regional commissions, is extremely popular politically. It enables a good deal of investment (and the economic opportunities attendant upon that investment) to be put into these political jurisdictions. The elected representatives of these regions are extremely grateful and highly supportive of such public works investments. Quite often the public works tend to be highly visible, and they offer economic opportunities, at least in the short run, by their own construction.

However, there are three important criteria by which to evaluate and criticize the current rural development strategies: location theory, growth pole theory, and investment in human capital. There has been considerable empirical and theoretical evidence gathered throughout the years in these areas. This evidence can be used to evaluate development strategies.

B. Location Economics and Rural Industrialization

Industrial production is not located at random throughout the countryside. Industrial plants and other businesses are located on sites specifically selected to produce the maximum return on the factors of production -- labor and capital. Location theory is the study of economic trade-offs between the costs of inputs and outputs associated with particular geographic locations. It is a branch of the theory of the firm explicitly considering geographic locations and space.

Some industrial firms are heavily tied to the sources of inputs or raw materials. The classic example is that of a steel mill which is closely tied to raw material inputs such as coal and iron ore. The mill will locate closely to input sources (although in recent years there has been a tendency for new steel mills to be built closer to the final market area). Less obvious examples of resource oriented industry are the technological, scientific research, and development firms which are located near the source of their input: around university dominated areas.

Another aspect of location theory concerns those activities which are oriented toward their output or market areas. For the majority of firms, the most important aspect of their location decision is the cost of distributing the final product. This cost frequently exceeds the cost of processing incoming raw materials. Most consumer goods, even consumer durables, are in this market oriented category.

The third set of locational preferences are exhibited by those industries who select locations because of the economies of agglomeration. This may be one of the most important reasons for industrial location. Economies of agglomeration can be seen in almost every type of industrial and commercial activity. In one sense, economies of agglomeration are those economies which are realized by a steel fabricating firm which locates closely to a steel mill. But the larger and more widespread economies of agglomeration are found within large urban centers. Such economies are most evident in the tertiary activities (rather than secondary activities such as manufacturing). Tertiary activities include transportation, commerce, trade, banking, insurance, and government. The concentration of the advertising industry in Manhatten and the insurance industry in Hartford are extreme cases of this type of economic concentration.

The Survey Research Center of the University of Michigan surveyed business executives in an attempt to discover the impact of various factors upon the location of industrial plants.[28] One important result of the survey was a ranking of factors by

---

[28] Eva Mueller, et al, Location Decisions and Industry Mobility in Michigan, 1961. (Ann Arbor: Institute for Social Research, University of Michigan, 1961).

importance, as viewed from the point of view of executives. The six most important categories in the location of firms were, in this order:

1. labor costs (including not only wages but the productivity of labor cost per unit of output);

2. proximity to markets;

3. availability of labor (including skills and the supply of labor);

4. industrial climate (local and state attitudes);

5. taxes; and,

6. proximity to materials.

From the results of the SRC survey, it is apparent that the two most important reasons for industrial plant location are the quality of the labor force and the proximity to markets. Business executives viewed the other qualifications as being not nearly so important. It is noteworthy to observe that proximity to raw materials was the least significant of the six locational factors. These results obviously do not hold true for all industrial firms. Certainly there are material-oriented firms that must locate close by their sources of raw materials.

Historically, there have been some firms which have moved out of industrialized, highly concentrated areas into rural areas or small towns. Many rural areas have been successful in attracting industry by offering tax incentives and by using municipal improvement bonds. However, several economists, observing the movement of industry into the rural areas, note certain common tendencies involved in these moves.

> Those industries that have tended to leave metrpolitan areas have been characterized by relative stagnation, or decline; they frequently seek cheap labor in areas with surplus agricultural populations. Rapidly expanding sectors, on the other hand, have favored already concentrated regions because of the numerous external economies of agglomeration.[29]

Hoover and others have remarked that the types of industry attracted to rural areas are typically textiles, food and food processing, low-fashion apparel, wood products and furniture.[30] For these industries, the principle inputs are agricultural products; also, they have no appreciable economies of agglomeration.

The industries attracted to rural areas are low-wage, labor intensive industries as compared to those found in urbanized areas, which are high-wage and highly capital intensive. The wage level depends upon productivity, and productivity is closely correlated with the amount of capital invested. The industrialized firms of the urbanized areas have considerably more capital per worker invested than industries in the countryside.

