Written Statement for the Record

Charles W. Fluharty
Director, Rural Policy Research Institute
Truman School of Public Affairs
University of Missouri-Columbia

Before the

Subcommittee on Economic Development, Public Building and Emergency Management
U.S. House of Representatives

Washington, D.C.

March 17, 2005

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

Chairman Shuster, Ranking Member Norton, and Members of this Subcommittee, I thank you for the opportunity to testify before the Subcommittee on Economic Development, Public Building and Emergency Management regarding the Administration's "*Strengthening American's Communities*" initiative, the role of infrastructure and planning projects in economic development, and the critical importance of approaching these policy decisions with an appropriate rural framework, to assure equitable access and utilization of these programs across our nation's entire landscape.

I am Charles W. Fluharty, Director of the Rural Policy Research Institute, located within 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 this testimony I will cover four primary points. First, I will review the rural context within which these programs must function in rural America. Next, I will discuss an exciting new rural community and economic development framework, which is taking form across our nation's rural regions, and should be taken into consideration by the Congress as you discuss these critical policy decisions. Finally, I will assess the "*Strengthening America's Communities*" initiative, with particular attention to the most important rural concerns and considerations, and discuss these vis a vis the existing CDBG framework. I will close with a summary set of recommendations to support a new rural regional innovation system.

I. The Importance of the Rural Community Capacity Context

In 1908, President Theodore Roosevelt appointed the Country Life Commission to consider, and solve, the so-called "rural problem," stating " . . . The social and economic institutions of the open country are not keeping pace with the development of the nation as a whole." Nearly a century later, while much progress has been achieved, significant rural inequities continue to challenge policy decision makers.

Today, we are in the midst of an emergent national dialogue regarding the development of a more integrative, asset-based and regionally focused rural policy. The attention this issue is receiving is by far the most substantive rural policy opportunity of the last 25 years, and today's policy discussion may indicate the potential for a dramatic new examination of these rural issues.

The Rural Federalism Challenge

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.

Sadly, current federal policy exacerbates this structural disadvantage. 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 areas. This amounts to a nearly $6 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds. In rural areas, 71% of these funds are transfer payments sent to individual citizens, in the form of Medicare, Social Security, Farm Commodity Program payments, etc. In urban America, only 48% of these federal funds are transfers. This 23% 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.

This challenge is further heightened by 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 community capacity disadvantages are stark, and additive. Each year from 1994-2001, the federal government spent two to five times as much, per capita, on urban than rural community development, and one third as much on community resources in rural areas. 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).

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 Philanthropy 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 Need for a Regional Rural Innovation System

Obviously, until these structural resource disadvantages are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must better aggregate and articulate a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an assets-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. In a globalizing economy, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

II. Building the New Regional Rural Innovation System

Given these very evident community capacity challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development. First of all, we must acknowledge that what has worked in the past will no longer suffice. We live in a global economy, which requires understanding and acceptance of a new economic geography. The old rural economy, based on commodity production, will no longer sustain us. Globalization advantages the lowest cost producer, forcing rural commodity producers, be they in agriculture, minerals, timber or manufacturing, to compete in a global system where even our advancing economies of scale may not enable U.S. producers to compete with those in nations with lower land, labor and input costs.

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 public and private sector decision makers rethink the framework for community and economic development. This begins with an honest assessment of a region's unique competitive niche, 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. Advantaging and capturing local wealth and local entrepreneurship is the wave of the future. 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 institutional intermediaries. In this regard, the most essential task is the crafting of a new regional governance.

The necessity for building this more integrative framework for rural economic and community development is gaining global attention. More than 120 senior policy officials, analysts and practitioners gathered near Washington, D.C., March 25-26, 2004 to discuss the future of these efforts. The Organization for Economic Cooperation and Development (OECD), the Federal Reserve Bank of Kansas City, The Countryside Agency, U.K. and RUPRI co-sponsored this international dialogue, which built upon deliberations regarding these challenges that have been ongoing within OECD's Division of Territorial Reviews and Governance.

While specifics of place, culture, and governmental structure vary across nations, there is a growing consensus within this OECD community that three major shifts must occur, if a new rural policy framework is to succeed:

1. Public policy attention to rural areas must shift from a sectoral to a much more integrated regional framework, in which multi-sectoral policy and program opportunities are coalesced within a place-based framework.

2. To accomplish this, public funding commitments must be re-aligned, shifting from a subsidy / dependency orientation toward one which captures and supports inherent regional competitive advantages.
3. A "New Rural Governance" framework must be developed, in and through which the above two shifts can be expressed.

Clearly, this is an emergent paradigm. However, many countries have already embarked upon this course, and the U.S. must accelerate our attention to this model.

A New Rural Governance

Governance is the process of making and carrying out decisions. In its most common use, governance refers to the management practices of govern*ments*, including cities, counties, special districts, school systems, regional governments, Indian reservations and states. Good governance denotes efficiency, effectiveness, good-value-for-the-money, and use of alternative administrative mechanisms.

