

Testimony of Peter K. Froelich, Ph.D.
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Hearing on Small Business and Rural Economic Development
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Mr. Chairman, I would like to thank this committee for providing me with the honor of speaking with you today. There is a crisis in Rural America with implications that I believe will eventually threaten the fabric of the entire nation. The communities in agriculturally dependent rural areas have been slowly eroding for decades, and many are now either gone or very nearly at their end. Nowhere is this erosion more evident than at the very center of the nation, in the Great Plains. As rural communities vanish, the 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 and that an absence of viable populations and healthy local societies will eventually undermine the social order and the security of America's vast rural territories along with the security of America's food system.

I thank you for your holding this hearing and congratulate you for your wisdom in recognizing that this is a critical issue for our nation. My name is Peter Froelich and I am an assistant to the President at Dickinson State University in Dickinson North Dakota. Since July of 2000 I have served as the coordinator of the Great Plains Population Symposium Project. By profession I am a sociologist. I am not an expert on policy but I have devoted my life to understanding communities, culture, and the lives of people. While I have lived in other places, I am also a citizen of the rural Great Plains and my origins are there. I know many of the difficulties faced by residents of rural communities through my own life's experience.

The Great Plains Symposium project was created by Congress to focus on the population trends affecting the Great Plains along with national, state, and local strategies through which we might address them. Our project was planned in collaboration with advisors and researchers at Iowa State University, Colorado State University, University of Montana at Missoula, and North Dakota State University. We also collaborated with an amazing collection of experts and intellectuals from around the country who are concerned for the future of rural America and we discussed the issues impacting rural communities with an array of over 650 citizens who attended facilitated workshops during the two events we hosted. On our web site we have posted videos of the presentations of many of our collaborators. When we are finished we will have a video archive of collected wisdom from over 40 experts that is available to anyone with internet access. I am indebted to all of these people.

Although the problems of rural America may be manifested at the local level, the roots of those problems are often far beyond the reach of local leaders. The vision, understanding, and support of our national leaders is critical for rural well being. If its communities are to survive, rural America needs a national policy that aggressively addresses population loss. Only a small minority of rural Americans farm as their primary occupation. This is a fundamental change in the underpinnings of rural communities that demands a new vision for rural society. 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 on the progress they have made. Despite numerous important rural initiatives, however, there is no single framework outside of agriculture through which a new vision and new policies to address the diversity of issues affecting rural communities can be articulated. The New Homestead Economic Opportunity Act (S. 1860) that has been proposed by Senators Byron Dorgan and Chuck Hagel is a promising step toward such a framework. It is a proposal that I support and I encourage you to give it your full consideration.

I have been asked to briefly describe the population trends affecting rural America and to lay out at least some of the general principles that may help guide your efforts to sustain rural America. I am grateful for your consideration of these issues and sincerely hope that what I have learned will be useful to you.

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 well being and the very existence of many communities within these regions. Figure 1 shows the distribution of population declines nation wide between 1990 and 2000.

The out-migration of younger people has been accompanied by the aging of those who remain. Shifts in the age structure of rural populations have lead to declining birth rates and there has been natural population decrease in an increasing number of rural counties where deaths now exceed births. Figure 2 shows counties that have experienced natural population decrease within the Great Plains states 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 decline will spread in coming years and an increasing number of rural communities will lose the biological vitality needed to reproduce themselves.