Another very important economic consideration, and one tied to the capital investment per worker, is the fact that rural industries generally lack appreciable economies of scale. That is, the output per worker is not dependent upon the size of plant used to produce the product. Large capital investments in plants, such as in steel production and automobile manufacture, are not typical of the kind of plant required for production. A good example is the production of low-fashion clothing, an activity found in some rural areas. (High fashion clothing

---

[29] Hansen, p. 233.

[30] Edgar M. Hoover, The Location of Economic Activity (New York: McGraw-Hill, 1948).

is still manufactured in the urban areas.) However, children's clothing is the type of industrial production which requires very little skill and which requires no appreciable scale economies. In fact, it is the prototype footloose industry and is a moribund industry within rural America. Currently, much of children's clothing is being manufactured in Korea where wages are extremely low. In time, when the Korean wage scale rises, this industry may shift to other places such as the South Sea Islands.

We now come to an examination of the policies of state and federal governments regarding their programs of rural industrial development. The question to be answered in evaluating these programs at this point is: are the programs consistent with what we know from location theory? Or, are these programs of the Regional Commissions, the Economic Development Administration, and the recommendations of the President's Task Force consistent with what we know of the economic facts of life which determine industrial plant location?

Considering the economic preferences of industrial and commercial firms, as far as their location requirements are concerned, there would seem to be little in the way of hope that firms would voluntarily locate in lagging or stranded regions. Firms are attracted to an area because of the distribution requirements of their final market, the productivity of the labor force, and other considerations. However, the lagging areas of the rural countryside are those areas which are extremely deficient in those amenities which firms seek.

It may be helpful at this point to briefly consider the post-war British experience in inducing industrial growth outside existing urban concentrations. During World War II, much of British industry, especially inside London, had been severely damaged. In addition to the need to rebuild factories, it was felt that, in order to reduce the vulnerability of high concentration, both the population and industry should be dispersed. Therefore, the British government began to consider ways by which to redirect urban growth.

In 1946, the Town and Country Planning Act was passed, giving the British government considerable power over future growth and development. This act and subsequent measures provided for the establishment of local commissions to develop new towns, which would be self-contained. These new towns would be established away from the existing cities, separated by a greenbelt.

Industrial growth was regulated by companion legislation, the Distribution of Industry Act of 1946. This act required that all firms wishing to build new plants or to expand existing ones would have to obtain a certificate from the government. Certificates would generally not be granted unless the building was done in one of the new towns. In fact, firms were eligible not only for the certificates but for special subsidies if they moved to designated areas.

How have the British fared with their much heralded new town development program? And more specifically, how successful has been the deliberate dispersal of industry? The answers have tended to be mixed. The new towns have proved enormously expensive. Currently less than five per cent of population growth is occurring in new towns. Also, industry has been very reluctant to move to the new towns, in spite of the inducements and the availability of new housing units for workers.

The first firms to balk at moving to new towns were those firms that produced goods for export. They tended to argue that the expenses of a move would place them at a competitive disadvantage, and by inference, worsen Britain's balance of payments. As could be expected, exceptions were made in such cases. But the dike had been breached, and other industries followed suit. Soon, much of the stringency of certification had been diluted.

Britain's proposed dispersal of industry has not been an unqualified success. In spite of the enormous powers exerted by the government over industrial location, there have been many problems and much resistance. One other problem has been the resistance of professional and managerial workers to leaving the large cities.

What, then, can state and local governments in the United States do when they have no power (in the sense of the industrial certification of the British Government) to induce rural industrialization? The President's Task Force has recommended that industry across the United States should be induced to locate in rural America. But it may not be in its own self interest to do so. It is, therefore, very doubtful that appeals such as those made by the Task Force will be in any way successful in fostering an industrial renaissance in the countryside.

With regard to the work of the Regional Commissions, it seems obvious that certain of their activities, such as the Appalachian Highway System, will help in the industrialization of some areas. Undoubtedly, the ARC investments in health projects, vocational schools, water and sewer projects and other infrastructure are beneficial. The question remains: is this the best route toward rural development? Is this approach toward the investment of public funds yielding the best payoff consistent with national goals? A recent report on the ARC had this to say of its operations:

