THE ARKLETON TRUST

RURAL POLICY ISSUES

Papers presented at a seminar at Douneside, Aberdeenshire,

March 1990

Edited by Michael Tracy

The Aspen Institute

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CANADIAN AGRICULTURAL AND RURAL RESTRUCTURING GROUP

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Papers presented at a seminar on "Europe 1993: Implications for Rural Areas" at Douneside, Aberdeenshire, Scotland, UK

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The Arkleton Trust
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The Aspen Institute for Humanistic Studies
Economic Policy Program
1333 New Hampshire Boulevard
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Canadian Agricultural and Rural
Restructuring Group
c/o School of Rural Planning & Development
University of Guelph, Guelph,
Ontario, N1G 2W1
Canada

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CONTENTS

PREFACE

Those of us from the other side of the Atlantic were naturally apprehensive about meeting in Scotland in March. We need not have been. The weather, especially considering the time of year, was wonderful, the surroundings quite beautiful, the accommodation warm, comfortable and friendly, and "subsistence" it most certainly was not.

For the welcome, ambience and attendance to creature comforts, we owe a debt of gratitude both to Elizabeth, Lady Higgs, Chairman of The Arkleton Trust, and to Monty Banks and the staff of Douneside, the seminar centre of the MacRobert Trusts in Aberdeenshire.

For the efficiency of the business, attendance to office functions and the organisation of transport for participants to and from the splendid rural isolation of Douneside, we must thank Tracy Huston.

Some of us, though not I and others who had already experienced The Arkleton Trust in action, might have been apprehensive also about the subject matter and style of participatory seminar normally adopted by the Trust, with its emphasis on round table discussion rather than paper-giving. If such fears existed, they were quickly dispelled. The group worked hard and well together. For this we have to thank the Trust and particularly its Director, John Bryden for its organisation of the seminar, and also to thank the participants, the presenters and rapporteurs, but most of all the participants.

The seminar was supported by the Scottish Development Agency and the Highlands and Islands Development Board, as well as by the sponsors of the Exchange Programme on Rural Policy Issues. This programme, organised by the Rural Economic Policy Program of The Aspen Institute in Washington DC, The Arkleton Trust, and the Agricultural and Rural Restructuring Group in Canada, has support from the Ford Foundation, the Donner (Canada) Foundation, the Economic Research Service of the USDA and The Arkleton Trust. The support from all these sponsors towards the fellowships which provided material for the seminar, for the seminar itself, and for the publication of this report is greatly appreciated.

The proceedings of the seminar have been edited by Michael Tracy, and we are greatly in his debt for the work he has put into it. They have been typeset by Fiona McGregor and Margaret Smith of The Arkleton Trust, who faced not a few problems with different formats, particularly of graphics used by the various authors. We must also thank them for their work.

Susan E Sechler
Director, Rural Policy Program,
The Aspen Institute, Washington, D.C.

INTRODUCTION

by John Bryden and Michael Tracy

The Arkleton Trust in the United Kingdom, the Aspen Institute in the United States and the Canadian Agricultural and Rural Restructuring Group have undertaken a Joint North America–Europe Exchange Programme on Rural Policy Issues in the 1990's. In this framework, a seminar was organised at Douneside in Aberdeenshire, Scotland, on 19–23 March 1990 (see Annexes for information on the Exchange Programme and on seminar participants). It was felt that the papers presented on this occasion could usefully be made available to a wider audience. They have been revised by their authors for this purpose.

The papers deal with rural policy issues in both Western Europe and North America, and in some cases relate to particular countries.

The profound adjustments facing rural industries, communities and people in Europe and North America have much in common, despite the enormous diversity which can be found in each region. Significant changes in labour markets and rural economies have occurred in both Europe and North America in recent years, dramatically altering the income and work profile of rural people. Perceptions of the role and function of rural areas and people in advanced industrialised countries are also changing.

In the 1970s, a wave of rural industrialization swept both continents, and natural resource industries such as mining and timber boomed. In the 1980s, competitive disadvantages in low-wage, low-skill manufacturing, timber and mining, along with falling farm incomes, have contributed to a contraction of rural labour markets. Many rural communities have thus been left in a severely weakened position. Each region's deepening commitment to a system of freer trade and more open markets, resulting in a dismantling of trade barriers within the EEC and under the U.S.-Canada Trade Agreement, will intensify these competitive forces, further threatening traditional rural industries. Furthermore, although the relative position of services and more "high-tech" manufacturing activity has been strengthened in some rural economies in the past decade, growth in these sectors of the economy will need to expand rapidly if they are to fill in gaps in rural employment created by the continued contraction of traditional rural industries. Moreover, many regions have seen little or no growth of these modern industries. The current reorientation of rural economies also requires an expanded public commitment to education and literacy in all three regions, a particular problem for the United States and Canada and parts of Southern Europe.

Although farming was once the primary source of income in the countryside, agricultural employment today is less than ten percent of the total employment in both North America and Europe. Important regional variations do exist, however; Portugal and Greece, the rural mid-western United States and Canada's prairie still have over 20 percent of their working populations in agriculture.

Agriculture has also traditionally dominated the rural policy context on both continents, and the primary set of policy interventions aimed at improving rural well-being has been directed at maintaining or increasing farm prices relative to world prices. Despite these interventions, farm income has been under pressure both internationally and within individual countries. Commitments made during the GATT Uruguay Round and the Toronto Summit indicate that international pressure to reduce levels of agricultural protection in North America and Europe will continue, although the time-frame remains uncertain.

Domestically, internal pressure within Europe and North America to reduce agricultural spending will remain considerable because of budget outlays, even as technologically-induced growth in farm production is expected to increase, exerting further downward pressure on family farm incomes. In addition, the growing recognition of serious environmental problems in both regions related to soil degradation, landscape changes and water pollution also suggests a change in production patterns in the near future.

Although agricultural pollution is receiving a great deal of attention in the United States and Europe, the broader issue of restoring and maintaining the beauty and environmental integrity of rural areas is also on the policy agenda. Each region now recognizes that environmental protection and economic growth are no longer incompatible with each other and indeed that much of the future prosperity of rural areas will be generated by industries such as tourism and recreation which depend on the maintenance of natural beauty. This pressure is particularly acute in rural areas close to cities and in wilderness areas.

In a final comparison, substantial areas of rural poverty exist in North America and Europe. In many peripheral rural areas in Europe, especially in southern Europe, real incomes are less than 70 percent of the EEC average and less than 40 percent of the average in the richest regions. In North America, average incomes in non-metropolitan counties are less than 75 percent of those in metropolitan counties. These averages conceal substantially greater variations in particular areas and amongst particular social groups. Thus, in both regions, the achievement of general parity between rural and urban incomes overall in the face of a widening income gap is a major policy concern. The challenge is further complicated by areas of extreme poverty and meagre economic activity.

THE EUROPEAN COMMUNITY POLICY CONTEXT

While many of the international forces causing rural change are the same in the European Community as in Canada and the United States, the policy responses have been markedly different. Strong residual political support for maintaining a populated countryside in the European Community underlies a commitment to offer a range of public services for rural people commensurate with those enjoyed by the urban and suburban populations. European leaders accept that necessary adjustments to further integrate the European Community by 1993 in compliance with the Single European Act will lead to further imbalances among countries, sectors and regions, with the already economically and socially advantaged receiving further economic impetus at the expense of the weaker. European Community policy-makers are seeking to counter this disadvantage to poorer rural people and places by reforming the structural, social and financial policies embodied in the Regional Fund, the Social Fund and the Agricultural Structures Fund. It has also been agreed that the funds will be targeted on regions with relatively low incomes, declining traditional industries, depopulation or other problems of "structural adjustment". The funds are to be doubled in absolute size in January 1989, and approximately 80 percent of the Regional Fund, and sizeable portions of the other funds, will be directed to those regions with per capita incomes of less than 70 percent of the EEC average, located in Greece, southern Italy, Portugal, Ireland and parts of Spain. Other measures, such as telecommunications investments, are also being focused on such regions.

These priority regions are predominately rural and peripheral in character. They are rural in the sense that they still have relatively high agricultural populations, are dependent on primary-goods processing and tourism for much non-agricultural employment, have relatively poor economic and social infrastructure, and a history of outward migration. They are peripheral in the sense that they lie in the geographical outer rim of the EEC, far from metropolitan centres, and have relatively underdeveloped employment structures. The funding of these new measures depends in part on the reduction of farm spending, which will have regional implications as well.

The structural reforms in the European Community also make important reference to a number of additional issues. First, environmental problems of all kinds have been cited, as well as the need for them to be tackled within the context of agricultural and other sectoral policies. Second is the need to decentralize the policy focus and work more closely with local and regional authorities in the formulation of development plans and in the implementation of the new structural policies. Third, the reform of the Common Agricultural Policy is recognized as having regional effects which will require adjustment assistance for farm households and rural economies, especially where dependence on agriculture remains high. These new measures stress the possibilities for jobs and incomes created from environmental and conservation measures, from non-agricultural activities both on- and off-farm, and from afforestation and other measures to advance the process of "decoupling" farm household incomes from agricultural prices. Farm household pluriactivity, or multiple job-holding, has thus become a key policy issue.

Countries and people in the European Community are taking the implementation of the Single European Act and related adjustment policies seriously, and expectations have been raised throughout the continent. In addition, the recent changes in Eastern Europe, where there are still substantial agricultural and rural populations with relatively low productivity and incomes, has begun to raise new problems and challenges and to widen the potential scope for European integration. The period to 1993 can therefore be expected to be a lively one in the European Community, with all of the different influences and experiments ultimately working themselves out in the daily lives of rural people. It is therefore a particularly important time for rural practitioners, researchers and policymakers, inside and outside the European Community, to document, study and learn from this unique transition.

THE U.S. POLICY CONTEXT

Rural polices in the United States are also in a period of significant change. During the 1980s, while agricultural subsidies have been increased five-fold, all other rural programmes have experienced a 75 percent reduction, totalling just 1.3 billion dollars in 1989. While agricultural policy remains a federal responsibility, during the past decade most rural development policies and actions outside agriculture have become increasingly state and local government responsibilities. The lack of an overall framework for redressing regional inequalities, such as that which exists in the European Community and Canada, means that the efforts of the state and local government depend to a large extent on their own resources, which are necessarily limited in poorer regions.

Furthermore, in contrast to the European Community where the roles of government in regional development and planning are widely accepted, many of the activities that stimulate and support local and regional development efforts in the U.S. are undertaken by large Foundations and the not-for-profit sector. There is, therefore, a considerable diversity of both the quantity and type of intervention. The nature of the U.S. experience thus provides Europeans with the opportunity to examine the dominant European hypotheses relating to the development of regional inequalities in a predominantly free market economy.

The new U.S. Administration appears to be more interested in addressing the problems of underdevelopment and poverty than the previous Administration. Optimism about a more activist federal role must be tempered, however, by the enormous constraint of the budget deficit, the immediate and very expensive crises in the savings and loan industry, and the clean-up of nuclear waste sites. Thus, while many hope that the Congress will pass a rural development package designed to stimulate rural job creation and that, furthermore, the Administration will make an effort to reform and redirect current programmes, the total effect is expected to be modest. Community-led development efforts in rural areas stimulated by local and state government and not-for-profit organizations will therefore continue to be the main source of intervention. This will be of considerable interest to European policy-makers, given the new emphasis on involvement of local institutions in rural development practice and planning in the European Community.

Agriculture is one area in which it is expected there will be some major changes affecting rural communities. If the current "Uruguay Round" under GATT should lead to substantial cuts in commodity subsidy programmes, this could have important implications for farm income, and would be particularly hard felt in the Mid-West where farm income is still a major proportion of rural income.

Finally, as in the European Community, the subject of a more sustainable agricultural system has become more urgent and complex as evidence emerges of considerable leaching of agricultural chemicals from the soil into the groundwater. While this pollution, and the serious threats to health it carries, deeply concerns both farm and non-farm residents, farmers in particular are concerned whether they can maintain their livelihoods after shifting to less intensive methods. Governments in both regions are under increasing pressure to adjust policies to deal with these problems. Considerable work has been done on sustainable agriculture in the U.S., which comes very close to the new objectives of European policies on agriculture and the environment.

THE CANADIAN POLICY CONTEXT

The policy context in Canada is dependent on the pending reformulation of trade agreements, primarily with the U.S., and more generally, through the GATT Uruguay Round. Such reformulations are seen as key elements in the global restructuring process, which is expected to revise the trade prospects and rural community impacts of export-based agriculture. Policy research is being done on restructuring of the grains economy, the future implications of biotechnology in both the production and manufacturing of food, and in the performance of supply management systems in agriculture. Interest is also focused on how such agricultural adjustments will affect rural areas, especially family life, household pluriactivity and community economic development. A strong interest in sustainable agriculture forms one important link with environmental issues in Canadian agriculture.

Canada has had twenty years of experience with regional and local efforts in rural and economic development, including anti-poverty and resource management programmes. Over this period, Canada has tried different strategies such as growth poles and megaprojects, as well as a variety of local economic and community initiatives. Canada's experiences need to be assessed in light of the potential effects of U.S. – Canadian trade liberalization on regional growth rates, local economies, and communities, and hold important lessons for future development work in Canada, the U.S. and European Community.

PAPERS PRESENTED

The contribution by **John Bryden** provides background information on major recent developments in the European Community that are of relevance to rural areas. Thus the planned completion of the "single market" in the European Community, by the end of 1992, may cause shifts in the location of industrial enterprises, with positive and negative effects; of particular concern may be industries which are over-represented in rural areas such as food processing.

Developments in EC regional and structural policy are discussed both in this paper and, more fully, in that by **Heino von Meyer**. The latter underlines the extent of regional disparities, particularly as between "central" and "peripheral" regions, with particular problems in the southern parts of the EC. There is now greater attention to these problems, in particular through the doubling of the financial resources available to the "structural funds". Von Meyer points out, however, that the resources of the structural funds still seem too small to make a real impact on regional disparities: at the same time, it is questionable whether substantially increased funds can be efficiently used.

Von Meyer also discusses the environmental issues arising in areas of intensive farming.

Sophia Efstratoglou, discussing the Greek case, illustrates the specific problems that may arise for disadvantaged rural areas as competition intensifies with the move to a single European market, and as price subsidies under the CAP are reduced. The Community aim of promoting "economic and social cohesion", by the reform of the structural funds and the increase in their resources, encounters difficulties in view of structural weaknesses and administrative inefficiencies.

William Nothdurft presents the results of research into the effectiveness of the rural development agencies in the United Kingdom: i.e. for the Highlands and Islands in Scotland, for Wales, and for England. He concludes that while all three create jobs in rural areas, only the Rural Development Commission in England helps rural communities to take control of their own destinies.

A joint paper by **David Freshwater** and by **Philip Ehrensaft** considers the difficulties in defining and pursuing a strategy for rural development in Canada and the United States. "Neo-conservative" governments have delineated a smaller role for central authority in this field; fiscal deficits are a major constraint.

Rural development in Canada is further discussed by **Jim Martin**, who points out the importance of public services (health, education, welfare), recognising that equal access to these services has not always been achieved as between rural and urban areas. He stresses the need for development programmes to be community-based and to focus on human resources, creating self- sustaining enterprises.

The United States experience is discussed by **Norman Reid**. He considers reasons for the relatively poor performance of the rural economy during the 1980s: these include the high proportion of natural-based industries — farming, mining, timbering — while the development of high-technology activities and of the services sector has been relatively slow in these areas. The degree of remoteness has been a major factor: rural areas that are adjacent to urban agglomerations did better than those further away. Increased demand for high-skilled workers is concentrated in metropolitan areas, thus widening the rural-urban income differential. With the growing importance of innovation, economic success depends increasingly on being in or near a major city.

Overall, the loss of population from rural areas will continue, making it difficult to sustain community life in small communities: government assistance can do little to reverse this trend. On the other hand, in areas suitable for leisure and retirement, population may grow: here, traditional rural ways of living and earning a livelihood will be challenged, but there will be growing concern for the quality and attractiveness of the rural environment.

The contribution by **Peter Apedaile**, while based on European experience, raises some general issues, concluding that any attempt to insulate rural economies is likely to fail, while laissez-faire could jeopardise social and food security objectives. Policies to steer rural development in a positive way need to be carefully designed; and strong democratic rural institutions are required.

Each of these papers deals with a particular situation, and each should be read for its own sake. However, certain common features emerge. All the contributions recognise the problem arising from disparities in living standards — a problem complicated by the fact that such disparities exist not just as between rural and urban areas but also as between different rural areas. Remoteness, in particular, is almost always a handicap; likewise, excessive dependence on traditional activities based on natural resources (farming, forestry, etc.) is a limiting factor, especially in an age when economic growth is largely concentrated on new enterprises based on high technology and requiring a skilled work-force.

The main task of rural development relates to the less-favoured areas. The solutions are not easy. Constraints on the expansion of farm output, arising from surplus situations for the major agricultural products, mean that agriculture cannot be relied upon as a major dynamic force. At the same time, governments in most countries are nowadays unwilling to permit a rural exodus that would drastically reduce population in such areas.

So other activities have to be found. But a constant theme in the papers presented here is that intervention by central authority, however well-intended, may do little good, and the mere provision of funds is not enough. In fact, such intervention may weaken local initiative, and extra money, if not well- directed, may create economic distortions and social tensions.

"Partnership" between central and local authority seems in principle desirable: yet genuine sharing of responsibility is difficult to achieve in practice. Depressed rural areas are likely to lack the human resources necessary to plan their own future, and to implement whatever plans may be drawn up; while a hasty implementation imposed from outside may be, at best, ineffective. While political pressures demand quick results, the process of development is inevitably slow.

Issues of rural policy, however, do not just concern less- favoured areas. Thus rural areas with a considerable potential for tourism — and, increasingly, for retirement homes — may be able to develop in economic terms, but face difficult problems of economic and social adjustment, as Reid points out. "Peri-urban" areas are subject to particularly acute conflicts in terms of land use. In rural areas where land prices are forced up by competition with uses other than farming, the only profitable course for farmers may be to intensify output, with the adverse consequences for the environment which von Meyer has stressed.

RESEARCH PRIORITIES

In view of these considerations, and taking into account discussions during the seminar at which these papers were first presented, the following broad conclusions emerge as to desirable future work:

— The specific and varying problems of different rural areas need to be better known. A better "typology" of rural areas is desirable as a basis for appropriate policies.

— The impact of policy measures should be much better evaluated (through case studies where appropriate), and the results of such analysis should be made available in a form which can usefully influence further policy development.

— Institutional requirements for rural development should be further considered; and the practical implications of "partnership" approaches should be investigated more carefully.

— There is a need to know more about the conditions under which local enterprise can be established and flourish in rural areas. This implies analysis of the labour market, taking into account training facilities, social services, etc.

— Constraints on development imposed by the environmental impact of intensive farming need continued investigation: in particular, a methodology enabling positive and negative impacts on the environment of different paths of "development" needs to be worked out.

THE IMPACT OF 1992 ON RURAL EUROPE

John Bryden

SUMMARY

This paper provides background information on major recent developments in Community policy that are of relevance to rural areas.

Thus the planned completion of the "single market" in the European Community, by the end of 1992, may cause shifts in the location of industrial enterprises, with positive and negative effects; of particular concern may be industries which are over-represented in rural areas such as food processing.

New initiatives have been taken in rural policy, arising from the concern with "economic and social cohesion" which is part of the Single European Act. New priorities for "structural fund" spending include the development of rural areas: "Community Support Frameworks" have been negotiated between the Commission and national governments, in "partnership" with local and regional authorities.

Under the "LEADER" programme, financial aid is to be made available to support "grass roots" development agencies that have an "integrated" rural development strategy.

Further, "horizontal" structural policy has been substantially revised, in the context of reform of the Common Agricultural Policy. The new goals reflect concern with achieving supply-demand balance, while maintaining family farming and rural populations, and avoiding damage to the environment.

The purpose of this short paper was to introduce seminar participants to essential background information relating to "1992", at the completion of the EC internal market, where it relates to the future of rural areas. It was not intended as detailed and comprehensive analysis or assessment of the likely effects of 1992 on such areas.

WHAT IS 1992?

The Treaty establishing the European Economic Community, signed in Rome on 25 March 1957, states that

> The Community shall be based upon a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries.
>
> **Treaty** , Art. 9, p. 86 in Treaties, HMSO, 1988.

In June 1987 the Single European Act ("SEA") was signed by all Member States. The SEA built upon the Treaty by proposing that:-

> The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992 .....
>
> The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital in ensured in accordance with the provisions of this Treaty.
>
> **Treaty**, Art. 8A (SEA Art. 13) in Treaties, HMSO, 1988 p. 85.

It has been called "a Europe without frontiers" and involves the enactment of some 285 pieces of legislation to remove all remaining physical, technical and fiscal barriers to the movement of both individuals and commercial enterprises within the Community. By March 1990, 158 Acts had been passed and a further 139 had been submitted and awaited agreement. Those passed included over 21 in Agriculture, covering such things as rules for seed certification, maximum levels of pesticide residues, feedstuff additives and disease eradication measures. Others were passed relating to Banking, Biotechnology, Capital Movements, Chemicals, Company Law, Educational and Professional Qualifications, Company Law, Environment, Taxation, Food, Insurance, Technology, Public Procurement, Telecommunication, Trade and Transport.

The SEA also envisaged new Community action relating to social policy (SEA Art. 21, 22), economic and social cohesion (Art. 23), research and technological development (Art. 24), environment (Art. 25) and on the powers of the European Parliament (Art. 7).

WHAT ASPECTS OF THE SEA WILL AFFECT RURAL AREAS?

The Checcini Report on *The Economics of 1992* [Commission, 1988B] tried to assess the economic benefits of the 1992 measures, which they estimated at a total of between 4.3 and 6.4 % of Community GDP. Roughly half of this was welfare gains from the removal of barriers, and half from industrial reorganisation and increased competition. Substantial gains were anticipated from liberalisation of public procurement (especially large projects will have to be offered for tender across the EC), and of financial services. Although short-term job losses of around half a million were predicted, medium-term (5–6 years) gains of between 1.5 and 5 million jobs were suggested in the report[a].
Rural and agricultural interests will be particularly affected by:-

(a) Shifts in the location, scale and organisation of industrial enterprises as a result of industrial concentration, competitive pressures and removal of residual non-tariff barriers. These include Viner's "trade creation" and "trade diversion" effects. Rural labour markets and opportunities for entrepreneurship will be affected. Of particular concern may be industries which are over-represented in rural areas like food processing, brewing and malting, textiles, forest and timber products, and those which "decentralised" to rural areas in the 1970's. Moreover, the opening up of public procurement (including procurement by local and regional Government and Agencies)

[a] Total employment in the Community of Twelve was 122.9 million in 1985.

may affect rural construction, service and supply industries. A Commission study identified the following sectors as likely to be most vulnerable to restructuring:-

Boilermaking
Mining and Steel Industry equipment
Railway equipment
Ship-building and repair
Medical, surgical and orthopaedic equipment
Pharmaceuticals
Cocoa, chocolate, sweets
Brewing and Malting
Mineral water

Of these only the last three seem likely to be of major interest to rural areas.

(b) New harmonized regulations and deregulation in areas such as animal and plant health, the "labelling" and "recipe" provisions for food industries, tractor safety, fertiliser labelling, and transport. Transport is quite an important rural employer, and increased competitive pressures may affect this. The establishment of the right of cabotage will allow long-distance hauliers to pick up back-haul in another Member State, and this may be of relatively greater benefit to remoter areas than to central areas where this has never been a problem, but which will now face competition from through-carriers. The fact that animal and plant health etc. should now be checked at source rather than at border control points should mean increased rural employment in supervision.

(c) Monetary/exchange adjustments, especially the phasing-out of Monetary Compensation Amounts (MCA's) which will particularly affect intra-Community trade in milk, cereals and sugar (because these commodities have generally higher MCA's). The prospects for phasing-out MCA's will be seriously affected by major changes in internal exchange rates caused, for example, by German unification and consequent shifts in the value of the DM.

(d) Changes in agricultural and rural development policy which relate to 1992. The new proposals for rural development measures in particular aim to give a further stimulus to economic development in the least-favoured rural regions, and this has been given added emphasis and urgency by the Uruguay Round and CAP reform[b].

RURAL POLICY AND 1992

The concept of **economic and social cohesion** is part of the SEA, and a politically important element in European thinking about 1992, and influence on recent changes in rural policy. This has been stimulated by the great diversity in economic and social conditions between the Twelve Member States, and the relatively large rural populations in the new

[b] A useful information note on the new rural development measures was prepared by Mr Enrico Grillo-Pasquarelli of the Rural World Unit in the EC Commission, D-G 6, for the participants in the seminar.

(1980's) Member States of Greece, Spain and Portugal. The **reform of the structural funds** in 1988 was a concrete policy response to this at EEC level, as is the new emphasis on this **social dimension of the internal market** in 1989. In September 1988, the Commission also published a paper on *The Future of Rural Society* [COM (88) 501] which set out in some detail a new approach to the Commission's thinking about rural issues in the context of the reform of the CAP and the consequences of the SEA and Structural Fund Reform. This will be referred to below as the **Rural World** paper[c].