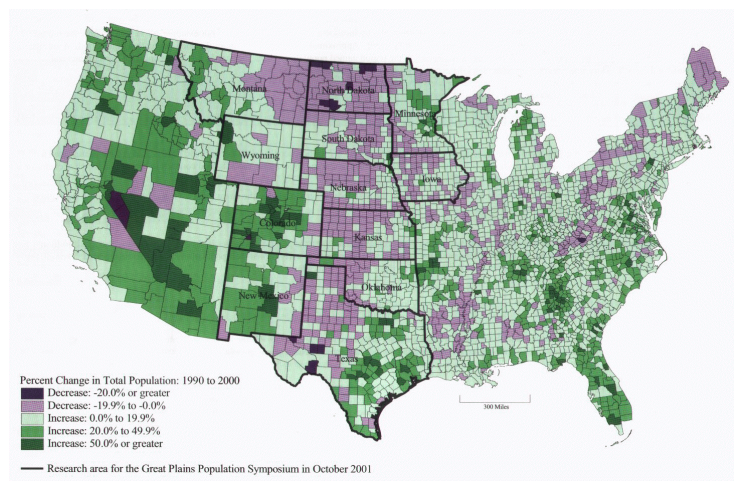


Figure 1: Population Change 1990 to 2000

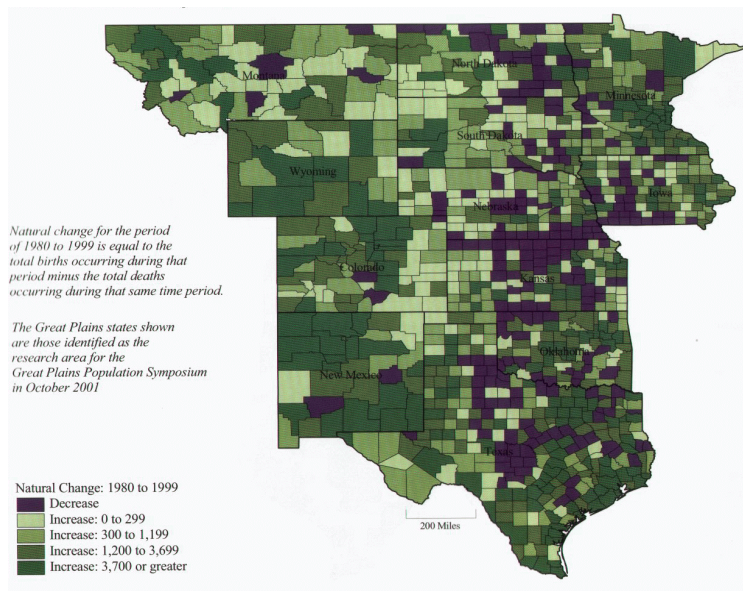


Figure 2: Natural Population Change in Great Plains States 1980 to 1999

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 has all but lost the possibility of maintaining itself without an influx of people in their childbearing years. In addition, it indicates that 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 all but depleted, and its pool of potential new leaders is almost gone. Out of a total 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. This population pyramid for McIntosh county North Dakota portends an unfolding disaster and it is a pattern that is repeated in many rural areas suffering from out-migration.

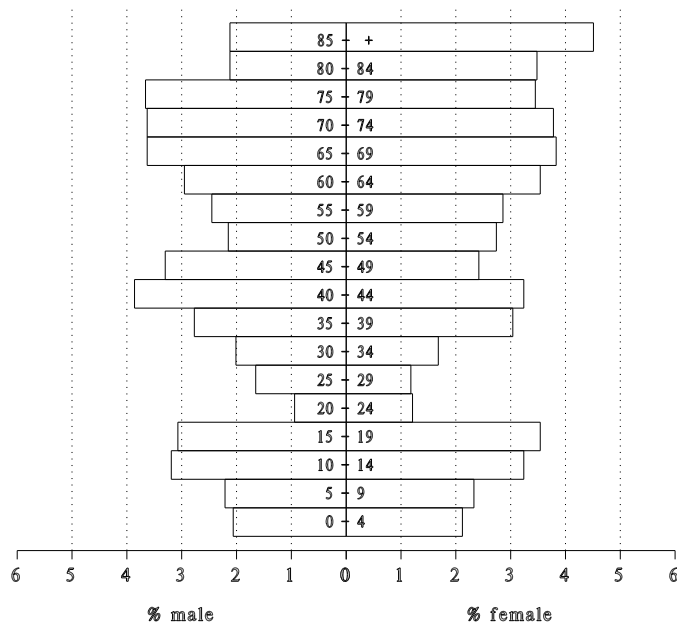


Figure 3: 2000 Age and Sex Structure - McIntosh County, North Dakota.

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, affordability, 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 are 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.

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 minimum 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. On average, the State of North Dakota loses roughly the same number of college educated people as its colleges and universities produce. The flat opportunity structure of rural economies are out of step with a society that values educational achievement.

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. It is also critical that our policy makers consciously avoid creating policies that create unintended disadvantages to people and businesses located in rural areas. For example, eligibility for assistance through federal grants often hinges on criteria that make sense for the conditions in urban but not in rural America. While high rates of poverty or unemployment may indicate the distress of urban communities, high out-migration is often the key symptom of distress among rural communities.

Although there has been job growth in some rural areas over the past decade, the economic progress of rural communities is uneven and on average rural wage earners make only about 70% of what their urban counterparts make. At present, approximately 60% of rural communities are seeking new “economic engines” to sustain them. 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 for voice and data communication.

