

Testimony of Peter K. Froelich, Ph.D.
Coordinator of the Great Plains Population Symposium Project
before the United States Senate Committee on Finance
Sioux City, Iowa
August 25, 2004

Mr. Chairman, I would like to thank this committee for providing me with the honor of speaking with you today. I thank you for your holding this hearing and congratulate you for your wisdom in recognizing that rural issues are critical for our nation. My name is Peter Froelich and I am an assistant to the President at Dickinson State University in Dickinson North Dakota. I was also the coordinator of the Great Plains Population Symposium Project. I am a sociologist who has studied the demographic trends and communities on the Great Plains. I am also a citizen from the rural Great Plains and I have direct experience with life in the communities there. I have been invited here to describe what I have learned about the population trends affecting rural America and to briefly comment on the New Homestead Act and the Rural Investment Tax Credit provisions that are included in the JOBS Act and the HIRE Act.

The need for action to preserve the communities in much of rural America is urgent. The communities in agriculturally dependent rural areas have been slowly eroding for decades, and many are now gone or very nearly at their end. Nowhere is this erosion more evident than in the Great Plains, at the very center of the nation. As rural communities erode, rural American culture is also disappearing. I believe that the conditions leading to the loss of youth and young families through out-migration are the greatest current threat to rural America. I also believe that an absence of viable populations and healthy local societies may eventually undermine the security of America's vast rural territories along with the security for its food system and large portions of its basic infrastructure for transportation, energy production.

Rural communities are being silently destroyed by the out-migration of young people, consolidation of agriculture, and the concentration of amenities and non-agricultural opportunities in urban places. Although the problems of rural America may be manifested at the local level, the roots of those problems are often beyond the reach of local leaders. The vision, understanding, and support of our national leaders are critical for rural well being. Rural America needs a national policy that aggressively addresses rural population loss and the fundamental changes in the economic underpinnings of rural communities. Today only a small minority of rural Americans farm as their primary occupation. If rural communities are to survive, there must be a new vision for rural society that extends beyond an agricultural base. I believe such a vision can only develop through the understanding and considered action of national leaders such as yourselves. Your work here is critical and the members of this body should be commended for your continuing efforts on behalf of rural people.

It is critical that we develop a new framework for rural policy that recognizes the many rural issues that cannot be adequately addressed through farm policy. I applaud your efforts to help rural people overcome obstacles to rural well-being. I encourage you to continue

pressing for a new and broader policy framework through which rural well-being can be assured and the diverse issues that affect rural communities can be comprehensively addressed. I strongly support the proposed “New Homestead Act” (S. 602) which is a promising step toward establishing such a framework.

Trends and Conditions

There has been a consistent and continual loss of a substantial portion of the population from rural, agriculturally dependent areas of the United States, particularly in the Great Plains. This loss has occurred for at least half a century in many areas and now threatens the very existence of many communities within these regions. Figure 1 shows the distribution of population declines nation wide between 1990 and 2000.

