# RURAL COMMUNITY ECONOMIC DEVELOPMENT

Edited by Norman Walzer



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# Preface

Slow growing rural economies have been a concern of state and local public policy makers as high unemployment, relatively low incomes, and population outmigration threaten the quality of life in many rural counties. Policies by federal and state governments to improve economic conditions have had limited success and the disparity between urban and rural areas continues to persist.

This book examines rural conditions in the Midwest, a region which was hit particularly hard by the recession in the early 1980s. A combination of a depressed agricultural economy, employment declines in mining and resource-based industry, and loss of manufacturing employment to foreign competition brought hard times to many rural midwestern counties. The authors of this book review these trends and describe the policy responses of state and local public officials as they attempted to improve the local economies.

Many persons assisted in the preparation of this book. Don Norton and Louis DiFonso of the State of Illinois Governor's Rural Affairs Council helped identify authors and assisted in raising revenues to finance the conference at which these papers were presented. Lt. Governor George H. Ryan provided financial support for this project. Nancy Baird and Poh P'ng, Illinois Institute for Rural Affairs, worked many hours to prepare the manuscript for publication. Without the help of these individuals, this project could not have been completed.

## Introduction

Historically, major regions of the United States have lagged behind other areas in economic and population growth. For example, the Southeast, especially the Appalachian region, has long been a concern of federal policy makers. Northeastern states underwent a major transformation in the 1970s and in the early 1980s, losing population and industry to other areas. In the 1980s, the Midwest faced similar economic and population declines. Heavy dependence on agriculture and the presence of old manufacturing firms set the stage for significant setbacks during the national 1980–2 recession.

Many factors work against the possibility that small rural communities will ever return to their former heydays as retail trade and employment centers in sparsely populated regions. Transportation improvements, shifts in agricultural mechanization, and innovations in technology that changed manufacturing techniques adversely affected small towns in remote rural areas. Historically, these areas lagged in consumer comforts, such as electricity, paved roads, and numerous other services that urban residents have long accepted as basic necessities. For these and other reasons, it is not uncommon to find steady population declines in rural counties for a century or more.

In discussing rural conditions, it is important to distinguish between a long-term economic transformation of the American economy and relatively short-term economic problems triggered by a national or state downturn. Rural areas, especially those not close enough to an employment center to support residents, have experienced a significant decline since the 1950s. Although the 1970s brought the possibility of a rural economic revitalization, this reversal was short-lived.

The 1981-2 recession was particularly hard on areas relying on manufacturing, bringing high unemployment and causing manufacturing plants to close. Furthermore, the long-term decline in agriculture during most of the 1980s, partly due to changing overseas markets and increased foreign competition, caused the dislocation of many farm families. Residents in these communities, faced with

loss of employment or a bleak future, migrated to urban areas, searching for better opportunities.

During the 1980s, with the Reagan Administration, the philosophy of the federal government was to reduce federal involvement. State and local governments assumed control of their own destinies, instead of relying on the federal government for support. This attitude sparked state and local governments to be creative in seeking out industry and developing programs that might set the stage for economic prosperity.

State and local governments created many programs to promote local economic development. Tax incentives or reductions, educational assistance and retraining efforts, capital subsidies, and low-cost loans became popular. Interest in creating businesses increased and states worked with universities, small business incubators, and other agencies to identify entrepreneurs and finance their projects. Some of these innovative programs were created by midwestern states, in response to persistent economic stagnation (Osborne, 1988).

### PURPOSE OF BOOK

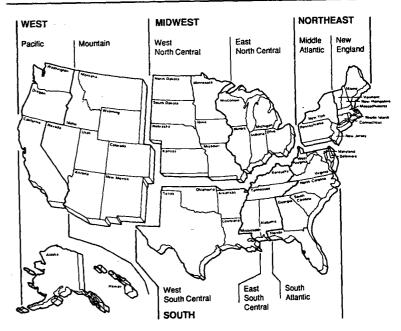
Problems facing rural areas are complex and often difficult to analyze. Some regions of the United States, such as the Southwest, have done well. Other regions, such as the Northeast, seemed to recover from a long-term decline in the latter 1980s (the Massachusetts Miracle) only to encounter major economic downturns in the early 1990s. There are many explanations for these differences, including energy costs, foreign competition in agriculture and manufacturing, movements of jobs to off-shore locations, changes in the age distribution of the population, interest rate differentials, and other characteristics.

