Word & World 11/1 (1991)

Death and Resurrection in Rural America

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To write on the death and resurrection of rural America is a challenging assignment. Large parts of rural America have truly died and gone from our midst. Other parts, however, have modernized, experienced substantial development, and continue to be a vital part of our economy and society. This disparate situation poses major moral dilemmas for society.

Agriculture and rural America have a disproportionate share of the poor in this country. Some part of that relative poverty is inherent in a market economy, as I will explain below. A significant share of it, however, is due to improper economic policies. In both of these aspects—the nature of a market economy and the proper administration of economic policies—there are also important moral issues.

My professional background and experience is that of an economist committed to understanding the problems of rural America, to devising and helping to implement solutions to those problems, and to clarifying the issues faced by this important segment of our economy, both as a resident professor in a major university and as an educator of the public. Though I thus naturally bring the perspective of a professional economist to the topic, nevertheless, I will also seek to indicate some of the related moral issues.

Much has been written about the problems of rural America, both in the popular press and in scientific literature about agriculture and the rural sector. Professional economists have been critical of the agricultural commodity policies currently implemented almost since their inception in the 1930s. However, reform of these policies has been slow, and debate about the issues involved continues to be distressingly uninformed. The public today has little notion of why per capita incomes in agriculture persistently lag behind those in the nonfarm sector, nor do they appreciate the extent to which policies in place to deal with this problem are so misguided and ineffective.

This essay addresses these issues in three parts. First, I will explain why agriculture is inherently a declining sector of the economy and thus always subject to a relative income problem. In the course of this discussion, I will also clarify why some of the moral issues implied by this reality are much broader than those associated with agricultural policy per se. Second, I will discuss the moral dilemma in the choice of economic policies for the agriculture sector, and what it would take to bring about the "resurrection" of this sector. Third, I will discuss death and resurrection in rural America. Is there a resurrection to be seen, and, if so, what are its costs and benefits?

I. AGRICULTURE IN THE ECONOMY AT LARGE: ENGEL'S LAW

The relative income problem faced by those who earn their incomes from agriculture are largely shaped by the conditions of demand and supply for food and agricultural output. On the demand side, the problem is inherent in what economists refer to as Engel's Law. This "law" states that as per capita incomes rise, a smaller and smaller share of consumer income will be spent on food and a larger and larger share will be spent on goods and services from the nonfarm sector. This is true because there is a limit to the amount of food an individual will consume, even though the quality of that food generally improves as incomes rise. Consumers typically improve the quality of their diet by shifting away from direct consumption of cereals, roots, and tubers at low levels of per capita income to consumption of fruits, vegetables, and livestock products at higher levels.

1. Implications of Engel's Law

An important implication of Engel's Law is that, as per capita incomes rise, the demand for agricultural output will shift at a slower pace than the growing demand for nonagricultural goods and services. With other conditions being unchanged, this factor alone implies the need to allocate resources from agriculture to the nonfarm sector of the economy as economic development proceeds. To the extent that there are costs in reallocating resources, and to the extent that the required adjustment is delayed, per capita incomes and real wages in agriculture will tend to lag behind those in the nonfarm sector.

This problem is exacerbated by the fact that in practice other factors do not remain constant as economic development proceeds, and because certain policies undertaken on behalf of the larger economy may necessitate an even larger adjustment than the conditions of demand for food imply. For example, for reasons that go beyond our present interests, population growth rates among the rural population in this country have traditionally been higher than those of the urban population. This increases the size of the adjustment problem, or the proportion of the population that has to be shifted over time from farm to nonfarm employment.

In addition, society has purposely implemented policies to increase the productivity of resources employed in agriculture as the means to promote economic growth. These policies include public investments in agricultural research to produce new technology for the sector, public support for extension services to extend this new technology to producers in the sector, and public support for education at all levels to increase productivity generally in the society. These policies cause agricultural output to increase at a faster rate than would otherwise be expected, a

fact which further aggravates the adjustment problems for agriculture. When joined to the fact, as we have noted above, that the demand for agricultural output shifts at a relatively slow pace, the combined effect is that more labor has to be shifted out of agriculture than would otherwise be the case.