The Rural World dossier provides the framework within which new EC proposals for rural programmes and projects will be set. It was a clear signal that the Commission accepted:

(a) that rural development had to be tackled in the context of CAP changes, the large rural populations of Greece, Spain and Portugal, closer European integration, and political concerns about the environment;

(b) that rural society and its problems went far beyond agriculture and farms;

(c) that rural development required closer integration between the many different instruments which the Commission had at its hand;

(d) that local interests and democratic organisations should have an important role in defining rural development actions in partnership with national governments and the EC;

(e) that rural Europe is extremely diverse. We are not dealing with one problem — or one solution — but many.

Implementation of the **Rural World** lies mainly in the measures proposed as a result of structural fund reforms. It will be recalled that the "structural funds" are:

- The ERDF — European Regional Development Fund, with ECU 4.5 billion in the 1989 budget;
- The ESF — European Social Fund, with ECU 3.5 billion;
- The EAGGF — European Agricultural Guidance and Guarantee Fund — Guidance Section, with ECU 1.5 billion (1989).

Total structural fund spending amounts to some 9.5 billion Ecus, from a total EC Budget of 46.7 billion Ecus.

[c] The original text was in French, and entitled *Le Monde Rurale*.

The reform involved a doubling of spending on the three Funds in real terms over the period 1987 to 1992, the establishment of priorities for that spending according to five main **Objectives**, and new procedures for drawing up and financing Community measures.

The five priority objectives for Structural Fund spending are:-

Objective 1: Promoting the development and adjustment of the regions whose development is lagging behind (i.e. where per capita GDP is less than, or close to, 75% of the Community average) [list revised every five years]

Objective 2: Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline (criteria: average unemployment rate above the Community average, industrial employment rate above the Community average, decline in industrial employment) [list revised every three years]

Objective 3: Combating long-term unemployment (above the age of 24, unemployed for more than 12 months)

Objective 4: Facilitating the occupational integration of young people (job-seekers below the age of 25)

Objective 5: With a view to the reform of the common agricultural policy:

- 5(a): adapting production, processing and marketing structures in agriculture and forestry;
- 5(b): promoting the development of rural areas. [These areas are selected with reference to the following criteria: agricultural employment accounting for a high proportion of total employment; low level of agricultural income; low level of socio-economic development in terms of per capita GDP.]

It is Objectives 1, 5(a) and 5(b) that mainly concern us in rural areas.

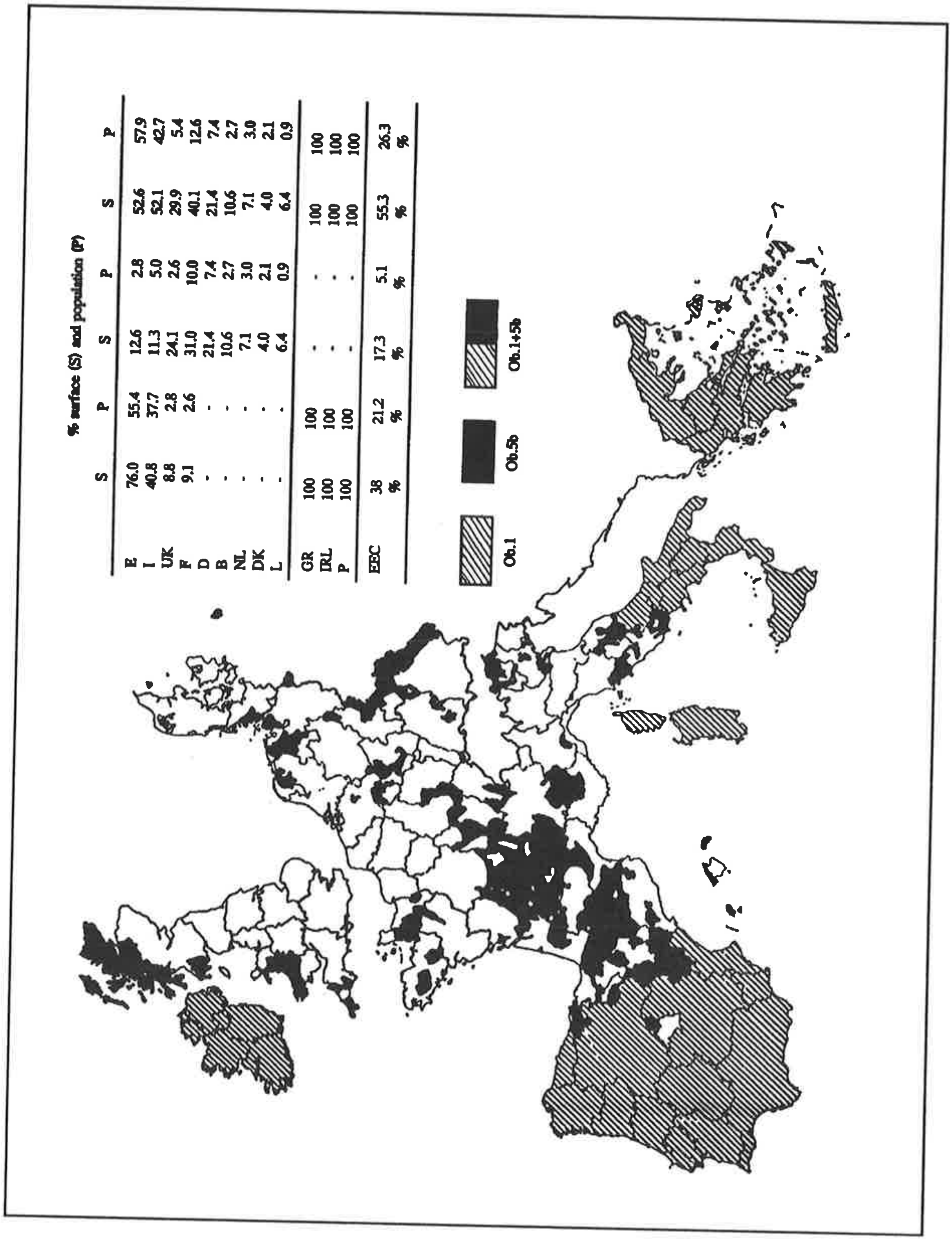
The Objective 1 and 5(b) areas are shown in Map 1.

(a) Regional ("vertical") measures

In both Objective 1 and 5(b) regions, national governments, supposedly in "partnership" with local and regional government, draw up regional development plans. Having submitted plans, the Community then decides its "Community Support Framework" (CSF) which represents a joint commitment by Community and Member States as regards the priorities and funding amounts and sources. Many of these CSF's — especially those in

MAP 1

Areas covered by Objectives 1 and 5(b) of the Structural Funds



	S	P	S	P	S	P
E	76.0	55.4	12.6	2.8	52.6	57.9
I	40.8	37.7	11.3	5.0	52.1	42.7
UK	8.8	2.8	24.1	2.6	29.9	5.4
F	9.1	2.6	31.0	10.0	40.1	12.6
D	.	.	21.4	7.4	21.4	7.4
B	.	.	10.6	2.7	10.6	2.7
NL	.	.	7.1	3.0	7.1	3.0
DK	.	.	4.0	2.1	4.0	2.1
L	.	.	6.4	0.9	6.4	0.9
GR	100	100	.	.	100	100
IRL	100	100	.	.	100	100
P	100	100	.	.	100	100
EEC	38 %	21.2 %	17.3 %	5.1 %	55.3 %	26.3 %

Objective 1 regions – have now been negotiated[d]. Implementation of the Plans may be through:

- Operational Programmes, usually "integrated" and generally of five years duration.
- Individual applications to ERDF for large-scale projects.
- Global grants to intermediary institutions.
- Part-financing of eligible national aid schemes.

(b) "Horizontal" measures

Objective 5(a) covers existing and new agricultural structures measures which apply across the Community (hence known as "Horizontal measures").

EC agricultural structures policy was conceived against the buoyant economic background of the 1960's and an expansionist agricultural policy. It aimed to create "modern" farms through financial aid to farmers who were capable, through modernisation investments, of approaching income levels comparable with incomes in other sectors. It included inducements for early retirement to free land for structural improvement, and it provided socio-economic guidance and vocational training for persons engaged in agriculture.

In 1975, the first regionalised structures policy (for Mountain and Less-Favoured Areas) introduced direct support of incomes by way of compensation for natural handicaps, such as altitude and depopulation. Additional regional measures followed, including, in 1979, a number of pilot Integrated Development Programmes, or IDP's.

A review of the structural policies led to a new set of measures in the mid-eighties. The revised priority objectives for structural policy had swung away from purely agricultural concerns and placed greater emphasis on restoring market balance, on maintaining viable rural communities, and on the conservation and protection of the environment. This process has been intensified by the reform of the structural funds, already discussed.

The new goals for financial assistance to agricultural structures have been defined as:

- strengthening and reorganising agricultural structures, including those for marketing and processing agricultural and fisheries products, including forestry products, especially with a view to the reform of the Common Agricultural Policy;
- ensuring the conversion of agricultural production and the development of supplementary activities for farmers;

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[d] The CSF for Greece under Objective 1 was published in the *Official Journal* L 105, Vol. 33, 26 April 1990. The CSF's for the Objective 5(b) regions have been finalised since this paper was written and are published in the *Official Journal* L322, Vol. 33, 21 November 1990.

- ensuring a fair standard of living for farmers;

- helping to develop the social fabric of rural areas, to safeguard the environment, to preserve the countryside (*inter alia* by securing the conversion of natural agricultural resources) and to offset the effects of natural handicaps in agriculture.

These new goals represent a shift from efficient to effective food production as an objective of agricultural policy, with effectiveness not simply defined in terms of technical economic efficiency (which is still important) but also in terms of achieving supply-demand balance, developing new markets, the survival of family farming, maintaining rural populations, avoiding damage to the environment, etc. These goals are expected to lead to further structural measures at European as well as national and regional levels.

To assist the implementation of the new policy goals, the following measures have recently been introduced with regard to farming, under Objective 5(a) [Regulation (EEC) No. 3808/89]:

- removal of restrictions on the applications for investment aids by part-time farmers;

- limits on the compensatory allowances paid to any one farm family;

- enhanced aids for farm diversification;

- increased aids for young farmers entering or taking over a farm;

- a new system of aids for marketing and processing.

In July 1990 the Commission announced a new Community Programme for Rural Development in Objective 1 and 5(b) rural regions. This Programme arises from the work of the Inter-Services working group and is called "LEADER", *Liaisons Entre Agences de Dévelоppement Rurale*. It has a three-year budget of 400 million ECU's, and will require matching funding from national sources. It is aimed at local "grass roots" development agencies having an "integrated" rural development strategy, preferably involving mixed partners from public, private and voluntary sectors, and operating at sub-regional areas covering populations of between 5,000 and 100,000. The programme envisages a total of 100 LEADER projects.[e].

(c) Other measures

Some other areas of recent action, or proposals, in relation to the Rural World have related to:

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[e] EC Commission Spokesman's Service Information Note, 25 July 1990.

Quality Food Production and labelling

Aimed at preserving the integrity of existing regional quality products, such as wine, hams, cheeses, and encouraging improved quality of production, the main problem with such measures lies in ensuring that such measures remain consistent with the rules of competition within the SEM.

Differentiation of Market Measures

Given that global price support measures (a) are costly (b) encourage surplus production (c) do not always differentiate sufficiently on quality (d) give more income support to large than to small farms, the Commission has introduced some measures to support commodities produced by small farmers. These cover beef premiums, aid for durum wheat, olive oil, small cereal producers, and small milk producers.

Forestry

The forestry programme, agreed in May 1989, includes support for farm forestry, shelter belts and annual premiums to cover maintenance of young forests.

Environmentally-friendly farming

Community contributions to payments made to farmers in Environmentally Sensitive Areas (ESA's) since 1986, and maximum eligible amounts of such payments were increased under the 1989 structural measures. Aids for traditional forms of production including buck wheat, canary seed (alpituate) and millet which require few inputs of nitrogen and chemicals were agreed in December 1989.

Organic Farming and "Extensification"

Aid for "extensification" of production, including low-input and organic farming, was introduced in Regulation EEC No. 3808/89.

Aid for non-food production on arable land

Regulation EEC No. 2176/90 provides aid for national schemes to encourage the use of arable land for non-food purposes on farms involved in set-aside schemes.

Information Flows

Following a pilot scheme to introduce rural information centres (Carrefours), a new 200 million ECU budget line has been agreed for the MIRIAM programme to stimulate up to 100 such rural information centres with a view to encouraging spread of information on Community assistance for rural measures in the context of the Rural World proposals. MIRIAM is expected to be agreed before the end of 1990.

Telecommunications and Information Technology

Proposals were made in 1989 by the EC's DG-13 for an action programme on information technology in rural areas (ORA), but these were not accepted by the Commission. However, both LEADER and MIRIAM programmes have some information technology component.

Small and Medium Sized Enterprises in Rural Areas

Under the proposals for the 5th refinancing of the New Community Instrument (NCI), the EIB was to raise 5.7 billion ECU's on international money markets for on-lending to financial intermediaries. Within this programme, priority was to be given to Small and Medium Sized Enterprises in Rural Areas. These proposals require unanimity in Council, and have been held up by objections from Britain and Germany.

Marketing and Processing

New measures have been agreed for the marketing and processing of agricultural, forestry, and fisheries products, replacing the old measures funded under regulation 355/77.

A number of other programmes for education, training and employment have some rural components or potential, including the Poverty Programme, ELISE for the exchange of information relating to locally-based development actions, ILE and IRIS which have specific items for rural women, COMETT (Co-operation between universities and enterprises) and others. Research and development can also be mentioned — for instance the FAST Programme, and the new programme for Agricultural Research, although this last remains very orientated to technical aspects of agriculture. In general, however, these programmes are heavily orientated towards urban areas and require further development, and budgetary provision, if they are to be more useful to rural development. Recent proposals to give more budgetary support, and programme substance, to these and other areas mentioned in the Rural World paper have gone back to the drawing-board at the time of writing.

* * *

The general orientation of the Rural World proposals are a move in the right direction, especially their focus on integration, coordination, and non-agricultural aspects of rural development. At present, however, the main Community spending retains a heavy agricultural focus (through agricultural price support and the "Horizontal" structural measures of Objective 5(a)), and a focus on infrastructure, (through the Objective 5(b) plans). The LEADER programme is intended to strengthen the "tool-kit" for integrated regional development in rural areas, as the Community sees it as providing new models which may be more generally applied. It has, however, a modest budget of 400 million ECUs over 3 years, compared with total EC spending on agriculture and fisheries policies of over 30 billion ECUs, and total spending in regional and grant policy of 5.2 billion ECUs.

The question is: where is the political constituency for rural development, and how well is it organised compared, say, with the agricultural lobby? Particularly in Germany, France and Ireland, farming lobbies and politicians need to be convinced that effective options for economic activity other than agriculture exist in rural areas, and that farmers and their families can benefit directly from policies aimed at exploring these options.

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Table 1. The 1990 EC Budget ECUs

Item	Billion ECU's	%
Agriculture	29.5	63
Fisheries	0.4	1
Regional/transport	5.2	11
Social	3.7	8
Research/energy/ industry	1.8	4
Developing countries/ non-member States	1.5	3
Repayments/reserve	2.4	5
Commission	1.5	3
Other EC Institutions	0.8	2
TOTAL	46.7	100

Source: General Budget of the European Communities, *Official Journal* L24 Vol. 33, 29 January 1990.

Table 2. The 1990 Agricultural Budget

(European Agricultural Guidance and Guarantee Fund, FEOGA = EAGGF)

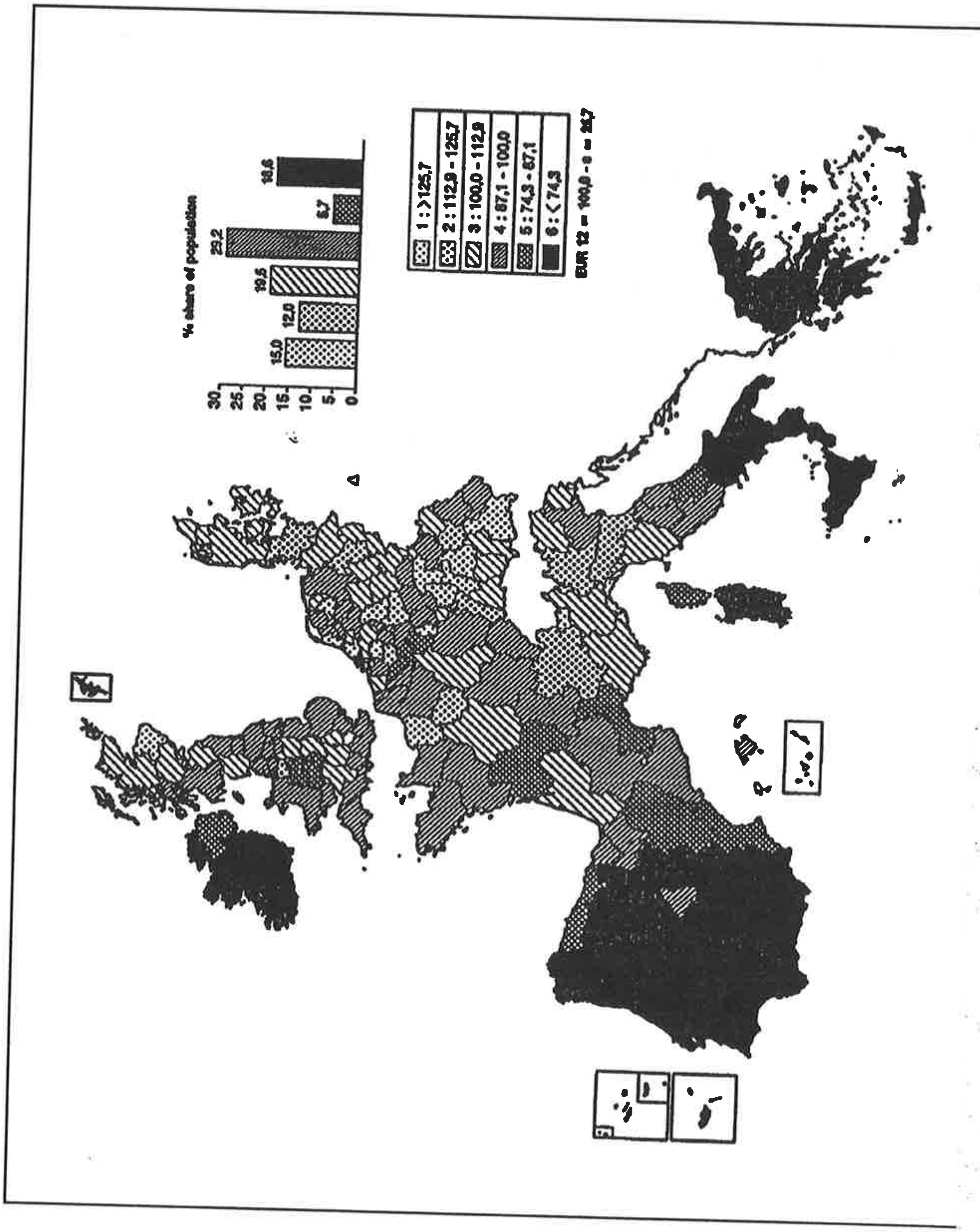
Item	Billion ECU's	%
Guarantee Section including Monetary Reserve	27.4	93
Guidance Section	1.7	6
Other Specific Agricultural Measures, Set-Aside and Income Aid	0.4	1
TOTAL	29.5	100

Table 3. EAGGF Guidance Section: 1990 Budget

Item	**Million ECU's**	**%**
Specific structural measures directly related to market policy and outdated measures	251	15
Improvement of agricultural structures – regionalised programmes, implementation of reform of structural funds	806	48
Other structural measures	609	37
TOTAL	1,666	100

MAP 2[f]

GDP per head of population 1985[g]



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[f] Source: Third periodic report of the Commission on the situation and social and economic trends in the regions of the Community. Published 21st May 1987

[g] After redistribution of GDP of Groningen, Hamburg and Bremen.

FROM AGRICULTURAL TO RURAL POLICY IN THE EC

Heino von Meyer

SUMMARY

Under the Common Agricultural Policy (CAP), the regional dimension of the farm income problem has been neglected. Data presented in this paper shows that inter-regional disparities in agricultural incomes are even greater than those for regional economies as a whole; also that, although agricultural incomes tend to rise along with regional development, this positive correlation becomes weaker as overall development progresses. This may be because, in agricultural production, handicaps arising from natural conditions become more significant.

Where low-income farms survive in high-income regions, these are usually operated by "pluri-active" farm families, enabled by good rural labour market conditions to obtain incomes from non- farm sources.

North-Western, Central and Southern parts of the European Community (EC) tend to fall into distinct patterns when overall incomes and agricultural incomes are compared, with the Southern regions showing the least satisfactory results. Within each of these broad geographical groupings, peripheral areas tend to have worse results than central areas.

The relatively high agricultural incomes in some of the northern parts of the EC are associated with high intensity of input and output. This however causes serious environmental problems: disappearance of many animal and plant species, water pollution, etc.

Recent developments in Community policy take some account of these problems: there is greater attention both to regional and to environmental issues. The doubling of the financial resources available to the "structural funds" is in principle a positive development. However, the resources of the structural funds still seem too small to make a real impact on regional disparities: at the same time, it is questionable whether substantially increased funds can be efficiently used. For some regions which already have considerable autonomy — such as the German Länder — the "partnership" approach with Community institutions may actually imply a loss of authority.

The introduction of environmental provisions in CAP structural policy — in particular, the designation of "Environmentally-Sensitive Areas" — is also generally positive. However, there is a risk of segregation between protected areas and others where harmful practices are still permitted. Also, while "environment-friendly" practices can be rewarded by the new measures, harmful action (such as misuse of chemicals) is not penalized, thus contradicting the "polluter pays" principle.

INTRODUCTION — AGRICULTURE AND RURAL AREAS

The problems and tasks facing agricultural policy in Western Europe have fundamentally changed. In the past, the issues related to the agricultural sector were above all those of food supply and farm income support: in the future questions relating to rural development and the environment will seem more important.

The conflict between a purely agricultural, and a stronger rural orientation of the Common Agricultural Policy (CAP), is not at all new. It can already be identified in the first suggestions of the EEC Commission on the organization and implementation of the CAP (COM(60)105 final). In practice, however, a narrow sectorial perspective prevailed from the beginning (cf. Priebe 1985, Tracy 1989).

In this paper, an attempt will be made to demonstrate the actual extent of the crisis into which the CAP has led farming and the rural areas of Western Europe, as well as to identify traces of a policy more strongly oriented towards the development of rural areas and the protection of the environment.

Agriculture can no longer be seen as the driving force behind rural development. Its economic and social importance is decreasing more and more. In most villages farmers have become a minority. In the European Community (EC-12) less than 10% of the working population are employed in the agricultural sector, producing only 5% of the gross domestic product (GDP). In the United Kingdom, the Netherlands and West Germany this proportion is even lower than 2%. In only 17 out of the 166 regions of the EC—12 does agriculture account for more than 10% of the regional product (Commission 1989, Eurostat 1990).

However, agriculture — together with forestry — still uses more than 80% of the total land area of the EC. This reveals the important role of agriculture in shaping the cultural landscapes and in protecting the natural resources of Europe. This task is more relevant today than in former times, because general economic growth and structural changes — in agriculture too — have led to a disproportionately high increase in pollution and environmental degradation on the one hand, and to a growing public demand for an intact environment on the other.

Today, regions with a strong orientation towards agricultural production, and even those with "good" natural and structural conditions, are faced with less promising perspectives for their future development than many of the so called "less-favoured" areas. Very often the same natural and structural conditions (mountain area, small farms etc.), considered as "handicaps" for farming, do in fact represent a positive potential for rural development. This is not only true for tourism. Even in industry the environmental quality and recreational values of a location are becoming more and more important in the choice of where to install new plants.

Agriculture's most important contribution to rural development is no longer the production of feed and food, but the protection and promotion of rural amenity, ecological integrity and cultural identity. Thus it is the provision and conservation of rural infrastructures and assets, rather than the productive activity in itself, that is decisive in the assessment of agriculture's role in rural development.

This is not to say that both aspects can or should be separated. On the contrary, they are joint products, the quantity and quality of each depending on the other. However, as a marketable "private good" food has always had its price, whereas environmental quality has for a long time been regarded as a "free good" or "external effect". It is, however, a "public good" — or "bad" — which may be difficult or impossible to market, but which nevertheless has to be internalized in economic and social valuations.

THE THREEFOLD CRISIS

Due to an agricultural policy strongly biased towards the regulation of product markets and prices, European agriculture has run into a serious crisis, which is at the same time economic, social and environmental. This crisis not only affects agriculture, but has also become a threat to the future development of many rural areas. Positive perspectives for the future development of agriculture and the rural areas in Europe can only be found if these economic, social and environmental problems are solved simultaneously.

Economic Crisis

The economic crisis of agriculture in Western Europe and in particular within the EC is well known. It is characterized by structural food surpluses, growing tensions in international trade and increasing budgetary burdens.

