



Written Statement for the Record

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**Subcommittee on
Conservation, Credit, Rural Development and Research**

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The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

Chairman Lucas, Ranking Member Holden, and Members of the Subcommittee, I thank you for the opportunity to testify before the Subcommittee on Conservation, Credit, Rural Development and Research regarding the USDA Rural Development Program, and applaud your leadership in assuring that rural development concerns receive more primacy in deliberations concerning the next Farm Bill.

I am Charles W. Fluharty, Director of the Rural Policy Research Institute, and Associate Director and Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri-Columbia. RUPRI is a multi-state, interdisciplinary research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations and individual scientists worldwide. To date, over 200 scholars representing 16 different disciplines in 80 universities, all U.S. states and twenty other nations have participated in RUPRI projects.

Mr. Chairman, in testimony before the House and Senate Agriculture Committees in 2001, I recommended seven key rural policy components for consideration in the 2002 Farm Bill:

1. *Developing a more comprehensive rural policy framework, driven by specific federal policy goals and outcomes measures*
2. *Sustaining existing categorical program and funding support.*
3. *Building rural community capacity, collaboration, and leadership.*
4. *Developing a more integrative, cross-sectoral, place-based policy approach.*
5. *Addressing the lack of rural venture and equity capital.*
6. *Supporting approaches which acknowledge the interdependency of agriculture and the rural economy.*
7. *Supporting rural entrepreneurship, in both the public and private sector.*

In 2006, I'm very pleased that real progress is being made on some of these issues. However, much remains undone, and I continue to support the importance of these suggestions. Nonetheless, contexts and circumstances have altered, as with all things. So this morning I would like to address three key contexts which should inform decision making regarding rural development programs within the new Farm Bill:

- **The new rural development perspective within the United States Department of Agriculture / Rural Development, and its impact upon this Farm Bill process.**
- **An emerging set of dynamics taking form across our nation's rural regions, which should be considered by this Congress as framing of elements within the new Farm Bill begins.**

- **USDA / Rural Development programs contained within the existing Farm Bill, and their relevance to A New Rural Vision – Regional Rural Innovation.**

The New USDA Rural Development Perspective

On February 16-17, 2006, the United States Department of Agriculture held its annual Agricultural Outlook Forum. This annual event has a distinguished, storied history. The USDA began laying the groundwork for its first Outlook Forum in 1913. Shortly thereafter, the number of farms in America would reach its zenith, at 6 ½ million. Today two-thirds of these are gone, and most of the producers on the remaining 1 ¼ million farms are working in towns and farming part-time. Approximately 90% of total farm income now comes from off-farm sources, while 150,000 very large farms produce the majority of our food and fiber.

That first Outlook Forum, hosted in 1923, brought together our nation’s most eminent leaders in agriculture, a tradition which remains strongly in force today. Over the last 85 years, however, the Forum has broadened its focus to include discussions of the latest scientific research and new products, global aspects of trade, health issues, and the changing dynamics and economy of rural America. Today, it brings together our nation’s leading producers, scientists, economists, consultants, industry leaders, analysts and public policy makers. It is, without question, the preeminent U.S. agricultural policy forum each year.

The 2006 event, however, was a watershed moment in USDA history, and a landmark event for U.S. rural policy. The Forum title, “Prospering in Rural America,” created a thematic backdrop for the gathering’s central framework –ensuring the future prosperity of all of rural America, through and beyond agriculture.

This became evident to the over 1,700 participants shortly into the keynote address by Secretary of Agriculture Mike Johanns. The full import of this moment was fully grasped as he reached the midpoint of his address, which contained one of his central points :

“This forum is an opportunity to learn and to gauge the changes in agriculture and to get our bearings if you will, not only for the next year but for our future.

I found the same to be true over the past months as we traveled across this great country doing our Farm Bill Forums. Those forums were the place to gain some perspective on the future of agriculture and farm policy and to hear directly from farmers and ranchers. . .

But we heard ideas and concerns that differ from one crop to the next, and as you might expect, from one region of the country to the next. But interestingly enough – and I started talking about this about halfway through the forums because I found it so interesting -- interestingly enough we heard unanimous support for our Rural Development efforts. . .

After hearing such compelling stories about the importance of Rural Development, I came back to Washington eager to examine the state of our rural economy. . .

Reality is that 92 percent of producers, those who manage about two-thirds of ag land, rely heavily on off-farm income. They choose to carry on the great tradition of American agriculture, but they do not depend on it as their sole source of income or in many cases even as their primary source as income.