Even so, this choice of investing in the production and distribution of new technology for agriculture as a means of developing the economy was a wise one. Because it tends to bring a decline in the real price of food over time, the benefit of the investments is spread widely in the economy. Everybody eats food. Thus, a decline in the real price of food means that everybody in society experiences an increase in real income, even if their nominal or cash income remains constant. Moreover—and this is an important issue—poor people in society tend to benefit more in a *relative* sense from a decline in food prices because they tend to spend a larger share of their income on food. Thus, investing in new technology for agriculture tends to improve the distribution of income in society by distributing the benefits of economic development in favor of the poor. Critics of new technology for agriculture often fail to recognize this important point.

Investments to raise the productivity of resources in agriculture have other benefits as well. For example, it makes agriculture more competitive in international markets. Farmers benefit to a certain extent from being more competitive since this increases the demand for their product. However, society as a whole benefits as well. By becoming more competitive, the nation earns a larger supply of foreign exchange with which its members can buy goods and services produced more efficiently in other countries and is, thereby, also able to finance a higher rate of economic growth. More generally, an increase in foreign exchange earnings means that the dollar is worth more in foreign exchange markets than it would otherwise be. This, too, means an increase in the economic well-being of the nation as a whole, since it provides the ability to acquire what it demands from abroad with a smaller sacrifice of real resources from the domestic economy.

2. Agriculture Policy and Economics

One of the obvious implications of this analysis is that from an economic point of view the importance of agriculture has little to do with the number of farmers who gain their employment in agriculture. It has almost everything to do with the fact that everybody consumes food and that the nation as a whole needs foreign exchange, if it is to develop at a rapid rate, if consumers at large are to acquire the goods and services they desire from abroad, and if the nation is to implement an effective foreign policy. One of the ironies of our policies toward agriculture is that public investments in agricultural research have largely, although not exclusively, been justified on the grounds that they would improve the welfare of farmers and the people directly associated with agriculture. In point of fact, it is society at large which has received the major share of the benefits of these investments, and those once employed in agriculture have been forced to bear a significantly disproportionate share of the burden of adjustment to the changed conditions of supply so created.

For the most part, those engaged in the agricultural sector have supported public investments in agricultural research, and, in fact, have been the main proponents in society for such investments. An important exception has recently emerged in the argument about the new growth hormones for dairy cattle. Al-

though this new technology promises to increase the production of milk from a cow by some 20 to 25 percent with little or no increase in the feed required, dairy producers have correctly perceived that widespread adoption of this technology will likely lead to a decline in the price of milk and in their incomes. Consequently, some of them have fought proposals to make this new technology available to the sector. Consumers, and especially low income consumers, who would be the main beneficiaries of such new technology, on the other hand, have not defended their interests. Instead, in the absence of adequate educational programs, they have rather easily accepted the claims that there are health dangers inherent in the new technology, even when all the scientific evidence points to the contrary.

Because agriculture has faced a chronic relative income problem due to the inherent conditions of demand and supply for food and agricultural output, and because rural America has had representation disproportionate to its numbers in our political process, Congress has persistently implemented specific "support" policies for the agricultural sector. However, these policies have traditionally focused on the symptoms of the problem rather than on the underlying "structural" problem. That is, policies have focused on means to support the prices of agricultural products above what they would otherwise be, rather than on helping the excess labor in the sector to find alternative employment in other sectors of the economy.

Such policies have kept society at large from realizing the full benefits of its investments in agricultural research, and thus have sacrificed a significant amount of economic growth which could have benefited the poor. An exception to this general rule came about when Congress substituted producer payments for direct support of commodity prices in the case of commodities such as corn and wheat. Ideally, with that kind of policy, market prices are permitted to seek their own level, and the government makes up the difference between a "target" price and prices realized in the market with direct payments to producers. In this way consumers also potentially benefit from the decline in prices which the new production technology makes possible, and the nation as a whole benefits because the low prices make the agricultural sector more competitive in international markets and thus able to earn more foreign exchange.

The sad reality of our commodity programs, however, is that even though they have been largely justified on the grounds of helping poor farmers and thus preserving the family farm, they have for the most part had just the opposite effect. Because large farmers produce a disproportionate share of this nation's agricultural output, they have received a disproportionate share of income transfers from the government. Thus we find ourselves in the anomalous position of providing income transfers to the well-to-do rather than the disadvantaged. The average income transfer to farmers through government programs is significantly larger than the average per capita income of the nation as a whole. That statistic says a great deal about who the recipients of the largesse of Congress really are.