Rural development efforts often focus too narrowly on economic development. 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. The rural policies of many other western societies recognize the value of maintaining rural communities and approach rural out-migration as an issue of “social equity.”

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 and services. 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. Rural economic development is most likely to have long term success when it fosters local entrepreneurship, leads to a high quality of life that is enjoyed by residents, creates products and competitive advantages that reflect the uniqueness of the places where they originate, and encourages collaboration among neighboring communities to enhance regional competitiveness.

If the Great Plains states are to prosper, they must have a national rural policy that recognizes the diverse conditions faced by different rural places and allows for regional governance that can address the real range of local issues and local people. The United States has become a suburban nation and achieving such a policy will be an immense challenge because there is no unified vision for the future of rural America. Rural Americans are pleading with their national leaders to help them find a new vision to sustain their communities and institutions and at no time since the civil war has the need for a new national vision of rural prosperity been greater.

It is an enormous challenge and I must admit that until recently there have been few promising signs, but there are a few. This hearing and the willingness of Congress to fund programs such as the Great Plains Population Symposium which I have been involved with shows your willingness to aid rural Americans in their search for that new vision. The REAP program is providing a model for developing federal and local partnerships for regional rural investment. Great strides have also been made with the recent passage of legislation such as the Rural Strategic Investment Program in the Farm Bill. I believe that the “New Homestead Economic Opportunity Act” (S. 1860) will be a major step toward reinventing rural America if it is enacted into law. Its provisions would attack rural population decline at several levels. It will help address the loss of youth with incentives for college graduates to locate within distressed rural counties and tax provisions to encourage home ownership and it includes important

incentives and resources that will be keys for the development of rural businesses including tax credits and the development of venture capital funding that is devoted to the unique needs of rural enterprise. I would again like to strongly encourage you to give serious consideration to this proposal.

After the symposium on National policies for addressing population loss in the Great Plains last October I tried to summarize the major ideas pertaining to national policies that had emerged. I would like to share those ideas with you and emphasize that the extent to which your actions reflect these principles and the measures you have enacted already encompass these suggestions you can be assured you will have the gratitude of many rural Americans. There is more information about the outcomes of the Great Plains Population Symposium Project on the internet at: <http://gppop.dsu.nodak.edu> .

Values and Principles For Rural Policy

There is great diversity within rural America and it is difficult to anticipate all of the decisions that are likely to have implications for the populations of rural communities. Yet if we are to have sustainable communities there must also be consistency. For this reason, policy decisions should be made within the framework of a broader vision for rural America that is in tune with the times and with the specific places where it is applied but which also has consistent and ethical principle at its foundation. It is critical, therefore, that we articulate the outcomes we value and the principles that will guide us. During the course of the symposium project, a number of ideas were forthcoming that may be considered as expressions of values and/or principles to guide policy decisions. The following ten statements summarize those ideas:

- 1) **Rural economic policies must not focus only on protecting vested interests, but must also foster new interests.** The policy framework for rural America must not favor one sector, one group, or one type of capital. Rural economic policies should utilize all available resources and seek to create both opportunity and equality.
- 2) **National policies and programs for rural America must be made more comprehensive. They must extend beyond a narrow focus on agriculture and begin to address the full range of rural people and rural issues.** Although federal agricultural policy may be justifiable on its own merits, it must be recognized that agricultural policy is not synonymous with rural policy.
- 3) **Rural America cannot be viewed in isolation from, or in opposition to, the rest of the nation.** We must have a cohesive constituency for rural America and rural policy should reflect that. Rural people and their leaders can ill afford bitter partisanship or devotion to narrow special interests. They must achieve a shared vision and form broad coalitions. They must also have political support for rural issues from the suburban population. It is critical that rural leaders articulate the value of rural America for today's nation and help rural people appreciate and accommodate the values that are likely to guide the views of non-rural Americans.
- 4) **The maintenance of rural population and settlements should be made an overt goal of**

rural policy. Although many policies may be assumed to support rural communities, their potential impacts on rural population is seldom described or evaluated in explicit terms. If we intend to maintain the populations of rural communities, especially in farm dependent areas, we must make it an explicit goal and we must take care to insure that the array of policies which relate to rural issues do not contradict this goal.