Govern*ment* is the most recognized form of govern*ance*, but it is not the whole story. Effective governance incorporates a variety of decision-making and implementation practices by a wide range of people, organizations and institutions *beyond government*: non-profit groups, faith-based organizations, community foundations, citizen alliances, community colleges, business associations, and others. Moreover, effective governance incorporates *community building*: processes that develop leadership, enhance social capital and personal networks, and strengthen a community's capacity for improvement.

Effective governance builds the *foundation* to engage disparate people, spark good ideas and generate concrete results. It does the *ground work* that complements the *good work* of entrepreneurial development, community infrastructure improvements, artistic endeavors, or other initiatives. Moreover, effective governance provides the *glue* to coalesce and sustain achievements over the long-term.

A wide range of geographic, economic, political, cultural and demographic conditions exist across rural America. Certainly, some rural communities are privileged by strong amenities, proximity to a metropolitan area, etc., while others are not. But, all rural regions are governed in one way or another, and all can strengthen their governance system.

Rural Entrepreneurship

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 infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and a weak entrepreneurial culture have limited rural participation in the new global economy.

However, across the nation, a new rural entrepreneurial culture and climate is flourishing, based upon three principles: community-driven focus, regionally oriented action, and entrepreneur-based strategies.

To encourage rural entrepreneurship, communities must provide the immediate environment, which heavily influences entrepreneurial success. Communities need tools and resources to identify and build upon assets, make choices, learn, and innovate. Without community capacity and a commitment to intermediary organizations, this task becomes even more difficult.

As mentioned above, a regional orientation is essential. Political jurisdictions have no economic rationale, and few have sufficient resources in rural America to match opportunity with need. Regional cooperation is imperative. In this effort, arbitrary distinctions between urban and rural interests mask issues of common concern, and often retard regional solutions. Entrepreneurs need access to the full realm of regional economic drivers. Finally, we must acknowledge that current entrepreneurial development supports are less than fully effective, uncoordinated, and difficult to sustain in rural America. Most of these programs fail to differentiate between entrerpreneurs with different levels of education, skill sets or motivation. These supporting rural entrepreneurship must develop a systems approach.

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.

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 corralled into 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 frankly 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 them 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.

These principles, which became the focus of the W.K. Kellogg Foundation's Entrepreneurship Development Systems in Rural America national competition, 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.

The Critical Role of Intermediary Organizations

Finally, and most critical to all the above, one of the crucial differences between stagnating and flourishing rural regions is the existence of engaged intermediaries. New research at Harvard University's Art and Science of Community Problem-Solving Project is explaining the subtle agents of change in communities, and the very critical role these organizations play in enabling development. Xavier de Souza Briggs defines intermediaries as people, organizations and institutions that add value to the world by connecting and supporting – i.e., by enabling others to be more effective. In rural America, these intermediaries may be close by (such as at a community college), at a regional level (such as a development organization or a council of governments), or farther away (such as community assistance organizations, agencies or private foundations).

In any case, the very special power of intermediaries is that they make things happen without calling attention to themselves. They initiate, but then step back, so that others can own and take credit for what happens. Often, intermediaries must, in fact, develop the market for the processes they wish to provide.

In rural economic and community development, this community capacity is in dire need of advancement. Whatever we do must be premised upon an understanding that essential infrastructure at the community and regional levels must be sustained. Absent this, and sufficient resources for this work, the best of federal efforts will not achieve optimal success.

III. *Strengthening America's Communities* Initiative

The *Strengthening America's Communities* Initiative has generated significant attention from the multiple sectors, organizations, stakeholders and constituencies which would be affected by this very substantive policy and program redesign. In the remainder of this testimony, I would like to assess this proposal from a rural policy perspective.

First of all, it is important to note the historic role the Economic Development Administration has played in the community and economic development of rural America, as has been noted in prior testimony before this Committee. This agency and its collaborating partners and organizations at the regional, state and local level have significantly advantaged the economic and community development of rural America.

Likewise, Assistant Secretary Sampson has also been a most effective spokesman and champion for the approaches I have outlined above, and has provided critical U.S. leadership while engaging the international OECD community on these regional and rural perspectives.

Unfortunately, the necessary detail to fully assess the rural economic and community impacts of the *Strengthening America's Communities* Initiative is not yet available. However, three primary considerations will eventually frame the rural assessment:

- Structural and programmatic design
- Eligibility criteria
- Standards and performance measures

Structural and Programmatic Design

For nearly two decades, RUPRI has criticized the lack of an integrated federal framework for rural development. The duplication, inefficiency and confusion generated by multiple categorical and block grants for community and economic development programs across our federal government have long been recognized. For limited resource rural jurisdictions, these challenges can be overwhelming, and quite often lead to inappropriate public policy decisions at the local level, or no action whatsoever. Therefore, the policy rationale for such a reorganization is certainly not in question.