I am here today to assure all those who stood in line at the forums, I was listening. Now today I'm not prepared to present a detailed piece of legislation but I can tell you that I believe future policy must acknowledge what I have just laid out in terms of the changing face of our rural economy. . .

If most agricultural producers are dependent on off-farm income, then we must pay special attention to our support of rural economies and beyond agriculture. To quote from a report recently released by the American Farm Bureau Federation: 'Farmers are more dependent on rural communities than rural communities are dependent on farmers.' . . .

We have an opportunity to develop farm policy that recognizes that this farm economy has changed. With fewer producers overall and the majority of farm production accounted for by a small percentage of producers, we must thoughtfully consider how we deliver support to rural America. . .”

Secretary Johann’s framework was echoed and enhanced by USDA Under Secretary for Rural Development Thomas C. Dorr. In his comments, Under Secretary Dorr reinforced this emergent emphasis upon broader rural economic dynamics:

“Keeping family farms in business thus means that farmers need good jobs in town every bit as much as good farm policy out of Washington, D.C. In that respect, they’re no different from their neighbors.

Bottom line: 65 million people live in rural America. 63 million of them don’t farm. 96% of the total income in rural areas – and virtually all the job growth -- is from non-farm sources. . .

We are by statutory authority the leading advocate for rural America. Our mission is to increase economic opportunity and improve the quality of life in rural communities. And we recognize that the future of rural America depends on entrepreneurship and technology. . . .

Today, however, USDA Rural Development is a regional economic and community development organization:

- We recognize that sustainable development must be market driven, not program dependent.
- We want to be an investment banker for rural America, not a central planner or a lender of last resort.

- Our role is to support and empower local initiative, both public and private. We are an enabler, not a central planner.
- We also understand that money is part -- but only part -- of that role. We can't pay for everything -- and we don't want to. Rural America doesn't need Potemkin Villages that wither and die the moment the subsidy plug is pulled.
- What it does need is viable businesses, self-sustaining communities, and young families eager to build a future.

The issue is simple to state, but much more difficult to address:

Given the challenges of an intensely competitive, highly networked global economy, what can we do to create sustainable opportunities for growth in rural America?

These comments by the Secretary and Under Secretary set the tone for one of the most energizing rural policy moments in USDA's recent history. As the ensuing Forum sessions unfolded, it became clear that a new departmental perspective and commitment was finally taking hold and being incorporated within the growing consensus across other federal departments and agencies – namely, that a new rural policy framework must become a more central component of the public policy dynamic of our nation. With this recognition, USDA leadership has joined the culminating apex of a decade-long dynamic, in which enlightened rural public decision makers, business and community leaders, and public policy scholars have coalesced around commitments to a set of principles for a new rural policy framework in the United States: “Regional Rural Innovation.”

Today, with the leadership provided by you, Mr. Chairman, this Subcommittee begins the process of engaging USDA in a common commitment to this new vision, and the rural people and places of our nation look forward to this heightened attention and policy consideration.

Key Rural Policy Dynamics

Rural development has remained a “back-water” concern for U.S. public policy over the last four decades, usually rising only with a new Farm Bill tide, and then receding, after sufficient lip-service, with only minimal impact. However, over the past decade a number of dynamics in the U.S. culture and political economy are driving significant new attention to these challenges. The most important components of this context are outlined below:

- Growing Understanding of the True Rural Economy and of Rural Poverty
- The Rural Federalism Disadvantage
- The Rural Disadvantage in Foundation and Corporate Grantmaking
- The Importance of Asset-Based, Regionally Framed Development
- The Necessity of a New “Rural Governance” Framework
- A Systems Approach to Rural Entrepreneurship, both Public and Private

Growing Understanding of the True Rural Economy and of Rural Poverty

As the rural economy in the U.S. continues to consolidate, and as commodity producers, whether in agriculture or manufacturing, are forced to respond to the dynamics of globalization, it is becoming increasingly clear that innovation and technology must drive new rural economic engines, and that this is not only possible, but a necessity. This has helped to support a new commitment to building regional competitiveness strategies that seek to identify and exploit a region's unique assets, and build integrative approaches to optimize this potential. Furthermore, there is now a clear understanding of the delimiting worth of reliance on business attraction strategies, and much greater attention to asset-based innovation and entrepreneurial design, which I'll address briefly below.

There is also no question now that rural is no longer synonymous with agriculture, and that rural economies must become more diverse, as rural incomes continue to lag urban, with the greatest lags most often occurring in commodity-dependent counties.