Similarly, our commodity programs, rather than preserving the small family farm, have accelerated its demise. The significant transfer of income to large farm operations has enabled them to buy out the small producer, thus leading to an increased concentration of land holdings in the hands of an ever smaller number of farmers. Moreover, to the extent that a significant share of agricultural land is

owned by people in the nonfarm sector, to the same degree income payments intended for farmers go to those in the nonfarm sector.

II. MORAL DILEMMA AND AGRICULTURAL POLICIES

Both the factors inherent to the agricultural sector in a developing economy and the policies implemented to "protect" agriculture from the consequences of those factors pose important dilemmas for society. It is to a discussion of one of these dilemmas which we now turn.

The dilemma under discussion regards the particular way society has to date chosen to distribute the costs and benefits of developing agriculture. Investing in agricultural research and thus in the production and distribution of new technology for the agricultural sector is sound economic policy. The social rate of return on such investments has been found to range from 25 to 35 percent at the low end to 80 to 100 percent or more at the upper end. Thus, investing in agricultural research is an efficient way of promoting economic development. Few investments in society yield such a high social rate of return, which is also to say that new production technology is a cheap source of economic growth. The added fringe benefit, of course, is that the yields of such investments are widely distributed in society, and in favor of the poor.

Unfortunately, the social costs of this policy tend to fall disproportionately on a relative few, those who are dislodged from their employment in agriculture and from the land and have to seek employment elsewhere. There *are* important beneficiaries of the new technology within the agricultural sector. These include those who become more competitive because of the new technology, those who adopt the technology first and thus realize the benefits of enhanced productivity before the real price of the commodity declines, and, under certain circumstances, those who own the land. However, the agricultural labor force has to bear the burden of adjustment and sacrificed income as they move to new employment. The moral dilemma is the relative distribution of these benefits and costs, especially in light of the fact that an important share of the investments in new technology is financed with resources from the public sector and it is carried on in the general interest.

Raising this issue shifts the burden of analysis to consideration of policies that might make for a more equitable sharing of the costs and benefits of the development policy pursued. In light of the large economic benefits from investments in agricultural research, and from the fact that they make it possible for agriculture to comprise a smaller share both of aggregate employment and gross national product, it seems clear that a strong case can be made for developing policies that facilitate the shift of labor out of agriculture as development proceeds. Such policies include improvements in general education for the rural population, measures—such as improved information services—to make labor markets more efficient, training programs which transmit the skills needed in the nonfarm sector, and direct subsidies to help farm families relocate to nonfarm employment. The latter should include reimbursement for transportation costs if geographic migration is required for the new employment, and income support for the family while new employment is sought and experience is gained in the new employment.

Unfortunately, these are not the kind of policies that have been implemented.

Society significantly underinvests in the education of rural children, with the result that the level of educational attainment of the rural population is significantly less than that for the urban population. Training programs tend to be concentrated in urban centers rather than in rural areas. The income tax system provides some indirect subsidy for geographic relocation, but the extent to which the rural poor can benefit from this system is open to question, since their incomes are already low, and there are no direct income payments to support them while they find new jobs. Identifying and implementing the right policies to facilitate this adjustment of labor to new employment in the nonfarm sector has important moral dimensions.

Similarly, policies which distribute significant income transfers to the well-to-do, when the political justification for such programs is to help the poor, are a major moral issue. Changes in these policies will probably not come about until society at large understands the nature of the underlying problem and knows the facts about the ultimate beneficiaries of specific programs. A fuller recognition of the moral dilemma of the problem might also help bring about change.

Policy makers themselves face important moral issues in these choices. There is no shortage of careful scientific studies documenting the nature of the problems those in agriculture face, nor of proposals for sound solutions. Moreover, our representatives in Congress are aware of these studies, in part because economists repeatedly testify before them on the issues. Yet they tend to respond to the pressures of vested interests rather than to develop policies that would be in the best interests of society, or that would assist those who have to bear the burden of adjustment.