> It is difficult to find any case where hot-house efforts to promote the development of large lagging regions have met with success. Whatever advantages rural areas may have in terms of a stable labor force that is relatively cheap and plentiful, of adequate and relatively cheap land, and of easy access to work and recreation areas, they still have a host of disadvantages to overcome. The cheap land and low tax rates may be more than offset by low levels of services. There are relatively few business contacts with other producers or auxiliary business services. Labor may be plentiful, but it may prove costly to adapt the relatively untrained labor force to the firms' need. The local market will probably not be significant, and frequently firms find it advantageous to locate near competitor's rather than at a distance... bad connections with long distance traffic may mean higher transportation costs and more time in transit, though these problems have become less important than in the past. Rural areas also tend to be lacking in cultural and educational facilities. Finally, there is often a great deal of mistrust of industrialization in rural areas, including the mistrust felt by local leaders who do not wish to alter the status quo.[31]

C. Viability of Growth Centers

The EDA strategies involve rural counties which are associated with growth centers, in an attempt to make a viable

[31] Heard, p. 619.

economic district. The growth centers are relatively small towns (up to a maximum of 250,000 population) which provide tertiary activities and entrepreneurship, without which attempts at meaningful economic development would be futile.

Brian Berry undertook a study of growth centers for EDA.[32] Berry studied data on the commuting and employment patterns for the entire U.S. for 1960. Berry's results, after analyzing the commuting and employment patterns of all U.S. workers, were that 95 per cent of the population is within the commuting field of a metropolitan center. Only 5 per cent of the population resides outside what could be called "the economic sphere" of a major metropolitan area in the U.S.

Berry then developed a "regional welfare syndrome," a composite of economic indicators which measure the influence of the metropolitan area upon the hinterland. His data showed that welfare (as measured by indicators such as median family income, average value of farmland, school years completed, and labor market participation) declined significantly as distance from the city center increased. It is not too surprising that rural welfare, in terms of poverty and employment, measured less than welfare in the city. However, Berry also used size of the metropolitan area to evaluate its influence on the surrounding area. He found that very small cities exercised very little influence over their hinterland. But on the other hand,

[32] Brian J. L. Berry, "A Summary -- Spatial Organization and Levels of Welfare: Degree of Metropolitan Labor Market Participation as a Variable in Economic Development," Research Review (June, 1968), p. 1-6.

large cities (those approaching 250,000) exercised significant influence on their surrounding regions.

One of Berry's conclusions is that cities of over 250,000 are usually self-contained and can provide support for the countryside. Above 250,000, there is very little need to "force feed" a city's growth or invest deliberately in its infrastructure. This result is consistent with the upper limit of 250,000 population set by EDA as the maximum size of a district growth center.

However, Berry also found that small towns of less than 50,000 population exercised very little influence over the hinterland. His findings imply that these smaller communities are not really viable as growth centers. Berry recommends that growth center strategy should be concentrated on those cities approaching 250,000 in an endeavor to boost them above the 250,000 population threshold.

If we use Berry's criterion of 50,000 population as the minimum for a viable growth center, then only thirteen of the fifty-two economic development districts, as of 1968, would qualify. And, if activity were concentrated in only those metropolitan areas approaching 250,000, then there would only be three or four such centers within the EDA designated areas. This would drastically change the entire character of the EDA program.

The EDA programs have tended to concentrate on much smaller areas, with 38,000 as the median population of its growth centers. Most of the small communities embraced by EDA programs cannot really be considered growth centers. Evidence from the 1960 census indicates that small, non-metropolitan areas grew less rapidly than other areas of the U.S. In selecting growth centers, Hansen would also make growth itself one of the decision criteria as well as community size.

> In brief, a growth center must be not only rapidly growing, but also a center which could be expected to benefit a significant number of people from lagging areas. Thus growth centers would have to be selected on a basis of commuting and migration data, as well as data on employment growth.[33]

Hansen believes that EDA growth center strategies should not force feed small communities but should encourage and assist migration. Rural migrants should be attracted from the small, stagnant areas into the medium-sized cities which qualify as growth centers. Hansen sees these medium-sized cities, in the range of 250,000 to 750,000, as being ideally suited for accepting rural migrants. The large cities, on the other hand, have too many problems and are not good ports of entry for rural migrants. Traditional ports of entry into urban life such as Chicago, Detroit, New York, and Philadelphia are, because of their problems, not the best destinations for rural migrants. However, the small cities, whose problems are much more manageable, might be the ideal areas in which to foster a national policy of migration.