Similarly, attention to rural poverty has increased over the last decade. While many organizations, institutions and individuals deserve credit for addressing these concerns, much of this is a direct result of specific attention within major philanthropic organizations, including but not limited to the Annie E. Casey Foundation, the W.K. Kellogg Foundation, and the Northwest Area Foundation. Recently, the tragedy wrought by federal and state inability to more effectively address the plight of the poor during Hurricane Katrina has enhanced this awareness. However, in our nation today, persistent poverty is largely a rural challenge, as 340 of our nation's 386 persistently poor counties are rural. Rural median family income is 25% lower, and rural poverty rates 28% higher than metro.¹ And this differential disadvantage is increasingly being viewed by decision-makers as a lag on broader regional economies.

The Rural Federalism Disadvantage

Because the federal government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

One of the largest challenges for rural development in the U.S. remains the inherent structural disadvantage which rural areas face in federal funding commitments. Current federal funding policy inadvertently, but significantly, disadvantages rural areas. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned \$6,131 on a per capita basis to urban areas, while returning only \$6,020 to rural areas².

¹ Economic Research Service, USDA, County Typology

This amounts to a nearly \$5.5 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds.

In Fiscal Year 2001, direct payments as a percent of all federal funds per capita were 50.5% in metropolitan areas and 63.9% in nonmetropolitan America³. This 13% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

Part of this challenge is the fact that Metropolitan Statistical Areas (MSAs) have a “place entitlement” to HUD Community Development Block Grants (CDBG) from the federal government, which assures that these funds will be available each year, allowing multi-year capital and program planning – an excellent aggregation tool for integrative, cross-sector public capacity building. This is also one of the most flexible federal funding programs. Unfortunately, rural towns and cities of less than 50,000 population and counties with populations of less than 200,000 must compete against one another for the smaller, state-administered “State CDBG” program, which is neither assured nor multi-year funding.

These stark community capacity disadvantages are additive. Each year from 1994-2001, the federal government spent two to five times more, per capita, on urban than rural community development, and one third as much on community resources in rural areas⁴. Per capita spending on community resources in 2001 was \$286 per person less in nonmetro areas than in urban America, a \$14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population)⁵.

These rural implications are exacerbated by an ongoing federal “push down” of funding and statutory responsibility to states and localities, which further challenges rural resources and community capacity. Federal block granting has become a more common framework for these shifts, with increasing use of loan and loan guarantees, and fewer direct granting possibilities, which is forcing new interjurisdictional cooperation – a good thing, with reduced federal commitments – a huge challenge. However, while the U.S. has a somewhat incomplete and incremental regional development framework, these challenges have increased interest in new collaboration, and have renewed interest in new regional approaches, which I will address briefly below.

The Rural Disadvantage in Foundation and Corporate Grantmaking

These rural community capacity challenges in federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation’s foundations and corporate grantmakers. In a May 2004 report, the National Committee for Responsive

² Analysis of Consolidated Federal Funds data by the Economic Research Service, USDA.

³ *ibid.*

⁴ W.K. Kellogg Foundation (2004) “Federal Investment in Rural America Falls Behind”

⁵ Economic Research Service/USDA, U.S. Census Bureau.

Philanthropy⁶ noted that of the \$30 billion distributed annually in by our nation's foundations, only \$100.5 million was committed to rural development. Of 65,000 or so active grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations doing rural development grantmaking accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grantmaking foundations in the U.S. have not seriously addressed the rural development needs of not-for-profits serving rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grantmaking in the U.S. amounts to \$12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial / ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants.

The Importance of Asset-Based, Regionally Framed Development

Rural regions must rethink the premises upon which their economic development strategies are based. They must reassess their economic opportunities and redefine themselves by them! This requires that public and private sector decision makers rethink the framework for community and economic development, which begins with an honest assessment of a region's unique competitive advantage, based upon its internal assets. This niche must stand the test of the global marketplace, enable export beyond the boundaries of the region, and build upon a region's assets and its entrepreneurial capacity. Industrial recruitment is an ineffective public sector strategy in a global economy. Capturing and advantaging local wealth and local entrepreneurship is now essential. In this approach, regions must exploit the potential for clustering opportunities, build synergies in technology adaptation, and create new economic models which underscore the interdependence of a region's key economic sectors.

The most critical component of this new paradigm is institutional innovation. Intermediary organizations to create and sustain these dynamics are the key to a region's future. Leveraging local amenities, including culture, heritage and history, investing in human and social capital development, building venture and equity capital mechanisms and advancing local infrastructure and advanced technology all require effective, innovative institutional intermediaries. In this regard, the most essential task is the crafting of a new regional governance.