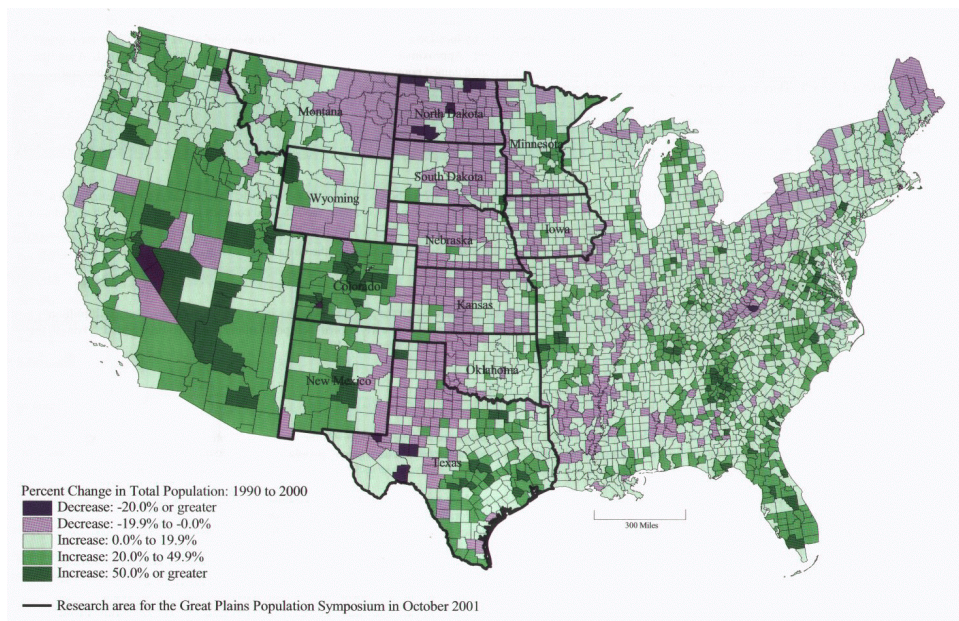


Figure 1: Population Change 1990 to 2000

Out-migration tends to be age-specific and it is younger people who are most likely to move. The loss of younger people and the aging of those who remain have shifted the age structure of rural populations with the result that there are declining birth rates and rising death rates. In an increasing number of rural counties there is natural population decrease because deaths now exceed births. Figure 2 shows counties in the Great Plains states that have experienced natural population decrease between 1980 and 1999. Because the trend for out-migration from rural areas is on-going and tends to occur most heavily among the young, we can expect that the extent of natural decrease will spread in coming years and an increasing number of rural communities will lose the biological vitality needed to reproduce themselves.

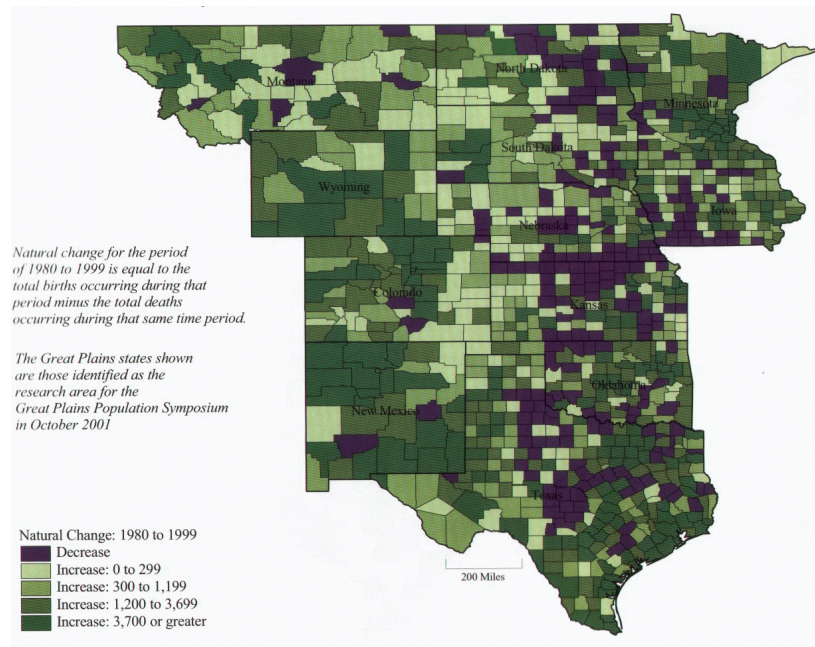


Figure 2: Natural Population Change in Great Plains States 1980 to 1999

The impact of out-migration on the populations of rural areas can also be seen when the age and sex structure of rural counties are displayed graphically in the form of population pyramids. The graph for a healthy population that is maintaining itself or growing will be shaped more or less like a pyramid and will be wider at the base where the bars for younger cohorts are displayed and narrower at the top where the bars for older cohorts are displayed. The population pyramids for many rural counties are beginning to look like inverted pyramids in that the bars for the oldest cohorts are wider than those for younger generations.

As an example, figure 3 shows a population pyramid for McIntosh county in south central North Dakota. It depicts a population with failing vital signs that is losing its potential to maintain itself without an influx of new people in their child bearing years. In addition, this county will face enormous social and economic problems. It will face a staggering burden in meeting the social and health needs of a growing population of elderly people, its schools and services for youth will be difficult to maintain, its entry level labor force is nearly depleted, and its pool of potential new leaders is almost gone. Out of 53 counties in North Dakota, the pyramids for all but 3 indicate the development of a similar pattern of loss among the younger ages, particularly young adults. The population pyramid for McIntosh county North Dakota portends an unfolding disaster. It is a pattern that is repeated in many rural areas suffering from out-migration.

