WHAT Y'ALL OUGHT TO KNOW:

Facts and Issues on the Federal Role in Addressing the South's Number One Economic Problem
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January 1988
Founded in 1967, MDC is a private, nonprofit research and demonstration organization concerned with strengthening the work force and economy of the South through innovations in employment and economic development policies and programs. MDC is funded by foundation grants and by contracts with local, state and federal government, private corporations, and nonprofit organizations.
Preface

It has been a half century since a nonpartisan study commission appointed by Franklin Roosevelt called the South "the nation's number one economic problem." In the years that followed, millions of Southerners fled their cotton and tobacco fields and spread to the North. Some became important leaders, most became productive citizens. But many, desperately poor and undereducated, were forced to turn to public assistance in the slums of Northern cities.

Today the rural South may not be the nation's top priority, but it is clearly the South's number one problem, threatening to become a permanent anchor on the general prosperity and development of the Sunbelt. If that problem is not tended to where it is, migration will grow again. And if history is a guide, that migration will take from the rural South many of its best educated and most skilled people along with the poor and undereducated. The difference this time, however, is that it will be the cities of the South, not of the North, which will have to absorb the influx.

The South remains today the nation's most rural region -- both in demographics and in spirit. Nearly two in five Southerners still live in a rural setting, compared to a national average of 25 percent. And even those of us a generation or two removed from the farm trace our love of the environment, our concern for thrift, our feelings for community, our awe of nature, and our sense of place to the routines of rural life and our connections to the land.

But, after two decades of hopeful progress through industrialization, that culture is now threatened by structural change in the rural economy. The problem is bigger than the farm crisis, bigger than the oil glut, bigger than the displacement of textile workers through automation and international competition. It is tied closely to the rural South's sad history of poor people and poor schools -- a history that left the South with 44 percent of the nation's poor in 1980, including the greatest number of rural poor whites alongside virtually all of our nation's rural poor blacks.

These problems are occurring at a time when federal support for economic development, social services, and state and local government has been cut back or dismantled entirely -- replaced with what one author has dubbed a new "fend-for-yourself-federalism."

There has been increasing attention to the problems of the rural South and to the growing rural/urban dichotomy; and those of us struggling with it have received a steady stream of calls from the press, from the officeholders, and, most recently, from the presidential campaigns of candidates in both parties. As a result, MDC hosted a series
of meetings among research and program professionals concerned about the rural South. Our goal was to see if MDC could present briefly the causes of the South's current economic problems, the issues that need to be addressed, and the questions that candidates might expect to hear during the course of debates before Super Tuesday.

If you have questions, feel free to call Greg McDonald, Dick Mendel, or me at (919) 968-4531.

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ACKNOWLEDGEMENTS

MDC acknowledges -- with thanks for their suggestions, meeting attendance, and editorial assistance -- the following: Cynthia M. Duncan, Associate Director of the Aspen Institute's Rural Economic Policy Program; Katharine McKee, Associate Director of the Center for Community Self-Help; Francis E. Moravitz, Executive Director of the Appalachian Regional Commission; Allan G. Pulsipher, Chief Economist of the Tennessee Valley Authority; Stuart A. Rosenfeld, Director of the Southern Technology Council; Susan E. Sechler, Director of The Aspen Institute's Rural Economic Policy Program; and Jesse L. White, Jr., Executive Director of the Southern Growth Policies Board.
WHAT Y'ALL OUGHT TO KNOW: FACTS ABOUT THE RURAL SOUTH

Rural areas still comprise most of the South's land and a large percentage of its people...

- The South is by far the most rural region of our nation -- 37 percent of the South's population resides in rural areas, compared to only 23 percent in the rest of the nation;
- Rural citizens comprise at least 30 percent of the population in every Southern state except Florida;
- 79 percent of the South's 1,342 counties are rural.  

The rural economy of the South is more than agriculture...

- Between 1959 and 1982, Southern states lost 600,000 (46 percent) of their farm operators. During the same period, the number of acres farmed in the South declined by 47 million (27 percent);
- Meanwhile, between 1959 and 1977, the rural South added 1.1 million manufacturing jobs, mainly by recruiting branch manufacturing plants;
- Today, only 20 percent of rural counties in the South are classified by the Department of Agriculture as farm dependent;
- And even nationally, off-farm income provides 60 percent or more of the total income of farm families, and farming provides only 11.7 percent of personal income and 9.1 percent of employment in rural areas.