Food demand is almost stagnant, or increasing only at very low rates. On the other hand, productivity and production are in continuous growth. Technologically, there seems to be no limit to further growth. Biotechnology and genetic engineering are opening up new potentials for further increases in productivity.

Continuous growth in EC production means pushing down imports and exporting surpluses to the world markets. While in its early days the Community had been a net importer in agricultural trade, today it has become the second largest exporter of food. This has led to serious tensions and negative repercussions in international trade (GATT). Surplus disposal, disguised as "food- aid", has in many developing countries hampered agricultural growth and thereby undermined the general efforts for economic development.

Due to the system of CAP market regulations – which relies heavily on import levies and export restitutions – rapidly- growing agricultural production has put considerable stress on the EC budget. Receipts went down, expenditure increased. As a result, almost two-thirds of the total EC budget is spent on CAP expenditure – in 1989 roughly 30 billion ECU. More than 90% of that money is spent on market regulation via the "Guarantee" Section of the agricultural fund (EAGGF/FEOGA). The rest, channelled through EAGGF "Guidance", is meant to support the adjustment of agricultural structures and the development of rural areas.

In the last decade budget costs for the CAP increased by almost 20 billion ECU, whereas expenditure for all other EC policies only increased by about 10 billion ECU. For a long time the CAP has been blocking the development of new policies. Despite the introduction of a quota system for milk in 1984, the EC is still spending more money on milk market regulation (in 1989 about 5 billion ECU) than on regional and environmental policy altogether.

Despite all this money spent on the CAP, price support policy has proved unable to solve effectively the income problems of European farmers. During the last decade (in real terms), agricultural production went up by 25%, while EAGGF "Guarantee" costs rose by 150% and agricultural sector income fell by 15%.

Social Crisis

With decreasing sector income, two major policy options exist to improve the income situation of farmers: concentration of holdings, or pluriactivity of households.

In a narrow sectorial perspective, there appears to be no other alternative than to reduce the number of farms and farmers (concentration). In a broader rural perspective, however, it becomes clear that farm family income can also be increased when farm income is combined with revenues from other off-farm sources (pluriactivity).

Customary inter-sectoral income comparisons, therefore, often create a false picture and lead to misguiding policy conclusions. They usually neglect the following facts:

- The income situation of farmers does not just depend on farm incomes. It is not the sectorial but the total income which counts.
- Due to the large inter-regional income disparities within the EC, any inter-sectoral comparison can only make sense in a regional context.
- Intra-sectorial disparities are even more accentuated than inter-sectoral.

The majority of small farms – especially those in less- favoured areas – would already have been given up many years ago if the farm families had not been able to rely on additional income sources from outside agriculture. Any assessment of the social situation in agriculture should therefore pay special attention to the phenomenon of income combination and pluriactivity. This cannot be done adequately in a purely sectorial perspective. The general economic and social situation of the surrounding rural area also has to be taken into account.

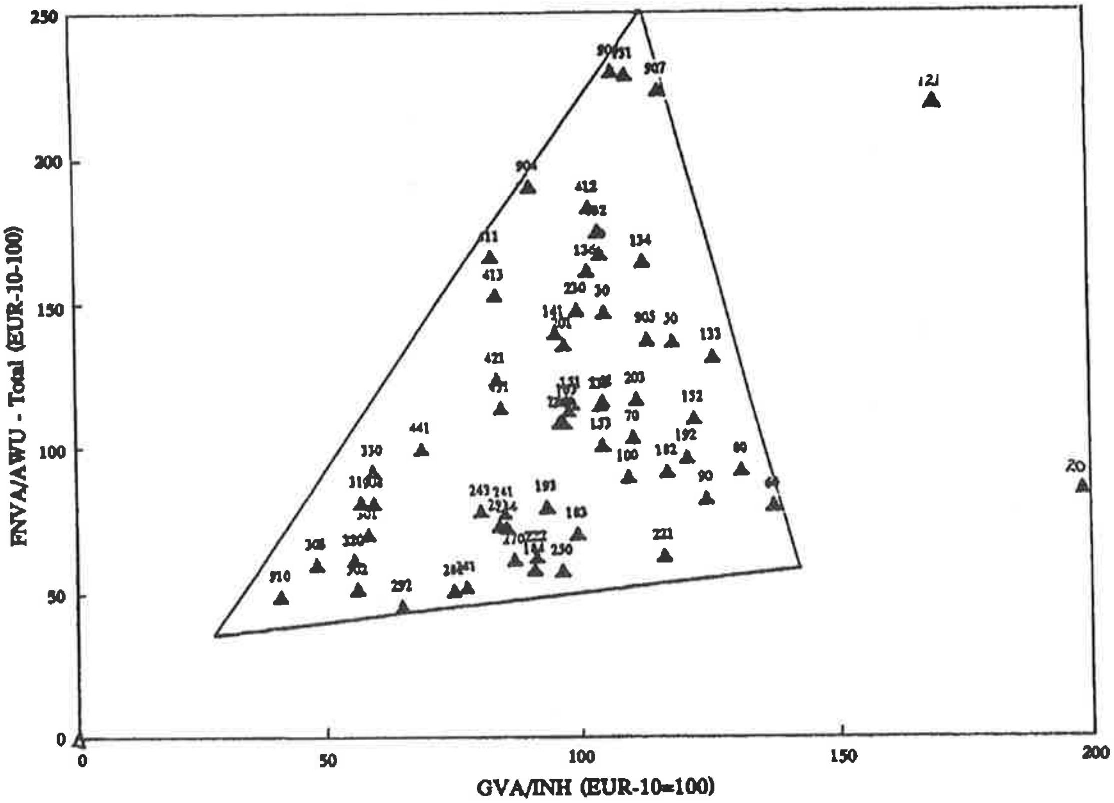
Most farmers do not compare their social situation with some abstract European average of farm or off-farm income, but with the living conditions of their rural and urban neighbours within the same region. Thus, any incomes policy within the EC has to bear in mind the disparities between the various EC regions.

For a long time, CAP incomes policy relied almost exclusively on price support measures. This has not only neglected the regional dimension of the incomes problem, but has also to a certain extent further aggravated intra-sectorial disparities between larger and smaller farms, as well as inter-regional disparities between better-off and marginal areas.

Figure 1 may help to illustrate the varying dimensions of income problems in rural Europe (cf. Tamminga/v.Meyer/Strijker et al. 1990). In this diagram about 60 EC regions (EC-10, not including Spain and Portugal) are plotted according to their relative position as compared with the EC average for 1985.

– in Gross Value Added per Inhabitant (GVA/INH) (the horizontal axis), interpreted either as an indicator for the overall regional income situation, or more generally for the regional state of economic development; and

Figure 1 State of regional development (GVA/INH) and agricultural income (FNVA/AWU) in the regions of EC-10 (1985)[a]



Source: Institut für ländliche Strukturforschung, Frankfurt/Main based on Eurostat: CRONOS-REGIO and FADN.

– in Farm Net Value Added per Annual Work Unit (FNVA/AWU) (the vertical axis), as an indicator for the agricultural income situation.

The farm income data are taken from the Farm Accountancy Data Network of the EC (FADN/RICA), whose results play an important role in the annual discussions about the fixing of the agricultural prices. Characteristic for the traditional, sectorial perspective of the agricultural prices and incomes policy is the fact that the network represents only about 50% of all farms – primarily those run by full-time farmers. Consequently the FADN network gives no information on the total income of the farm families but only on their agricultural income.

The list of regions corresponding to the diagram can be found in Annex Table 1.

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[a] GVA/INH: 1985; FNVA/AWU: 3-year average 1984/85–1986/87. Comparisons are based on values in ECU: calculated in "Purchasing Power Standards" (PPS), disparities would appear less extreme, but the main conclusions would not be changed.

The diagram shows:

- how great the disparities are in regional income levels (GVA/INH): Compared with an EC–average of 100, most German regions have a GVA/INH of about 120, whereas regions in Greece, Southern Italy and Ireland do not even reach the level of 75;
- that inter-regional disparities in agricultural income (FNVA/AWU) are even more accentuated than for the regional economy as a whole (min./max. ratio of 1:5);
- that there is a certain tendency for agricultural incomes to rise in conjunction with an improved state of regional development;
- that this positive correlation between general economic prosperity and the agricultural performance of a region becomes less stringent the higher the state of regional development.

A more detailed analysis of the "triangle" formed by the various regions reveals a rather astonishing regularity. With the exception of very minor overlappings, the regions belonging to the three main geographical areas of EC–10 – the North-Western, Central and Southern Regions – are clearly grouped in distinct segments of the triangle. A meaningful sub-division of each of these segments can even be made – into "centre" ("north") or "periphery" ("south"). (See Figures 2 and 3a-d).

As can be seen from Table 1, all the six main geographical areas of the EC have an Agricultural Area (AA) of 12 to 18 million hectares. However, whereas in the north-western periphery (NO-WE-PE) 13 million ha. AA are managed by only 325,000 farm holdings, in the southern periphery (SOUTH-PE) on 12 million ha., there are almost 2.5 million farms. Thus, farm size differs between 40 and 5 ha. per farm. In the North-West farms are mostly run by full-time farmers. In the South, however, most farmers spend less than 50% of an Annual Work Unit (AWU) on their farm. However, while in most parts of the Central regions (cf. CENTR- SO) part-time farmers have an additional gainful activity outside agriculture, rural labour markets in the South do not provide sufficient employment opportunities.

A look at the average income results for the six geographical areas (cf. Figure 4) leads to the interesting conclusion that inter-regional disparities within the EC:

- decrease with an improved state of regional development (GVA/INH) ($r_s > r_n > r_c$), but
- increase with improved agricultural performance (FNVA/AWU) ($a_s < a_c < a_n$).

One explanatory factor for this tendency – and for the fact that the regional values form a triangle rather than a straight line or at least a corridor – seems to be that in agricultural production the economic importance of natural conditions ("handicaps") is growing rather than declining. In fact, regression analysis reveals, that on average the difference in agricultural income between the "normal" and the "less-favoured" part of the EC regions – designated according to the EC directive 75/268 on "less favoured areas" (LFA) – shows an increase the better the state of regional development. Also the agricultural income residuals, not "explained" by the regional state of development, strongly correlate with the degree of natural "handicap" – measured by the regional share of LFA (Tamminga/v.Meyer/Strijker 1990).

Figure 2 'Main Geographical Areas' and 'Less Favoured Areas' (LFA in EC-10

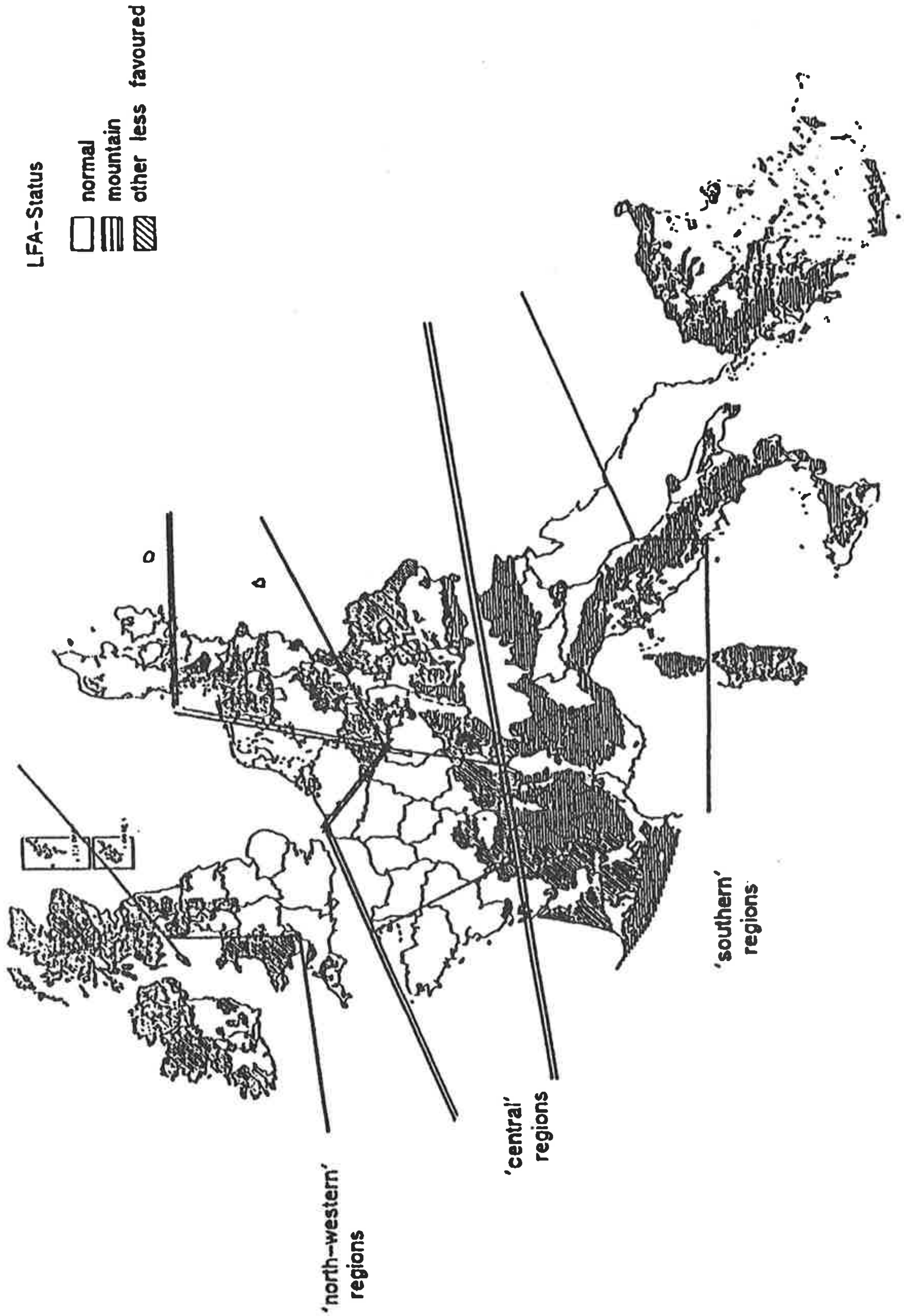
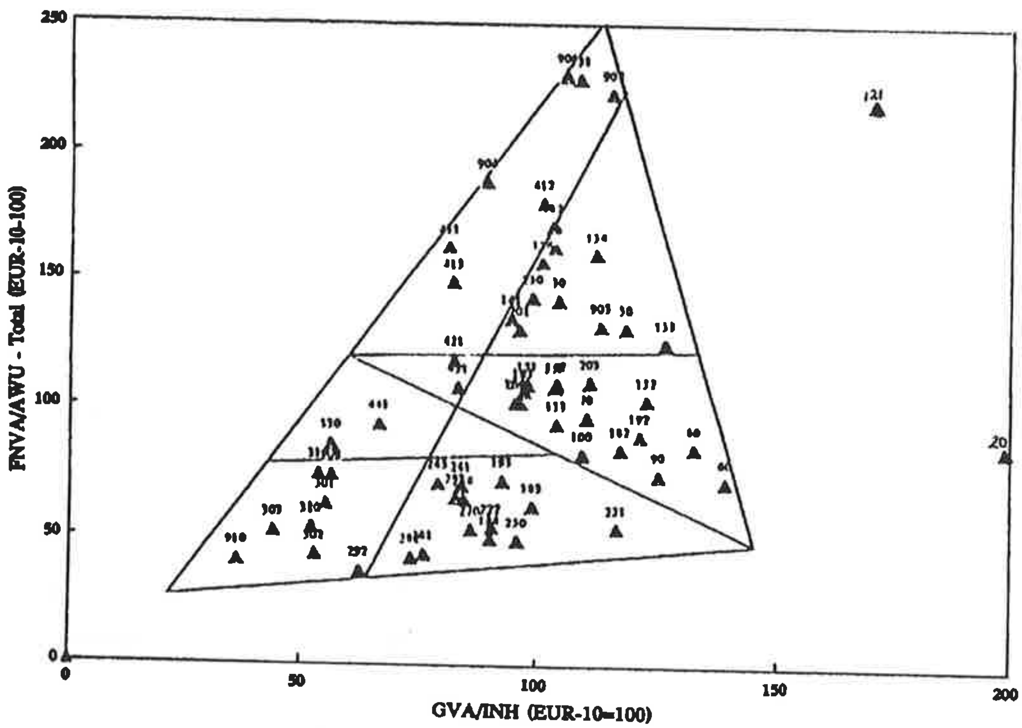
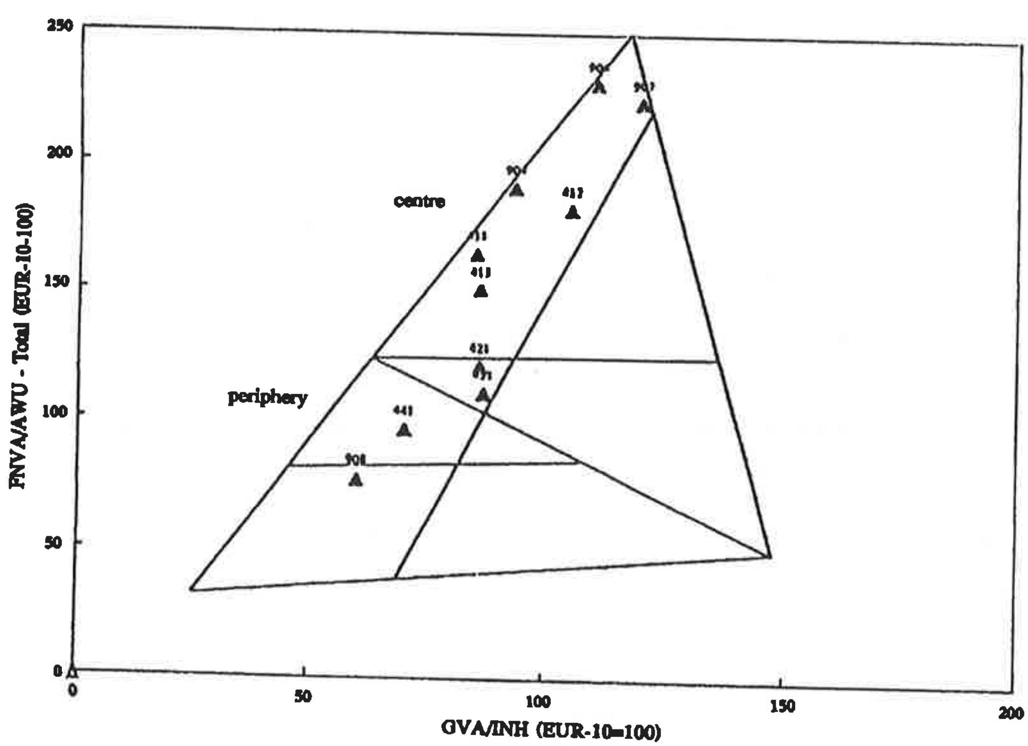


Figure 3 State of regional development (GVA/INH) and agricultural incomes (FNVA/AWU) in the 'Main Geographical Areas' of EC-10 (1985)

(a) EC-10



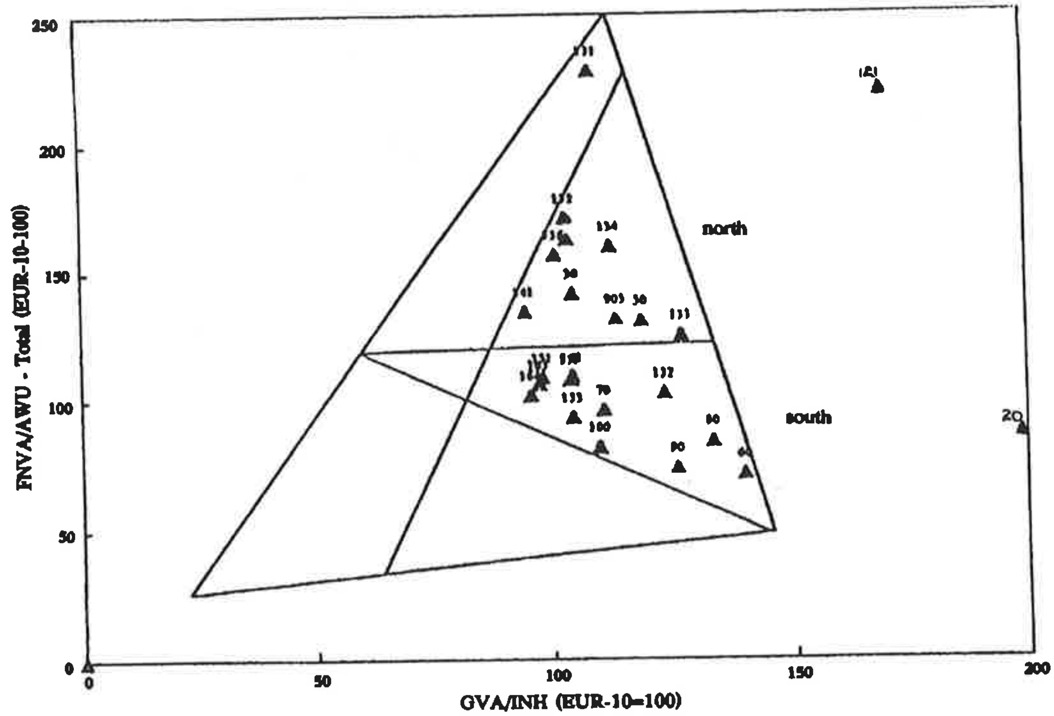
(b) 'north-western' regions



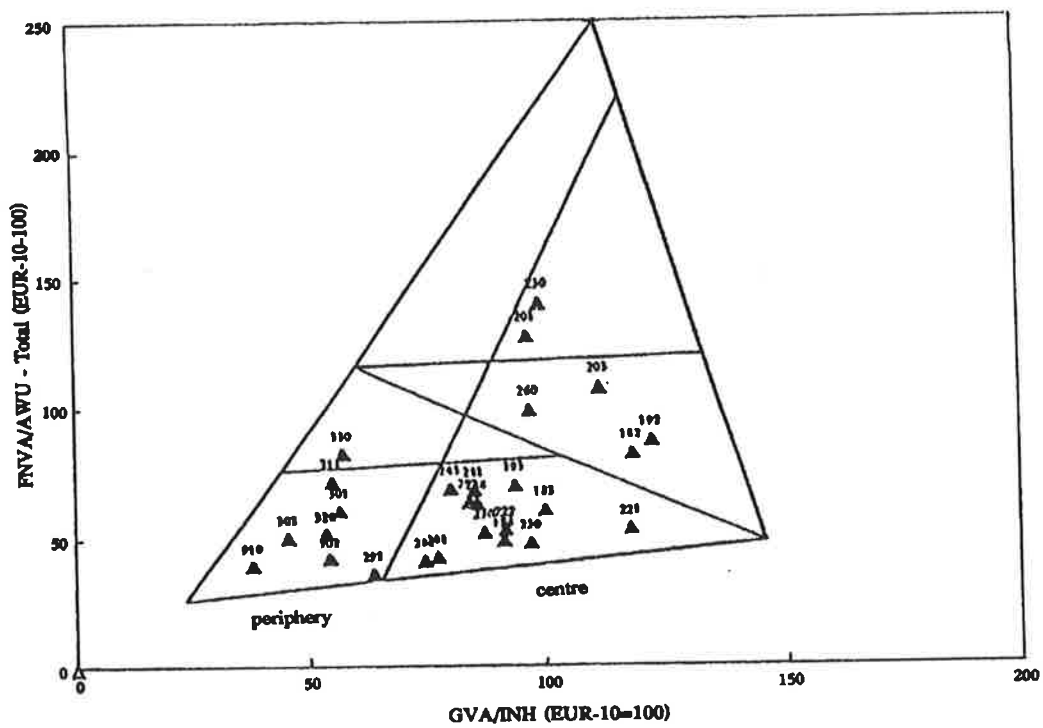
Source: Institut für ländliche Strukturforschung, Frankfurt/Main

Figure 3 (continued) State of regional development (GVA/INH) and agricultural incomes (FNVA/AWU) in the 'Main Geographical Areas' of EC-10 (1985)

(c) 'central' regions

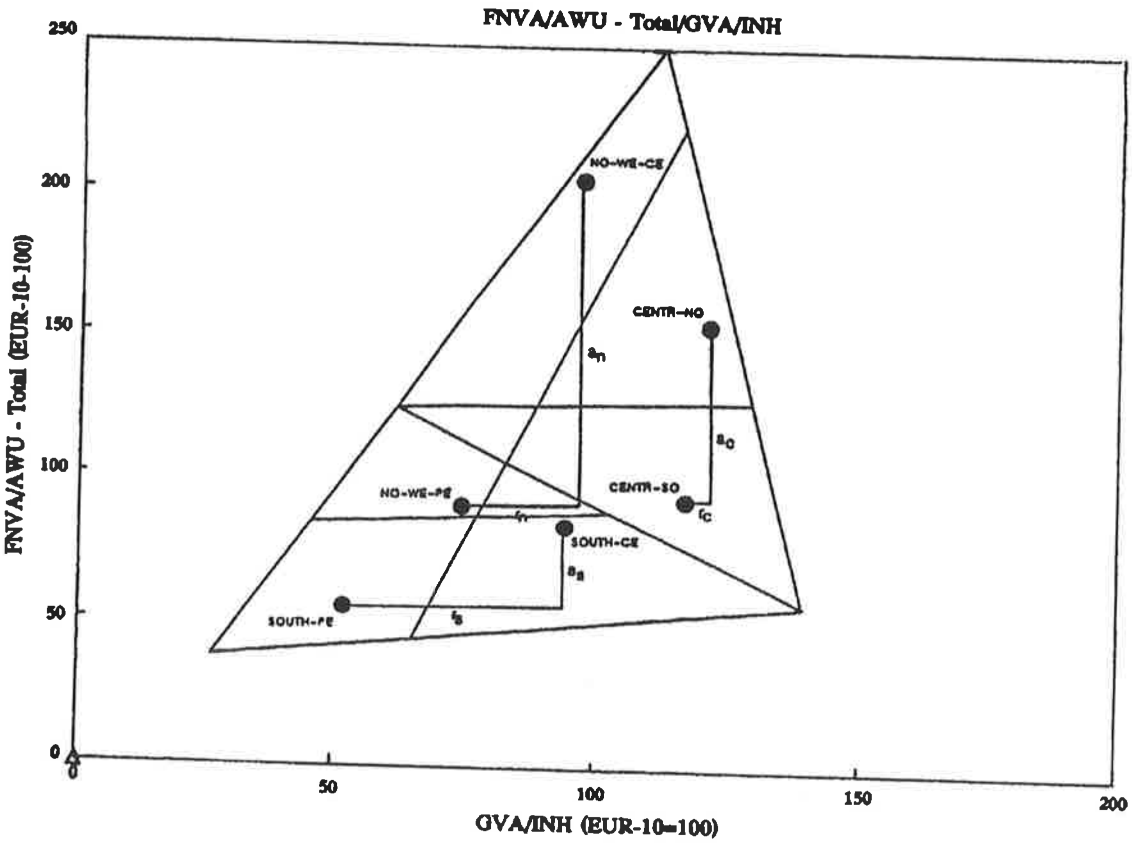


(d) 'southern' regions



Source: Institut für ländliche Strukturforschung, Frankfurt/Main

Figure 4 Disparities in regional (r) and agricultural income (a) for main geographical areas of EC-10
(n: north-west; c: central; s: south)



Source: Institut für ländliche Strukturforschung, Frankfurt/Main based on Eurostat: CRONOS-REGIO and FADN.