The Necessity of a New "Rural Governance" Framework

Despite, or perhaps as a result of these economic challenges, a new "Rural Governance" is expressing itself across the U.S. rural landscape. By "governance," I mean the process by which decisions are made regarding the distribution of public and private resources and responsibilities

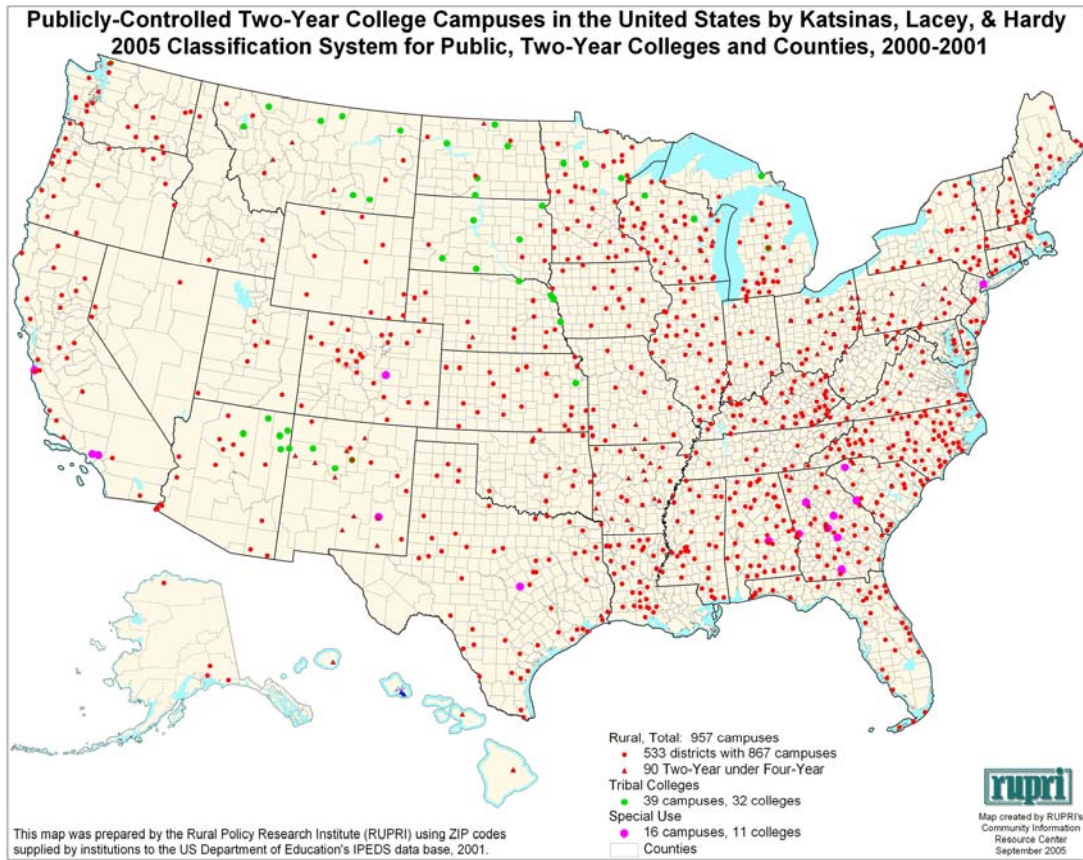
⁶ National Committee for Responsive Philanthropy (2004) "Beyond City Limits: The Philanthropic Needs of Rural America."

across multiple stakeholders, including the public, private and non-governmental sectors. The dynamics in U.S. federalism outlined above are forcing ever greater interdependence of rural governmental and nongovernmental organizations, as the central government's role continues to reduce over time and circumstance. This requires greater coordination, facilitation and negotiation, through multiple policy networks which are often diverse and overlapping. While this offers a possible new set of strategies to confront the community capacity challenge outlined above, it also creates the necessity for new intermediaries to be formed and functioning.

These intermediaries provide the "glue" that enables new rural governance to express itself, and these new actors are now playing critical roles across multiple institutional settings. As an example, over 20 states now have a rural policy center, either located in the office of the governor, within state government, as the result of state legislative action, or operating through the private efforts of regional universities or non-governmental organizations. Intermediaries such as these are becoming much more relevant to state and local governmental decision making, and will play a more important role in the future of rural policy, as these processes evolve.