There are obvious political problems with any new program of migration, such as that advocated by Hansen. It is not conceivable that elected officials will willingly and gladly see their

---

[33] Hansen, p. 254.

constituents, especially the young and able bodied, leave in any appreciable numbers for some urban growth center. It is a natural political response to attempt to maintain the rural youth in the countryside and to provide opportunities for them there. This is certainly the type of pressure that sustains the area-based regional commissions and keeps the Economic Development Administration on its present course. But Hansen is not presenting an argument based upon practical political alternatives. Rather, he is speaking from a vantage point of economic reason. His argument is that the best policy for promoting the welfare of rural people would be one aimed at improving the ability of the individual and promoting the growth of those areas most likely to succeed.

Thus, in conclusion, it would seem that studies of growth centers, and especially Berry's study of the influence of metropolitan economic areas, indicate that emphasis on economic development in small areas is a misplaced effort. However, the alternative is a policy of migration, assisted by the government. This alternative is, for many reasons, politically unattractive. It is directly contrary to the types of programs currently espouseed by the local and federal agencies charged with rural development.

D. Investment in Human Capital

The third point of reference from which to evaluate efforts at rural development is that of human resource investment, specifically the investment in human capital. It has long been recognized that education is of benefit, not only to the individual, but also to society. Education is not only a consumption good, of direct benefit to the individual in assisting him to elevate his status and economic situation, but it is also an investment by society in its most precious resource -- its people. This investment by a state in its people, in developing the skills and knowledge of the individual, is known as investment in human capital. In this respect, individual skills possessed by the work force are viewed as part of the productive process along with equipment and machinery. In essence, investment in human capital is the type of investment necessary to increase the productivity and competence of the work force.

Studies by Schultz and others have made attempts to measure the impact of investment in human capital and its effect upon the economy.[34] The results of these studies indicate that the single most important source of growth in the U.S. economy has been improved education and training, the investment in human resources. It has been estimated that as much as 27% of recent increases in real national income have resulted from improved education and training as opposed to only 15% attributable to increases in the stock of material capital goods, and only 20% due to increased and improved technology.

The work of economists who have studied human capital indicate that extremely effective public policies are those aimed at increasing the investment in human capital. The programs of the Regional Commissions and the EDA do devote a portion of their budgets to direct investment in human capital through manpower and training programs, vocational education, and health services.

---

[34] Theodore Schultz, "Investment in Human Capital," American Economic Review (March, 1961).

In evaluating the Regional Commissions, one would give them good marks for their understanding that significant investment should be made in human resources. The Regional Commissions established under Title V seem to devote a considerable portion of their activity to improving their resident labor force through training and manpower programs. But, because of the political nature of the Regional Commissions, they are bound to devote the bulk of their resources to infrastructure, rather than to human development programs.

Investment in human resources imposes a dilemma upon any geographically based jurisdiction. If there are no opportunities for workers who receive this capital investment in their education and training, they will have to leave the area and to migrate to places where their skills can be utilized. Such a result would be consistent with a program of maximizing national income, because skilled persons would be attracted to those areas where they are needed and can make the largest contribution. The alternative is for skilled persons to remain in areas where there is no immediate demand for utilization of their abilities: a life of frustration and underemployment. Although these policies may be consistent with the promotion of the national welfare, they are not in the interest of the individual region or state.

Hansen's position is that, since people will migrate, let them migrate in a condition to be of benefit to the receiving area, rather than becoming liabilities. Such a program would indeed be beneficial to the nation, not to mention the urban areas which are now the recipients of untrained rural people. It is quite understandable that rural citizens will not want to invest their own funds in education and skills development, knowing that the recipients will leave the area and that the training benefits will accrue to another region. This is the type of spillover which the rural jurisdictions perceive as very real and are therefore unwilling to finance. But if the problem is viewed as a national problem, and funds for such education and training did not come solely from local sources, then this objection might be overcome. In fact, migration is not always harmful to those people who are left behind. In the lagging economy, there is an oversupply of labor for the few jobs which exist. Migration frequently lessens the competition for those few scarce opportunities.

The decision whether or not to invest in infrastructure or in human capital is one which requires a clear set of national objectives, which we now lack. Currently, it can be said that there is not enough emphasis being placed on the development of human capital as a strategy for rural development. Although this is an extremely sensitive political issue, it must be faced squarely if rural development is to be done in a manner which is consistent with overall national goals. It is Hansen's conclusion that

> In brief then, there is a crying need for educational, training, and manpower programs, to develop our rural human resources and to link them to expanding job opportunities in growth centers. Appeals to industrialization of the countryside are not only economically undesirable, but serve

to direct public policy from programs which should have top priority if farm workers are to share in growing national prosperity.[35]

[35] Hansen, p. 260.