Table 1 also shows that the high agricultural incomes in the northern parts of the EC and in particular in the centre of north-western regions (Netherlands, Belgium, Denmark) depend to a large extent on highly-intensive agricultural production systems in terms of fertilizer application and livestock density. High agricultural intensities, however, often cause serious environmental problems.

Ecological Crisis

The economic and social problems in agriculture, so far outlined, are closely linked with the environmental degradation of many rural areas. European landscapes are man-made "cultural landscapes". Even those areas currently protected as nature reserves are in most cases the result of human land management, often even of over-use (e.g. heath areas). A precondition for their maintenance is thus a specific, usually extensive, type of agricultural land use.

Table 1: Disparities in rural incomes and diversity of farm structures in EC-10

	EC-10	North-Western Regions		Central Regions		Southern Regions	
		Centre NO-WE-CE	Periphery NO-WE-PE	North CENTR-NO	South CENTR-SO	Centre SOUTH-CE	Periphery SOUTH-PE
GVA/1NH(1) (EC = 100)	100	96	75	126	120	96	50
FNVA/AWU(2) (EC = 100)	100	205	91	155	98	84	69
Agricultural Area (ha AA million)	88	15	13	16	15	18	12
Farms (number, 1000)	6359	480	325	515	823	1791	2425
Part-time farmers(3) (% of holders)	54	22	27	32	41	55	71
Pluriactivity(4) (% of holders)	30	24	28	29	39	28	30
Farm size (ha AA/farm)	14	32	39	31	18	10	5
Livestock Density(5) (LU/ha AA)	109	159	99	104	138	86	42
Fertilizer Costs(5) (ECU/ha AA	123	150	75	154	137	115	77

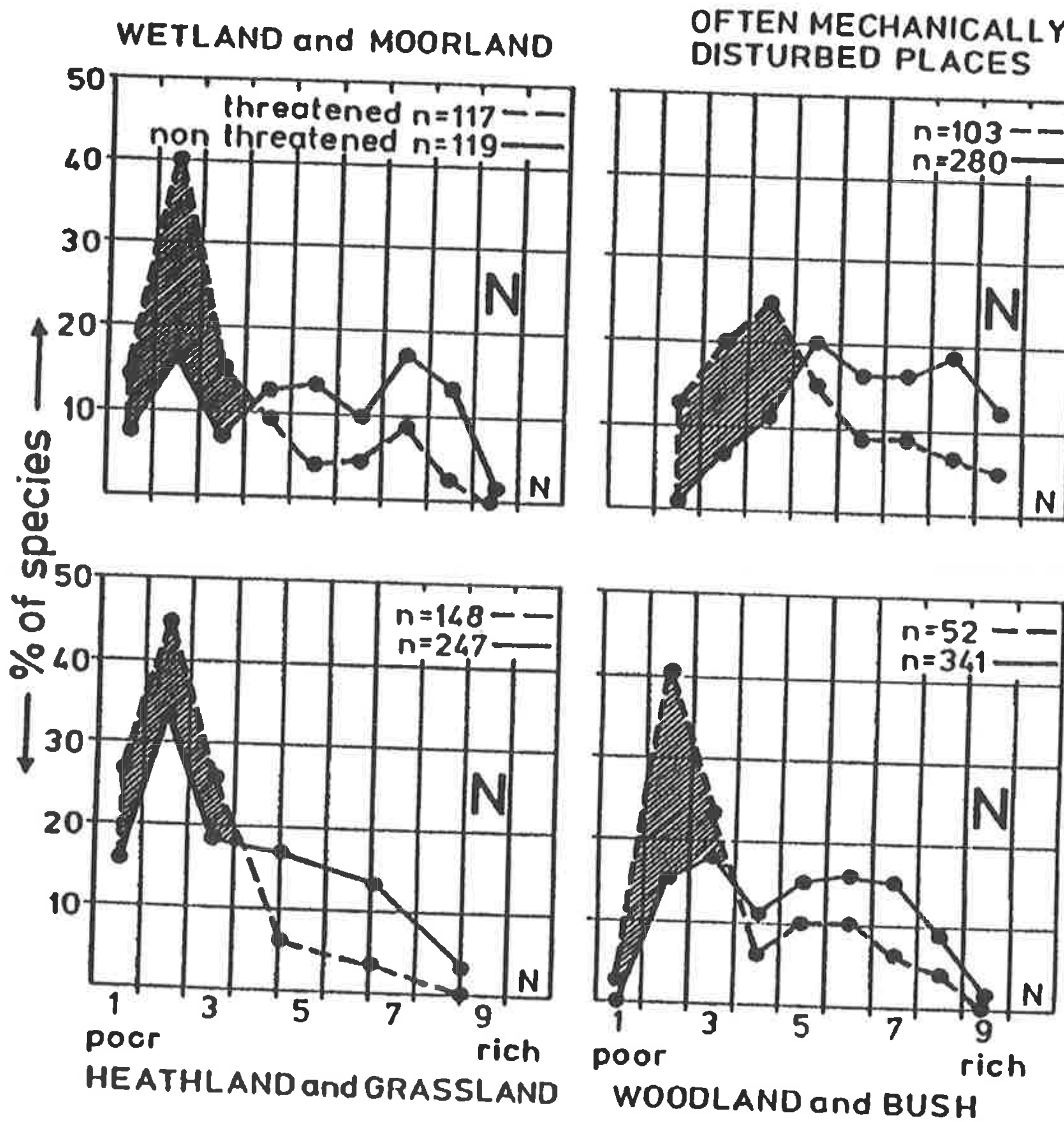
(1) GVA/1NH Gross Value Added per Inhabitant (Eurostat CRONOS REGIO)
(2) FNVA/AWU Farm Net Value Added per Annual Work Unit (FADN/RICA)
(3) holders with less than 0.5 AWU
(4) holders with other gainful activity
(5) only farms represented by FADN/RICA

Source: Tamminga/v.Meyer/Strijker (1990) based on Eurostat and FADN/RICA

Historically, the natural vegetation of most of central Europe consisted of mixed deciduous woodlands, with a relatively low number of animal and plant species. Over the centuries, agriculture has fundamentally altered this ecosystem and thereby created not only the unique cultural heritage of the manifold European landscapes, but at the same time contributed to an increase in ecological variety and in the number of species found in Europe.

Similarly, the dramatic structural transformations in agriculture over the last three decades have not only changed the economic and social fabric of farming, but have also deeply altered the rural environment. This time, however, changes have often led to irreversible damage negatively affecting the amenities of traditional landscapes and villages, as well as the integrity of agricultural eco-systems.

Figure 5 Distribution of 'threatened' and 'non-threatened' plant species of different ecosystem types over a nitrogen (N) gradient



N = Nitrogen (poor, ... rich)
n = number of species

Source: Ellenberg (1988, p.380)

Perhaps the most alarming aspect of the ecological crisis is the progressive disappearance of species. At present, about 50 % of all animal and plant species in Central Europe are endangered. In West Germany (UBA 1987), the Red Data List of endangered species shows that about

- 30% of flowering plants and fern species,
- 40% of bird species,
- 50% of mammal species, and
- 65% of reptiles and amphibians

are either "extinct" or "endangered".

Many detailed studies have shown that agriculture is to be regarded as one of the main causes of this loss of species (NCC 1977, SRU 1985). Thus, for example, more than 500 of the 700 vascular plants which are to be found on the West German Red List – i.e. around 75% of those threatened – are endangered predominantly by agriculture (UBA 1987, p.93).

The following causes are central to this rapid decline:

- abandonment of traditional (extensive) production systems;
- enlargement of (intensively used) agricultural land, which leads to losses in natural and semi-natural biotopes (e.g. drainage, land consolidation, removal of hedges);
- intensification in the use of fertilizers and pesticides, as well as increasing livestock densities, especially the growing input of nitrogen (mineral as well as organic).

While the first effects can easily be seen in the countryside, the latter are less obvious, though probably even more important in the long run.

For different ecosystem types, Figure 5 clearly shows a significant difference in the distribution of "threatened" and as yet "non-threatened" plant species over a gradient from nitrogen-poor to nitrogen-rich. Most species which according to the "Red Data Book" are regarded as endangered depend on nutrient-poor (oligotrophic) conditions. Modern agriculture, however, leads to eutrophication (Ellenberg 1988).

Over-fertilization has also become a major threat to the quality of ground and drinking water. Nitrate pollution is rapidly increasing all over Europe. Since 1950 in the EC–10 the use of mineral nitrogen fertilizer has increased by more than 400%, from less than 25 kg. N/ha. agricultural area (AA) to more than 100 kg. N/ha. AA. In addition the amount of organic nitrogen from animal dung (liquid manure etc.) increased as a result of increased livestock density (In EC–6: 1955 about 65 kg. N/ha. AA, 1980 about 85 kg. N/ha. AA).

With regard to water pollution, what counts is the nitrogen balance between input and withdrawal. Whilst at the beginning of the 1950's the annual nitrogen surplus in agricultural soils in West Germany reached no more than 10 kg. N/ha. AA, it today exceeds 100 kg. N/ha. AA. In the the Netherlands and Denmark, surpluses are even higher (cf. Table 2). Balances for other nutrients (especially phosphate) also show remarkable surpluses.

Table 2: Nitrogen balances in agriculture for different EC Member States

	Netherlands	Denmark	FR Germany	United Kingdom
kg N / ha AA*a				
Input	**465**	**217**	**218**	**127**
- mineral fertilizer	244	130	126	88
- imported feedstuff	173	62	47	5
- atmosphere	41	15	30	17
- other	7	10	15	17
Agricultural Output	**98**	**30**	**51**	**17**
- animal products	84	50	28	-
- arable products	14	10	23	-
N - Surplus	367	187	167	110

Source: Isermann (1990, p.3)

As nitrogen is highly mobile, N–surpluses in the soil result in air–pollution (NH_x) or in nitrate contamination of water (NO_3). Nitrate concentrations in ground and surface water are growing all over Europe. They are seriously endangering the quality of drinking waters. In West Germany, today, 5–6% of the population is being supplied with drinking water containing more nitrate than the maximum permitted EC standard of 50 mg. NO_3/l. 25% of the population is receiving drinking water which exceeds the recommended target level of 25 mg. NO3/l.

Other Member States are confronted with similar problems. Not only the present level of pollution is alarming but also the rapidly-growing trend. Even if further over-fertilization could be stopped immediately, no rapid improvement can be expected, because there is often a time lag of ten to twenty years before nitrate leaches into the groundwater after being washed out of the topsoil. It is, however, not only nitrate but also other nutrients that cause severe water pollution. In many regions of the EC, water is also heavily polluted with pesticides (e.g. Atrazin).

THE BEGINNINGS OF A NEW ORIENTATION

The solution of the above-outlined threefold crisis can no longer be found within the context of an exclusively sector- oriented policy. New tasks demand a new orientation. The "Green Book" submitted by the Commission in 1985 on "Perspectives for the Common Agricultural Policy" (COM(85)333) may be regarded as a first step in such a new direction. After a detailed analysis of the problems and perspectives of market and price policy, in Part

IV the Commission for the first time initiated a broader discussion on agricultures future role in society (COM(85)333, p.49):

"It is not to be supposed that the principal result of the new orientations adopted by the Common Agricultural Policy in the last two or three years could be the large scale movement of people out of farming into unemployment, the impoverishment of small farmers, the giving up of family farms, and the abandoning of the countryside. Since agriculture in its diverse forms is at the heart of the European model of society, it is necessary to reflect on the role of agriculture in Europe.

Against this background, it is desirable to take account of the following aspects:

- *The need for agricultural policy to make more account of environmental policy, both as regards the control of harmful practices, and the promotion of practices friendly to the environment.*
- *The fuller integration of agriculture into the general economy, particularly by means of regional development plans for the rural zones of the Community.*
- *The possibility of new forms of income support for the agricultural sector, which would permit the price and market regulations to perform the function of regulating supply and demand more efficiently, without causing unacceptable social problems for the agricultural population."*

Since then, the Commission has further clarified its ideas on rural development and environment. Of particular significance are the two communications: *The future of the rural society* (COM(88)501) and *Environment and agriculture* (COM(88)338). Both documents contain a large number of reflections and recommendations regarding possible policy actions. Though it is true that there is here a attempt to define the problem areas, a consistent, overall conception of future policy cannot as yet be clearly identified.

This doubtless also reflects the fact that neither in the EC Council of Ministers nor in the EC Commission does there exist a general consensus on the future guidelines of the CAP. Even within the Directorate General of the Commission responsible for the CAP (DG VI), there seems to be strong disagreement as to priorities.

Against this background, it is understandable that the introduction of rural and environment considerations into agricultural policy has only happened in small steps up to now. The individual steps in themselves have only been modest. On the whole, however, the new directions can no longer be overlooked. While CAP discussions in Brussels were until 1985 limited to large extent to market and income problems, or at the most to trade and budget problems, there is today increasing awareness of the rural and environmental impact of agricultural policy measures (e.g. Arnold/Villain 1990).

It is true that in the short run a dramatic shift in the dominating agricultural policy paradigm of the EC — away from the sectorial, agricultural and towards a regional, rural concept — is rather unlikely. However, there are good grounds for believing that there will in the future continue to be an extension of the room for measures favouring rural development and environment. It can be assumed that this will be even more the case, the more pressures from outside — for example through the GATT negotiations — necessitate a turning-away from the traditional approach to the CAP.

The recent efforts at a reform of the CAP on the one hand, and the strengthening of rural development and environment policies on the other, are to be seen in the overall context of European integration policy. Two dates in particular are of importance here: 1986, with the conclusion of the southern enlargement of the EC, and 1992, with the project of completing the internal market.

These both compelled a formal confirmation and extension of the EEC Treaty of Rome (1957) in the framework of the "Single European Act" (SEA) (*EC Bulletin*, Supplement 2/86), which came into effect on 1.7.1987. It is of particular interest here because in addition to details on completing the "Single European Market" and on institutional changes — majority voting and increasing powers of the European Parliament — it also created for the first time a legal basis for "flanking policies" especially in the areas of "development" and "environment" which are of special interest here.

Since 1972 the EC had been active in the field of environmental policy and had already developed important conceptual and practical foundations with the "Action Programmes" on the environment (4th Action Programme (1987–1992) (COM(86)435). Since the early Sixties the Commission had been developing regional policy initiatives and there had even been a Regional Fund (FEDER) since 1975. However, in contrast to the agricultural policy firmly anchored in the Treaty since 1957, both had always been in a relatively weak position. The SEA created a new set of conditions here by amending the EEC Treaty with such new titles as: "V. Economic and Social Cohesion" (Art. 130 A–E) and "VII. Environment" (Art. 130 R–T).

Thus, according to Article 130 A, "*... the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions*".

In Article 130 B it is further stated that "*the implementation of the common policies and of the domestic market shall take into account the aims of Articles 130 A and 130 C, and shall contribute to their achievement*". This means that, in the future, agricultural policy too will be increasingly examined as to its regional impact and will have to be shaped accordingly.

The new conditions with regard to environment policy are similar. According to Article 130 R (1), this aims to:

— *preserve, protect and improve the quality of the environment;*
— *contribute towards protecting human health;*
— *ensure a prudent and rational utilization of natural resources.*

In paragraph 2 of Article 130 R, the basic principles to be observed in the formation of environmental policy are outlined:

- *preventive action should be taken;*
- *environmental damage should as a priority be rectified at source;*
- *the polluter should pay;*
- *environmental protection requirements shall be a component of the Community's other policies."*

Environment and nature-protection concerns, therefore, cannot in the future be excluded from the planning and implementation of European policy. On the contrary, they have consciously to be included therein. This also creates a new situation for agricultural policy.

Using two examples, the following is intended to show what concrete steps the Community has recently undertaken regarding the promotion of rural development and the integration of environmental concerns in agricultural policy, and the sort of problems which thereby emerge.

REFORM OF THE STRUCTURAL FUNDS

In order to strengthen economic and social cohesion in the Community, Article 130 D of the EEC Treaty demands an improvement in the co-ordination and efficiency of the three EC structural funds:

	Commitments (1989) ECU billion
European Regional Development Fund (ERDF)	4,5
European Social Fund (ESF)	3,5
European Agricultural Guidance and Guarantee Fund – Guidance Section (EAGGF)	1,5

This task, termed as "reform of the structural funds", resulted in five regulations which came into force on 1 January 1989.[b] The broad principles underlying this reform can be resumed under the following headings (cf. Commission 1989):

- co-ordination and concentration on five priority objectives,
- switch from a project–based to a programme–based approach,
- partnership during planning, execution and control,
- real doubling of financial resources.

[b] Reg. (EEC) 2052/88 of 24.6.1988 (framework regulation), Official Journal L.185, 15.7.1988; Reg. (EEC) 4253/88 (implementing regulation), Regs. 4354/88 (ERDF), 4255/88 (ESF), 4256/88 (EAGGF "Guidance"), all of 19.12.88, Official Journal L.374, 31.12.1988.

Co-ordination and concentration on five objectives

The resources of the three structural funds are in the future to be aligned, together with the supplementary loans of the European Coal and Steel Community (ECSC) and the European Investment Bank (EIB), on the realization of the following five (or six) objectives (Reg. 2052/88, Articles 2 and 3):

Objective 1:	Development of regions lagging behind (ERDF, ESF, EAGGF Guidance Section, EIB, ECSC).
Objective 2:	Conversion of regions affected by industrial decline (ERDF, ESF, EIB, ECSC).
Objective 3:	Combat against long-term unemployment (ESF, EIB, ECSC).
Objective 4:	Avoidance of youth unemployment (ESF, EIB, ECSC).
Objective 5(a):	Adjustment of agricultural structures (EAGGF Guidance Section).
Objective 5(b):	Development of rural areas (EAGGF Guidance Section, ERDF, EIB, ECSC).

For each of the five objectives, criteria were laid down on the basis of which the areas or groups concerned were defined (Reg. 2052/88, Articles 8—11). Rural development lies mainly within the framework of the policies for the "Objective 1" areas and "5(b)" areas (cf. map in paper by John Bryden).

"Objective 1" areas include all those EC regions (NUTS II) whose per capita GDP (gross domestic product) is less than 75% of the EC average. They encompass 38% of the surface of the EC, above all the southern and western periphery with almost 70 million inhabitants, that is to say 20% of the total population of the Community. Outside the Objective 1 areas, a further 17.3% of the total area of the EC, with a population of 16 million inhabitants, were defined as 5(b) areas.

From Projects to Programmes

Planning and execution of the action programmes for the different objectives and areas can be divided into four stages:

- Drawing-up of multi-annual development plans by the Member States;
- approval of the Community Support Frameworks (CSF) by the Commission;
- implementation of Operational Programmes (OP) and award of global grants;
- monitoring and assessment of measures taken.

The drawing-up of the plans is the task of the authorized bodies of the Member States at national, regional or other appropriate level. They are drawn up as a rule for three to five years, and contain:

- an analysis of the socio-economic situation of the region;
- a description of the development strategy envisaged;
- the priorities for regional development actions;
- an indication of the national and regional financial resources proposed;
- the EC funding requests broken down by the various structural funds.

On the basis of the plans, drawn-up by the Member States, the Community Support Frameworks (CSF's) are adopted by a formal decision of the Commission. These include in particular (Reg. 4253/88, Art. 8(3)):

- a statement of the priorities for action;
- an outline of the forms of assistance;
- an indicative financing plan;
- an indication of the implementation procedures, the monitoring and assessment procedures and other particulars relating to the organization of partnership.

"Partnership"

In the framework regulation, this key principle of "partnership", underlying the reform of the structural Funds, is defined as follows (Reg. 2052/88, Art.4(1)):

"... close consultations between the Commission, the Member State concerned and the competent authorities designated by the latter at national, regional, local or other level, with each party acting as a partner in pursuit of a common goal."

The quality of this "partnership" will, of course, in practice depend very much on how such "common goals" are determined. In its guidelines (Commission 1989, p.15) the Commission stresses that "partnership" reflects the principle of subsidiarity, that it should lead to some decentralization and that its structural action should be geared more closely to realities in the field, both in assessing needs and in implementing measures. Apart from the (vertical) "official partnership" between the EC, the national and regional authorities, the Commission wants to encourage also horizontal partnerships between public authorities and the various economic and social partners (chambers, unions, etc.). "Partnership" will therefore take many forms and its nature will depend on the institutional structures and traditions of each member state.

The concrete implementation of the development actions, defined in principle in the CSF's, is predominantly carried out through Operational Programmes. Other possible forms can be global grants, pilot projects, technical assistance and preparatory studies.

Doubling of Financial Resources

The doubling of the financial resources of the structural Funds is widely regarded as the most important aspect of the reform (Reg. 2052/88, Art.12(2)). The commitment appropriations (at 1988 prices) are to be increased from 7.2 billion ECU in 1987 to 14.5 billion ECU in 1993. According to the present budget plans, 37 billion ECU (63%) of the total 60 billion ECU available to the structural funds in the period 1989–1993 are to be concentrated on Objective 1 areas. 5(b) areas will only receive less than 3 billion ECU (5%). If this is compared to the 6.4 billion ECU allocated to Objective 2 regions - "industrial decline" — it becomes clear that rural development is — at least outside the Objective 1 areas — not a very high-ranking priority for Community's structural action (cf. Table 3).

Table 3: Commitment Appropriations 1987 to 1993 (ECU billion, at 1988 prices)

	1987	1989	1993	1989-93	%
Objective 1	-	5,6	9,2	37,0	63
Objective 2	-	1,0	1,5	6,4	11
Objectives 3 and 4	-	1,2	1,8	7,2	12
Objective 5(a)	-	0,6	0,7	3,3	6
Objective 5(b)	-	0,3	0,9	2,7	5
Others	-	0,3	0,4	1,7	3
Total funds	7,2	9,0	14,5	58,3	100

Source: COM-EC (1988): COM(88)290, Vol. 0 of 7.7.1988

SOME REMARKS ON THE REFORM OF THE STRUCTURAL FUNDS

A comprehensive and balanced evaluation of the reform of the structural funds cannot yet be made. Most of the programmes have either entered the operational phase only recently, or not at all. However, a few remarks already seem appropriate. The increased efforts to reduce the continuing great disparities in the EC can basically be evaluated positively. However, with regard to the concrete measures for reform of the structural funds, some scepticism is not out of place concerning the quantity of the financial resources, as well as the quality of the political and administrative structures and procedures.

The doubling of the financial resources of the structural funds (in real terms) is generally assessed as a convincing signal for increased structural policy efforts by the EC. In reality, however, doubts have to be cast on this interpretation, for the volume of resources of the funds appears on the one hand too small to contribute effectively to a considerable reduction of the disparities, on the other hand too great to be efficiently implemented politically and administratively.