After years of steady progress, the rural economy of the South has fallen into crisis...

- Between 1977 and 1984, the annual growth in employment for rural counties of the South was roughly half that of urban areas: 2.4 percent to 4.5 percent;

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1 Because data in this report were compiled from a variety of sources, statistics are not all based on a common set of Southern states. Most data refer to Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee and Virginia--the current membership of the Southern Growth Policies Board (excluding Puerto Rico).

2 The term "rural county" refers to any county that is not part of a Metropolitan Statistical Area as defined by the U.S. Census.
From 1980 to 1985, population growth in the rural South was less than half that of the urban South: 5.0 percent to 10.3 percent; Nationwide in 1985-86, nonmetro areas lost 632,000 to metro areas through out-migration. This is a larger out-migration than the annual average of either the 1950s or 1960s, and it is a dramatic turnaround from the 1970s when rural areas saw a net annual in-migration of 350,000 persons; In 1985, the nonmetro unemployment rate in the South was 52 percent higher than the metro unemployment rate.

The rural South is heavily dependent on traditional manufacturing industries, many of which are now in long-term decline...

- 27.0 percent of the rural work force in the South was engaged in manufacturing in 1980, compared to the national average of 23.3 percent; The vast majority of rural manufacturing in the South is in declining traditional industry -- as of 1982, 25.8 percent of employment in the rural South was in traditional industry, compared to only 8.5 percent of urban employment in the South; 366 rural counties in the South rely on manufacturing as their primary source of income. They represent 54 percent of all manufacturing-dependent counties nationwide. The National Planning Association forecasts that rural areas nationwide will claim only 14 percent of all new jobs in America between now and 2010.

All of these problems are occurring in what has always been the nation's poorest region...

- Per capita income in the rural South was $7,735 in 1980 -- less than three-fourths the national average; Per capita income among rural blacks in the South for 1980 was $3,203, less than one-third the national average; Nationwide, the number of poor residing in rural areas (13.5 million) exceeds the number of inner-city poor; and Over two-thirds of rural poor families include at least one working member.

The rural South is also the nation's least educated region...

- Only one half of rural adults in 1980 had high school diplomas, compared the the national average of 67 percent; 29 percent of rural adults in the South have less than eight years of education, compared to a national average of 18 percent;
In rural areas of Mississippi, South Carolina, and Arkansas, more than 40 percent of adults have less than eight years of education;

Only 10 percent of rural adults in the South were college graduates in 1980, compared to 17.4 percent in Southern cities and 16.2 percent for the nation.

Despite the increasing diversification of the rural economy, federal spending in recent years has focused more on agriculture and less on support for other facets of rural development...

U.S. agricultural subsidies have grown from $9.8 billion in 1981 to $29.6 billion in 1986, an increase of more than 200 percent;

Meanwhile, funding for every federal economic and community development program has been reduced -- including the Tennessee Valley Authority, Economic Development Administration, Appalachian Regional Commission, Small Business Administration, Farmers Home Administration, and Community Development Block Grants;

Federal support for education and employment and training have also been reduced, along with programs in rural housing and transportation, federal support for local government, and infrastructure development. All of these cuts have hit disproportionately on rural areas.

What follows are issues of particular concern to voters in the rural South. Attached to each is a series of questions that candidates can expect to hear during the course of the Super Tuesday campaign.
HUMAN RESOURCE DEVELOPMENT

The South's underdeveloped human capital is, perhaps, its greatest barrier to economic growth and prosperity. Human resources may not have been important in an economy driven by high volume manufacturing, but there is little doubt that it matters today. Only 50 percent of adults in the rural South have finished high school, compared to a national average of 67 percent. And in 1984, nine out of twelve Southern states had lower than average high school graduation rates. Expenditures on education are also lower in the South -- in 1985, the average per pupil expenditure in the South was $3,000 compared to $3,800 in the non-South. Further, a larger share of the South's budget came from federal funds (10% in the South and 6% outside the South).

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Given the paucity of resources, high incidence of need, and low levels of educational attainment in the rural South:

- What is the federal government's responsibility in providing compensatory education programs, e.g., what fraction should the federal government pay and how should it target the funds?

- Should the federal government assume more of the costs of public education to compensate for disparities in state wealth?

- Should there be an increase in spending for adult illiteracy programs?