CHAPTER VII

CONCLUSION

There are clear linkages between rural and urban poverty. A national policy to improve the quality of urban life cannot ignore, or exist in isolation from, the welfare of the one third of the nation still in rural areas. Therefore, rural development takes on special significance as a high priority area of national concern.

There is at present no consensus on the type of programs required for rural development. The traditional programs have been tied to specific regions and interests. However, most economic evidence seems to indicate that the most effective measures may be investment in people rather than investment in the land.

BIBLIOGRAPHY

Alonso, William. "Urban and Regional Imbalances in Ecoomics Development," Economic Development and Cultural Change, Vol. 17.

Appalachian Regional Commission. Annual Report, 1969. Washington: ARC, 1970.

Baldwin, Robert E. Economic Development and Growth. New York: John Wiley, 1966.

Berry, Brian J.L. "A Summary -- Spatial Organization and Levels of Welfare: Degree of Metropolitan Labor Market Participation as a Variable in Economic Development," EDA Research Review, June 1968.

Blau, Peter M. and Otis Dudley Duncan. The American Occupational Structure. New York: John Wiley and Sons, 1967.

Borts, George H. "The Equalization of Returns and Regional Economic Growth," American Economic Review, Vol. 50, no. 2 (June, 1960).

Borts, George and Jerome L. Stein. Economic Growth in a Free Market. New York: Columbia University Press, 1964.

Bowman, Mary Jean and W. Warren Haynes. Resources and People in East Kentucky. Baltimore: The Johns Hopkins Press, 1963.

Cameron, Gordon C. Regional Economic Development. Baltimore: Johns Hopkins University Press, 1970.

Clawson, Marion. Policy Directions for U.S. Agriculture. Baltimore: The Johns Hopkins Press, 1968.

Darwent, David F. Growth Pole and Growth Center Concepts: A Review, Evaluation and Bibliography. Berkeley, Calif: University of California Center for Planning and Development Research, Working Paper No. 89, October 1968.

Davis, Ross D. "EDA Sets 'Worst First' Policy on Use of Funds," Economic Development, Vol. 4, no. 6 (June, 1967).

Davis, Ross D. "The New Approach to Solving Urban Unemployment," Economic Development, Vol. 4, no. 11 (November, 1967).

Davis, Lloyd, ed. The Public University in Its Second Century. Morgantown, W. Va.: West Virginia Center for Appalachian Studies and Development, 1967.

Denison, Edward. The Sources of Economic Growth in the United States and the Alternatives Before Us. New York: Committee for Economic Development, 1962.

Ford, Thomas R., ed. The Southern Appalachian Region. Lexington, Ky.: University of Kentucky Press, 1962.

Freedman, Audrey, "Labor Mobility Projects for the Unemployed," Monthly Labor Review, Vol. 91, no. 6 (June, 1968).

Friedmann, John R. P. "The Concept of a Planning Region," Land Economics, Vol. 32, no. 1 (February, 1956).

Friedmann, John. Regional Development Policy: A Case Study of Venezuela. Cambridge, Mass.: The M.I.T. Press, 1966.

Galbraith, John Kenneth. Economic Development. Boston: Houghton Mifflin, 1962.

Ginzberg, Eli. The Development of Human Resources. New York: McGraw-Hill Book Co., 1966.

Gordon, Robert Aaron. Toward a Manpower Policy. New York: John Wiley and Sons, 1967.

Grebler, Leo. Mexican Immigration to the United States. Los Angeles: UCLA Graduate School of Business Administration, Mexican-American Study Project, Advance Report No. 2, January, 1967.

Hansen, Niles M. Rural Poverty and the Urban Crisis. Bloomington: Indiana University Press, 1970.

Hansen, Niles M. "The Structure and Determinants of Local Public Investment Expenditures," Review of Economics and Statistics, Vol. 47, no. 2 (May, 1965).

Heard, Jamie, "Rural Report/Powerful Forces Mount Defense of Appalachian Regional Commission," National Journal (March 20, 1971), pp. 616-624.

Higgins, Benjamin. Economic Development, revised edition. New York: W. W. Norton and Co., 1968.

Hoover, Edgar M. Some Old and New Issues in Regional Development, University of Pittsburgh Center for Regional Economic Studies, Occasional Paper No. 5, 1967.

Hoover, Edgar M. The Location of Economic Activity. New York: McGraw-Hill, 1948.