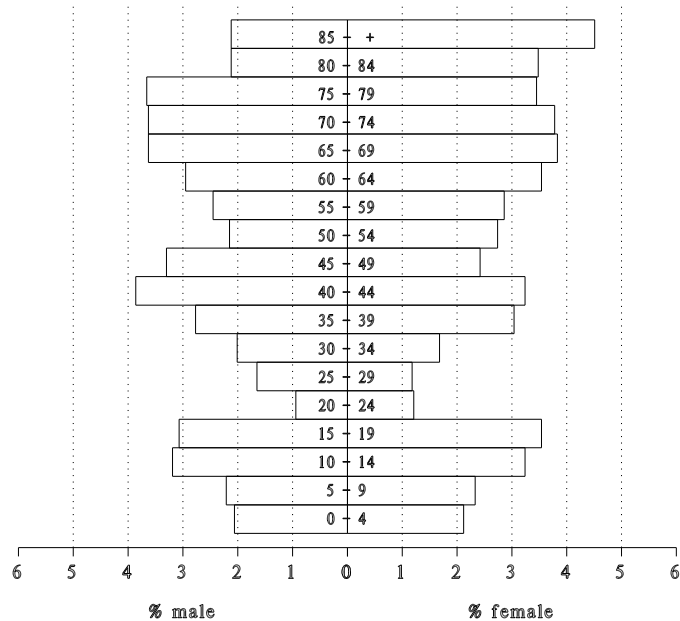


Figure 3: 2000 Age and Sex Structure - McIntosh County, North Dakota.

In October of 2001, my colleagues and I hosted a symposium conference focused on national policies for addressing the ongoing population losses from the rural Great Plains in Bismarck, North Dakota. At the symposium we heard evidence of a wide variety of problems impacting the Great Plains and rural America in general. The problems faced by McIntosh County are faced by counties across rural America. Population loss and the shifting age structure has strained the social infrastructure and makes it increasingly difficult to maintain services for younger people while also meeting the growing needs of the elderly. Out-migration is a growing constraint on the potential for rural prosperity with the loss of labor, income, leadership, and entrepreneurs.

At a time when health care is becoming a critical concern for meeting the needs of an aging population we find that our rural health care system lags behind the nation in terms of availability, cost, and quality. As might be expected, the health status of rural residents is also lower than that of non-rural residents. Rural health care receives inadequate support and reimbursement from government programs, and the insurance industry. There are fewer quality facilities, and payments for services have been lower in rural areas. It is more difficult to find and retain physicians and health professionals who want to practice in rural areas. Rural residents are more likely to be uninsured and must often travel for even basic care. There are fewer alternatives for care in areas with low population density and it is difficult to achieve economies of scale. Costs for services and for prescriptions tend to be higher. The challenge of providing even basic health care has contributed to a lack of emphasis on preventive medicine and a higher proportion of rural residents who suffer from ailments which could have been avoided.

While rural areas and communities of the Great Plains are known for high levels of certain aspects of what is called “social capital;” growing shortages of leadership, the increasing potential for conflicts of interest, continuing social inequality, exclusion of some groups from development efforts, and the inability or unwillingness of many rural people and communities to abandon small town rivalries are all identified as barriers to development of the kinds of social capital needed for successful rural development.

The rural economy in the Great Plains and elsewhere in the United States continues to be dominated by commodity agriculture and low wage employment. Communities with local economies based primarily on the availability of low cost labor and commodities which can be produced cheaply in many places around the globe are truly involved in a global race to the bottom of the economic ladder. For those communities economic inequality and decline are likely to continue.

The flat opportunity structure of rural economies are out of step with a society that values educational achievement. There is a direct relationship between wage levels and opportunities for advancement and the number of college graduates who leave rural areas. On average, the State of North Dakota loses roughly the same number of college educated people as its colleges and universities produce. Rural businesses that could once rely on high rural fertility to supply them with cheap labor are soon likely to find that they cannot hire help at any price. Although increased wages for rural workers may be difficult for some small business enterprises, the first response to low wages by today’s rural young people is often simply to leave. In North Dakota, it is rare to find a young person who says they are willing to accept low wage employment in order to stay in their community. None of these businesses are likely to survive when their local labor pools are finally emptied. The loss of our highly educated young people is also a severe obstacle to new growth and diversification of rural economies.