This book examines rural conditions and practices in the Midwest, a twelve-state region of the United States, with 17.3 million residents (Map 1). The states include Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The area is an amalgamation of manufacturing, agriculture, and service industries. It contains the third largest city in the United States, but also 4,974 communities of fewer than 1,000 residents. This region supports more than 38,000 units of local government, spending \$90 billion annually on public services.

This region is of interest because it was particularly hard-hit by the recession and has been relatively slow to recover. It is undergoing a long-term economic adjustment and some of its industries will never return to their former status. The region has had to replace aging industries in a time when manufacturing jobs are going to off-shore locations. Startups in the region have been slow, partly because of the relatively high energy costs and population shifts to the South, West, and Southwest. Population increases in the Midwest also have been slow, and during the 1980s, at least three midwestern states were among the largest national losers in population.

Not all of the economic changes, of course, have been negative. There are

Map 1 Census Geographic Regions and Divisions of the United States



### Metro counties:

- Greater metro core counties include the central city or cities of large Metropolitan Statistical Areas of at least 1 million population.
- 2. Metro fringe counties are the other or suburban counties of large MSAs.
- 3. Medium metro counties are counties in MSAs with a population of 250,000-999.999.
- 4. Small metro counties are in MSAs of less than 250,000 population.

### Nonmetro counties:

5. Urbanized adjacent counties have urban populations of at least 20,000 and are adjacent to an MSA. An urban place is defined as any place (such as town, city, or township) with a population of 2,500 or more. An adjacent county is defined as both touching an MSA at more than one point and having at least 2 percent of its labor force commuting into the central county of the MSA for work.

# 原书缺页

# 原书缺页

### **Public Policy Responses**

The second section of the book examines public policies used in response to demographic and economic changes. Of special importance to rebuilding local economies is the quality of the labor force. The labor force partly determines attractiveness of rural areas for business investment. The issue of education, therefore, is of major concern to rural communities from several perspectives. First, it often is one of the largest employers in the city or county. Second, local policy makers are concerned that without a high-quality educational system, entrepreneurs will not be attracted to the region. From this claim follows the argument that investment in education is an investment in the future of the community.

Crihfield examines the issue of education as an option for improving the labor force and, therefore, the economic potential of rural communities. Specifically, he tests whether additional spending on education results in better student performance on standardized test scores and local economic growth. He also questions whether education is an appropriate public policy tool for promoting economic development within an area. Many studies of the relationship between spending on education and economic development, measured by employment growth, have found virtually no correlation. Crihfield's analysis of Illinois supports this view. Student performance and employment growth are not correlated with spending on education.

Evaluating the importance of spending on education is difficult at best. Student test scores do not always correspond to job performance and payoffs to students from an expanded curriculum may come many years later. Population losses in rural areas are threatening many rural school systems and are alarming for community residents.

While many rural residents and policy makers are genuinely concerned about the future of their communities, relatively few rural communities have a strong economic development program underway for several reasons. The staff available for economic development in small communities is not sufficient to embark on an active program. Financial resources typically won't allow spending large sums to attract outside investment. Economic development leadership is not sufficiently experienced to maintain a prolonged thrust in industrial or business recruitment.

Walzer and Gruidl examine small rural Illinois communities to identify community characteristics associated with economic development activity. They find that city size is crucial to continued support for economic development. Dissatisfaction by the mayor with performance of the city economy often provides an immediate spur to involvement in economic development. Presumably, mayors communicate this dissatisfaction to other members of the city government. Also important is the relative pressure on property taxes to finance services. Communities in which residents are asked to pay higher property taxes are more likely to be active in local economic development.