Some of the most promising new rural intermediary institutions assuming increased community and economic development significance in the U.S. are our nation's rural community colleges. These institutions, often the key human and social capital aggregators in our most isolated rural landscapes, have long fulfilled multiple, unfunded roles in building regional collaboration. With major changes in our nation's workforce investment policy and program design, these rural institutions have taken on added responsibilities and significance. It could indeed be said that these institutions are building the "Extension Service of the Next Century," grounded in place, working from an asset-based value set, sensitive to local culture and heritage, and focused upon building the human capital of some of our nation's most disadvantaged rural citizens.

RUPRI is honored to be working closely with the national Rural Community College Alliance, through our National Institute for Rural Community Colleges, a joint collaboration with Mississippi State and Alcorn State Universities, to assure these institutions become a more central player in future regional rural strategies. As the map below demonstrates, these institutions are uniquely configured, by both geography and mission, to serve this critical intermediary function, and national public policy must take advantage of the rural development opportunities afforded by these place-based colleges.



These new rural intermediaries are as diverse as rural America itself. Community foundations are playing a very significant role in these dynamics. As but one example, RUPRI is honored to be collaborating with the Nebraska Community Foundation and the Heartland Center for Leadership Development in a wonderful new initiative, Home Town Competitiveness.⁷ Yet these intermediaries exist in all sectors, governments and NGO organizations, and are changing the face of decision-making across the rural landscape.

Despite this potential, three critical questions will determine whether these forces are passing fads or sustainable platforms for new policy innovation:

- Will public sector champion(s) step up, take on the New Governance mantle, and support public and private entrepreneurship?
- Will institutional innovator(s) accept the challenge of building these new intermediary structures, and the burdens of institutional innovation?
- Where are the constituencies to support these innovative leaders and institutions?

These are not moot questions, and the Rural Development Title offers a wonderful opportunity to create innovative support mechanisms for rural leadership in these dynamics.

⁷ For information on HTC, see the RUPRI Center for Rural Entrepreneurship at www.ruraleship.org.

A Systems Approach to Rural Entrepreneurship, both Public and Private

Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions. Remoteness from global markets and poor infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and the challenges of building rural entrepreneurial cultures have limited rural participation in the new global economy. However, across the nation today, a new rural entrepreneurial culture and climate is flourishing.

Four principles should drive these efforts:

- Focus on the entrepreneur. Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs ensures that all these programs are aligned in a coherent system, that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.
- Focus on the region. Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.
- Focus on the community. Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades, in spite of the changes that are going on around them.
- Focus on continuous learning. Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Secondly, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and

encouragement to both “opportunity” and “necessity” entrepreneurs, and avoid “picking winners.” We must also acknowledge that failures will occur.

These principles, which became the focus of the W.K. Kellogg Foundation’s Entrepreneurship Development Systems in Rural America national competition last year, elicited responses from over 185 rural regions across our nation. This is a very clear market indication of the willingness and excitement of rural institutions and organizations regarding this new rural regional innovation approach.

In summary, a systems approach must have three critical dimensions to be totally efficacious:

- Regional framings – embracing both urban and rural, tailored to economic, geographic, cultural and demographic diversity.
- Integrative dynamics – cross-sectoral (entrepreneurship opportunities in agriculture, energy, amenities, education, health etc.), cross-jurisdictional (collaboration across public-private-nonprofit organizations and all levels of government) and cross-functional (entrepreneurship education, training & technical assistance, access to debt and equity capital, networking, infrastructure)
- Cultural contexts – building capacity and support for private and public entrepreneurship, focus on entrepreneurs as converters of rural assets into rural competitiveness.^{8 9 10 11}

All this hinges upon the emergence and support of a strong cadre of rural public entrepreneurs. This reality is clearly recognized, and leadership support for this dynamic is being supported in multiple settings across the rural U.S., by major foundations such as the W.K. Kellogg Foundation, regional and community foundations, and corporate grantmakers.

In this regard, I would like to acknowledge my fellow panelists, Mr. Jim Hunt, President of the National League of Cities, and Ms. Colleen Landkamer, President-Elect of the National Association of Counties. These rural public entrepreneurs, leading two of our nation’s important associations of government, have been collaboration leaders in a five year effort among NACo, NLC, NADO, NCSL, CSG, NATaT and other associations of government, to address the new rural governance framework we are discussing today, and support federal approaches which create greater regional innovation flexibility.