Rural assistance has depended heavily on government payments to the individuals involved in agriculture. In comparison with urban America, a much smaller proportion of federal funds go to rural community development projects. The emphasis on individual transfer payments over funding for community development contributes to a lack of investment in rural economic infrastructure and a continuing lag in rural well being. It is critical that our national policies recognize the need for new investment in the infrastructure and economic capacity of rural places and seek to either provide or stimulate that investment.

Eligibility for assistance through federal grants often hinges on criteria that make sense for the conditions in urban but not in rural America such as high levels of poverty or unemployment. While high rates of poverty or unemployment may indicate the distress of urban communities, high out-migration is often the rural response and is a key symptom of rural economic distress. It is critical that our policy makers consciously avoid creating policies that create unintended disadvantages to people and businesses located in rural areas because by relying on inappropriate measures and criteria that fail to give adequate weight to rural realities.

There has been job growth in some rural areas over the past decade but the economic

progress of rural communities is uneven and on average rural wage earners make only about 70% of what their urban counterparts make. Approximately 60% of rural communities are seeking new “economic engines” that can provide adequate employment for their residents. New technologies are often promoted for their promise to reduce the disadvantages of rural location, however, that promise is not being realized. Rural communities continue to lag behind urbanized areas in the development of new technological infrastructure and commercial e-business enterprises. There is a digital divide between rural and urban America, and rural America lags in two key areas: access to state of the art broadband internet services and wireless services.

Although jobs are an important reason for many people to move to or stay in a community, our research shows that people are most likely to come to a rural Great Plains community because of family connections. Unless forced to leave, they are most likely to stay in a community because it is a nice place to live and because of their family connections. Rural development efforts have too often focused narrowly on primary sector economic development and ignored other aspects of the community including economic enterprises that enhance quality of life. Social and economic relationships are both important. The people most likely to leave rural communities are those who are the least connected to their communities, regardless of employment opportunities. They tend to be under the age of 30, live alone, and dislike the social climate and/or the lack of infrastructure, services, and consumer choice. People can find economic opportunities in many places, but they are most likely to stay in rural communities when they are connected to those communities by more than a job.

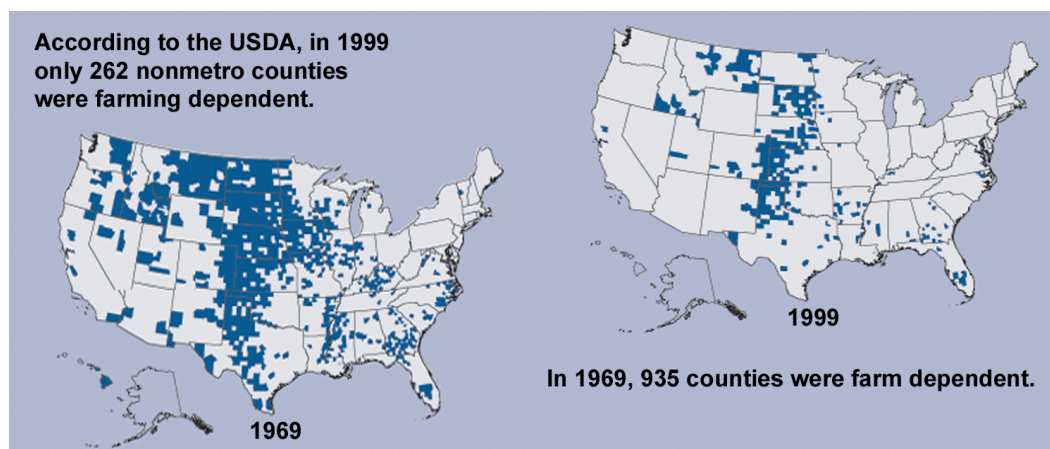


Figure 4: The Declining Number of Farm Counties.

The decline of rural America is often attributed to the consolidation of agriculture, but it can also be said that an equally important cause for rural decline has been a failure to develop new opportunities outside of agriculture in rural areas. Figure 4 illustrates the declining number of farm dependent counties in the United States. There is a striking similarity between the earlier pattern of farm dependency and the pattern of population loss depicted in Figure 1.