Although studies in Illinois and Nebraska have found that few small communities typically pursue economic development, there are examples of innovative programs in small towns. In Illinois, for instance, successful community projects have included forming a corporation and selling stock to purchase a company and relocate it within the community, and providing property tax reimbursements to incoming residents who purchase a house in the community. Other groups have built on natural or locational attractions to increase traffic through the community or have conducted special events to attract tourists.

Not all economic development efforts are mounted at the community level. It is equally important to understand the success of specific projects attempted by cities. These projects range from annual events to boost community pride and attract visitors to major undertakings, such as attracting industrial plants. In any case, some communities are more successful than others in these efforts.

Flora and Flora examine economic development approaches used by local governments and factors that differentiate units having successful economic development projects from those that do not actively engage in these endeavors. Special attention is paid to creation of a social infrastructure that will support projects versus other factors that foster economic development. They provide case studies of Kansas governments that have undertaken economic development projects and examine these efforts in light of the professional literature on economic development.

Successful community projects are built on strong, local leadership. This leadership can come from many sources and may or may not involve established organizations, such as the city government. Nevertheless, some person or group of individuals has the interest and foresight to organize the community and pursue economic development goals. The leader also must be able to garner community support toward a common aim, and, in some instances, even cause community residents to invest large amounts of time and money in projects.

Hustedde describes several leadership models and summarizes state programs initiated in the Midwest that implement each of these approaches. He separates leadership programs into three types and explores which might be most suitable for rural areas, given their needs and capacities. Community-based leadership programs appear to have the best chances for success in rural areas and examples of success are provided.

In small communities, local leadership usually is not sufficient to bring about economic development. During the 1980s, state governments tried to entice industry to locate within their boundaries and to work with communities to prepare for industrial development. These programs range from infrastructure improvements and expansion of public facilities to leadership development programs. The 1980s also saw the introduction of aggressive economic incentive and benefit programs for private industry. Businesses became adept at working the system and eliciting competition among states.

Much of the economic development competition missed rural communities. Many, if not most, of the communities are too small to compete effectively for a large industrial plant. An alternative, and more successful approach, is to create and nurture small businesses, using entrepreneurial talent within the community. Business incubators, flexible manufacturing programs, and other approaches were initiated to stimulate the business creation process.

Unruh examines approaches and strategies adopted by midwestern states in promoting rural economic development. He focuses on the processes that assist state governments to formulate goals and enact successful economic development programs in the Midwest. The state programs are compared on the basis of their overall approaches and direction. Some of these programs involve funding creative local economic development projects and others work on local capacity building.

Communities, in many instances, do not have sufficient resources to carry out economic development programs alone, and are more successful when they cooperate in a regional effort. Unruh examines these programs in several midwestern states to illustrate their effectiveness in bringing rural communities together.

Although there are encouraging signs, there is little doubt that rural areas in the Midwest, generally, are facing difficult times. Many long-term economic trends documented in earlier chapters will continue and will be very difficult, if not impossible, to reverse. Rural areas must adjust and policy makers must manage the economic transformation so as to optimize quality of life for residents. They must recognize that effective solutions will come from within the communities and cannot be created by the federal or state governments.

Drabenstott contends that effective rural policy should contain several main elements. It must be targeted to meet the needs of diverse rural areas. Small communities do not have the staff and finances to participate in extensive development activities. The programs must be broad enough to allow communities to build on special talents and resources.

Because attracting large manufacturing plants is not feasible in many rural communities, appropriate federal and state policies should encourage entrepreneurship in rural areas. Starting small businesses with local talent and finances, however, often is possible and can form the basis for an effective local economic development policy.

To participate in economic development and be prepared for the future, the rural work force must be prepared for future employment opportunities. This will be even more difficult for rural areas with a declining tax base. Nevertheless, rural populations, in the future, must compete in an increasingly complex labor market.

Clearly, if rural midwestern communities are to survive, efforts must build on the main resource available in rural areas—farm products. Future research should be directed toward increasing the value added of these products and toward the promotion of industries that can bring this increased productivity to rural areas. Universities and other research agencies are an important component of this process.

