UW Extension

Community Economics

A Newsletter from the Center for Community Economic Development; Department of Agricultural and Applied Economics; Community, Natural Resource and Economic Development Programs, and University of Wisconsin-Extension, Cooperative Extension Service

No. 331 | Community Economics Newsletter | May 2004

Reversing Rural America's Economic Decline: The Case for a National Balanced Growth Strategy

by

Robert D. Atkinson

Fundamental structural changes in technology, markets, and organizations are redrawing our nation's economic map and leaving many rural areas behind. Yet our de-facto federal rural policy -- providing massive subsidies to a shrinking number of farmers -- does little to help develop competitive rural economies or boost opportunity for rural residents.

The Organization for Economic Co-operation and Development (OECD) estimates world farm subsidies to be about $300 billion to $320 billion per year. Some of this funding benefits research or rural development, but much of it simply serves to keep efficiently produced goods out of poorer countries, which cannot afford subsidies. The European Union's $2.3 billion olive oil program, for example, keeps millions of efficient olive growers in Tunisia, Lebanon, and Morocco out of American supermarkets.

There is mounting international pressure to reduce these subsidies. Moreover, there are sound domestic reasons and broad public support for moving away from the old subsidy regime, as it does little to help rural economies or the vast majority of rural residents.

"…effective rural development policy that meets 21st century challenges … need to keep four key principles in mind"

Those principles are:

- **Shift from subsidies to economic investment**
- **Target places with growth potential**
- **Change the playing field so more firms choose rural locations**
- **Enlist states as full partners**

Therefore, we propose a dramatic change in the subsidy system based on a two-track process: First, the United States should press for serious negotiations with other developed nations and the World Trade Organization to agree mutually to phase down farm subsidies. Second, here at home we should gradually shift agricultural subsidies toward a 15-year effort to help rural America develop a new competitive economic base and to help the nation as a whole develop a better balance between its metropolitan and rural economies. The savings from reduced crop subsidies should be reinvested in a new Rural Prosperity Corporation that co-invests with states to boost the long-term competitive position of targeted rural economies. It is critical, however, that both these tracks occur together, for we do not propose unilaterally disarming when it comes to farm subsidies.

The federal government has had a long and important role in helping shape geographic patterns of economic activity and settlement, from the Homestead Act, to the New Deal efforts to bring vast swaths of the South and West into the modern economy, to the efforts by John Kennedy to revitalize Appalachia. The time is ripe for a similar effort today. However, to craft an effective rural development policy that meets 21st century challenges, Congress and the administration need to keep in mind four key principles:

Principle 1: Shift from subsidies to economic investment

Providing subsidies to farmers, rural residents generally, or rural localities does little to help build competitive rural economies. Federal policy should help rural areas build the infrastructure, skills, business clusters, and quality of life needed to succeed in the New Economy.

Principle 2: Target places with growth potential

Some places have significant competitive disadvantages: harsh climate; few natural, physical, or cultural amenities; remote location; extremely small size; and/or poor-quality government services. It is unrealistic to expect all of these places to thrive. As a result, policies should target investments in rural places that have the potential to become self-sustaining growth centers and employ residents from a larger surrounding area.

Principle 3: Change the playing field so more firms choose rural locations

Helping communities is important, but it is also important to help create overall economic conditions that make it more likely for economic activity to thrive in rural areas. Examples include support for widespread deployment of broadband or funding for research that increases the demand for products and services likely to be produced in rural areas (e.g., wind power or agricultural biotechnology).

Principle 4: Enlist states as full partners

Boosting rural economic development is focused on very little, even though States spend close to $50 billion per year. No strategy will succeed unless it leverages and engages the states to spur New Economy development in rural economies.

To bring rural development into the information age, the federal government should take three simple but critical steps:

- Contingent on successful international negotiations to multilaterally phase down farm subsidies, gradually convert agricultural subsidies over 10 years, eliminate existing rural development programs in multiple agencies, and transfer the savings to a quasi-public Rural Prosperity Corporation.
- Empower the Rural Prosperity Corporation to jointly fund with states New Economy development strategies focused on rural growth centers and fund research and development focused on technologies likely to boost production in rural areas.
- Where possible, decentralize government facilities and employment away from high-cost metropolitan areas to rural growth centers.

Steven C. Deller
Community Development Economist

Issued in furtherance of Cooperative Extension work, Acts of May 8, and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Arlen Leholm, Cooperative Extension, University of Wisconsin-Extension.

University of Wisconsin-Extension, U.S. Department of Agriculture and Wisconsin counties cooperating. UW-Extension provides equal opportunities in employment and programming, including Title IX and ADA.