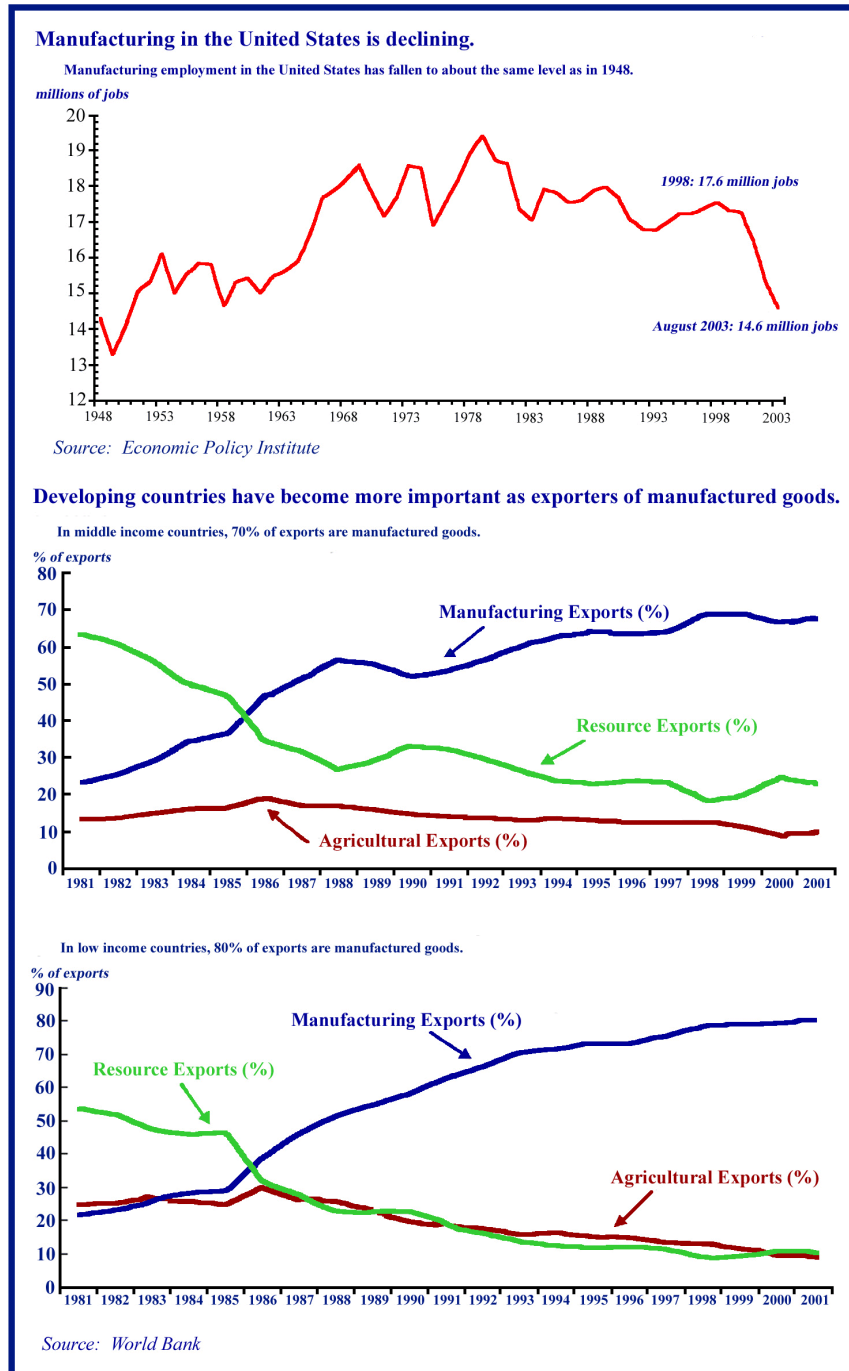


Figure 5: Manufacturing Exports and US Manufacturing Jobs

Local entrepreneurship is critical to the future of rural America. Rural economic development has also often relied on strategies aimed at attracting businesses from outside, especially branch manufacturing plants. Globalization has made this strategy more difficult as many of the businesses that are willing to relocate are now likely to move out of the country. Figure 5 illustrates how the loss of manufacturing jobs in the United States has corresponded

with increased exports of manufactured goods from developing nations. In effect, globalization is causing industrial development to leap-frog over rural communities in the United States and take root in other countries where the lowest production costs can be found.