Community economic development in the Midwest and other regions will be one of the most important rural issues during the 1990s. Long-term trends, many of which adversely affect rural areas, will continue, as residents migrate in search of better job prospects. Only through an understanding of rural trends and the direction in which rural areas are heading will effective policy initiatives be forthcoming.

# 1. Growth and Change in Rural America: The Experience of the 1980s and Prospects for the 1990s

Sara Mills Mazie and Molly Sizer Killian

Social scientists don't have an impressive record in reading crystal balls. Just as they think they understand what is going on and have some confidence in talking intelligently about the future, everything seems to change and they are reminded again that "while forecasts usually run in straight lines, history often generates bends and curves" (Perspectives, 1989, p. 2).

This reality holds true when considering the future of the rural economy. In the latter 1960s and early 1970s, social scientists were surprised that rural areas were attracting more people than they were losing and were growing faster than urban areas. Just as this trend became recognized and understood, the tides reversed and trends of rural net outmigration and slower growth returned.

Recognizing the limitations of the field, however, has not and should not keep social scientists from trying to understand what has happened in rural areas and what these past patterns might mean for the future of rural America. In this chapter, then, we examine the performance of the rural economy during the past decade and the changes in the structure of that economy that, to a large extent, characterize the rural experience of the 1980s. This analysis provides a basis for considering the rural economy and its performance in the 1990s.

# THE RURAL ECONOMY IN THE 1980s: GROWTH VERSUS DEVELOPMENT

Rural areas suffered badly, and to a greater extent than urban areas, during the back-to-back recessions at the beginning of the 1980s. They also took longer to recover, essentially stagnating in the middle of the decade as the urban economy expanded. Only in the past few years have there been signs that employment growth has returned to prerecession levels and parity with metro areas. This improvement is misleading, however, for the parity is in terms of the numbers of jobs created only, not in the quality of those jobs.<sup>1</sup>

Major economic and demographic indicators clearly reflect the trends of the decade. Employment growth in nonmetro areas lagged behind metro areas through most of the decade, and, in several years, was slow in both areas (Figure 1.1). Between 1980 and 1983, nonmetro employment levels remained below those of 1979. Between 1979 and 1987, nonmetro employment increased only about 8 percent. In contrast, metro employment grew almost 20 percent, or more than double the nonmetro rate between 1979 and 1987.

Changes in earnings per job (an indicator of growth in the quality of jobs) did not follow the pattern set by employment in returning to prerecession levels. Little gain in this measure of economic well-being has occurred nationally, but rural areas have done particularly poorly. Historically, earnings per job have been significantly higher in urban areas; the margin increased in the 1980s. By 1987, nonmetro real earnings per job (\$16,737) were about 7 percent less than before the recessions in 1979 (\$17,845), whereas metro earnings per job had returned to prerecession levels in urban areas (\$22,285 in 1979 and \$22,404 in 1987) (Figure 1.2). The rural decline in earnings per job coupled with an increasing rural—urban gap provide evidence that many of the new rural jobs created during the decade were of poor quality. In 1987 (the last year for which data are available), as rural employment grew substantially, there was actually a slight decline in earnings per job.

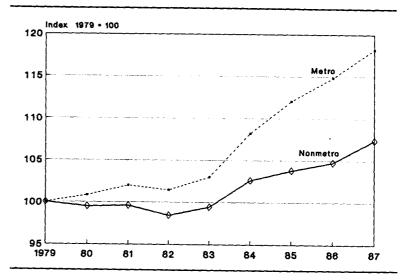
The overall poor performance of the rural economy during the 1980s, especially relative to the urban economy, is the product of developments in many sectors of the rural economy. Some of these developments were cyclical, such as the recessions in the early 1980s. Others were part of long-term shifts in the structure of the rural economy, such as the decline in the importance of agriculture and other resource-based rural industries. Equally important, but perhaps less understood, were structural changes that involved the increasing concentration of lower-paying, low-skill jobs in rural areas and better-paying, high-skill jobs in urban areas, a trend evident in both manufacturing and service industries.