5) Rural policy should be “place based policy” and should focus on enhancing the opportunities and the quality of life in specific rural places. “Quality of place” relies on a range of natural, cultural, social, and commercial amenities that characterize any given place. Rural policy should help communities establish their identities as “places” and find ways to raise the quality of life they offer. In this light, economic development efforts should attempt to develop or capitalize on unique qualities of individual rural places. Rural policy should also facilitate collaboration among neighboring communities to pursue regional projects that are beyond the grasp of a single community but that may benefit them all. Although subsidies to individuals and businesses may sometimes be necessary, a substantial proportion of public support for rural areas should be invested in developing the aspects of places necessary to support thriving communities.

6) Rural policy must acknowledge the diversity of places, communities, and people in rural America. In a world where people can live where they choose, the attractiveness of a place or a community is likely to rest at least in part upon its uniqueness. Although communities may share some problems in common and must all meet the basic needs of their people, they also possess their own unique qualities and face their own unique problems. Rural policy must recognize the diversity of rural America. Rural programs must have the flexibility to assist rural communities to differentiate themselves, address their unique problems, and develop competitive economic advantages based upon the unique qualities of the places where they exist.

7) Rural development efforts should emphasize local entrepreneurship over business recruitment. Although communities should not ignore or discourage development or investment from outside, they must be careful not to offer incentives from which they may gain too little benefit. Communities may gain a great deal more from the efforts of successful entrepreneurs with local roots. It is critical that we develop and support a new generation of entrepreneurs who want to live and work in a rural area and who have ties to the community they live in. Rural residents must be made to once again believe that they live in a land of opportunity where it is possible to start a successful enterprise within their own community.

8) The nations policy should enhance the value of rural areas by encouraging the preservation and restoration of the rural landscape and support rural people as good stewards of the environment. Although rural and urban Americans may differ in their views regarding some environmental issues, both populations value high environmental quality. Most of the nations scenic and natural wealth are in rural America and rural policies should recognize and support the scenic and recreational value of rural landscapes as well as the ecological services rural areas provide for the society as a whole. Rural policies should seek to protect the quality of rural environments and enhance the economic opportunities for rural people that may

stem from the unique environmental features of the areas where they live. All policies affecting rural areas should avoid the creation of perverse incentives for environmental abuse and should reward sound environmental practices.

9) Space is an important resource in the rural Great Plains. Although distance is often framed as a rural liability, it is also true that the space in rural America can be viewed as an asset. Rural space offers opportunities for developments that may be problematic for already congested urban areas. Many urban areas that are struggling to cope with increased overcrowding and congestion may benefit by forming partnerships with rural areas for a more dispersed pattern of development. While the space available in some rural places may be valuable for its potential to alleviate urban overcrowding, rural space may also offer recreational opportunities that cannot be had in more crowded urban areas. It is important, therefore, to preserve the environmental and scenic qualities of many rural places, while finding appropriate ways for rural residents to benefit from the space they enjoy.

10) Agricultural policies should seek to maintain rural settlement and help the economies of rural communities move away from a narrow dependence on the large scale production of low value commodities. Agriculture in the rural Great Plains is an important national resource. It is a foundation for the safety, security, and quality of the nation's food system. The consolidation of agriculture, however, has contributed greatly to the decline of rural communities. If communities are to recover, relatively small scale agriculture must be made profitable, and it must become possible for young people to enter successful careers in agriculture. Farm policy must support the production of higher value specialty crops, reward farmers for "ecological" services, begin to discourage further consolidation of agricultural wealth, and facilitate the inter-generational transfer of agricultural resources to younger people.

Recommendations for Rural Policy

Perhaps the most difficult aspect of the symposium process has been the effort to develop meaningful recommendations for national level policies that could directly impact the demographic trends occurring in the rural Great Plains. Many good suggestions may not actually influence population trends and some of the factors driving current demographic trends are not susceptible to direct influence by government, at least not within our society. Other pressing issues can only be addressed at the local level or possibly by the states. Nonetheless, it is unlikely that successful efforts to mitigate the population losses on the Great Plains will occur without the legal and organizational framework or the resources that only the federal government can provide.

The following list of policy recommendations generally representative of the many suggestions from participants at the symposium. They are formulated to be understandable in a general sense and can be taken as relevant to the national government. Although this list does not address every issue faced by rural people, it does attempt to address key issues raised at the symposium and describes, at least in a general fashion, how the federal government should respond to what is happening in the Great Plains.

1) **A New Rural Policy Framework** Congress should begin development of coherent legislation aimed at sustaining the whole of rural communities and reconcile current farm legislation into that broader framework.