If rural places are to prosper, they must have a national rural policy that encourages rural people to be builders and that supports local institutions that can help them identify and address a diversity of opportunities and conditions. Rural economic development is most likely to have long term success when it fosters local entrepreneurship. It must support a range of enterprises, both those in primary industries and those that lead to a high quality of life and build the economic multiplier effect within the community.

In the United States today, achieving such a policy is an immense challenge because there is no unified vision for the future of rural America and rural people are continually challenged to define the contemporary value of their communities to the nation as a whole. Rural Americans need leaders who can help them articulate a vision that brings them back into the mainstream of American life. They need policies that are sensitive to the differences between rural places, that protect and enhance rural environments, and that help rural communities develop from within in new directions.

Comments on the New Homestead Act, The JOBS Act, and the HIRE Act.

The willingness of Congress to fund programs such as the Great Plains Population Symposium, and propose legislation such as the “New Homestead Act” (S.602) show that our nation’s leaders are concerned with the future of rural America. S.602 provides strong incentives for young people to stay in or relocate to the rural communities that have been most heavily impacted by the out-migration of youth. The bill counters a number of issues that may drive young people away from rural places by offering to help repay college loans, provide tax credits for the purchase of new homes, protecting from losses of real estate values. By establishing homestead savings accounts with matched deposits the bill also provides a source of financial support for aspiring entrepreneurs and a clear advantage to those who would stay in the effected areas.

The findings of the Great Plains Population Symposium project strongly suggest that the future of rural communities depends heavily on their ability to foster entrepreneurship. The tax credits for small business investments in S.602 are especially important for supporting entrepreneurs in high out-migration areas. These incentives will help rural people in high out-migration areas build and expand the businesses needed to re-establish economic vitality in their communities. The difficulties that rural entrepreneurs encounter in obtaining appropriately scaled equity investment capital was also frequently mentioned as an obstacle to rural entrepreneurship in our discussions of the impediments to rural development. The provision in S.602 for the establishment of a New Venture Capital Fund will have a major impact on rural entrepreneurship by ensuring that rural entrepreneurs and companies in high out-migration areas will have access to the equity capital they need.

I would like to thank you for moving ahead with some of the provisions of S.602. It is my understanding that both the JOBS Act (S.1637) which was passed by the Senate in May and the proposed HIRE Act include rural investment tax credits similar to those proposed in S.602. “Rural Investment Tax Credits” will encourage investments in high out-migration counties by annually allocating \$185,000 for each high out-migration county to offset business costs of up to 70% of the present value for new buildings or 30% of the present value for existing buildings over 10 years. These credits will create a clear advantage for businesses that are able to take advantage of them. “Rural Small Business Investment Credits” will also be made available to help offset up to 30% of the costs of small businesses in high out-migration counties in states that choose to allocate a portion (up to 10% in the JOBS Act or 20% in the HIRE Act) of the rural investment tax credit allocation for that purpose.

I strongly support these tax credits because they will help support the entrepreneurs who are needed in our declining rural areas. The evidence I have reviewed suggests that for most declining rural places the best development opportunities will involve supporting local entrepreneurs and small businesses. These Rural Small Business Investment Credits are especially important because they are specifically targeted to small businesses with 5 or fewer full time employees. In southwestern North Dakota, where I live, nearly a third of all jobs are due to self-employment. Though they are seldom recognized, such small businesses are a mainstay of the local economy and will likely be a key for the revitalization of rural areas.

Given the resource constraints under which you must act, I applaud the wisdom and courage you have displayed in advancing these measures. If I were to make any adjustment to these provisions it would be to strengthen the level of support for small business development by raising the limit for the proportion of funds that can be allocated for Rural Small Business Investment Credits to at least the 20% level that is specified in the HIRE Act so that there can be more flexibility in supporting aspiring entrepreneurs who may or may not need to make investments in real estate in order to address the opportunities they have identified. I also urge you to continue your efforts to fully enact the provisions in the New Homestead Act (S.602).

I would like to thank you again for the opportunity to be here today and I hope that my comments are useful for your important work.