These diverse developments help explain not only the poor performance of the rural economy during the early and mid-1980s, but also they suggest reasons for the slow recovery of the rural economy. Further, they provide insight as to why that recovery was primarily in terms of growth in the number of jobs and less in terms of improvement in economic well-being.

# DECLINE OF RURAL RESOURCE-BASED INDUSTRIES

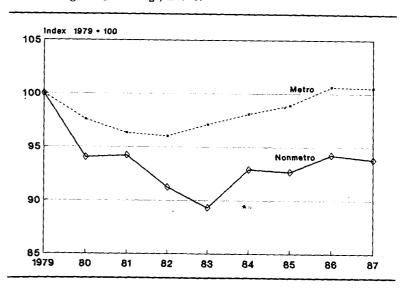
The resource-based industries of agriculture, mining, and forestry traditionally have been the heart of the export base of rural economies, bringing capital resources into local rural economies by selling natural resources (e.g., food, heating oil, lumber) to urban areas. The importance of these industries to both the national and rural economy, however, is continuing to decline. This can be seen most clearly through decreases in employment during the 1980s (Figure 1.3). In addition, each of these industries came upon hard times during the

Figure 1.1
Total Employment Change, 1979-87



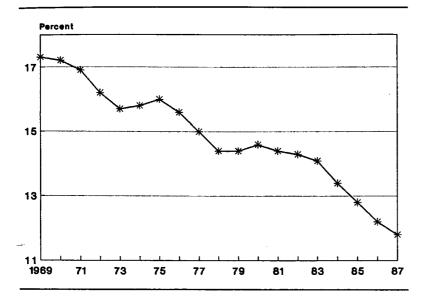
Source: U.S. Department of Commerce, 1989,

Figure 1.2 Total Earnings Per Job Change, 1979-87



Source: U.S. Department of Commerce, 1989.

Figure 1.3 Nonmetro Workers in Resource Industries, 1969–87



Source: U.S. Department of Commerce, 1989.

1980s, for reasons not obviously related to the long-term decline. These short-term problems in natural resource industries exacerbated the trends over the decades.

#### Agriculture

The experience of agriculture during the 1980s epitomizes this phenomenon as much as any industry. Consolidation and mechanization of farms over many decades continued, although at a slower pace. The result was that employment in agriculture continued to decline. The industry also did not grow at the same pace as many other industries and therefore accounted for a declining percentage of the GNP. In a word, agriculture is not a growth industry, whether measured by employment or total net income, so as the economy expanded after the recessions, rural areas could not look to agriculture as a source of growth.

The severe financial stress in agriculture in the early and mid-1980s, while primarily creating changes in the financial structure of the industry, certainly brought about a decrease in employment in the sector. USDA suggests that between 200,000 and 300,000 people left the sector during the worst period, a sizeable number, but not nearly as high, either in absolute or relative terms, as

in earlier decades.<sup>3</sup> By 1988, agriculture had basically recovered from the financial travail earlier in the decade, but it was left once again with fewer people. In areas of the country where agriculture is dominant and there is little other industry, such as the western Cornbelt and the Plains, the effect has been crushing for individual families and for communities struggling to provide community services to a declining population.

### Mining

The early years of the decade were golden times for mining and energy. Prices and demand were up, as were profits and employment. However, the collapsing energy prices and reduced production that hit soon thereafter devastated areas dependent on these industries. Employment and income dropped dramatically, creating major dislocations. Both mining and energy have rebounded somewhat, but have still not recovered to early 1980s' levels. Employment in mining continues to decline, although at a slower rate than middecade.

### Forestry4

Forestry jobs are among the highest paying jobs in the natural resource industries. However, given the industry's strong relationship to construction, and construction's sensitivity to the national business cycle, forestry wages and employment levels are markedly cyclical. Not surprisingly, the industry was hard hit by the national recessions in the early 1980s. In addition, for the first time in more than 30 years, the early 1980s saw real interest rates exceed the rate of inflation by more than 5 percent, resulting in significant decreases in the demand for new housing, and, thus, for the forest products used in construction.