Finally, one huge challenge before us remains the development of rigorous, quantitative evaluative tools to assess the return on investment for public sector commitments to these

⁸ Articulation of scope and potential for entrepreneurship in a rural context – Dabson, Brian, Jennifer Malkin et al. (2003) *Mapping Rural Entrepreneurship*. W.K. Kellogg Foundation and CFED

⁹ *Entrepreneurship in specific contexts* – Malkin, Jennifer with Brian Dabson et al (2004) Native Entrepreneurship: Challenges and Opportunities for Rural Communities. Northwest Area Foundation and CFED

¹⁰ Entrepreneurship as a core economic development strategy – Brian Dabson (2005) Presentation to the Secretarial Advisory Committee, Strengthening America’s Communities, Clearwater, Florida, June 2, 2005

¹¹ Comprehensive guidance for rural communities interested in pursuing entrepreneurship – Markley, Deborah, Don Macke & Vicki B. Luther (2005) *Energizing Entrepreneurs: Charting a Course for Rural Communities*. RUPRI Center for Rural Entrepreneurship and Heartland Center for Leadership Development.

systems. Absent such, we will still have too few risk management tools for public entrepreneurs willing to risk such commitments. However, serious attention is currently being paid to this deficiency, and many in the field are discussing approaches to address this challenge.

Several final observations should be made regarding regional approaches, new governance, and entrepreneurship:

1. This new framework should be designed to enable an integration of rural initiatives with farm programs, to advantage rural producers, their rural communities and regions, and their childrens' opportunities to thrive in their rural community in the 21st Century.
2. The sector considerations which have historically been titles in the Farm Bill, i.e., energy, conservation, rural development, etc., should become key components in an integrative new rural vision, and should be considered more holistically in future discussions of this Farm Bill.
3. Finally, we must better link the research title of this Bill, which frames priorities for our Land Grant University research community, with the new rural vision we seek to support through the Rural Development Title. The fsunparalleled potential which resides in our Land Grant University research community must be mobilized to enhance the decision support infrastructure for wiser public policy choice in rural America.

Rural Development, the New Farm Bill, and a New Rural Vision: Regional Rural Innovation

With this Committee's leadership in advocating for enhanced rural development emphasis in the Farm Security and Rural Investment Act of 2002, major new program attention and mandatory funding for rural development was obtained. While rural advocates were most appreciative, much of this funding never materialized, and many of the new programs were not implemented or suffered drastically curtailed funding.

As a new Farm Bill approaches, with tremendous federal budget challenges as a result of our continuing deficit, increased WTO trade pressure, and no lessening of competing demands from the very diverse constituencies affected by this omnibus title, are new framings to address the issues and opportunities raised above possible. I believe they are, and I would argue that models already exist. Several examples are briefly highlighted below, to initiate these discussions.

A Regional Rural Innovation System

Obviously, until the structural resource disadvantages outlined above are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must craft a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an asset-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new rural innovation system outlined below will remain a significant

challenge. Nevertheless, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

Given these challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development? First, we must acknowledge that what has worked in the past will no longer suffice. Once that is evident, regional rural innovation systems can be considered. When this happens, we will move from attraction strategies to entrepreneurship; identify and encourage “functional economic regions” to build on existing assets, broadly defined; and move from sector to place-based approaches. This regional framework will be appropriately configured, and will engage our institutions of higher education in a new regional compact, where public and private entrepreneurship will be central, a new rural governance between the public, private and philanthropic sectors will be evident, and new regional leadership, through innovative institutional renaissance, will be expressed.

While this may seem a bridge too far, it is already emerging all across rural America. Purdue University has designed and developed a new Discovery Park, Research Park, and the Center for Regional Development, outstanding new intermediaries, creating traction and scale for new regional innovation systems. Dr. Sam Cordes, Director of the Center, has been working with the Administration of Indiana Governor Mitch Daniels and Lieutenant Governor Becky Skillman over the past year to create the Rural Indiana Strategy for Excellence 2020 (RISE 2020)¹². This effort has engaged over 150 Indiana organizations and institutions, and has become a national model for new rural governance and regional innovation development. Northeastern Ohio institutions created an exiting new regional competitiveness strategy, linking higher education, the private sector and governments across the region and generating significant innovation and collaboration success. Multiple counties across the United States are beginning to forge collaborative “functional” compacts, and across the rural landscape federal, state, regional and local agencies and governments are rethinking and defining their appropriate roles and responsibilities.

The growing number of these innovations should result in the federal government creating incentives for regional partnering, expanding investments in basic research and regional community and leadership capacity, and funding the development of new public goods for regional decision making, all key elements in a national rural entrepreneurship framework. Should this occur, the federal government will become an enabler rather than a driver of such dynamics, as regional, state and local actors work together to build effective new frameworks for regional governance, public and private collaboration, and identification of unique regional assets. Then, a true rural entrepreneurial development system can emerge, to enable innovation to leverage these assets, across space.

