



Perspectives on the 2013 Farm Bill

Rural Development Title: ***Supporting the Self-Employed***

By Stephan J. Goetz

One of the most profound and at the same time least recognized rural employment developments of the last decade has been the surge in self-employed workers. Between 2001 and 2011, the number of self-employed non-farm workers increased by 1.2 million or 26%, to nearly 5.7 million from 4.5 million. Because the number of wage-and-salary jobs has basically remained flat since 2001, there is now one self-employed worker for every four wage-and-salary workers. If these current trends continue, there will be one self-employed rural worker for every three employed rural workers within a decade.

This phenomenal growth has occurred even as the earnings of self-employed workers have fallen behind those of wage-and-salary workers, suggesting that many are driven into self-employment out of necessity rather than the pursuit of new opportunities. Yet, paradoxically, there is also mounting and rigorous evidence that the self-employed have economic impacts that extend beyond their own operations, for reasons that are not yet entirely understood. In fact, higher rates of self-employment are associated not only with higher per capita income growth and job growth in counties, but also with greater success in reducing poverty rates over time. In other words, supporting the rural self-employed may provide additional, broader rural economic development benefits.

The sections of the Rural Development title that in the past were most relevant to self-employed workers were those related to businesses, including direct or guaranteed loans, grants and technical assistance, and cooperatives organized around the development of value-added markets. Yet these business development loans and grants may have been too narrowly targeted to reach the large number of self-employed. For example, in FY2005 only 941 such loans or grants, totaling \$850 million were made, at more than \$900,000 per transaction (http://www.usda.gov/documents/RURAL_DEVELOPMENT_TITLE.pdf). Thus only a small fraction of the self-employed would have benefited from this program.

In the 2008 Farm Bill, the Rural Microentrepreneur Assistance Program was added, with \$3 million of mandatory funding in 2012 and \$40 million in discretionary funding (<http://www.nationalaglawcenter.org/assets/crs/RL31837.pdf>). Assuming an average loan size of \$25,000—the maximum is \$50,000—only between 120 and at most 1,720 small businesses would have been funded, or fewer than one per rural U.S. county. These are small numbers, relative to the millions of rural self-employed.

There also is growing evidence that clusters of firms or self-employed in the same or related industries that successfully collaborate and compete, not only provide higher returns to the individual firms but also create important public benefits. While mainstream cooperatives and other business alliances, as organized in the past, are an important part of this equation, they alone may not suffice. In the Rural Development title it may also be worth considering an expansion of the eligible sectors beyond those that are strictly agricultural or natural resource-based. Furthermore, despite the excitement about clusters, our understanding of which ones are likely to be most successful, and how they can best be seeded and encouraged to grow to scale is still rather limited. Much more research is needed here.

Rural sectors that wish to remain economically viable in the face of unrelenting global competition urgently need to innovate in the areas of production, technology development and adoption, and marketing. Whether it is organizing trade shows or securing large-scale credit and developing both domestic and export markets, the economies of scale that a cluster can achieve are significant. The individual firms making up these sectors will have great difficulty achieving this on their own and overcoming the transactions costs and barriers that prevent the cluster from generating public benefits.

The wood products industry, for example, consists of self-employed individuals who for generations have worked independently and have little experience working together closely, even if they belong to regional producer alliances. For these and other rural sectors, special efforts and perhaps funding are needed first to understand how they can evolve into successful clusters, and then to monitor and evaluate their progress. These evaluations would use counterfactual analysis while also controlling for changing local economic conditions that could enhance or detract from the program's impact.

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