

The Ultimate Reality Test: The New Rural Paradigm and the Global Recession

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**Local Government and the
Declining Fiscal Capacity Adjustment Mechanism**
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Four Considerations

- I. Re-Framing the Challenge
- II. Exploring Current Options for Local Government Response
- III. Assessing the New Rural Paradigm, In Light of This Crisis
- IV. The Obama Administration's New "Place-Based Policy": An Emerging U.S. Opportunity to Advance the NRP Framework

I. Re-Framing the Challenge

Session I Reprise:

- ▶ How Are Assets Used?
- ▶ How Do Different Stakeholders Interact?
- ▶ How Are Synergies Exploited?
- ▶ How Will Rural Areas Fare?

II. Exploring Current Options For Local Government Response

1. Why are sub-national governments critical?
2. What is the current local government impact?
3. How are local governments adjusting?
4. How are national governments responding?
5. What intergovernmental compact adjustments are occurring?

1. Why are local sub-national governments critical?

1. Local governments are often responsible for essential public services (education, health care, social services)
2. 60% of public investments, on average, in the OECD
3. Sub-national governments account, on average, for 31% of total public spending, and collect 22% of total public revenues
4. Often huge total public spending/revenue impact (20% of GDP in U.S.-state/local gov't, 6% on average)

2. What is the current local government impact?

1. Local government revenues falling, spending increasing, and often, increased government debt burden
 - *i.e.*, in U.S., aggregate FY '10 budget deficit for all states will be \$170 Billion;
 - Add FY '11 projections, estimated at \$350 Billion
2. Increased unemployment rate will worsen these burdens
3. Transfer payments, which average around 20% of sub-national budgets, will increase expenditures
4. Some sub-national governments will probably face pressure on interest payments, as a result of increasing debt burden

3. How are local governments adjusting?

1. Not rocket science--fiscal levers are either to reduce expenses (cutting jobs and investment), or increase revenues (raise taxes),
2. Or execute counter-cyclical policies, which increase debt burden
3. Some face the Balanced Budget Challenge (key U.S. problem)
 - Prevents tax cuts and/or increased spending

Several Current Trends (OECD June 2009 Survey)

- Taxes have been reduced more frequently than increased
- Capital and current expenditure cuts are equally frequent
- Half of OECD sub-national governments are increasing spending, despite operational cuts, thus spurring investments
- In nine countries, debt levels are increasing

4. How are national governments responding?

1. Increasing general purpose grants
2. Increasing earmarked grants
 - Mainly capital expenditure financing
 - Some current expenditures
3. Incentivizing sub-national investment
4. Accelerating anticipated infrastructure spending
5. Simplifying fund disbursement mechanisms
6. Facilitating sub-national borrowing
 - Direct loans/loan guarantees
7. Increasing local government tax revenue share
8. Waiving rules re: balanced budgets and allowing borrowing to finance operations

5. What intergovernmental compact adjustments are occurring?

1. A significant potential for structural reform
 - Fiscal arrangements and financial relations
2. Increased coordination/vertical dialogue
3. New mechanisms to reinforce or create regional approaches:
 - Australia (Council of Australian Governments, COAG)
 - City Regions (Italy/United Kingdom)
4. Regional approaches which co-fund local projects:
 - France (FCTVA projects)
 - EC Cohesion Funds (reorient toward specific sectors)
 - Australia (Regional Development Australia)

The New Rural Paradigm

POLICIES AND GOVERNANCE



Impacts to Date

- ▶ Generated significant policy interest
- ▶ Focused policymakers upon major policy and practice principles
- ▶ General agreement framework has great merit
- ▶ Much rhetoric supporting adoption
- ▶ Various components have been operationalized

Still,

THE WHITE HOUSE
WASHINGTON

August 11, 2009

M-09-28

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Peter R. Orszag, Office of Management and Budget
Melody Barnes, Domestic Policy Council
Adolfo Carrion, Office of Urban Affairs
Lawrence Summers, National Economic Council

SUBJECT: Developing Effective Place-Based Policies for the FY 2011 Budget

This guidance memorandum outlines policy principles meant to advance the Administration's domestic and fiscal priorities and to increase the impact of government dollars by leveraging place-conscious planning and place-based programming.

The guidance outlined here is preliminary. It supports an important interagency process focused on investing in what works by evaluating existing place-based policies and identifying potential reforms and areas for interagency coordination. Our immediate objective is to develop proposals for the FY2011 Budget that advance this Administration's policy priorities in the most effective ways whether by improving place-based strategies already operating or by adopting such strategies where there is significant potential for impact on a problem(s).

Place-based policies leverage investments by focusing resources in targeted places and drawing on the compounding effect of well-coordinated action. Effective place-based policies can influence how rural and metropolitan areas develop, how well they function as places to live, work, operate a business, preserve heritage, and more. Such policies can also streamline otherwise redundant and disconnected programs.

White House ‘Place-Based’ Policy

Specific Actions Requested (Before OMB Budget Submission):

1. Identify 3 to 5 programs or initiatives:
 - Outcomes
 - Indicators
 - Options for improving coordination/effectiveness
 - Knowledge-building strategies
2. Principles for Place Policy
 - Clear, measurable, and carefully evaluated goals should guide investment and regulation:
 - Economic Competitiveness
 - Environmental Sustainability
 - Community Health and Access to Opportunity
 - Safety and Security
 - Change comes from the community level and often through partnership; complex problems require flexible, integrated solutions.
 - Many important challenges demand a regional approach.

“...Many important challenges demand a regional approach. The Nation is increasingly a conglomeration of regional economies and ecosystems that should be approached as such. Federal investments should promote planning and collaboration across jurisdictional boundaries. Given the forces reshaping smaller communities, it is particularly important that rural development programs be coordinated with broader regional initiatives. Programs in neighboring zones and within larger regions – some of which connect rural communities to metropolitan regions – should complement each other. Federal programs should reflect better the Nation’s economic and social diversity, both in rural and metropolitan areas. To the extent possible, programs should allow for communities to identify distinct needs and address them in appropriate, strategic ways...”

Conclusions

1. The Impact on Rural Governments Will Last a Decade
2. Central Government Responses Will Determine Ultimate Outcomes for Rural Areas
3. There Will Be Winners and Losers, and Governance, Leadership, & Culture Will Be the Prime Determinants
4. NRP Stands At a Tipping Point: Acceptance, Accommodation, or Irrelevance?
5. The Obama Administration/USDA RD May Well Lead the Way!

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