Globalization has had profound and lasting effects. It also has created two unmistakable rural challenges: uneven growth across space, and new drivers of sustainable growth, primarily innovation and entrepreneurship. Building a Regional Rural Innovation System, which acknowledges these necessities and seeks to address them, must and will emerge within the U.S.

The promise of such a Regional Rural Innovation Policy is premised upon the following realities:

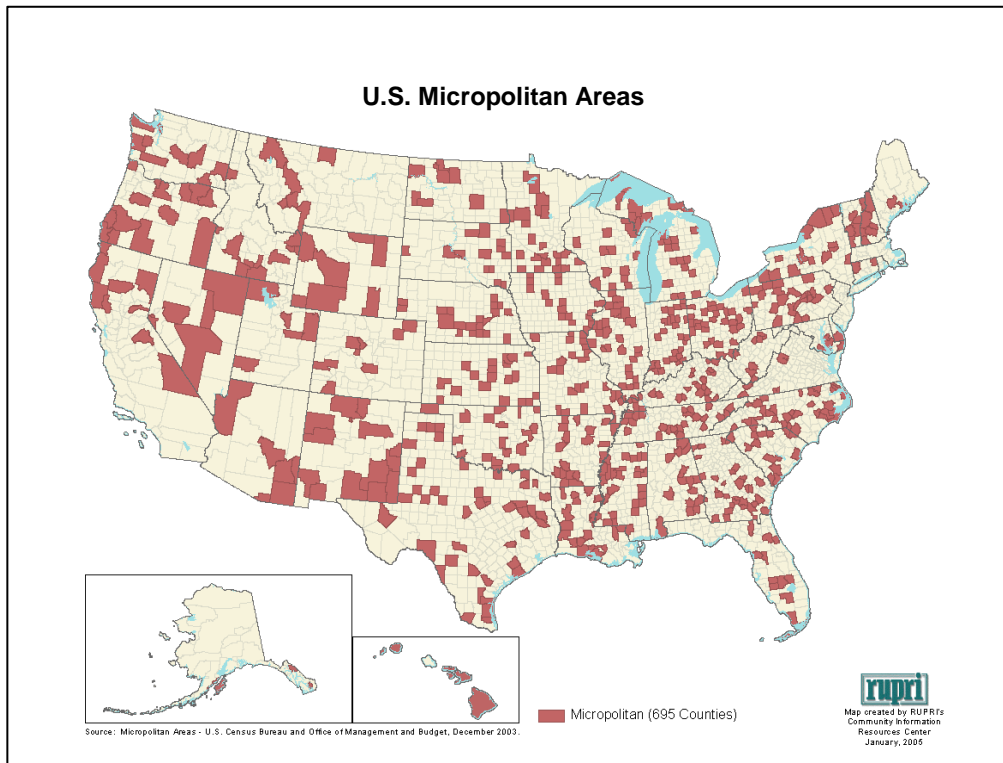
¹² The Indiana Rural Strategy (2006) <http://www.purdue.edu/pcrd/Indiana%20rural%20strategy.htm>

1. National competitiveness is increasingly determined by the summative impact of diverse regional actions, capturing asset-based competitive advantage.
2. Support for such an approach will require a substantive rethinking of core missions across federal departments, state agencies, and regional and local governments, and a commitment to leadership renaissance within these institutions and organizations.
3. Funding support for these place-based policies are WTO green-box compliant, non-trade distorting funding opportunities for the federal government.
4. Finally, such a commitment improves the potential for Congressional Agriculture Committees to retain existing funding baselines, and for these Committees to retain statutory responsibility for rural development policy.

Micropolitan Regions

One of the most intriguing, but as yet unutilized, federal vehicles for both regional innovation targeting and programming is the new Micropolitan Area designation. First defined in 2003 by the Office of Management and Budget, Micropolitan Areas have a core principal city of 10,000 – 49,999, and include surrounding counties linked by commuting ties to this city. Currently, there are 582 Micropolitan Statistical Areas, which range in size and character from “edge cities” with close proximity to metropolitan areas, to others in much more isolated landscapes. These micropolitan areas contain more than 28 million people, nearly 1 in 10 Americans, account for over 1/5 of all U.S. counties, and are as diverse as the U.S. geography, with Eastern micropolitan areas mostly lying between metropolitan areas, and Midwestern and Western micropolitan areas more isolated from metropolitan areas¹³. While demographers, statisticians and policy analysts are only now beginning to fully apply and leverage the utility of this new designation, all anticipate that micropolitan areas will soon become a designation for legislative and regulatory targeting, as have metropolitan and nonmetropolitan areas in the past. However, these new “federally designated places” remain the only ones in the U.S. currently not receiving “place entitlements” from the federal government, through the CDBG program. Rural policy advocates will no doubt challenge this funding inconsistency, as many of these micropolitan areas could provide the logical “regional growth” core, to be incorporated with surrounding rural areas for federal designation and funding as part of a new “Regional Rural Innovation” framework.