2) **Criteria for Federal Aid** Extensive population loss through out-migration should be recognized and explicitly included among the criteria that are sufficient to qualify for federal programs aimed at helping distressed communities.

3) **Equity of Payments for Services** Revise the systems used by federal programs to pay for services to insure that the quality of services and the level of reimbursement are equal between rural and urban providers. This is especially critical for health care providers, but should be enacted for any professional services that are vital to the well being of rural communities.

4) **Congressional Commission on Rural Life** Create a permanent commission on rural issues to advise Congress about rural people, rural problems, new programs, and the impacts of legislation on rural communities and rural population.

5) **Public Investment in Rural Development** Expand the REAP program into a flexible system for public investment in the diverse rural development and rural infrastructure needs that exist throughout the Great Plains.

6) **Rural Technological Infrastructure** Provide incentives and direct investments to make state of the art technological infrastructure, such as broad band internet access, available to the residents of all rural areas within the Great Plains. Where possible, government agencies should also combine their purchasing power to serve as “anchor customers” in order to encourage private investment in rural technological infrastructure. The national government should promote universal access to state of the art technological infrastructure as a means of providing a new kind of “homesteading” opportunity that can be capitalized upon by entrepreneurs seeking to make their lives in rural areas.

7) **New Technology and Innovation Extension Service** - Sponsor a new type of rural extension service focused on conducting research and providing technical assistance to rural residents and communities regarding: leadership development, entrepreneurship, new technologies, and new opportunities.

8) **Regional Rural Innovation Centers** - Establish a system of multi-county regional rural innovation centers to promote rural innovation. These centers would become a locus for programs aimed at maintaining rural communities and for the development and promotion of innovations useful to the rural communities within their regions. These centers would offer technical assistance to community leaders, entrepreneurs, and developers. They would conduct regionally focused applied research on problems of importance to the communities they serve. They would be repositories of information about efforts that have been tried in other places, and would conduct programs to educate rural residents and especially youth about entrepreneurial possibilities. They would also serve to facilitate networking among people, businesses,

organizations and agencies needed for people to bring their ideas to fruition.

9) **Immigration policy** - Federal immigration policy should be formulated to encourage new residents from foreign lands to move into rural areas as an alternative to larger urban centers. Resettlement and refugee programs should be expanded to assist rural communities throughout the Great Plains to meet the needs of new international migrants and also to make positive adjustments to the changes necessitated by greater diversity.

10) **Educational Enhancement** - Provide expanded support for rural schools to meet the needs of rural residents by enabling them to expand their use of technology, establish networks with institutions of higher learning for providing adult learning opportunities and technical education, and to develop appropriate learning enhancement programs to meet the needs of multi-cultural students.

11) **Venture Capital and Business Financing** - Create and/or encourage new venture capital funds and business financing programs for entrepreneurs in rural areas that seek to make sufficient returns to maintain the availability of funds, but also have rural community development as a goal and can therefore accept lower returns than might be possible with other investments.

12) **New Focus for Agricultural Research** - Shift the focus of federally funded agricultural research toward the development of technologies, crops, value added processes, and “ecological services” that can be economically viable and sustainable for smaller scale farm and community enterprises.

13) **A New Emphasis for Federal Aid to Rural Areas** - Shift the emphasis of federal spending for rural assistance away from a narrow focus on individual transfer payments to agricultural producers toward more general investments in the social, health care, commercial, and productive infrastructure of rural communities. Support for agriculture through farm subsidies should continue as needed, but must be more narrowly targeted to support smaller agricultural producers who are in need. Care should be taken that farm subsidies do not inadvertently support the further consolidation of agriculture into large operations.

14) **Beginning Farmers Program** Create a program to support beginning farmers that will include: special financial support, mentoring and technical assistance regarding best practices and new opportunities in agriculture, and incentives to encourage the transfer of agricultural resources from older farmers to younger beginning farmers such as tax breaks or subsidies.

15) **The Management of Public Lands** The management of public lands within the Great Plains should preserve and enhance their scenic and recreational value. Managing agencies should also be directed to provide organizational support and resources to encourage local entrepreneurs and agriculturalists, who wish to become partners in developing new services that enhance the recreational, tourism, or other **non-consumptive** values of public lands while also contributing to local community development.

I would like to thank you again for the opportunity to contribute to this important debate and I hope that my comments will be useful in your deliberations.