Renewed conflicts between ecological and economic interests in the 1980s also had a significant impact on the forestry industry, especially in the Northwest, where new requirements for selective harvesting of trees (as opposed to clear-cutting) led to higher production costs. Last, as in many industries, a considerable number of forestry jobs have been lost to automation.

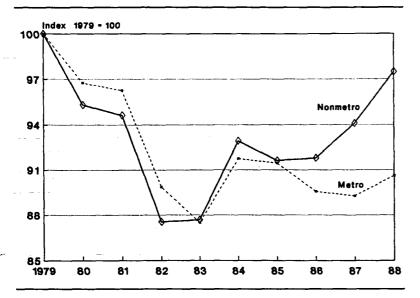
The net effect of these changes in agriculture, mining, and forestry is that the traditional economic base of many rural areas no longer stimulate the growth or provide the employment base that they once did. When the national economy began to expand in 1984, these natural resource industries did not expand, and therefore, they did not help to pull rural areas out of the recessions. For this reason, these industries indirectly contributed to the stagnation of the rural economy, just as the urban economy began to pick up steam.

#### MANUFACTURING STRUGGLES

In the 1970s, much of the growth in rural areas was fueled by manufacturing, another important export base in many rural areas. Particularly in the rural South,

Figure 1.4

Manufacturing Employment Change, 1979–88



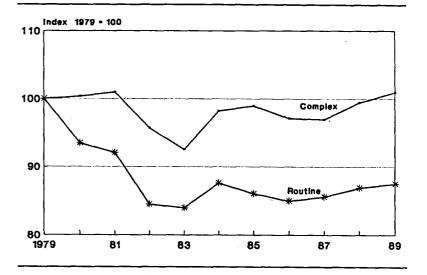
Source: U.S. Department of Commerce, 1989.

where labor costs were low, growth in manufacturing not only filled the employment vacuum left by declining agriculture employment, but generated overall employment growth as well.

During the 1980s, however, manufacturing in both rural and urban areas floundered. The national recessions seriously undercut domestic demand for manufactured goods, including those made in rural areas. Added to the problems of manufacturing during the early and mid-1980s were a dramatic growth in the value of the dollar relative to other currencies and a restructuring taking place within the sector.

The advantage of a rural location for manufacturing diminished significantly as the value of the U.S. dollar rose to an all time high, reaching its peak in mid-1985. This meant that the cost of rural labor, as low as it was compared with urban labor, was too high when compared with labor costs in other countries, especially the developing nations. In order to remain competitive in world markets, some of these rural manufacturers moved their production overseas, whereas others simply shut down altogether. Either way, rural areas lost jobs. Thus, just as the national economy began to grow again, the high value of the dollar didn't allow rural products to be competitive with the same products produced in Taiwan or Colombia or Haiti.

Figure 1.5
Change in Complex and Routine Manufacturing Employment, Total United States, 1979-89



Source: U.S. Department of Labor, Bureau of Labor Statistics, 1990.

The net result is that rural manufacturing employment grew moderately between 1982 and 1984, only to drop again with the rise in the value of the dollar. It wasn't until 1987, roughly 18 months after the dollar had hit its peak, that employment showed signs of growth again. Nevertheless, as late as 1988, manufacturing employment still had not returned to 1979 levels, in either metro or nonmetro areas (Figure 1.4).

Equally important for rural economies, however, has been a restructuring within manufacturing.<sup>5</sup> To a large extent, rural manufacturing is concentrated in older, low-skilled, low-wage industries. The actual production process in these industries tends to be machine-paced and fragmented into many relatively simple, repetitive, and routine tasks, allowing firms to take advantage of the relatively low-skilled and low-wage labor forces in rural areas.

In contrast, complex manufacturing industries, those that depend heavily on advanced technology, more likely will locate in metro areas. Such firms need access to skilled workers and engineers, because of the complexity of the manufacturing process. A major component of the competitiveness of these manufacturers is their ability to respond quickly to changing needs of the companies and individuals to whom they sell. The success of these manufacturing industries