Likewise, there is great merit in re-targeting policies and programs to assure those communities most in need of assistance are advantaged in federal funding. As President Deborah L. Wince-Smith of the Council on Competitiveness pointed out in her testimony before this committee in 2003, "The drivers of national prosperity are, in fact, becoming more localized . . . we cannot afford to leave our distressed communities behind or perpetuate ineffective models."

However, the immense need for rural infrastructure, regional strategic planning, community capacity building and support for local intermediary organizations outlined above must be a much higher priority, if this approach is to address these most pressing rural concerns. And, since these are a necessary sine qua non for appropriate job creation and private sector investment, both laudable goals in this program, attention must be given to this dynamic.

The challenge, as with all public policies, is to assure that failures do not occur "in the middle." Here, my greatest operational concern is the lack of institutional infrastructure to assure rural communities and regions have full equity of access and engagement. Without sufficient institutional infrastructure to provide planning and technical assistance support for these functions, rural America will not fare well under this program.

Finally, community and economic development are both essential in this process. This is particular true in rural America, where community capacity remains much less robust. Lack of attention to the community development components of existing policies and programs, to be replaced by the "*Strengthening America's Communities*" initiative, will differentially disadvantage rural America.

Eligibility Criteria

As with all targeting efforts, assuring equitable rural eligibility criteria will be very challenging. Although specific criteria have not yet been published, it will important to address the high levels of working poverty, multi-job holding and underemployment in many rural areas. Unemployment criteria often mask these challenges, despite the fact that rural median family income is 25% lower, and rural poverty rates 28% higher than in metro areas.

Likewise, measurements which only address economic indicators, and miss the broader set of community capacity needs currently targeted by the USDA/RD and CDBG programs which would be replaced, will challenge rural areas.

Standards and Performance Measures

Again, while specifics have not yet been published, the *Strengthening America's Communities* initiative overview suggests a number of criteria that might be used for the Economic Development Challenge Fund, a bonus grant program for low income communities facing economic challenge. One of the proposed criteria for eligibility is yearly progress in meeting the No Child Left Behind program goals. Unfortunately, most rural policy makers and educators have already expressed the rural challenges with this framework. Likewise, since each state has a different NCLB version, it will be difficult to maintain national standards, as small and rural schools are treated differently across the landscape.

The CDBG Question

Obviously, comparison to the existing CDBG program has already been developed by most advocating organizations. While rural communities remain disadvantaged by CDBG, as mentioned above, a number of states have recently developed innovative approaches with "small cities" CDBG funds, to build regional strategies for rural entrepreneurship. These developments are most encouraging, and federal policy should continue to allow these regional efforts to express themselves.

One possible vehicle for this will be the new "micropolitan" federal place designation. Nearly 600 rural growth hubs, evenly distributed across the rural landscape, would offer an intriguing jurisdictional framework for regional rural innovations systems.

Because RUPRI does not advocate, this testimony has not addressed the funding differential proposed for this initiative. As with the CDBG challenge, there is ample advocacy around this issue.

An Intriguing Option: The Rural Strategic Investment Program

Building a regional rural innovation system could take many forms. The potential exists to craft it within the *Strengthening America's Communities* initiative, as it does within existing CDBG dynamics. A most innovative approach was included in the 2002 Farm Bill, although it has not been implemented. The Rural Strategic Investment Program (RSIP), passed within the Rural Development Title of the Farm Security and Rural Investment Act of 2002, is one of the most innovative rural legislative initiatives in recent history.

It created a new National Board on Rural America, to administer this program, and expanded attention to regional strategic investment opportunities, which provided flexible funds for public-private partnerships to pursue innovative development strategies.

RSIP enabled self-selecting regional collaborations to craft entrepreneurially-based, regional competitive advantaging initiatives, for consideration by the National Board, which would certify these new Regional Investment Boards. It encouraged cross-sectoral, multi-institutional, and government / NGO / private sector collaboration, while not duplicating existing federal funding programs.

RSIP enabled the crafting of a regionally-appropriate, cross-sectoral, strategic vision; provided technical assistance funding to assure rigorous analytic support for assessing regional approaches; provided flexibility and accountability while also exploiting identified opportunities for innovative public-private collaborations within regional strategic investments; and assured performance oversight by the National Board in each step of the development, implementation and evaluation of these innovative regional strategies.

Summary

In summary, federal considerations of rural community and economic development policy must change to support new regional rural innovation systems. As outlined above, the following concerns should be addressed:

1. Focus must be on "new" regions and "new" engines.
2. We must shift from attraction to asset-based strategies.

3. The answers and solution tracks are regional and local, not federal, in nature.
4. Innovation must be at the center of it all!
5. Public investments must reinforce regionally assessed strategic priorities.
6. Rural and urban solutions should become more mutually supportive, if allowed.
7. Leadership must surface, to sustain this new collaborative approach.

Mr. Chairman, thank you for this opportunity.