On the quantity of financial resources

The increase in resources in no way keeps pace with the intensification of the problems. With the EC entry of Spain and Portugal (1986), the number of inhabitants in regions whose per capita GDP lies more than a quarter below the Community average (EC–12) has increased from under 30 to over 60 million, that is, more than doubled. The funds employed for the reduction of these disparities will only double, however, six years later (1993) (cf. Lowe 1988). It is true that the share of the structural funds in the EC budget will have increased from 15% to 25%. However, the CAP market regulations, which in some cases aggravate regional disparities even further, will probably still demand more than twice as much money by then.

On the other hand, at least in some of the Member States and regions most strongly supported by the structural funds, the limits of financial resources that can reasonably be planned and implemented seem already to have been exceeded. The comparison displayed in Table 4 of the support intensity of the CSF's (1989–93) for the Objective 1 areas in Portugal on the one hand and the 5(b) areas in Bavaria on the other, may illustrate this problem. In both areas in 1986, a GDP of 30 billion ECU was achieved. While this has to be shared by 10 million inhabitants in Portugal, in the Bavarian 5(b) areas it is only divided by 2.4 million. The differences in GDP per capita are correspondingly great: 3,100 as opposed to 12,500 ECU/capita.

Table 4: Support Intensity of the Community Support Frameworks (CSF 1989–93) in Portugal (Objective 1 area) and Bavaria (5(b) area)

	Objective 1 area Portugal	5(b) area Bavaria
Population (million inh.)	9,8	2,4
Gross Domestic Product (GDP)		
total (billion ECU)	30,0	ca 30
per capita (ECU/inh.)	3 100	12 500
<u>Community Support Framework (CSF) (1989–93)</u>		
Total Investment		
total (million ECU)	18 469	960
per capita (ECU/inh.)	1 885	400
in % of GDP (%)	60,8	3,2
of which:		
public (%)	76	44
national (%)	36	22
EC (%)	40	22
private (%)	24	56

Source: Own calculations based on MPAT (1989), EUROSTAT 1990, BAY.ST.REG. (1989) as well as unpublished material.

For Portugal, the CSF is planning total investments of 18.5 billion ECU, of which more than three-quarters will be covered from public resources — 40% of this from the EC structural funds. The total investment of the Portuguese CSF (over five years) thereby attains 60% of the annual GDP of the country.

For the 5(b) areas of Bavaria, the investments in the CSF are calculated at 1 billion ECU. Public resources are to make up 44% of that, of which half will come from EC funds. Compared with the GDP of the Bavarian 5(b) areas, the intensity of support is certainly considerable at 3%, but does not even begin to approach Portuguese dimensions, since the share in the GDP for Bavaria as a whole — 5(b) and other areas — amounts to only 0.6%.

On the political-institutional structures

In face of the outlined dimensions of the CSF's, the question remains whether Objective 1 States and regions are in fact being led by the "golden rein" of the EC Commission, without a suitable, political-democratic participation and control being guaranteed.

Fundamental, political-institutional doubts may, however, also be raised with regard to the support of the 5(b) areas, for with the CSF's there is a threat in the more federatively-organized Member States that the competence of the sub-national level, firmly established in the national constitutions, will be weakened (Hrbek 1986, Pfeifer 1990).

Against this background, it is worth examining critically the principle of "partnership". The support of this may within the EC arise less from belief in the significance of the "subsidiarity" principle for the structuring of society and State. It rather seems to remain bound to a centralistic "top-down" perspective, reflecting only the practical experience that structural policy measures are mostly more successful if the affected parties can be involved in planning and implementation.

For French Regions it may be a sign of progress to be recognized by superior bodies as "partner". For a German "Land" — but also for the "Regions" and "Autonomous Communities" of other countries such as Belgium, Italy, Spain — such an interpretation of "partnership" means renunciation of constitutionally - guaranteed competences. "Partnership" is therefore not necessarily synonymous with "decentralization". It could on the contrary even turn out to be a "Trojan Horse" of European centralization.

The actual practice of the selection of areas eligible for assistance and the drawing-up of the development plans indicates that the "partnership" between the different administrative levels as well as between governmental and non-governmental, public and private instances is as yet hardly developed. This already results from the extreme pressure of time under which the plans had to be drawn up. For example, for the 5(b) areas after their selection — in May 1989 — a period of only four months was granted until the regional development plans had to be submitted to the Commission. Under such circumstances, a truly substantial local and regional participation in planning just cannot be organized, even with the best will.

Plans for the 5(b) areas are therefore in danger of becoming mere listings of projects, already lying in official drawers, but in the framework of national or regional support policies regarded neither as urgent nor as financially viable. There is no room here for the desired horizontal and vertical co-operation and co-ordination which alone could guarantee a truly integrated approach (v.Meyer 1990, Pfeifer 1990).

SUPPORT FOR ENVIRONMENTALLY SENSITIVE AGRICULTURE

In 1985, when the basic features of the agricultural structures policy in the Community were adjusted by Regulation 797/85[c] on "improving the efficiency of agricultural structures", a special section (Title V, Article 19) was added, which dealt for the first time with the conditions and prerequisites for the granting of national aid in "environmentally-sensitive areas" (ESA).

At first, while such national aid was tolerated, there was no EC scheme. Only two years later, however, "Article 19" was amended by Regulation (1760/87), which provided in particular a financial contribution from the EAGGF Guidance section, which until that time had not been foreseen. In a further amendment in 1989 (Reg. 3808/89), the maximum amount of the annual premium eligible for EC refunds was raised from 100 to 150 ECU.

Article 19 concerns aid for the introduction or the maintenance of farming practices compatible with the protection of the environment and of natural resources or with the preservation of the landscape and the countryside. Within the framework of specific programmes, direct annual payments per hectare can be granted to farmers who, in "sensitive" areas, under voluntary "management agreements", and for at least five years, agree to adhere to appropriate farming methods.

Member States thereby have to define targets and areas of the specific programmes, criteria and rules for the desired production practices and the amount and duration of the premium payment. The EC reimburses to the Member States 25% of the costs, though only up to the maximum eligible amount of currently 150 ECU/ha.

The possibilities of support under Article 19 are up to now only being used by a few EC Member States. At the beginning of 1990 only three Member States received EC funds for 21 programmes in the United Kingdom, 9 programmes in the Federal Republic of Germany and 1 programme in the Netherlands. In the meantime similar programmes have been introduced or are at least in preparation in most of the other Member States.

In Germany, Bavaria in particular has made intensive use of the possibilities of support under Article 19. Since 1988, the support has been given within the framework of the Bavarian Cultural Landscape Programme (Bayerisches Kulturlandschaftsprogramm, BayKulap)[d], whose most important aims are:

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[c] Reg. (EEC) 797/85 of 12.3.1985, Official Journal L.93, 30.3.1985; amended and extended by Reg. 1760/87 of 15.6.1987, Official Journal L.167, 26.6.1987 and by Reg. 3808/89 of 12.12.1989.

[d] Directive B4-7292-410 of 11.3.1988, amended by the Directive of 14.7.1989.

- protection of surface waters and ground water from pollution by nutrients and other active ingredients;
- protection of soils from erosion;
- maintenance and improvement of the scenery and structure of landscapes.

The following were accordingly designated as "Environmentally Sensitive Areas":

	1000 ha. UAA
Nature protection areas, landscape protection areas and alpine pastures (Almen)	625
Wet meadows along rivers and streams (over 100 ha.)	385
Slopes (incline over 12%)	332
Moorland (over 1000 ha)	36
Total	1337

This represents 40% of the total Utilized Agricultural Area (UAA) of Bavaria. Already in the first year (1988), over 30,000 contracts were concluded. In the designated ESA, each third farmer had concluded a management agreement. In 1989 there were already 45,000 contracts. The surface concerned amounted to 170,000 ha. This means 13% of the BayKulap area or 5% of the total UAA of Bavaria.

The total support of about 27 million ECU (1989) was divided as follows between the most important sub–programmes:

	ECU millions	%
Extensification of grassland use	11.7	43
Extensification of arable land use	6.6	24
Specific farming practices (erosion control)	6.7	25

In all three sub-programmes, the following general criteria or conditions have to be fulfilled for the granting of the premium payments:

- Contract area in the designated ESA;
- written management agreement for a minimum of five years;
- livestock density (on average for the total farm) 1.5 livestock units per hectare (LU/ha. UAA);
- no ploughing up of grassland;
- no "amelioration" (e.g. drainage);
- no sewage sludge.

Depending on the sub-programme, further special criteria have in addition to be fulfilled, particularly with regard to fertilizer and pesticides use, time of mowing, crop rotation plans. The amount of the per hectare premium granted as compensation for income losses ranges from about 200 to 300 ECU/ha.

SOME REMARKS ON AGRO-ENVIRONMENTAL POLICY MEASURES

Although Article 19 demonstrates an effort to give greater consideration to environmental concerns in the CAP, the weak points of this approach cannot be ignored:

- limitation to "special" protection areas;
- single farm action;
- latent violation of the "Polluter Pays Principle" (PPP).

Article 19 does not aim at overall support of environmentally-sensitive farming practices. The measures are limited as a rule to relatively small areas with "special" conditions, the "Bavarian Cultural Landscape Programme" being to some extent an exception. The administrative costs of drasing-up and supervizing management agreements with individual farmers is relatively high. The available financial funds are limited.

To give an idea of the financial dimensions, there follow some approximate figures on the EC budget (1989/90):

	ECU millions
Total EC budget	45 000
Common Agricultural Policy	30 000
— milk market regulation	5 000
— cereal market regulation	4 000
— agricultural structures policy	1 500
— Article 19	10

The programmes under Article 19 are therefore unable on the whole to compensate effectively for the negative environmental impact of the CAP market and price policy (cf. v. Meyer 1987). However there exists the risk that Article 19 will be misused as an "environmental alibi".

With Article 19 there is furthermore the tendency to promote a concept of "segregation", dividing landscapes between "protection areas" and "pollution areas". ThroSince in the former there is compensation for the fall in income resulting from the renunciation of practices uharmful to the environmental, there is an implicit admission that harmful practices in other areas are permissible.

The premiums are often granted not for positive achievements ("public goods") but for the avoidance of harm ("bads"). Farmers in Member States and regions with more severe environment and nature protection impositions are disadvantaged, because premiums are only granted for "voluntary" limitations. In the case of "obligatory" management impositions, compensation payments under Article 19 cannot be made even where the benefits to environment and nature protection, as well as the income loss of the farmers, are greater.

However, in discussing the details of such support programmes, the fundamental task of promoting environment- compatible farming all over the land should not be forgotten. This demands above all:

— a fundamental reform of the CAP market and price policy, particularly a correction of distorted price relations;
— reward for positive environmental achievements, particularly through performance–related direct premiums;
— disincentives to negative environmental encroachments, particularly through source-related pollution charges.

If there is no success in removing the incentives to environment-harmful farming practices caused by distorted price relations, then the environmental premiums and charges would have to be correspondingly higher. In that case, however, they would only be politically acceptable with difficulties..

Some reward for environmental achievements is now provided for by Article 19, even if it is as yet hardly sufficient, especially from the point of view of financial resources. If, however, positive achievements are rewarded with environmental premiums, then it must in consequence follow that encroachments should be penalized by environmental charges (PPP). In some Member States there is already discussion regarding charges on nitrogen or pesticide use, but at the EC level there have as yet been no concrete suggestions on this point (cf. Dubgaard 1988, SRU 1985, v. Meyer 1990).

Progress can only be expected here if the dividing line between positive achievement and the avoidance of negative encroachment can be more clearly identified. An attempt to define more precisely the property rights and management rules connected with land use is represented by the formulation of "Codes of Good Agricultural Practice". In view of the great regional variety of natural conditions, historically developed agricultural structures and farming practices on the one hand, and of environmental problems and their perception on the other, such defining of the institutional framework cannot apply over the whole Community in a uniform way.

FINAL REMARKS – DECENTRALIZATION AND EUROPEAN INTEGRATION

As with rural policy, it is also shown in agro-environmental policy that progress can only be achieved by clarifying the institutional setting. It is particularly a question of the design of structures of responsibility and administrative procedures as between the European, national and regional levels.

So long as agricultural policy was primarily a policy of market regulation, there was certainly strong justification for a far-reaching EC competence. In so far as agricultural policy became a farm incomes policy, the responsibility of the EC became increasingly questionable, and in effect the Member States have — in part openly, in part secretly — retained extensive room for national income support measures (e.g. Monetary Compensatory Amounts, Less Favoured Areas payments, social policy, taxation).

In so far as agricultural policy becomes in the future a rural development and environment policy, it will be necessary to strengthen the regional level, too. So long as such a "decentralization" — demanded by the change in problems and tasks posed — is only seen in a formal way as a backward step for European integration, and not in its substance as meaningful progress, it will remain difficult to realize a "sustainable", economically, socially and ecologically balanced policy for agriculture and the rural areas in Europe.

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Annex Table 1 FADN-regions and "Main Geographical Areas" of EC-10

	AGGREGATED REGIONS	RICA-regions	Region Code
NORTH-WESTERN REGIONS (NO-WE)			
CENTRE (NO-WE-CE)	DANMARK	Danmark	907
	NEDERLAND	Nederland	906
	BELGI(QU)E	Belgi(qu)e	904
	UKI-ENG	England-North England-East England-West	411 412 413
PERIPHERY (NO-WE-PE)	UKI-SWI	Wales Scotland Northern Ireland	421 431 441
	IRELAND	Ireland	908
CENTRAL REGIONS (CENTR)			
NORTH (CENTR-NO)	FRA NOR/CEN	Ile-de-France Champagne Picardie Haute-Normandie Centre Basse-Normandie Bourgogne Nord-Pas-de-Calais	121 131 132 133 134 135 136 141
	DEU NORTH	Schleswig-Holstein Hamburg Niedersachsen Bremen Nordrhein-Westfalen	10 20 30 40 50
SOUTH (CENTR-SO)	FRA EAST	Lorraine Alsace Franche-Comte	151 152 153
	FRA WEST	Pays de la Loire Bretagne Poitou-Charentes	162 163 164
	LUXEMBRG	Luxembourg	905
	DEU SOUTH	Hessen Rheinland-Pfalz Baden-Wurttemberg Bayern Saarland Berlin	60 70 80 90 100 110

Annex Table 1 (Cont'd)

	AGGREGATED REGIONS	RICA-Regions	Region Code
SOUTHERN REGIONS (SOUTH)			
CENTRE (SOUTH-CE)	FRA SOUTH	Aquitaine Midi-Pyrenees Limousin Rhone-Alpes Auvergne Languedoc-Rousillon Provence-Alpes-C.d'Azur	182 183 184 192 193 201 203
	ITA LOM/ER	Lombardia Emilia-Romagna	230 260
	ITA N-W/N-E	Valle d'Aosta Piemonte Trentino-Alto Adige Veneto Friuli-Venezia Giulia Liguria	221 222 241 243 244 250
	ITA CENTRE	Toscana Marche Umbria Lazio	270 281 282 291
PERIPHERY (SOUTH-PE)	ITA SOUTH	Abruzzi Molise Campania Calabria Puglia Basilicata Sicilia Sardegna	292 301 302 303 311 312 320 330
PERIPHERY (SOUTH-PE)	ELLAS	Ellas	910

THE IMPACT OF 1992 ON THE GREEK RURAL AREAS

Sophia Efstratoglou-Todoulou

SUMMARY

The accelerating process of European integration in the context of the Single European Act, through the dismantling of all trade barriers, will create incentives for greater specialization in regions with comparative advantages and will intensify competition for regions with weaker productive structures. To avoid deterioration of regional imbalances, the European Community (EC) promotes "economic and social cohesion" as a key requirement for the "single market" objective, and is pursuing this aim through reform of the "structural Funds".

The rural areas of Greece, which are a vital part of the economy, face structural problems. The country's accession into the EC and the implementation of the CAP and other policies, as well as budgetary transfers, have had a rather limited impact on improving structures in rural areas. The "Integrated Mediterranean Programmes" (IMPs) faced difficulties associated mainly with administrative inadequacies, lack of institutions and qualified labour.

Can the reform of the Funds, reform of the CAP and the transfer of more financial resources (doubling of funds by 1993) improve structures and create conditions in rural areas capable of attracting investment activities and hence expanding labour markets?

The transfer of more financial resources and the qualitative benefits from a dynamic process in planning, monitoring and evaluating programmes create encouraging prospects for those areas in the long run. In the short run though, structural weaknesses and administrative inefficiencies may prevent the channelling of those resources to the areas that are mostly in need.

The prospects arising from reform of the CAP and the new implementation of horizontal measures are not very encouraging, since farmers' response to these require their effective promotion through efficient administrative schemes and mechanisms. In these cases, although more funds are destined for poorer areas, they does not seem to find their way there easily.

So, if the rural population in structurally disadvantaged areas is to benefit from completion of the single internal market, efforts should be concentrated on expanding labour markets and providing job opportunities, on improving social and economic infrastructure and improving the skills of the labour force.

INTRODUCTION

The purpose of this paper is to gain an insight into the prospects for the Greek rural areas in the context of the Single European Act and the completion of the EC internal market by 1992.

To this end, it is considered useful to:

- present the meaning and context of the Single European Act (SEA) and refer to its aspects that will affect rural areas;
- analyse the main structural characteristics and changes in the Greek rural areas and identify the constraints that hinder their potential development:
- relate these constraints to the new provisions of the SEA and assess their future impact on rural areas, relying mainly on the experience of the country's accession to

EC in 1981. During this period the Greek economy has been under a continuous process of adjustment and integration into the European economy.

MEANING AND CONTEXT OF THE SINGLE EUROPEAN ACT

The SEA was signed in June 1987, with the "aim of progressively establishing the internal market over a period expiring on 31 December 1992" (Bryden, 1990). It implies an acceleration in the process of European economic integration and will lead to a more competitive environment for the Member States, through the elimination of the remaining tariff and non-tariff barriers to trade in goods and services and in movements of labour and capital. The SEA is not an end in itself: it is the response to the new economic challenges the EC faces on the international level. The emphasis on competition and the market as the main driving forces in the context of the SEA is mainly justified by the need to increase the international competitiveness of the European economy and to exploit benefits to trade through increases in business sizes, economies of scale and decreases of cost.

It is often argued that the integration process among countries and regions with different levels of development results in a widening of structural and regional imbalances (Faini, 1983; Krugman, 1987). Under the SEA, it is widely accepted that the EC regions that are economically and socially advantaged will receive further economic benefits at the expense of the less-advantaged ones (Bryden, 1988; Commission, 1988a). The reallocation of resources among sectors and regions will provide benefits to these areas that have a comparative advantage in further concentration and in attracting investment capital, skilled labour, technological innovations, etc.

To avoid a deterioration of regional imbalances in economic and social conditions among Member States, the SEA provides for the promotion of economic and social cohesion, which is considered to be a key requirement in completing the single European market (Commission, 1989a).

Economic and social cohesion forms a part of an "overall strategy designed to promote the harmonious development of the Community as a whole and to reduce regional disparities" (Commission, 1989a p. 11), and it is mainly implemented through the reform of the Funds (Reg. 2052/88), that came into effect on January 1989.

The reform of the Funds involves co-ordinating Community structural action and focusing on five priority objectives for regions and areas experiencing greatest difficulties in adjusting (Objectives 1, 2 and 5b) and for fields with acute problems (Objectives 3, 4 and 5a). It also provides for the doubling of financial resources for the three structural Funds in the period 1989—93, along with new operational and financial arrangements.

Policy measures and programmes implemented within the new framework should pursue the following Community priorities, as outlined in the Guide for the Reform of the Funds (Commission, 1989a, p. 45):

— completion of the internal market and correction of regional imbalances;

— industrial modernization;
— social progress in the Community; and
— reform of the Common Agricultural Policy (CAP).

Many studies have tried to assess the probable impact of SEA measures on the economic and social structures of the Community (Commission, 1988a, Commission, 1988b). Most of them have emphasized the benefits that will result from trade liberalization and the creation of an internal market and from shifts of resources, industrial concentration and action on labour markets (Bryden, 1990).

The Greek economy is facing the new challenges of 1992. The rural areas, which are an important and vital part of the economy, have been in a process of rather slow adjustment to the European economy since the country's accession into the EC.

Before attempting an assessment of the probable impact of SEA on rural areas, it will be useful to obtain an insight into their present state and to consider some of the basic constraints that hinder their development.

GREEK RURAL AREAS: STRUCTURAL FEATURES AND CONSTRAINTS

The rural areas of Greece sustain a significant part (42%) of the country's population. The economy of these areas depends mainly on agriculture since 57% of their total labour force is employed in the primary sector, while employment shares of the secondary and tertiary sectors are 19% and 23% respectively (Census of Population, 1981). Agricultural labour shares and GDP formation in rural areas, although at relative high levels on average, show significant variations. (Specifically, in 1981, labour shares varied from 14% in the Dodecanesos islands, a touristically-developed area, to 69% in Karditsa (Thessaly) a predominantly agricultural area). This variation is attributed to differences in natural resource endowments, tourist resources, industrial concentration, etc.

Labour shares in farming have declined during recent decades due to the expansion of non-agricultural labour markets into rural areas. This development was the result of the implementation of regional policy, initiated in the 1970s, based on differentiated regional incentives.

The rural areas of the country share problems in common with other areas in Southern Europe lagging behind in development because of poor agricultural structures, low economic and social infrastructure, population decline and lack of skilled labour.

Depopulation in many rural areas during the 1950s and 1960s, due to migration and urbanization and the continuing outflow from the mountainous communities mainly to the towns, has deprived the rural areas of valuable human resources and has significantly limited the possibilities for developing local initiatives.

Low economic and social infrastructure along with lack of qualified human resources are basic constraints on attracting investment resources to these areas. Industrial activities concern mainly food processing, construction material and light manufacturing of relative small size. Heavy and large-scale industry has been basically concentrated in the broader areas of Athens and Salonika. The labour markets consist of low-skilled labour in industry and service sector, largely self-employed. Another significant constraint on the development of rural areas is the highly-centralized administrative system, of low efficiency, and the lack of institutions for using indigenous forces in the areas.

Farm structure is poor compared to the EC average, its main features being small and fragmented farm holdings, poor infrastructure, inadequate irrigation limiting the intensive use of farm land, inefficient marketing conditions and disguised unemployment. About two-thirds of those employed in farming work less than 50% of their time on the farms (Farm Structures Survey, 1987).

However, pluriactivity in rural areas reduces the extent of disguised unemployment, supplements farm incomes and diversifies sources of incomes of rural population. In the 1987 Farm Structures Survey, 34% of those employed in farming were recorded as being engaged in dual activities (Commission, 1990a). In some areas, particularly the mountainous ones, remittances from migration or from family members employed in urban centres constitute another source of income. Although total transfers from migration are known at the national level, no statistical data are available on transfers to rural areas.

RESULTS OF GREEK ACCESSION TO THE EC

To assess future effects of the SEA, one can draw on the results of the country's accession into the EC. The Greek economy since 1981 has been going through a process of adjustment and integration in the EC economy after the dismantling of the domestic protection that its markets were enjoying. Some forms of protection have remained, such as market regulations, consumption taxes and capital movement restrictions: these have to be abolished by 1992. At the same time, rural areas have been affected by the implementation of the CAP and of other EC policies. It seems that 1992 is going to be a similar experience for the country because of the complete trade liberalization and the need to adjust and and to benefit from the reformed EC policies. In the following part, a short review of the impact of accession on the Greek economy and on the rural areas will make it easier to pass judgement on the likely impact of 1992.

Impact on the economy and on rural areas

The opening of Greek markets to EC competition in 1981 resulted in significant increases of imports both industrial and agricultural, while exports to the EC increased at much lower rates (Demousis and Sarris, 1988). Import penetration of Greek markets by EC suppliers was expected in view of the high degree of protection domestic markets were enjoying before accession. On the other hand, capital inflows into the country in the form of direct investment seem not to have been influenced by accession as happened in other countries (Spain). These developments exerted pressures on the balance of payments. Part of this pressure was eased by transfers through Community funding (Table 1).

However, it is difficult to separate the effects of trade liberalization from other factors which exerted a negative influence on the export-import balance and on capital flows. Important factors in this respect were the gradual loss of competitiveness of Greek products resulting from a long period of higher inflation rates (19.5% on the average in 1981–88) and from the increase in labour costs, due to expansionary and redistributive macro-economic policies that coincided with the country's accession to EC (Tsoukalis, 1989).

In terms of economic growth, the performance of the economy was very poor compared to its past, and relative to that of the EC. GDP increased only by 1.5% on average during 1981–88 compared to 4.9% in 1970–80. Fixed capital formation was very low due to low levels of investment. Both developments resulted in an increase in unemployment rates from 2.1% (1975–80) to 7.0% (1981–88).

The causes of these developments should rather be sought in the structural weaknesses of the Greek economy, and in the macro- economic policies pursued, than in accession to the EC, although the shock of the accession on the economy should of course not be ignored.