- What kind of programs are in order to insure that rural minority youth get equal educational opportunities, not only to attend the same schools but to have access to the same high-quality programs within schools?

- How can better teachers be attracted to poor rural schools, and is there anything the federal government can do to help?
WELFARE REFORM AND THE WORKING POOR IN THE RURAL SOUTH

Despite its economic progress, 44 percent of the nation's poor still lived in the South in 1980; and poverty rates in excess of 20 percent are still common among Southern rural counties. Across the nation, poverty rates in rural areas are now 44 percent higher than for urban areas, and one in four rural children lived in poverty in 1983. Over two-thirds of rural poor families include at least one working member, and over 25 percent include more than one working member. Since their jobs are low wage, part-time, seasonal or all three, they cannot achieve those family income levels which define the upper limits of poverty. The Center for Budget and Policy Priorities suggests that the rural poor would benefit significantly from several proposals, including enlargement of the earned income tax credit and its adjustment by family size; extension of AFDC coverage in all states to two-parent families and provision of a national minimum AFDC benefit; extension of Medicaid coverage for children up to age eight in poor families; and removal of working poor families from state income tax rolls.

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- What responsibility does the federal government have to working poor families across the nation? What federal programs are appropriate for assisting those who work but are still poor?
- What programs, if any, should the federal government fund to expand the opportunities for rural children growing up in poverty?
- Should educational components be built into work-and-welfare programs, including basic skills training and programs for high school equivalency degrees?
TRADE AND BUDGET POLICY

The recession of the early 1980s created hardships for rural business and workers in the South that have been intensified by national trade and budget policies. The agricultural, natural resource, and manufacturing industries that underpin rural Southern economies were penalized by high real interest rates while gaining little from increased defense spending or the growth of new service industries. Tax cuts furnished less economic stimulation because, as the poorest section of the country, tax liabilities were already low. In fact, some of the poorest rural states, such as Mississippi and Arkansas, initially lost more in personal income as a result of cuts in domestic social programs than they gained from tax cuts.

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Given that the economic plight of rural America in the 1980s is directly and uniquely connected to federal trade and budget policies:

- Does the federal government have a responsibility to mitigate the impact of macroeconomic policy on distressed rural communities?
- How might the federal government avert the mass migration of people from rural to urban areas -- such as took place in the 1950s and 1960s?
- Should the federal government fund programs to help rural residents adjust to the consequences of national economic policy?
ENTERPRISE DEVELOPMENT

Rural people have a long tradition of self-employment and entrepreneurship. In 1980, for instance, 8.8 percent of all workers in the rural South were self-employed -- well above the regional (5.5%) and national (6.8%) averages. This tradition has been reinforced by the current farm crisis and the dislocation of tens of thousands of rural factory workers. Recognizing the potential contributions of the small business sector to job creation and economic growth, state and local governments are taking the initiative in establishing business assistance programs. Yet these efforts often rely on federal support -- through the Small Business Administration loans, JTPA employment and training initiatives, Community Development Block Grants, and grants and loans from the Economic Development Administration. In addition, federal budget and monetary policy, along with its regulation of financial markets, significantly affect enterprise development in rural areas.

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- How might the federal government encourage states and localities to develop effective entrepreneurship and small business assistance programs and to target these programs on needy rural areas?
- How should guidelines for federal employment and training programs be modified to facilitate the inclusion of entrepreneurial training and retraining?
- What role should the federal government play in helping mature firms to survive, expand, and modernize?
- Given its central role in regulating capital markets, what steps should the federal government take to increase the availability and flexibility of financing for small businesses and the self-employed?
AGRICULTURE IN THE SOUTH

Despite some modest advantages relative to other regions, Southern agriculture has suffered the highest rates of farm failure and closings in the nation. The rate of farm liquidations in the South has been especially troubling for a region struggling with the impact of structural change on the other traditional mainstays of its rural economy -- labor intensive manufacturing and natural resource industries. Survey data for the year ending June 1985 compiled by the American Bankers Association show that the South had the highest percentages of farmers going out of business (5.6%), declaring bankruptcy (5.7%), and loaned up to their practical limit (47.7%). Furthermore, Southern banks discontinued financing to 6.9 percent of their farm loans, also the highest rate in the nation.