Farmers themselves are also involved in this moral dilemma. Those who advocate policies which support farm prices above levels that would otherwise prevail support policies which are not beneficial to society at large, nor to the vast number of people employed in agriculture. They benefit a relative few, who tend to be well-to-do, at the expense of society at large and especially of the disadvantaged within agriculture. Society has few other policies or programs which so clearly benefit such a few, who are already well-off, at the expense of large numbers of the disadvantaged.

III. DEATH AND RESURRECTION IN RURAL AMERICA

The above discussion raises a number of crucial issues. First is the question whether in any sense one can hope for life or resurrection in rural America when there are so many signs of "death" on the farm. For some there is hope; for others, there seems not to be.

Some of those forced out of agriculture go on to other productive activities, earn higher incomes than they probably would have earned in agriculture, and engage in personally satisfying activities. I, for example, am one for whom that is the case. I love agriculture and life on the farm. However, in a very real sense I was "forced" out of farming. Society has compensated me for this "loss" by rewarding me in a number of ways, including a higher income than I might otherwise have received.

There is difficulty, however, for those who do not have the capacity to take on alternative employment, or those for whom the economic pressures come so late in their life cycles that it is not feasible for them to make a shift to alternative

employment. Like those from other sectors of the economy facing a similar situation, these people become part of the general problem of social and economic justice a society faces. The American society now assists the elderly with social security. There are other programs for the disadvantaged at other age levels. Whether these programs are adequate, or whether they meet the criteria of adequate social justice, is an open question.

A second crucial question is whether—even in the best of all possible worlds in which there were proper compensation for adjustment costs, either by means of higher incomes or public programs—society as a whole does not lose something of value when there is a decline in the number of family farms and the rural population. This is a much debated issue. In support of the family farm, the Jeffersonians argue that a strong rural sector is vital to the preservation of a democratic society, while others argue that the moral fiber of our nation is rooted in rural America and that to lose that sector would be to lose an important foundation.

These issues will probably continue to be debated, but a number of points seem to be important to consider. First, the extension of the communication and transportation infrastructure, the prevalence of the automobile, and the pervasiveness of television have substantially reduced the difference between rural and urban America. Moreover, if investments in the rural infrastructure and in rural education were made at the same level as for urban areas, this difference would probably become even less or disappear. Thus, it is difficult to argue that rural values are now sufficiently different from urban values to make *values* the crucial issue.

Second, the most important disparity in today's world in both rural and urban areas is probably that between the poor and disadvantaged and those in the middle and upper income groups. More and more social scientists refer to an emerging underclass in the United States. I submit that it is this social division on which we should focus our attention, not that between rural and urban populations.

Finally, picking up the main theme of this section, one asks, Are the benefits to society from having an efficient economy sufficient to offset the social and other costs associated with the "death" of rural America? We have no empirical evidence to answer this question. However, it is useful to pose this question, since it makes explicit that programs to keep people on the farm do have a social cost and can sacrifice national product and aggregate income at a time when both are badly needed if we are to sustain our position in the world. Issues of social justice would not have so high a place on our agenda if the benefits from a more efficient allocation of national resources were used to assist in labor and family adjustment, as well as to compensate those who are truly bypassed by the evolution of the economy. Thus, we would achieve a goal of efficient economic growth with a semblance of social and economic justice.

IV. CONCLUDING COMMENTS

Improving our policies toward agriculture will require a number of important things. First, there is need for a more economically literate society which better understands the principles on which our market economy operates. Second, stronger public education programs are needed to enable our citizens to be better informed on how our economy is performing and what the real consequences of our policies are. Third, our political system needs reform so that our representatives

pursue more effectively the best interests of society, rather than those of special groups.

Greater awareness of and emphasis on the moral issues inherent in the challenges our society faces would also be helpful. The posing of these moral issues will be more credible if those who address them are effectively informed about the underlying issues. Unfortunately, our clergy are all too often badly informed about the underlying issues, and thus end up advocating misguided policies.

Finally, this nation needs a vital agricultural sector. Important parts of that sector have in fact already died, and continue to die at the present time. Proper economic policies directed towards this sector can resurrect it, however, while at the same time promoting general economic growth and the common good. A continuing reasoned discussion of the moral dilemmas involved in these important choices can facilitate this process.