As it is characteristically pointed out in the 1986 OECD Survey, "lack of competitiveness, market rigidities and associated misallocation of resources have weakened the response of the Greek economy to domestic and external stimulus. The lack of responsiveness is attributed to institutional bottlenecks, bureaucratic attitudes, failure to innovate, labour market rigidities which are important obstacles undermining the growth potential of the economy" (OECD, 1987, p. 65–66; Hadjimatheou, 1989, p. 165).

As regards the rural areas, unemployment rates were kept at much lower rates (4.1% on the average) because of the high percentage of self-employed people (in agriculture, tourism and other services) and because of the attraction of relatively large investment resources in rural areas. The allocation of more investment capital in these areas, although still at low levels, is attributable to the regional incentives that are stronger for rural areas (under Law 1262/82), to saturation conditions in urban centres and to the channelling of EC funding. The implementation of the Mediterranean Integrated Programmes in rural areas contributed to the allocation of extra investment resources.

Impact of the CAP

The implementation of the CAP in rural areas has contributed to increases in farm incomes, mainly through increases in farm prices, market subsidies and monetary adjustments of the "green rate", and to a lesser degree through increases or restructuring of production. Between 1980 and 1987, farm incomes, expressed in net value added per AWU (agricultural work unit) increased by 15% (Commission, 1990a p. 36). Nevertheless, growth rates of production and investment in the sector remained very low. The ratio of gross fixed capital formation to gross agricultural product was only 8.3% (1988) – the lowest ratio reported for any Member State, the highest being 30% for Germany and Holland (Commission, 1990a).

During the same period, Greek agricultural products – particularly livestock products – faced strong competition from the EC. Imports from the EC increased faster than exports to the EC, and the agricultural trade balance with the EC turned from surplus until 1980 into a deficit after accession (Efstratoglou, 1987).

However, CAP implementation resulted in significant budgetary transfers from EC funds into the rural areas of Greece. It is estimated that subsidies from the FEOGA Guarantee Section (in support of prices and markets) accounted for 24% of the agricultural GDP and 18% of the gross value of agricultural production in 1988. Considering, however, the low growth of investment, the main bulk of funds coming from market intervention and subsidies appears to have gone into consumption rather than productive investments in rural areas.

On the other hand, structural policy funds (Guidance Section) accounted for only 5% of the budgetary receipts (Table 1), and almost half of them consisted of compensatory allowances in less-favoured areas (Dir. EC 75/268). On this basis, one could argue that structural policy had a rather limited effect on improving structures and restructuring agricultural production. This has been mainly due to:

- limited funds under structural policies;
- inadequacies in administrative and organizational structures of services responsible for policy implementation;
- short-run conflicts between price and structural policies (thus the satisfactory withdrawal or intervention price for some crops discourages their restructuring)
- lack of capital for covering own contribution at the farmer's level as well as at the regional or national levels.

Implementation of infrastructure programmes (irrigation, marketing and processing facilities, pastures improvements etc.) seems to have been more effective. Such programmes were financed by FEOGA, Regional Fund and the Integrated Mediterranean Programmes (IMPs). It seems that resources are more easily allocated to infrastructure programmes, where public pressure is more keen, than to specific policies that require farmers' decision-making. In the latter case, farmers need to be well-informed and certain about the results of the investment they are going to undertake.

In conclusion, CAP implementation has been beneficiary in terms of incomes but it had rather limited impact on restructuring production and improving structures in rural areas, due to administrative inadequacies, institutional rigidities and lack of qualified human resources.

Experience with the implementation of Integrated Mediterranean Programmes (IMPs)

The IMPs were introduced under Regulation 2088/85 for Greece, Italy and France in view of the Iberian enlargement of the EC. The IMPs have been considered as a new multi-sectoral approach to regional and rural development, based on the principles of "integration" and "partnership".

To achieve a multi-sectoral integrated development with broader participation of local, regional, national and EC authorities, IMP implementation requires:

(a) the development of a regional plan, with priority objectives and related measures and programmes; and
(b) the functioning of a monitoring and advisory committee.

In the Greek case, six regional IMPs and one sectoral IMP have been implemented, with a total budget of 3214 million ECUs for 1986–92 (most of them were approved in 1987 and only the programme for Crete in 1986). Each IMP is divided into six sub- programmes concerning the primary sector, secondary sector, tourism, infrastructure, internal zones and IMP implementation; support is offered to private and public investment (economic and social). EC funding comes from Line 551 of the Community budget (42%), while the shares of FEDER, FEOGA and the Social Fund will be 38%, 15% and 5% respectively.

As is indicated in Table 2, rates of realization among the IMPs vary between 30% and 94% due to the particular characteristics of each region, but on average the total payments for 1986–88 represent about two-thirds of the total cost of activities planned for the same period and only 25% of the total budget of the IMP. On a sectoral basis, the lowest rates of realization were recorded for the sub-programmes for industry, tourism and then for agriculture, while infrastructure and internal zones recorded higher rates of realization (Commission, 1989b).

Basic constraints on effective implementation of the IMPs in the Greek case, as they are presented in the Commission Report on IMP activities (1989b) are considered to be the following:

- administrative problems associated with the functioning of national organizations for tourism and for small manufacturing industries, responsible for the promotion of investment activities in their sectors;
- difficulties associated with the centralized administrative system as well as problems related to local administration;
- difficulties arising from weaknesses in planning procedures, particularly in the identification of the programmes and measures most appropriate to local needs;
- difficulties in counterpart funding; and
- obstacles associated with the diffusion of information and knowledge as regards policies pursued and mechanisms applied in agriculture, tourism etc.

To conclude, the effective formulation and implementation of IMPs require efficient planning mechanisms and institutions at local level, as well as qualified human resources: these however are lacking in disadvantaged regions.

PROSPECTS FOR GREEK RURAL AREAS IN THE CONTEXT OF THE SEA

Considering the SEA and the accompanying policies for its implementation, it seems that the main aspects that will have a future impact on the rural areas and on the country's economy are:

- the reformed EC policies in the context of the reform of the Funds and the pursuit of "economic and social cohesion";
- the allocation of more financial resources in these areas (doubling of funds) along with the implementation of the "integration" and "partnership" approach for the effective channelling of funds;
- reform of the CAP, since agriculture remains the predominant sector in most rural areas;
- increased competition from the abolition of all trade and non-trade barriers and the market deregulation; and
- indirect effects on rural areas arising from the overall performance of the economy, given its structural weaknesses and the problems it has faced in recent years.

Potential effects from the reformed CAP

The revised aims of the CAP, both for markets and for structures, are guided by four main considerations:

- ensuring more balanced markets, mainly through restrictive price policy;
- maintaining viable rural communities by helping to develop the economic and social fabric of the rural areas;
- strengthening and reorganizing agricultural structures; and
- protecting the environment (Commission, 1988c; Bryden, 1989).

Policy measures under these four broad considerations will affect the rural population. Thus, restrictive price policies and the use of stabilizers have already started to exert pressures on farm incomes. Further pressures are expected from decreases in price support and market subsidies as a result of the multilateral negotiations in the Uruguay Round.

Under the reform of the Funds, the emphasis on reallocating funds from market support (Guarantee Section) to the improvement of structures (Guidance Section) will eliminate the impact of the automatic transfer of funds on farm incomes.

On the other hand, the new structural measures such as set-aside, extensification, diversification, early retirement, environmental protection have new dimensions which are not easily appreciated by farmers and farmers' groups at the local level, so that they are reluctant to use such measures. Farmers prefer existing policies – including price support – whose impact is known to uncertain measures of uncertain impact (Bryden, 1988). Moreover, many of these measures are not relevant or justified at local levels, where priorities as regards farm enlargement, improvement in productivity, reorganisation, etc. remain vital. In these cases, although more funds are destined for poorer areas, they do not seem easily to find their way to such areas.

The other horizontal structural measures – with the exception of compensatory allowances which reach farmers directly – have had a rather limited response from farmers. Thus under Regulation 797/85, only 10% of the farmers having farming as their main occupation and only 3% of the total number of farmers have implemented a modernization plan.

For these new policies to be properly understood by farmers, systematic promotion needs to be undertaken by local administrative services, and this is not possible in most rural areas of the country, because of the lack of human and financial resources.

Assessing the overall impact of the reformed CAP on rural areas of Greece in the context of the SEA, it seems that the negative effects on farm incomes of restrictive price policies cannot easily be compensated by reform of structural policy under the CAP. So, if the rural population in structurally disadvantaged rural areas is to benefit from completion of the single European market and the new contextual changes, efforts should be concentrated on providing job opportunities, improving economic and social infrastructure and improving labour skills through Social Fund policies.

Effects of the overall performance of the economy

As regards improvement of the economic and social infrastructure in rural areas and the implementation of training programmes for the rural labour force, prospects seems to be more encouraging than experience to date for the following reasons:

- Rural areas will benefit from a bigger transfer of resources. Under the reform of the Funds, the EC contribution should reach 6667 million ECUs by the end of 1993 (Commission, 1990b). It is questionable though if the structural weaknesses of the economy and the administrative inefficiencies will allow in the short run the absorption of all financial resources committed to the country under the Objective 1.
- Qualitative benefits will result from the implementation of a dynamic process of planning, monitoring, evaluating and amending regional and sectoral programmes based on the "integration" and "partnership" approach. Such dynamic processes lead slowly to institutional and administrative changes that in the long run are vital for the potential growth of the areas.

Expanding non-agricultural markets in rural areas and providing job opportunities to the rural population are tasks directly related to the investment activities undertaken and hence to the overall performance of the economy in the Single European Market.

The dismantling of all trade barriers and the completion of the single market will create incentives for greater specialization in regions with comparative advantages and will intensify competition for those regions with weaker productive structures. Greek markets, both agricultural and non-agricultural, are expected to face stronger competition from EC products. However, the negative impact of this prospect could be minimized if the competitiveness of Greek products increases through the implementation of macro-economic policies that slow down inflation rates, decrease capital and labour costs, and improve the economy's growth performance.

The undertaking of investment activities depends on their profitability and on the advantages the rural areas present for attracting them. Profitability of investment has suffered during the last decade from high labour and capital costs as well as from poor economic and social infrastructure in rural areas. Can the allocation of funds under the structural EC policies improve structures, attract investment and expand labour markets in rural areas? Such a development does not seem probable in the short run, and in the long run it will depend mainly on the stabilization of the economy and the formulation of an integrated development strategy that will aim at removing structural weaknesses and rigidities. Moreover, "1992" could be considered not only a challenge for economic adjustments but for the economic and social modernization of the country: if this is not achieved, Greece will lag further behind its EC partners.

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Table 1

EC budgetary transfers to Greece by main source of funds
(in million ECUs)

Source of Funds	1985	1986	1987	1988	1989	Total 1985-89	%
FEOGA Guarantee	1192.6	1386.9	1340.5	1318.5	1700.6	6939	69.6
FEOGA Guidance	83.7	86.2	78.0	133.5	209.2	591	5.9
Fisheries	1.7	3.4	3.5	3.4	5.2	17	0.0
FEDER	309.0	309.1	293.9	312.6	418.4	1643	16.5
Social Fund	79.0	107.1	151.9	147.9	217.5	703	7.1
Other	36.8	12.4	9.1	5.6	13.6	78	.8
Total	1702.8	1905.1	1876.9	1921.5	2564.5	9971	100.0

Source: *Official Journal of the European Communities* (C313, 12.12.90).

Table 2

Percentage rate of realization of Integrated Mediterranean Programmes, by Main Greek regions
(in million ECUs)

Region	Total Budget 1986-92 (1)	EC contribution 1986-92 (2)	Budgetary commitments 1986-88 (3)	Payments 1986-88 (4)	% rate of realization 1986-88 (4:3)
Crete	469.1	240.4	287.2	187	65
W. Greece and Peloponese	631.3	361.3	229.1	123.4	54
Northern Greece	695.8	406.1	288.8	192.8	67
East and Central Greece	550.1	315.7	130.9	122.6	94
Attica	407.9	223.1	144.4	79.6	55
Aegean Islands	325.2	193.5	132.5	81.9	62
Computer-Techn.	134.2	88.8	53.7	16.2	30
Total	3213.6	1828.5	1266.6	803.5	63

Source: Commission Report, SEC (89) 1665 FIN, 11.89.

COMMUNITY-LED VS. AGENCY-LED RURAL DEVELOPMENT: LESSONS FROM THREE U.K. RURAL DEVELOPMENT ORGANIZATIONS

William E. Nothdurft

SUMMARY

Policy-makers who struggle to preserve rural economies are doomed to failure. Rural communities and economies are complex, organic, living things operating in an environment of accelerating change. The challenge is not to preserve them, but to help them adapt to and seize advantage from change in ways that ensure that the values inherent in the rural way of life are protected even as the structure of rural economies evolves.

The principal barrier to economic health in rural communities is their tendency to depend upon a single, often low-value, industrial sector — typically agriculture, forestry, mining, or low wage manufacturing. This dependency leaves rural communities in an almost constant state of economic (and therefore social and political) vulnerability. Reducing this vulnerability by broadening the base of rural economies is the fundamental challenge for policy-makers.

The United States has no coherent policy or program for addressing this challenge. The United Kingdom does, although the specific approach taken varies from region to region. The Highlands and Islands Development Board, in historically underdeveloped northern Scotland, has sought to strengthen rural economies through direct investment in development schemes and by encouraging inward investment from outside Scotland. The Development Board for Rural Wales has pursued similar strategies, although increasingly within a strategy specifically targeting key communities distributed throughout the Board's region. But while both organizations have unquestionably increased employment opportunities and, in the process, the standard of living in their regions, it is not at all clear that they have increased the resilience or self-sufficiency of their regions.

In contrast, the Rural Development Commission in England is designed explicitly to "build on and stimulate indigenous enterprise and self-help." It does no industrial recruitment and emphasizes rural economic capacity-building over large-scale development schemes, using a locally-led development planning process backed by "pump-priming" grants and a network of local offices offering practical, accessible, and affordable business planning, marketing, technology, financing, and training assistance, and workspace development.

All three of these U.K. rural development agencies create jobs in rural areas and invest in social and community development, but only one — England's Rural Development Commission — is explicitly designed to help rural communities gradually take control of their own economies destinies by assuring the development programs are locally-led. There are historical and cultural reasons why this strategy is more difficult to pursue in Wales and Scotland. But if rural communities there — and elsewhere — are to escape the yoke of dependency, a locally-led approach like the Rural Development Commission's must eventually be adopted.

There are two rules of economic development that apply with special force to rural economies and to the patterns of rural life. Rule #1 is: *Things change*. Rule #2 is: *Policy makers cannot change Rule #1*.

The history of rural policy — in the United States, at least — has too often been the history of policy makers unable, or unwilling, to accept these simple truths. Local, state, and national officials have struggled for decades to protect the existing structure of rural economies and to preserve a "way of life" held to be somehow central to America's vision of itself. For the most part, they have failed.

They have failed because rural communities are not pieces of antique furniture that can, or even should, be "preserved." They are complex, organic, living things operating in an environment of accelerating change. The challenge is not to "preserve" them or insulate them from these changes, but to help them adapt to change so that the *values* inherent in the rural way of life are protected even as the *structure* of rural economies changes.

This challenge is not unique to the United States; it is shared by every one of the developed nations of Western Europe. Moreover, as they face the integration of markets after 1992, European rural development professionals are struggling to develop strategies that will increase the ability of the communities they represent to benefit from — or decrease the extent they will be harmed by — the as yet unpredictable implications of that integration.

Some of them are succeeding. This paper describes briefly the economic development strategies pursued by three United Kingdom rural development organizations and outlines the characteristics of an integrated strategy for helping rural communities respond to the threats and seize the opportunities presented by change. It draws upon the author's experience in the United States and the lessons learned form a recent three-week tour of United Kingdom rural development organizations sponsored jointly by the Aspen Institute (U.S.) and the Arkleton Trust (U.K.).

A CULTURE OF DEPENDENCY

> *Fragility and the lack of diversity within the rural economy strike us as much more lasting and important than fluctuating employment rates.*
>
> John Taylor, Deputy Director
> Rural Development Commission (U.K.)

In the United States, farmers and other rural residents like to think of themselves as independent and self-sufficient. This attitude is an artifact of a bygone era, when pioneers cleared and settled the land and farm families were indeed self-contained units, producing most of their own food, making many of their own tools and clothes, and trading with the "outside world" only infrequently. Today, however, American farmers purchase more than

60 percent of everything they use and often specialize in the production of only one or two (often surplus) commodities. Having become little more than one cog in a vast commodity manufacturing machine (and a low value cog at that) farmers, and farming communities, are dependent upon decisions far beyond their control: international trade agreements, national commodity support programs, international commodity trading companies, world currency fluctuations, the competitiveness of newly-developing nations, and the like. The result is profound economic vulnerability -- for themselves and their communities.

It was growing awareness of this vulnerability, in part, that led to the "diversification" of rural economies in the decades that followed World War II. Today, statistically at least, the U.S. rural economy is highly diversified. But most *local* rural economies still tend to depend upon a single industry or industrial sector. It's just a different industry than before. Instead of depending upon agriculture, many rural communities now depend upon an industry in some other sector -- typically a weak one. For example, overall, 21 percent of the jobs in the U.S. economy today are in rural areas. But these jobs are grossly over-represented in low value-added natural resource extraction industries (55 percent) and in routine, low-skill manufacturing industries (30 percent), both of which are declining and under pressure from international competition. Only 15 percent of the jobs in fast-growing, high value-added complex manufacturing and producer services are located in rural areas.[1] Many rural communities have discovered that the manufacturing industries they recruited in the 1970s with offers of free land, low wages, and tax incentives were so marginal that they are unable to compete in today's global economy. Many of them have closed; others have moved overseas to even lower wage environments in the Third World. From 1980 to 1982, between 450,000 and 550,000 rural manufacturing jobs disappeared.[2] Very few have been replaced. (For a more detailed discussion of the U.S. rural economy, see paper in this collection by Norman Reid, *Economic Change in the Rural U.S.: A Search for Explanations*.

To an only slightly lesser degree, this local dependency on a single industry exists in many parts of rural Britain as well. To offset continuing job losses in agriculture and other natural resource industries, local officials used low wage rates and a variety of subsidies and inducements to lure labor-intensive manufacturing industries to rural areas. But instead of strengthening rural economies, these "low end" manufacturing industries too often simply reinforced the dependency of rural communities, making them particularly vulnerable to international competition. In addition, the low wages paid by these industries limit the purchasing power of these communities, thereby impairing the development of a sophisticated service sector.[3]

Moreover, as Scotland discovered only too painfully, the single-industry dependency typical of rural areas need not be founded on low wages. The North Sea oil and gas industry pumped huge amounts of money and jobs into Northeast Scotland (and a few remote Highland locations) for years during the exploration and development phases, only to contract sharply during the production phase, leaving vacant rural industrial sites and high unemployment in its wake. The cycle has recently turned upward again with a resumption of exploration, and jobs and income are increasing. But the long-term viability of the local economies that depend on the industry is still in question.

Finally, the rapid growth experienced by those British rural communities that are either within commuting distance of urban centers, or attractive to wealthy retirees and tourists, has created a new kind of vulnerability. The influx of new money and new residents – people with needs and expectations very different from those of long-time residents – have crowded out traditional services (hardware stores, local grocery shops, etc.) replacing them with businesses catering to the new residents (antique shops, interior decorators, etc.); driven the cost of housing out of reach of local residents; and led to protests over traditional land use practices; among other issues. In short, the new wealth has not "trickled down" to long-time residents. Indeed, the interests of the new residents threaten the very values that made the community attractive in the first place.

THE POLICY CONTEXT

> *"Governments spend so much on farm programs (as rural policy) because they are uncertain about other intervention strategies..."*
>
> Kenneth Deavers
> Economic Research Service
> U.S. Department of Agriculture

The United States and the United Kingdom face quite similar rural development problems – in substance, if not in scale. In addition, and possibly more important, both countries have remarkably similar political and fiscal environments – conservative governments compelled by both ideology and budgetary necessity to minimize public intervention and leave the resolution of economic problems to the operation of free market forces. Given these similarities, the differences in the policy context – how they approach rural development – are striking.

The United States has no rural policy. Nor, for that matter, do most states. Agriculture – big, commodity-producing agriculture – dominates both the political agenda and the budget whenever the topic of rural development comes up (which is infrequently), despite clear evidence that agriculture is neither the primary source of, nor the solution to, the economic and social vulnerability of rural communities and rural people. The U.S. spends billions of dollars annually on farm programs and subsidies and has only a haphazard collection of other programs affecting rural economies. They are tied together by no coherent overall strategy. There is little reliable information on the current condition of rural economies. There is no analytic construct guiding the development of policies or programs and, consequently, no coherent rationale for public intervention. There is no guiding vision of the values or characteristics that development initiatives should seek to address or enhance in rural communities. A recent internal report by the U.S. Department of Agriculture concludes:

Rural policy at all levels of government consists of a collection of programs that, however useful individually, does not add up to a coherent or consistent strategy to achieve any well-understood goals."[4]

By default, the responsibility for rural development policies and programs has fallen to state governments, not-for-profit organizations, private foundations, and individual communities. And while these institutions, working with minimal resources, have created a wide array of innovative local initiatives, there is no effort to link together the lessons learned from these experiments into a comprehensive rural policy and no formal mechanism for sharing innovations with other rural areas.

In the United Kingdom, the situation is very different indeed. There has been in Britain, as there has been throughout much of Western Europe, a national policy commitment to rural areas backed by regional rural area development organizations with broadly-based powers. These programs exist, at least in part, because of national recognition that healthy rural economies will not evolve strictly through market forces because market inefficiency is inherent in the very nature of rurality. In simplest terms, sparseness of population and distance from markets keep rural communities from attaining, or in some cases maintaining, critical economic mass. This weakness manifests itself in a number of ways:

- high transportation costs can make conventional rurally-based businesses less competitive than their urban counterparts;

- builders and developers avoid commercial and residential development in rural areas because the costs are higher and the returns are lower;

- business services — training, management, marketing, technology, and related services — are poorly developed or nonexistent in rural areas and urban-based services are unwilling to serve rural clients;

- personal investment capital is limited because incomes and savings are low, and bank investment capital is limited because the scale of financing is small (leading to higher information and transaction costs), risk is perceived to be higher, and the returns are likely to be lower than larger urban investment opportunities;

- public infrastructure is typically underdeveloped and more costly to maintain; and

- Health, housing, postal, mass transit, education, and other public services — are very expensive to deliver.

Britain has a long history of public intervention to offset these inefficiencies. And although recent budget cuts suggest some weakening of the national resolve, there remains a commitment to ensuring that people in rural areas have access to services and amenities commensurate with urban and suburban areas, *and* a conviction that the rural environment itself benefits from maintaining a populated countryside.

There are five major national or regional quasi-governmental organizations involved in rural development in Great Britain: the Rural Development Commission (England); the Development Board For Rural Wales; the Welsh Development Agency; the Highlands and Islands Development Board (Scotland); and the Scottish Development Agency (the latter two are in the process of merging with the Training Agency in Scotland).

Two of these organizations, the Scottish and Welsh Development Agencies, are involved only peripherally in rural issues; their principal historical purpose has been the revitalization of predominantly urban areas hard-hit by structural industrial decline. While they have recently begun addressing rural economic issues within their districts, they are not discussed here.

The other three — the Highlands and Islands Development Board (HIDB), the Development Board for Rural Wales (DBRW), and the Rural Development Commission (RDC) — focus all their attention on strengthening rural economies. *How* they do it, however, varies, both because each operates in a different social/geographical/ historical context and because their development philosophies differ. They exist along a kind of strategic continuum, from centrally-directed development programs on the one hand to community-led development programs on the other. Very roughly speaking, the HIDB has traditionally favored centrally-directed development, organizing most of its work along functional (e.g. industrial recruitment, factory development, development grants and loans) and sectoral (e.g. infrastructure, fisheries, manufacturing, tourism, etc.) lines, and only secondarily being involved in local or "endogenous" development capacity-building. The RDC (and its predecessors) has pursued only community-led development, focusing most of its efforts on building local development capacity and only secondarily on functional or sectoral activities. The newer DBRW falls somewhere in between, clearly favoring centrally-directed strategies, but targeting many of its investments geographically.

"AGENCY-LED" RURAL DEVELOPMENT: THE HIGHLANDS MODEL

> *"Targeting [to sectors or communities] is what we'd like to do, but what actually gets done depends on who matches our money."*
>
> Ralph Palmer
> Islands Area Business Advisor, HIDB

The Highlands and Islands Development Board was created by Parliament in 1965 as another in a long series of attempts to solve the "Highland Problem" — a century-long pattern of unemployment, low per capita income and standard of living, poor natural resources and weak industries, deterioration of local Gaelic culture, and consequent depopulation. For the region north and west of a diagonal line running roughly from Elgin (east of Inverness) to the island of Arran in the southwest, the HIDB was to:

- assist the people of the Highlands and Islands to improve their economic and social condition, and

- enable the Highlands and Islands to play a more effective part in the economic and social development of the nation.