¹³ Lang, Robert E. and Dawn Dhavale (2004) “Micropolitan America: A Brand New Geography.” Metropolitan Institute at Virginia Tech.



The Rural Strategic Investment Program

Another promising opportunity for capturing this new attention to regional rural innovation is the potential to craft an approach similar to the Rural Strategic Investment Program (RSIP), contained within The Farm Security and Rural Investment Act of 2002. This program was one of the most innovative rural initiatives in recent history, but has never been implemented. RSIP was designed to create regional, new governance collaboration, to spur innovation through a strategic regional framework, and had two purposes:

1. *to provide rural communities with flexible resources to develop comprehensive, collaborative, and locally-based strategic planning processes; and*
2. *to implement innovative community and economic development strategies that optimize regional competitive advantages.*

*Subtitle I, Sec. 385A-H
The Farm Security and Rural
Investment Act of 2002*

Final Concerns and Considerations

These contexts for regional and rural development in the U.S. are dynamic and complex. Attention to these considerations will play an important role in our 2006 mid-term elections, next year's Farm Bill, our 2008 presidential election, and our nation's ongoing efforts to explain,

understand, and address intractable poverty and a widening bifurcation of wealth, by class and geography, in the world's richest democracy.

In closing, I would like to offer several considerations, which I hope can become more relevant to policy discussions regarding the new Farm Bill over the coming year. The U.S. currently lacks consensus upon a vision for the future of rural America, its peoples, communities, and regions. And, as we all know, policies are ultimately about visions and values. While one may argue that a coalescing may be beginning within these dynamics, a cautionary word must be added.

In our current "rush to regionality," we must be careful to listen to those silent, yet ultimately most powerful forces - culture, community and landscape.

In the U.S., we have not answered three critical questions regarding our rural development policy. One is ontological: "What is this 'rural policy' being?" Another is teleological: "What is our 'purpose,' toward what do we strive?" And the last is epistemological: "Upon what foundational pillars does our knowledge framework for this field rest?" Absent answers to these, we will drift, for,

“. . . it is programs we have, and a vision we lack!”

We also must assure that we do not lose track of "the place in space," and why our rural citizens choose to live where they do. And, until we answer these questions, we run the risk of allowing our rural policies to easily fall back upon four devastating defaults:

- Homogenization – In the absence of an appreciation for our rural distinctiveness, our assets, our culture, and our natural resources, one development will be indistinguishable from any other. If rural communities and regions fail to act primarily from this "placedness," they obviate their most unique competitive advantage in a globalizing world – leveraging their precious human, cultural, social, psychic, religion, economic, physical and institutional assets.
- Commoditization – Most of our rural landscapes are the result of generations of careful stewardship. These "working landscapes," sustained by intimate relationships between caring families and their land, will become an increasingly valuable asset in a world in which markets are currently trumping and trampling culture. Until we as a nation are prepared to place a true market value on the natural resources we have so long assumed are unending, and available for the taking at little or no cost, we will not treat them as assets requiring skillful stewardship and management, which could therefore offer significant new economic possibilities for rural people.
- Urbanization – In the U.S., it is not uncommon at all for rural areas to define progress in one-dimensional growth terms – i.e., growing more urban. While economic progress is essential, if the only avenue to assuring our rural community's survival is to make it urban, thereby obliterating the rural assets we sought to sustain, what have we gained? This essentially assumes that the non-agricultural composition of rural America has no

intrinsic, non-urban value, and is just waiting there to be urbanized. We must be capable of more complex policy design.

- Resignation – This thread, which winds through homogenization, commoditization and urbanization, is the most insidious, and destructive. This is the process by which rural people cede their futures to some wider interest or purpose, be it governmental, corporate, or non-governmental. Rural people and their communities must become equal partners in determining their own futures. Until their interests are perceived as being equally important to all others, and until they are given the tools and capacities to direct their own destinies, they will never achieve sufficient voice or platform, and metropolitan-framed solutions will continue to define their future.

Again, I would like to thank you Chairman Lucas, Ranking Member Holden and members of the subcommittee for the opportunity to testify today.