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o What kind of assistance, if any, should the federal government offer to the South's disproportionately high number of displaced farmers?

o What are the proposed debt relief options and how can programs effectively reach those farmers most likely to survive in the long run?

o What are the alternatives to current government commodity programs?

o Which state promotion programs have been the most successful in expanding agricultural sales, and can they be replicated in other states?
TECHNOLOGY TRANSFER

Technology-based industries have replaced labor-intensive manufacturing as the driving force in the South's economy. Whereas the rural South had an edge in attracting traditional low-wage manufacturing plants, it is at a decided disadvantage in competing for new high-tech industries and automated units of more traditional industries. Overall, the South employs a smaller part of its work force in high-tech industries (10%) than the nation (13%). The region receives less federal money for research ($117 per capita) than the non-South ($232 per capita). And it is home to fewer scientists and engineers per 1000 residents (4.8%) than the rest of the nation (7.9%). The Southern states received $470 per 1000 people from the federal government's Small Business Innovation Research program in 1985, compared to $872 per 1000 for other states.

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Given these deficits for the rural South in technological capacity and federal support:

- What are the implications for national competitiveness if the rural South fails to take advantage of technological advances?

- Should there be a federal role in stimulating technology transfer, and if so what provisions would insure that rural areas benefit?

- Should regional balance influence the allocation of federal research and development funds?
LOCAL GOVERNMENT ASSISTANCE

Current economic trends demand major new development efforts by rural counties and towns in the South. Yet economic downturns in manufacturing, mineral extraction and farming have eroded local tax revenues. The problem has been compounded by the loss of General Revenue Sharing, which comprised the only federal assistance that many rural communities received. Meanwhile, federal resources for long-term development -- provided through agencies such as the Economic Development Administration, the Appalachian Regional Commission, the Tennessee Valley Authority and the Farmers Home Administration -- have been cut. Even federal programs mandating state and local government action -- such as environmental cleanup -- do not provide the resources necessary to do the job. Some local governments have attempted to pool resources and consolidate services, but these local service consolidation programs require up-front technical assistance in assessing needs and areas of potential cooperation, drafting cooperative agreements, and recruiting or providing trained staff.

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What role should the federal government take in improving the capacity of rural communities to provide public services and promote long-term development?

Should special programs be considered to address the needs of communities in chronic distress? Or should the past public and private investment in these communities be written off, and only "people" programs considered?
TRANSPORTATION Deregulation

Deregulation has exacerbated the serious transportation problems facing rural America. Countless towns and communities have lost bus and rail service in recent years, and a 1986 study finds that "A large proportion of the rail lines being abandoned are rural branch lines serving agriculture." At the same time, subsidies to assist carriers serving small airports are scheduled to expire in October 1988. And according to one estimate, federal transit funds amount to $28 per person for urban residents and only $1 for rural residents. Rural areas are becoming ever more dependent on quality road systems. Yet a 1983 study found that one-third of rural bridges in the South were structurally deficient, 38 percent were functionally obsolete, and 9 percent were collapsed. Overall, only 33 percent of rural roads in the South were classified in good condition in 1981. Yet, one-third of the rural road system has been removed from eligibility for federal aid-to-highway assistance.

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Given that federal fiscal and trade policies in recent years have sharply reduced the capacity of many rural areas to compete in interstate commerce:

- What is the federal government's role and responsibility to support remote areas by maintaining or subsidizing air, rail, and bus service?
- Should the federal government support the rural economy through financial assistance to state and local governments for rural road and bridge maintenance?
HEALTH SERVICES AVAILABILITY

In 1980, the number of physicians per 100,000 residents in the rural South (76.9) was less than half the national average. Since 1980, the availability of health services in rural areas has been decreasing -- nationally, approximately 125 rural general hospitals have closed, reducing institutional health services and making it harder to retain and attract individual health professionals. The difficulties facing rural hospitals have been exacerbated by the switch in federal cost reimbursement policies under Medicare. Recent cuts in funding for the National Health Service Corps will make this problem more severe.

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o What role should the federal government play in maintaining health services in rural areas?

o What modifications, if any, should be made in the various programs that provide assistance in the payment of health care costs?

o What alternatives should be considered by rural residents who have lost or may soon lose their area health services?
If this report has raised questions or if you would like additional information on the issues presented here, please call Greg McDonald, Dick Mendel or George Autry at MDC, Inc., (919) 968-4531. MDC is continuing its research into the problems presented in this paper.