At the time, the unemployment rate in the Highlands was twice the Scottish rate and four times the rate for the U.K. as a whole. Today, it is just below the Scottish rate, which is itself just below the rate for the nation — no small accomplishment, even after 25 years. One HIDB official says credit for the improvement is 40 percent due to the Board's work, 40 percent to offshore oil-related development, and 20 percent to "favorable background trends" — demographic changes, the influx of retirees and "white settlers" from South-east England, and the serendipitous emergence of new opportunities, among other things.

One observer says: "The best thing the HIDB do is make capital available to an area that is chronically short of it." Indeed, some 40 percent of the Board's annual budget (approx. 45 million sterling in 1989) goes to grants, loans, interest subsidies, and equity investments in businesses (often as "pump priming") in virtually every sector but oil: land/natural resource development, fish farming, fishing boat construction, tourism, manufacturing, construction and services industries, and a number of "social" or community development projects.

Another roughly 20 percent of the budget is spent on advance and custom factory/workspace construction projects, designed both to overcome shortages of available industrial and commercial space in the Highlands and as an inducement to firms who might relocate or build branch plants in the region (space may be made available at below-market rates).

Apart from salaries and administration, most of the rest of the Board's budget goes to research and implementation of a wide variety of development projects and schemes. These Board-originated projects may be sectoral (e.g. fish farming) or territorial (e.g. the Skye Development Programme). Virtually the only "community-based" development supported by the Board is a small program to support the creation on community co-operatives in remote regions. The Board spent approximately £250,000 in matching funds to support 26 such co-ops in 1989. As a tool for strengthening community self-confidence, the HIDB has supported for several years the regeneration of the Gaelic language through youth, community, broadcasting, and other commercial programs and projects.

Finally, in perhaps its most inspired and far-reaching effort to overcome the economic liabilities associated with remoteness, the Board has committed £4.9 million to a £16.25 million joint venture with British Telecom to establish state-of-the-art digital telecommunications throughout the Highlands and Islands, to be completed by 1992.

Nevertheless, critics charge that the Board has traditionally placed too much emphasis on attracting large industries and seemed bent on "filling the glens, regardless of who with," rather than strengthening communities' capacity to generate growth organically through local entrepreneurship and the expansion of existing businesses. For its part, the Board argues that there are historical and cultural differences in the Highlands and Islands that limit "the boundaries of the possible." England, with a large middle class and a tradition of individual initiative, is fertile ground for locally-led development strategies. But the Highlands of Scotland, where dependency on the decisions of outsiders – landowners and the State – has been ingrained for centuries, has no tradition of individual entrepreneurship. This deep cultural difference may explain, in part, why, in an era in which "enterprise" has swept England, the share of Scottish weekly household income from self-employment *fell* from 7 to 5.5 percent between 1980 and 1987 and net VAT registrations (one measure of new business startups) grew only 11.4 percent, compared to 14 percent for the U.K. as a whole.[5]

Yet the argument may already be moot. Under the new "Scottish Enterprise" initiative, the development responsibilities of the Scottish Development Agency and the Highlands and Islands Development Board, and the training responsibilities of the U.K. Training Agency in Scotland will be combined and substantially devolved to business and community-led Local Enterprise Agencies. The objective is "self-sustaining economic development."[6] Thus, while the mechanics are still being worked out, it is clear that Scottish Enterprise is intended to give local entities ownership of, and responsibility for, creating their own economic futures. There will still be government support (though probably less than before), but strategic direction and specific development initiatives – for better or for worse – will be the responsibility of local enterprise agencies.

"GEOGRAPHICAL TARGETING": THE MID-WALES MODEL

"There is a great tendency for "the twee" to dominate in rural development."

Dr. Iain Skewis
Chief Executive, Development Board
For Rural Wales

Reversing the decline of rural communities in the scenic but poor hills of central Wales for which the DBRW is responsible requires, according to its Chief Executive, top-down direction and substantial investment in three things:

– a wide range of modern jobs,

– an affordable house in which to live, and

– a quality of life that meets expectations in the 1990s.

Established in 1977, the DBRW initially focused most of its resources on attracting new development from outside Wales with subsidized factory premises, a range of attractive financing options, and Board-assisted training and housing for workers. In its first ten years of operation, some 500 new factories were built, creating some 7,000 job opportunities. In addition, the Board assisted in the development of some 3,500 social/community development projects ranging from village hall rehabilitation to the construction of modern recreational centers.

Then, a few years ago, internally-generated job growth began outstripping growth from recruited firms and the Board began strengthening its network of local business advisors, enterprise training courses (the Board is the designated agent for the U.K.'s Training Agency), and communications/transportation infrastructure development schemes to increase the competitiveness of Mid-Wales businesses. With the exception of its active involvement in tourism development, the Board's strategic focus is geographic, rather than sectoral. It has identified 8 larger "Growth Towns" and 20 smaller "Special Towns" as geographical focal points for Board investments in factory and work premises construction, business advisory services, and social development projects. Local working groups have been established to coordinate development plans with local officials. No village in Mid-Wales is more than a 15 mile commute from one of towns targeted for development under this scheme. The DBRW still invests a significant portion of its budget in business attraction strategies, but local business creation and expansion now receives at least equal treatment. Finally, to overcome low levels of entrepreneurship among Welsh-speaking natives, the Board has established a new initiative aimed specifically at that segment of the population.

Thus, while still aggressively "directive" in its development strategy, and still involved significantly in efforts to increase inward investment to Mid-Wales, the DBRW gradually has become more geographically-targeted and locally-oriented.

INTEGRATED COMMUNITY-BASED RURAL DEVELOPMENT: ENGLAND'S RURAL DEVELOPMENT COMMISSION

> *"Just throwing money at rural communities without building local leadership and ownership is a recipe for disaster."*
>
> Lord Vinson, Chairman
> Rural Development Commission

A rural Development Board has existed in England since 1909. During the 1920s it was augmented by a Rural Industries Intelligence Council to provide training in rural skills, and in the 1930s a loan fund for rural industries was added. Later, Rural Community Councils, composed of voluntary organizations in rural communities, were established (and continue to be funded, in part by the RDC). In 1968, a variety of rural boards and councils were merged to form the Council for Small Industries in Rural Areas. For the next 20 years, the Development Board continued to advise government on rural matters and CoSIRA developed a network of county offices capable of delivering to rural businesses a wide range of technical and financial services. In 1984, the Development Board was changed from an advisory to an executive organization and in 1988 it merged with CoSIRA, creating the new Rural Development Commission. The Commission's mission is simple and broad: *to advise the government on all matters relating to the economic and social development of rural England.* But this statement conceals an approach to rural development which is as aggressively locally-led as the HIDB and DBRW are aggressively agency-led.

(a) The Philosophical Foundation:

While the other agencies pursue job development in rural areas largely by emphasizing recruitment of outside industries and investments, intervening in specific economic sectors, or funneling public investments into rural development projects, the Rural Development Commission seeks to "build on and stimulate indigenous enterprise and self-help."[7] In fact, the Commission categorically refuses to support industrial recruitment programs.

The community-based enterprise development philosophy of the Commission is based upon an unsentimental view of three fundamental facts of rural economic life. First, since agriculture no longer drives rural economies, revitalizing rural economies has little or nothing to do with agriculture and focusing on farm programs does little to help rural communities.

Second, while rural economies are increasingly diverse, this diversity is wide but not deep. Therefore, intensive sectoral intervention simply is not effective. Industrial targeting is pointless both because no one is capable of predicting which industries will succeed or fail and because the act of targeting a specific industry sector may overlook a wide range of other locally-viable enterprises.

Third, even a strong national commitment to large-scale infusions of capital to disadvantaged rural regions is insufficient to bring about lasting economic development. Sooner or later, communities must learn to take control of their own destinies and to do that, they need help building local capacity, including leadership and organizational ability, physical infrastructure and amenity enhancement, education and other human investment needs, and finally basic business building-blocks — workspace, training, management and marketing assistance, capital, technology assistance, and the like.

(b) The Guiding Values:

The Rural Development Commission is guided by a clear vision of the values it seeks to support and enhance in rural communities. They include:

— <u>Self-Sufficiency</u>: ensuring that rural communities develop in such a way as to encourage enterprise, responsibility, and ownership — thus reinforcing the independence that is traditional in rural areas;

— Opportunity: ensuring that economies in rural areas provide a *suitable* range of job opportunities — suitable both in kind and in scale for small rural communities;

— Vitality: ensuring that rural communities are places where people both live and work and that they can provide for the needs of a wide variety of residents;

— Equality: ensuring that rural communities have reasonable and affordable access to services and are not disadvantaged by their rurality; and

— Amenity: ensuring that development occurs in ways that preserve and enhance the rural environment.

(c) The Policy Framework:

The Commission does not seek to *enact* economic development, but to *enable* it:

"We encourage the private sector to operate in rural areas, both by creating the right framework and by operating in partnership with it. We use our limited funds to lever resources from the private and voluntary sectors and other public bodies. Where the private sector has proved unwilling to operate, or where its operation does not meet all the needs, we believe there is a continuing need for direct intervention."[8]

The Rural Development Commission's explicit policy to limit its efforts to helping those who help themselves fosters community capacity-building and helps ensure that the effects of the Commission's investments are lasting. This emphasis on "enabling" is embodied in the Commission's two principal operational activities: its community-based Rural Development Programme planning process and its customer-based Business Service.

(d) Community-Based Development — The RDP Process:

In 1984, the Commission (then the Rural Development Board) identified some 27 high-priority Rural Development Areas (RDAs) in England — some remote, some on the urban fringe — and invited local officials and voluntary organizations to create their own Rural Development Programmes (RDPs). The RDPs combine a long-term (5 to 10 year) strategic plan with a short-term (3-year) work plan that rolls forward annually. The Commission's support is actually quite limited; it provides organizational guidance and helps fund one staff person in each participating local authority to oversee the process, and provides "topping up" funds for development projects that emerge from the planning process. Projects range from enterprise training and community development programs to tourism and environmental improvement schemes.

Just how limited and efficient the Commission's contributions to these projects have been is reflected in its leveraging ratio; in the 1986/87 project year, for example, the ratio of Commission grants to local and private sector funding was 1:6.6. A recent independent review of the RDP process found it to be highly effective in bringing about change in participating rural communities — so effective, in fact, that it is being emulated by communities in areas of England that are outside the Commission's RDA boundaries.[9]

The RDP process presents a relatively simple way for rural communities to break the cycle of dependency and address both economic and social problems in an integrated manner. The communities determine what they want their future to look like, how they want to get there, and what if any role they want the Commission (and other agencies and authorities) to play. The Commission, in turn, gets a coherent local framework within which to assess requests for development assistance from communities — one in which "as far as possible, all those concerned with social and economic development...are pulling together in the same direction."[10]

(e) Integrated Enterprise Assistance — The Business Service:

But while community-wide commitment is a crucial precondition for lasting rural economic revitalization, it does not, of itself, create jobs. Jobs are created by businesses — generally businesses that already exist in an area or that are newly-created by people who already live in the area. What makes England's Rural Development Commission an intriguing model is that it matches a good *process* (the RDP) with a good *product*: a Business Service that delivers practical, "on the ground" help to rural business-owners and business-starters.

The RDC's Business Service (part of CoSIRA before the 1988 merger) is a network of local technical assistance offices based in every rural county in England, and advised by private-sector county Business Committees. Staffed by former business people, the Business Service is the Commission's answer to perhaps the most persistent market inefficiency faced by rural entrepreneurs: affordable access to knowledge. Small rural businesses, like small businesses everywhere, fail generally not because they have a bad product or service, but because they don't know how to succeed — or how to keep from failing. They may lack knowledge of a crucial bit of technology, or emerging markets, or merchandising techniques, or management and accounting practices, and so forth. The Business Service is designed to address these and related "on the ground" problems. The services provided by the Business Service, directly through its own staff and indirectly through referrals to consulting specialists or other programs within the RDC, include informal and formal business advice, technology assistance, marketing assistance, assistance in acquiring financing, workspace development, and training.[11]

In 1989, the Business Service had nearly 35,000 small rural businesses on its books as clients across the full spectrum of industry sectors. Consistent with the Commission's commitment to rural economic diversification, the Business Service does not assist conventional agriculture enterprises.

The Business Service's key strength is that it addresses the principal cause of business failure in rural areas — lack of knowledge on a specific issue — in a manner which is practical, accessible, and affordable. It is *practical* in that it is grounded in the real day-today problems of rural entrepreneurs and is client-driven; the services available are broad and flexible and can be tailored to meet virtually any client's needs. It is *accessible* in that there is a knowledgeable RDC professional within a few miles of virtually every rural community in England — someone who is sympathetic, interested in helping businesses succeed, and who knows where help can be found if he or she cannot provide the help directly. And it is *affordable* in that, while the RDC is not interested in providing large subsidies to businesses, preferring that they succeed in conventional capital markets, it is willing to absorb some of the initial costs and risks peculiar to rural enterprises to prove their viability and overcome flaws in the market economy that make their success more difficult to achieve.

CONCLUSION: CREATING THE CONDITIONS FOR RURAL ENTREPRENEURSHIP

There is a heated debate underway throughout Europe about whether rural areas are most successfully developed by community-led, endogenous development assisted by development agencies, or by agency-led development projects, industrial promotion, and recruitment programs targeted to specific industry sectors or geographic areas. This debate often ends in a stalemate when warring proponents of one model or another wearily conclude that the social, economic, and historical contexts of rural areas differ so widely that there is no clear answer.

And yet this conclusion is too simple. In the frantic search for a "model" of successful rural development, policy makers too often fail to dig deeply enough to expose the root causes of rural decline and articulate the basic characteristics of a strategy for reversing that decline. The root cause of low rural income and poor employment growth, of the decline in needed community services, of clashes between old-timers and newcomers, even of many rural land use disputes, is a persistent condition of rural life that is common across all cultures: *Vulnerability*. Rural communities, with their fragile, narrowly-based, and often outdated economies, exist in an almost continuous state of risk. The essential challenge of rural development is overcoming generations of vulnerability by helping both communities and individuals gain greater control over their own economic destinies. American economist Albert Shapero described the characteristics of a strategy for reversing rural decline several years ago:

> *What we really want for an area (or more precisely, for the people of an area) is to achieve a state denoted by* ***resilience*** *— the ability to respond to changes in the environment efficiently;* ***creativity*** *and* ***innovativeness*** *— the ability and willingness to experiment and innovate; and* ***initiative-taking*** *— the ability, desire, and power to begin and carry through useful projects. Preceding and accompanying the dynamic characteristics of resiliency, creativity and innovativeness, and initiative-taking is* ***diversity****... [providing] some measure of invulnerability to the effects of many unforeseen events and decisions.*[12]

That's the goal. But there are serious issues that will shape any strategy designed to help rural communities attain this goal. Among them:

- How can we help rural areas adjust to and profit from change without forfeiting the values they hold dear?

- How can rural development programs accommodate the diversity of rural characteristics, assets, and needs?

- How can we reverse the historic dependency of rural areas — on agriculture, on some other industry, on transfer payments, and on state-subsidized development?

- How can the array of public policies and programs designed to help rural areas be integrated into a more coherent and effective strategy?

- How can we evaluate the effectiveness of public investments in rural development?

- How can we extend the reach and impact of limited public resources?

All three of the U.K. rural development agencies described above create jobs in rural areas and invest in social and community development within their respective regions. But of the three, only one — the community-led development process overseen by the Rural Development Commission in England — has the potential to address these fundamental questions effectively. The only way to protect values important to rural communities is for the communities to craft development strategies on their own that will guarantee those values. Only a locally-based development process is capable of effectively addressing the diversity inherent among rural communities. Rural dependency can only be overcome when rural communities create their own development strategies. The integration of development policies is best done by communities themselves; it cannot be done by agencies acting on their behalf. And the best way to evaluate and extend the reach of investments in rural development is to submit them to a market test — that is, find out whether communities are willing to make matching investments in their own future.

Effective rural economic and social revitalization will occur when communities shoulder the responsibility of developing their own economic solutions and when the agencies established to help them abandon the notion that they can deliver economic salvation, like some economic *deus ex machina*. Whatever its weaknesses, the Rural Development Commission recognizes this reality; the Development Board for Rural Wales appears to be adapting to, if not heartily adopting, this position. And the Highlands and Islands Development Board is being forced to respond to it by "Scottish Enterprise."

Economies and the people of which they are composed can thrive only by grappling with, adapting to, and seizing advantage from change. The more rapid the pace of change, the more imaginative they must be in crafting strategies for taking control over their own destinies. Where communities accept this challenge, there is hope. Where they do not, or where development agencies shield them from it, there is only continued vulnerability.

NOTES

1. *Briefing On Rural Economic Development In The 1980's*, Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture, March 1, 1989.

2. Estimates vary; see David L. Brown and Kenneth L. Deavers, "Economic Dimensions Of Rural America," in *Options In Developing*, p.19. and Deavers, "Lagging Growth," p. 4.

3. John Taylor, "The Future Planning of the Countryside: Developing the Rural Economy", unpublished speech, Rural Development Commission, 1989 (p.4).

4. U.S. Department of Agriculture, *A Hard Look At USDA's Rural Development Programs: Report of the Rural Revitalization Task Force to the Secretary of Agriculture* (Washington, D.C.: USDA, June 30, 1989), p. 3.

5. Standing Commission on the Scottish Economy, quoted in "Financial Times Survey: Scotland — a Political Time Bomb", 15 December 1989

6. Industry Department for Scotland, *Scottish Enterprise* (Edinburgh: H.M.S.O., December 1988), p.11.

7. Rural Development Commission, *Annual Report 1987-88* (London: Rural Development Commission, 1988), p.6.

8. Rural Development Commission, *1989 Corporate Plan*, pp. 20–21 (unpublished).

9. Aston Business School, Public Sector Management Research Centre, *An Evaluation of the Rural Development Programme Process: Draft Final Report*, May 1989.

10. The Development Commission, *Guidelines for Joint Rural Development Programmes* (London: The Rural Development Commission, June 1984), p. i.

11. Rural Development Commission, *Annual Report 1987–88*, pp. 18–29.

12. Albert Shapero, "The Role Of Entrepreneurship In Economic Development At The Less-Than-National Level," in Expanding The Opportunity To Produce: Revitalizing The American Economy Through New Enterprise Development, Robert Friedman and William Schweke, editors (Washington, D.C.: Corporation For Enterprise Development, 1981), pp. 26–27.

DIRECT AND INDIRECT RURAL DEVELOPMENT POLICY IN A NEO-CONSERVATIVE NORTH AMERICA

David Freshwater and Philip Ehrensaft

SUMMARY

Rural citizens in Canada and the United States have become North America's largest minority group. Although roughly three of ten citizens in North America still live outside major metropolitan areas, they are increasingly becoming a peripheral part of the economy and society. Rural regions in both countries have been severely buffeted by restructuring of the world economy and the volatile markets of the 1980s (Brown et al., 1988; Committee on Resource Dependent Communities, 1986). They face an even more uncertain future.

The challenges facing rural areas reflect both changes in the structure of the economy and changes in institutions. The increasing diversity of the rural North American economy has led to less cohesion among rural people than was the case through World War II. Consequently, there is greater difficulty in defining and pursuing a strategy for rural development.

This uncertain future is unfolding in a setting defined by neo-conservative national governments which have been in power since 1981 in the United States and 1984 in Canada. These governments have delineated a smaller role for the federal government in social and economic development activities (Conlan, 1988; Savoie, 1990). Their perspectives and objectives have not been conducive to maintaining existing social safety nets, let alone launching rural development initiatives of a scope that can cope with contemporary challenges to rural North America. Fiscal deficits of the senior level of government in the two countries continue to act as a major constraint on policy outlays for the foreseeable future (Wildavsky, 1988; Brooks 1989).

In addition, the balance of power in the federal system of both countries is undergoing significant change, as different levels of government redefine their rights and responsibilities. In the United States the New Federalism is changing the balance of power and responsibility among the levels of government. In Canada the 1982 Constitution reinforced decentralization of the federal system. In both Canada and the United States, rural people retain disproportionate weight in electoral systems. However, their numbers are not translated into proportionate access to political institutions and economic opportunities.

THE CHALLENGES FACING RURAL NORTH AMERICA

Rural North America shares a set of common challenges facing the rural regions of OECD countries plus a set of specific challenges imposed by land-extensive economies. Continental-scale distances plus a relatively greater reliance on primary production and processing as a proportion of total production and exports impose a special set of demands on North American rural policy.

As "newly-settled" countries, the social fabric of large expanses of the United States and Canada were established in terms of their roles as raw material and manufacturing hinterlands for the national and international economy (Easterbrook, 1990). The established roles of rural North American regions are under increasing pressure from the globalization of production and communication systems (Brown *et al.*, 1988; Joint Economic Committee, 1989). These pressures will increase.

Rural regions must position themselves so they become flexible and adaptive in the face of global restructuring. A special problem involves designing policies which can get resources to rural regions which experience persistent poverty. What are the means to get seed capital to these areas so that they can become self-sustaining?

We see the challenges facing rural North America as falling into two broad categories: structural challenges and institutional challenges. Rural citizens must address and understand these challenges in order to put their communities in a stronger position to cope and thrive in the new continental and international economies.

(a) Structural Challenges

(1) The North American rural economy is characterized by macro-diversity and micro-specialization. The post-war rural exodus was accompanied by a declining ratio of the farm to non-rural population. Farmers became a minority within rural regions. In Canada, for example, there is no longer a single census division where the farm labor force accounts for more than half the local labor force, even in the specialized grain-exporting regions of the Canadian Prairies.

Rural and small-town North America is a patchwork of specialized farming, forestry, mining, fishing, manufacturing, service center, tourist and retirement regions (Hady and Ross, 1990). Despite their functional differences these regions share common needs and problems. The institutional challenge is to aggregate disparate rural voices into an effective force which pushes for national rural development policies.

(2) Rural development policies face the challenge of dealing with the fluid and open "extended city" of the modern countryside. Rural communities have been transformed into extended cities. Capital-intensive resource production and the rural exodus result in long commutes by rural residents for most economic and social activities. Better rural road systems may mean traveling roughly equivalent times, compared to urban residents, but the nature of social interaction and "community" changes. For the average rural family, the community is the area circumscribed by a radius of one hour's drive, or roughly 100 kilometers in the North American grain belt. The challenge is to find ways to link these spatially disconnected neighborhoods.

(3) Capital-intensive exploitation of natural resources results in an increasing proportion of production inputs coming from cities. Farming, mining and forestry employ few rural resources other than labor. In addition, mega-projects such as hydro-electric dams or strategic military bases frequently involve a temporary and limited boom in rural regions, leaving ephemeral local benefits. Much of the skilled labor involved in construction returns to urban areas at the conclusion of the project. Permanent economic linkages between the mega-project and local communities is often minimal. The challenge is to find ways to retain more of the benefits from economic activity in rural areas.

(4) Rural and small town manufacturing activities can be broadly classed into three groups: (a) labor-intensive industries attracted to rural regions with low wage levels; (b) resource based manufacturing that takes advantage of ready access to primary materials; (c)

capital-intensive industries attracted to rural areas by low infrastructure costs and an educated labor force that is viewed as more disciplined and reliable than in the cities. The manufacturing challenge is to identify industries where rural areas have a long term competitive advantage in a continental and global context.

(5) The movement to an occupational structure and labor market in North America that is dominated by knowledge-based service activities poses a parallel problem to that encountered in manufacturing. Activities such as creating computer programs can probably be done just as well in the countryside as in the city. However, optical fibre connections between small towns and distant cities cannot substitute for the face-to-face interaction possible in urban agglomerations. The challenge lies not in the activity itself but in finding ways to adapt new technology to the network of personal contacts which are crucial to success in the enterprise.

(6) Isolated frontier regions are key sources of North American mineral and energy resources. Establishing and maintaining a viable community for the people who live and work in these isolated regions is a particular challenge. The challenge lies in providing these rural residents with educational and medical opportunities which approach those available in the cities.

(7) Resource exploitation on the frontier may also have major impacts on the hunting and fishing economies of indigenous societies which inhabit the region. What is an isolated frontier to us is home to them. Conflict between indigenous rights and resource exploitation is a persistent strand of the North American rural economy. These conflicts are adding a new dimension to increasing concern with environmental degradation in remote areas, and preservation of wilderness ecosystems. The challenge lies in reconciling the rights of indigenous people and pressures for development.

(8) Growing federal government budget deficits in both countries have reduced the availability of government development assistance, and have increased the cost of borrowing for both private business and local government. Consequently not only have rural areas lost access to development assistance, they have also been squeezed out of private capital markets. The challenge is to define development projects that have relatively high rates of return and to find creative ways to obtain finance that do not excessively burden rural communities.

(b) Institutional Challenges

(1) The political institutions of both Canada and the United States are structured in a fashion that allow rural interests to have an effective voice in commodity policy issues. Agricultural, mining and forestry policy continues to be dominated by rural interests in both countries. By contrast, broader rural development questions that deal with broader social and economic policy, and cut across the mandates of specific departments, fall between the cracks and receive little formal attention.

The demographic and political weight of major metropolitan regions and the concentration of economic power in them cause national and state/provincial politicians to take heed when urban development questions are raised. Rural residents, by contrast, are dispersed in hundreds of local jurisdictions across the continent, none of which has significant political or economic power. The institutional challenge for rural North America is to define organizations which can aggregate similar demands by diverse regions and make these demands count in the political system.