Hough, Henry W. Development of Indian Resources. Denver: World Press, 1967.

Kain, John F. and Joseph J. Persky. The Ghetto, The Metropolis and the Nation. Harvard University Program on Regional and Urban Economics Discussion Paper No. 30, March, 1968.

Kain, John F. and Joseph J. Persky. The North's Stake in Southern Rural Poverty. Harvard University Program on Regional and Urban Economics Discussion Paper No. 18, May, 1967.

Lansing, John and Eva Mueller. The Geographic Mobility of Labor. Ann Arbor, Michigan: University of Michigan Survey Research Center, 1967.

Levitan, Sar A. Federal Aid to Depressed Areas. Baltimore: The Johns Hopkins Press, 1964.

Liebhafsky, E. E. "Migration and the Labor Force: Prospects," Monthly Labor Review, Vol. 91, no. 3 (March, 1968).

Mangum, Garth L. Reorienting Vocational Education. Ann Arbor, Michigan: Institute of Labor and Industrial Relations, 1968.

Miernyk, William H. "Appalachia's Economic Future," Appalachia, Vol. 1, no. 10 (June-July, 1968).

Moore, Joan W. Mexican-Americans; Problems and Prospects. Madison, Wisconsin: Institute for Research on Poverty, 1967.

Mueller, Eva et al. Location Decisions and Industry Mobility in Michigan 1961. Ann Arbor: Institute for Social Research, University of Michigan, 1961.

Neutze, G. M. Economic Policy and the Size of Cities. New York: Augustus M. Kelley, 1967.

Newman, Dorothy K. "The Decentralization of Jobs," Monthly Labor Review, Vol. 90, no. 5 (May, 1967).

Newman, Monroe. "Urban Services and Future Growth -- A Challenge to Appalachia," Appalachia, Vol. 1, no. 6 (February, 1968).

Ozarks Regional Commission. Annual Report 1969. Washington: ORC, 1970.

Parr, John B. "Outmigration and the Depressed Area Problem," Land Economics, Vol. 42, no. 2 (May 1966).

Perloff, Harvey L. and Lowdon Wingo, Jr. Issues in Urban Economics. Baltimore: The Johns Hopkins Press, 1968.

Perloff, Harvey S. and Vera Dodds. How a Region Grows. New York: Committee for Economic Development, 1963.

Schmid, A. Allan. Converting Land from Rural to Urban Uses. Baltimore: The Johns Hopkins Press, 1968.

Schultz, Theodore. "Investment in Human Capital," American Economic Review, Vol. 51, no. 1 (March, 1961).

Siegal, Irving M., ed. Manpower Tomorrow: Prospects and Priorities. New York: Augustus M. Kelley, 1967.

Somers, Gerald G. "The Returns to Geographic Mobility: A Symposium," Journal of Human Resources, Vol. 2, no. 4 (Fall, 1967).

Thompson, Wilbur R. A Preface to Urban Economics. Baltimore: The Johns Hopkins Press, 1965.

U.S. Advisory Commission on Intergovernmental Relations. Urban and Rural America: Policies for Future Growth. Washington: U.S. Government Printing Office, 1968.

U.S. Economic Development Administration. 1970 Progress Report. Washington: EDA, 1970.

U.S. Economic Development Administration. 1969 Progress Report. Washington: EDA, 1970.

U.S. Office of Economic Opportunity. The Tide of Progress: Third Annual Report. Washington: OEO, 1969.

U.S. Office of Economic Opportunity. As the Seed is Sown: Fourth Annual Report. Washington: OEO, 1970.

U.S. President's National Advisory Commission on Rural Poverty. Rural Poverty in the United States. Washington: U.S. Government Printing Office, May, 1967.

U.S. President's National Advisory Commission on Rural Poverty. The People Left Behind. Washington: U.S. Government Printing Office, 1967.

U.S. President's Task Force on Rural Development. A New Life for The Country. March, 1970.

U.S. Vice President. The Vice President's Handbook for Local Officials. Washington: U.S. Government Printing Office, 1967.

Vernon, Raymond. The Changing Economic Function of the Central City. New York: Committee for Economic Development, 1959.

Warner, S. B., Jr. _Planning for a Nation of Cities_. Cambridge, Mass.: The M.I.T. Press, 1966.

Weisbrod, Burton. "Investing in Human Capital," _Journal of Human Resources_, Vol. 1, no. 1 (Summer, 1966).