Perspectives on the 2013 Farm Bill

Rural Development Title:

Strengthens and weaknesses in the rural development title

By Maureen Kilkenny

A "rural development title" first appeared in the 1970 farm bill. Since then the non-farm rural share of the U.S. population has declined. The rural development policies in the 2013 Senate and House farm bills are also unlikely to lead to rural growth.

For 200 years, the non-farm, non-metro (rural) share of the U.S. population had been remarkably stable at approximately 23%. It did not decline during all those decades when farm productivity skyrocketed, farm population shrank, electricity replaced kerosene or automobiles replaced horse-carts. But it has declined since 1970 although the farm population share stabilized. Since the 1970s, the farm share of the U.S. population has remained at about 2%. But the non-farm, non-metro population share has fallen below 15%. Rural areas with attractive amenities adjacent to urban areas aren't declining. Rural areas where hydraulic fracturing occurs are currently booming. But remote places where the economic base is agriculture are declining.

A 2013 poll from the Center for Rural Affairs (http://files.cfra.org/pdf/Poll-Rural-Voters-Rural-Policy.pdf) shows that about the same number of rural and small town Americans agree that: "*Turning to big government to solve our rural and small-town economic problems will do more harm than good,*" as agree with the opposite statement: "*It's time for government to have a stronger partnership (or role) in strengthening rural communities and making the economy work for the average person in rural and small-town America.*"

Notably, the average person in rural and small town America works in services, manufacturing or a public sector—not farming. And, according to the U.S. Census Bureau's *Current Population Survey*, in 2011 median household income in non-metro (rural) America was $40,527, 40% lower than median farm household income ($57,050), and 27% lower than median metro household income. Non-farm rural Americans are not doing as well as farmers and metro Americans.

Let's look at what Title VI. Rural Development in the proposed farm bill has to offer the average rural American. Both the Senate and the House versions of the farm bill reauthorize the traditional rural development programs supporting infrastructure investments in electricity, telephones, water and sewers through 2017, while augmenting USDA grant funding for the expansion of broadband service. The rural development Title VI, however, has been significantly rewritten and its provisions renumbered. Furthermore, both Senate and House versions of the rural development title continue to favor natural monopolies and to eschew evaluation or evidence-based policy. And there is a new trend favoring consolidation.

One type of consolidation is that two pre-existing programs—the Rural Business Opportunity Grants program and the Rural Business Enterprise Grants program—are to be consolidated into one Rural Business Development Grants program. The new program will continue to offer competitive grants to public agencies and to non-profit community development organizations that provide job training, technical assistance, planning and business development services in nonmetro areas.

Regarding farm consolidation, under the new Title VI, larger farms will be favored by the new eligibility criteria for farm ownership loans for new and beginning farmers. The old criteria excluded applicants who own real estate that is over 30% of the median farm size in their county; the new criteria allows applicants to own up to 30% over the *average* farm size in their county. Given the skewed distribution of farm size, the average farm size is much larger than the median farm size.

And, a change potentially favoring geographic consolidation is the expansion of eligibility for rural community and rural business programs to towns and cities of up to 50,000 in population, not adjacent to metro areas. Eligibility for federally subsidized rural water and waste programs, for example, used to be limited to towns under 10,000 in population. The change therefore removes the moral hazard that plausibly accounts for the observed dip in percentage rates of population growth among towns of 8,000 to 9,000 in population. That's a good thing. Now a town that continues to grow beyond 10,000 in population will not lose eligibility.

A downside is that competition for USDA rural development funds may get hotter. Some of the programs—such as Water, Waste Disposal and Wastewater Facility Grants and Loans—have prioritized rural communities with populations of less than 5,500 for funding. Other programs—such as Community Facilities Loans, Loan Guarantees and Grants, and Access to Broadband Telecommunications Services in Rural Areas—prioritize communities of up 20,000 population for funding. The former program also sets aside 3% of the funds to help "smaller communities" obtain assistance to prepare their applications.

The new rural development title also explicitly encourages region-wide, multi-jurisdictional collaboration: "*The new bill gives the Secretary of Agriculture the discretion to prioritize applications for funding according to their efforts to maximize resources and support strategic community and economic development*." (Title VI).

Regarding natural monopolies, the proposed support for "value-added agriculture" could actually lead to counter-productive outcomes for both farmers and rural communities. In the 1930s even the general public was aware that the companies that stored, processed, distributed and marketed agricultural and food products were naturally so large in scale that they could exert significant market power. They paid uncompetitive low prices to farmers. For decades since, farm bills have basically asked U.S. taxpayers to make up the difference between the low prices those natural monopolies paid and what farmers needed to stay in business.

Almost a century 1ater, technology and market forces still support farm and food storage, processing, marketing and distribution at very large scales. Natural monopolies between crop and consumer still thrive. It is therefore surprising that the new farm bill reserves ever more funds for precisely those types of businesses, euphemistically called "value-added agriculture." Nothing in the new farm bill addresses the fact that the market failure we should worry about is the tendency of that sector towards natural monopoly at the expense of small farmers and rural workers.

Other natural monopolies receiving support from taxpayers through the rural development title of the farm bill are utility and power companies. To deal with that, however, farm bills have long prioritized cooperatives, and still do. One downside is that these favored organizations can become complacent, another form of moral hazard that undermines the full achievement of rural policy goals. Rather than embracing energy saving investments that clearly benefit their customer-members, even the cooperatives need to be enticed with subsidies to do so, such as the new Rural Energy Savings Program.

Finally, without program evaluation there is no reason to expect much from our rural development programs. Have the rural development programs defined by farm bills led to rural development? The evidence of chronically low non-farm rural household incomes relative to farm and metro household incomes, and continued rural outmigration from farming areas suggest otherwise. But we still don't know for sure. We haven't studied the policies properly. In many cases the data is not available to the public.

Evidence-based policy should more effectively achieve desired policy objectives like rural household prosperity and rural growth. Unfortunately, the proposed farm bills do not enable objective program evaluation. USDA prefers to evaluate its rural development policies in-house, behind closed doors. Researchers outside the agency face increasing barriers. Statistical analyses of the effects on rural communities are more difficult than ever due to the termination of a number of relevant statistical series about rural people, rural income and rural employment, such as the sectoral employment series previously provided by the Local Area Personal Income program of the Bureau of Economic Analysis.

In sum, the rural development title in the new farm bill will continue to sustain and grow natural monopolies in utility and intermediary agribusiness sectors, and will enable farm size increases. On a positive note, it may also quit penalizing communities that grow past 10,000 population, and it may encourage region-wide coordination. But it offers little to inspire non-farm sector rural business development or to stem outmigration from farming-dependent areas. It offers little to the average person in small-town and rural America who is not a professional developer, in agribusiness, or a utility or broadband provider. The rural Americans who agree that "*Turning to big government to solve our rural and small-town economic problems will do more harm than good*," may well be correct. But we may never know because the new bill fails to enable the program evaluation that could help distinguish effective programs from counter-productive ones.

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