(2) The "extended city" of the modern countryside cuts across traditional local political boundaries. The challenge is to create new institutions with authority over the regions defined by the new realities. Creating a new level of organization and power above that of existing local jurisdictions can be a thorny issue that politicians would rather avoid. Instituting cooperative relations among localities that may traditionally been in competition with one another can be equally difficult.

In both countries, communities that have viewed themselves as traditional rivals face the painful reality of merging school districts to cope with reduced enrollment, cooperating on water and sewage treatment plants to meet federal standards, and cooperating in industrial recruitment. Increases in the minimum scale for provision of public goods and services combined with falling population leaves many small communities between a rock and a hard place. The challenge lies in finding ways to reform local governments and sub-state/province political boundaries to meet the new scale requirements.

(3) Factors that facilitate community development tend be "soft" variables that do not fit easily with established administrative methods of defining and measuring program performance. A study comparing successful and less-successful rural community development efforts in Kansas, found only one conventional variable that correlated well with program successes: a modestly larger average farm size. The preponderant factors were elements, such as: multiple elites in different spheres of economic and cultural activities, rather than a single elite dominant in all domains; a local newspaper which encouraged controversy; and a secondary school which emphasized academics rather than sports (Flora, 1987). This can make program administrators whose careers depend on demonstrating the success of their programs reluctant to commit resources to rural development. The challenge lies in defining and implementing more flexible measures of success to facilitate greater interest and participation by the bureaucrats.

(4) The difficulty in defining a successful program and implementing it in a community leads to difficulties in building local political support. Local commitment to rural development activity is essential. Fostering rural development requires building the community networks that enable a region to seek out new opportunities. This takes time and does not show up in the short term as new business establishments and new jobs.

In North American political systems, "long-term" means four to five years. The time necessary for a community to reorganize itself and engage in successful rural development can be expected to be longer. Consequently, politicians at all levels of government face the real dilemma that they will be held accountable for investments that appear to have resulted in no pay-off. The challenge is to find a way to build longer term strategies into the political calculus.

(5) Rural and regional development policies, by their very nature, cut across the mandates of numerous line departments. Each department by protecting its own turf, or simply having more than enough work in addressing its principal mandate, can impede development policies. Governments face the difficult choice of a) giving the development mandate to an existing line agency, in which case the general program is likely to be conditioned and shaped by the department's primary responsibility or b) creating a central agency that acquires resources and power resented by line agencies, or c) establishing a central agency with limited powers that must "jawbone" line agencies into cooperating. There is no easy solution to this problem, just a constant challenge. Canada and the United States go through periodic cycles of adopting one alternative for a number of years, only to replace it after dissatisfaction builds.

(6) Hard bargaining between local and central authorities is a constant factor in rural and regional development policies in North America. Apart from questions of who will take visible credit for the new programs, there are the more basic issues of local jurisdictions jealously guarding and trying to expand their authority, while the central government attempts to carry out national objectives.

This hard bargaining in Canada focuses on relations between Ottawa and the provinces, with local government playing a relatively minor role. In the United States, counties and municipalities are more directly involved than equivalent units in Canada while states have less relative power than do provinces. In the U.S., bargaining frequently proceeds directly between Washington and the county or congressional district in question. The institutional challenge is to establish a framework in which battling over turf and resources does not overwhelm rural and regional development objectives.

(7) Social norms in North America are moving rapidly toward requiring equality of opportunity and access. Increasingly rural residents demand equivalent levels of social services to those available in urban areas, even though costs of providing identical services may be daunting. This is most evident in the fields of education and health care. Litigation is becoming increasingly successful, particularly in the United States, in compelling more equal treatment by government. The challenge lies in providing institutions that provide equal opportunity, in a manner that reflects differences in scale and condition between rural and urban places.

(c) The Sum of the Challenges

As North America becomes increasingly integrated both within the continent, and into the global economy, conditions facing rural residents will continue to change. Where the boundary between the United States and Canada once provided an effective buffer between the two countries the Free Trade Agreement and growing integration through the effects of mass media and multinational corporations is resulting in an erosion of the distinctions between the two nations (Simeon and Robinson, 1990). Globally, the processes of economic development and integration may be creating new market opportunities for rural industries, but are also calling into question the viability of traditional rural activities.

As a result, rural communities are going through major disruptions as their traditional economic base erodes. With fewer jobs in traditional industries and greater instability in rural incomes, outmigration from rural areas is increasing. Those who leave tend to be the most highly skilled and with the greatest attachment to the labor force. As a result rural areas are increasingly populated by the less skilled, the young and the old. All of these groups have a greater than average need for social services which rural communities face growing difficulty in providing as a result of their eroding economic base (Joint Economic Committee, 1989).

Finding a way to integrate rural communities into the broader economy while preserving the desirable attributes of rural society is a major challenge (John *et al.*, 1988). Gaining access to: job opportunities in growth industries, quality education programs, modern health care technologies, and improved infrastructure are fundamental challenges for rural residents in Canada and the United States.

CONTINENTAL INTEGRATION

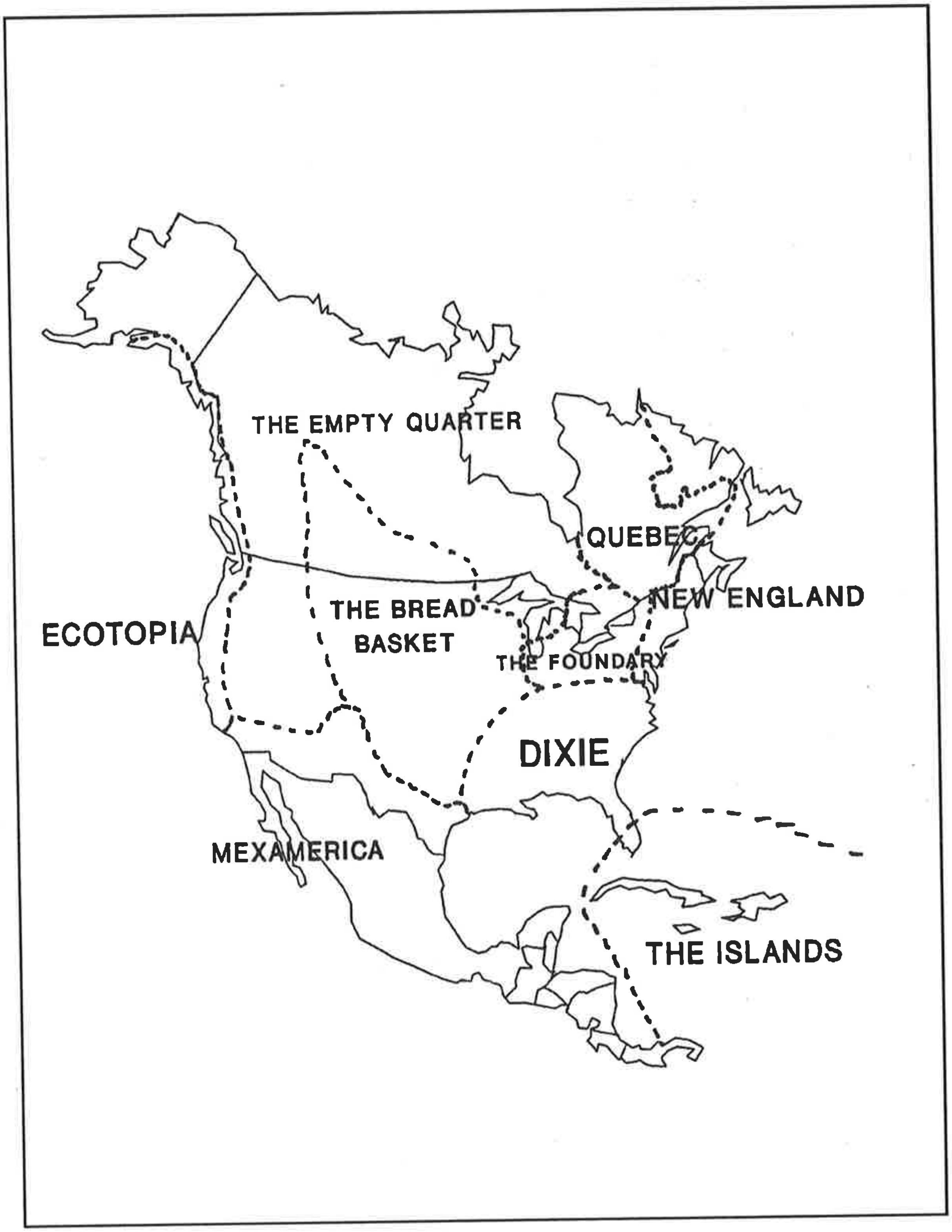
The seventeenth and eighteenth century British and French Empires in North America were bitter rivals, both for domination of the export fur trade and military control of the continent. The British conquest of New France in 1760 temporarily provided a unified political space in which north-south trade flows replace the old rivalries. These north-south trade flows continued despite the American revolution and intermittent attempts by both the U.S. and Britain's North American colonies to the north to politically channel trade on east-west axes (Easterbrook, 1990).

Since the mid-nineteenth century, pressure for a free trade agreement with the United States has been a recurring issue in Canadian politics. Although a significant part of Canada's history has involved attempts to find ways to reduce the economic links to the United States these efforts have been to little purpose. Implementation of the Canada-United States Free Trade Agreement is extending already strong linkages deeper into each economy.

Consequently, the border dividing Canada and the United States is irrelevant when looking at the economic base of major parts of each country. In a real sense there are greater differences among regions within Canada and the United States than there are between adjoining areas of the two countries Lithwick, 1978; Bradshaw, 1988). Garreau argues as a result the North American continent can be divided into nine power blocks that are defined primarily on the basis of economic function and cultural similarity (Garreau, 1981). (See Figure 1.)

The great distances spanned from the east coasts of Canada and the United States to their respective west coasts fosters this sub-division of the continent into socio-ecological regions that spill over political borders. The comparative population densities in North America and Western Europe are qualitatively different. The dispersion and low density of North America's rural population add a special dimension to economy and society in the countryside.

Figure 1 The nine nations of North America



Based on Garreau, 1981

Given the high degree of integration, examining similarities between the various parts of Canada and corresponding regions in the United States is important in looking at rural development. Garreau's observation, however, that political boundaries are not particularly relevant ignores real differences in policies that result from different institutions and values in each political jurisdiction.

While Canada and the United States share a remarkable degree of similar attitudes and culture, their paths of development are likely to continue to be distinct in the future because of differing social institutions and differing histories. Seymour Martin Lipset contends that there are fundamental differences in the founding political cultures of the two societies:

> *Societies* vary in their organizing principles, in their *basic beliefs* about the sources of authority and values, *and in their* conceptions about the nature of their *societies.* The two nations once part of British North *America* were separated by the outcome of the American *Revolution.* One, the country of the Revolution, elaborated *on the populist* and meritocratic themes subsumed in stating *the objectives* of the good society as "life, liberty and the *pursuit* of happiness". The founding fathers of the *counterrevolutionary* nation defined their rationale as "*peace,* order and good government" when they put together *the new Dominion of Canada in 1867.* (Lipset, 1989; xiii)

An opposing interpretation of these differences is offered by Gordon Laxer, who contends that democratic ideals and movements were no less active in Canada than in the U.S. The difference lies in the greater success of Canadian elites in pushing back democratic challenges from popular movements:

> ....*the feeble* nationalism of the "National Policy" resulted *from the* inability of Canada's ordinary people – *principally* farmers but also workers – to impress *themselves* on the political system......
> *For capitalists* everywhere, profit come first; what marked *Canada off* from other advanced countries was that other *classes* did not gain state power and guard the domestic *ground for* native capitalists. Foreign ownership and a *truncated* manufacturing sector were the results....Credit *remained* stultifyingly commercial, and state indebtedness *grew enormously* at the hands of those that benefitted from *it....*
> *The reason* the Canadian state did not defend domestic *ownership* of Canadian industry is ironic: the capitalists *were too powerful.* (Laxer, 1989:125,150–151)

Debates over the origins and contemporary implications of the different political cultures of the two countries highlight the fact that there are very significant differences in the contemporary political values and practices in Canada and the United States.

Our major thesis is that the path of rural development is conditioned not only by the resources available to the community and the nature of the environment (both economic and natural) it faces, but also by the culture and institutions of the people who will make the choices about how to respond to these opportunities and constraints. Variations in political culture and institutions will continue to lead Canadians and Americans to respond differently to a common set of challenges facing rural North America.

Figure 2 Rural farm and non-farm population
Canada, 1941–86

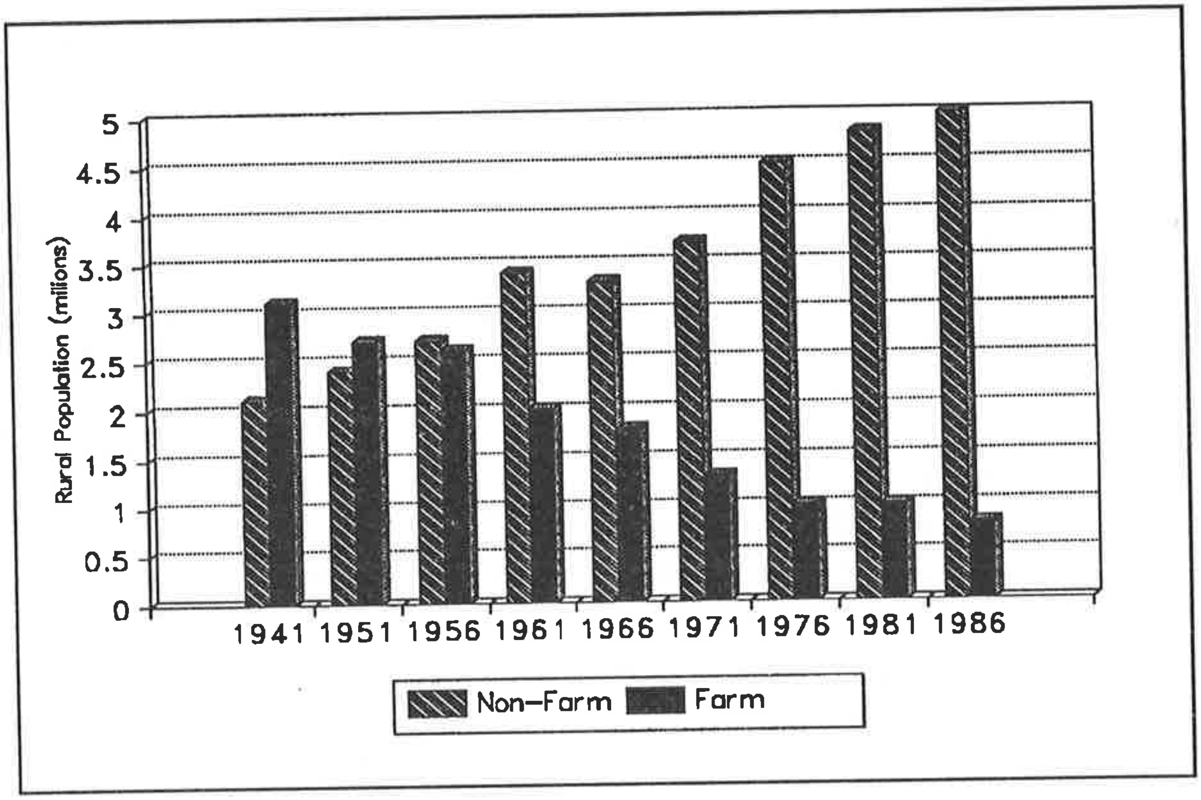


Figure 3 Rural farm and non-farm population
United States, 1920–88

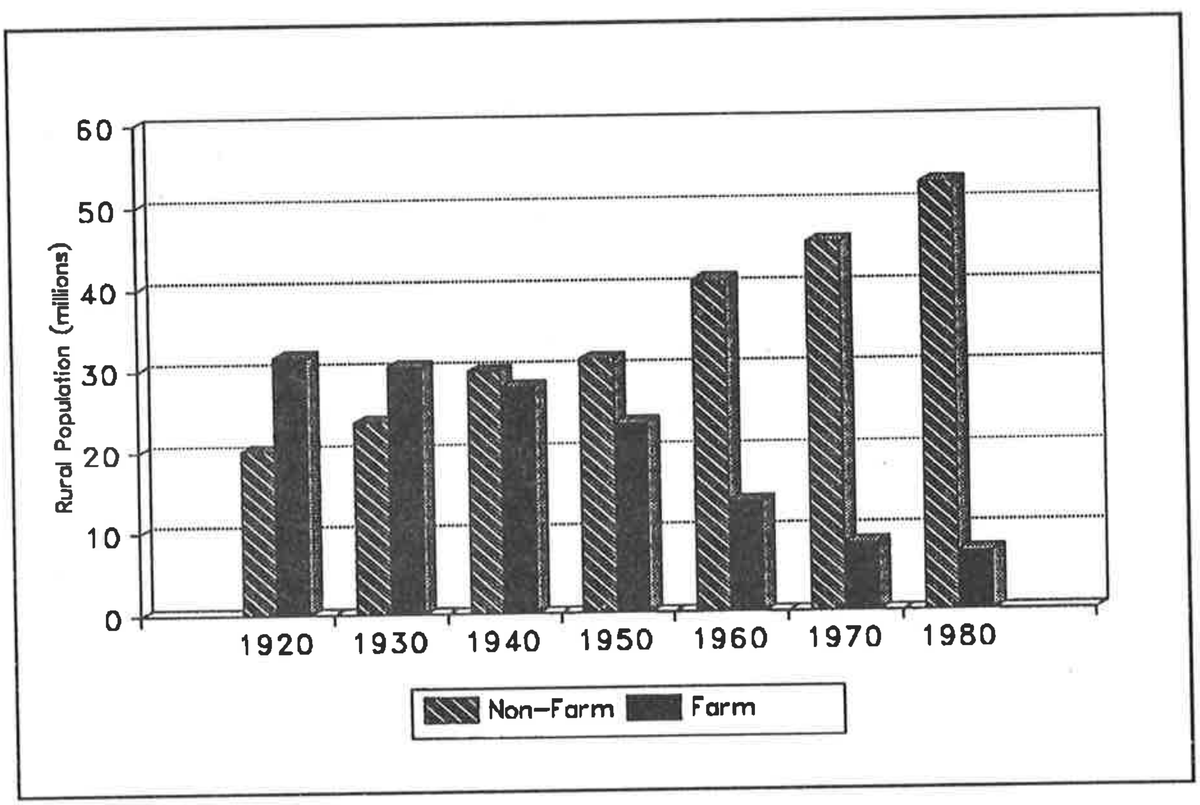


Figure 4 Primary industry employment Canada, 1951–86

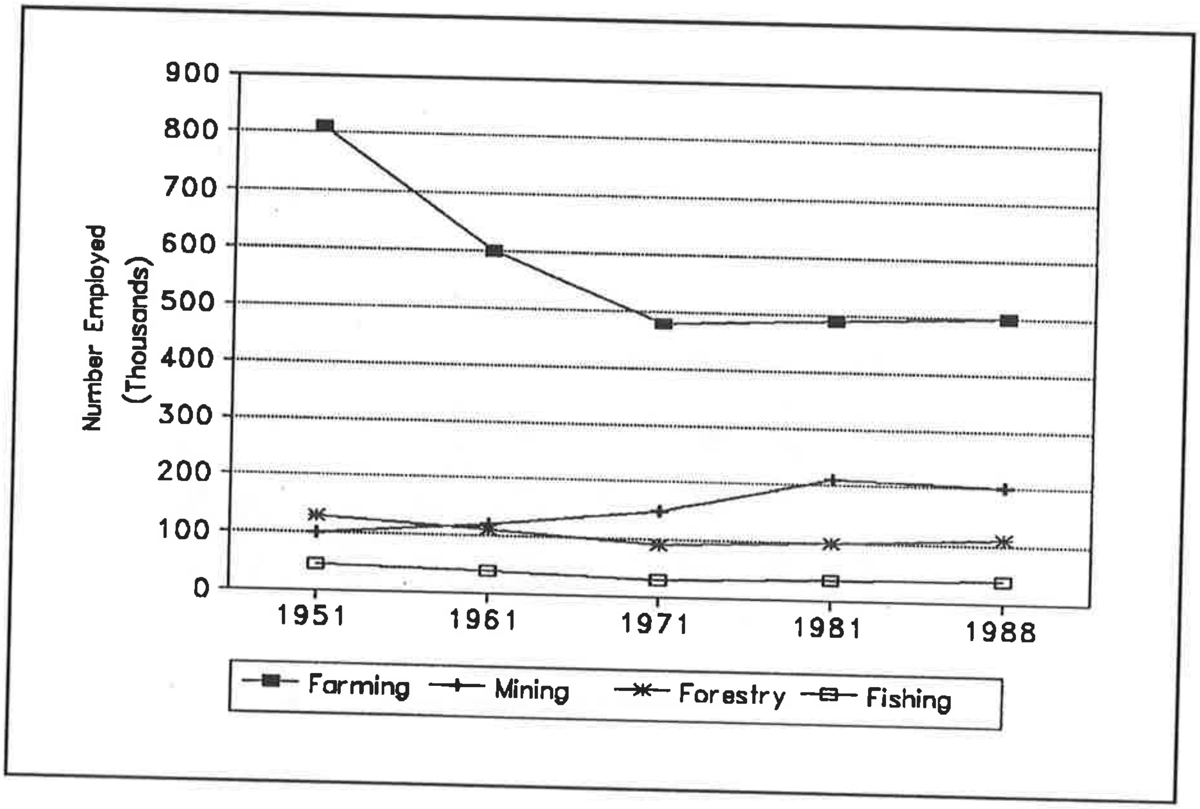
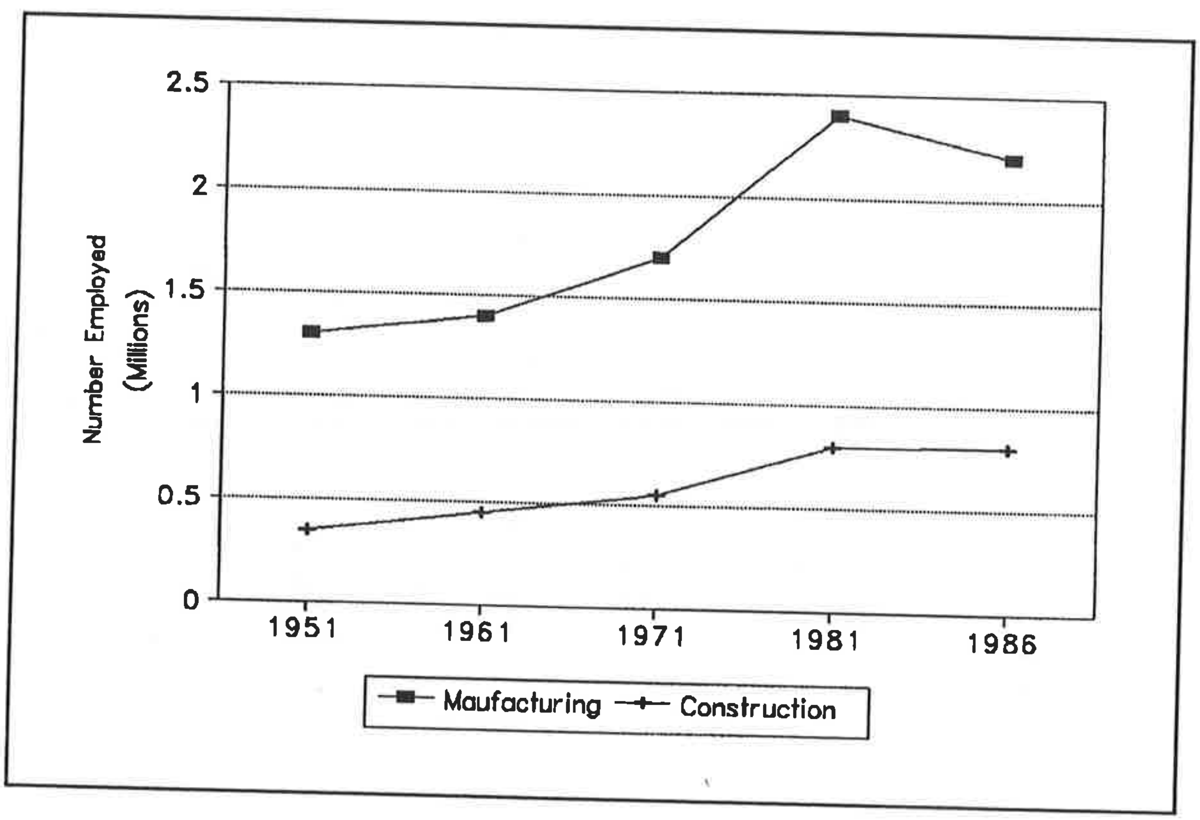


Figure 5 Manufacturing and construction number employed Canada, 1951–86



THE STRUCTURE OF THE RURAL ECONOMY

(a) Changing Demographics

The United States and Canada have each experienced two parallel demographic revolutions during the twentieth century and for a time appeared to be in the midst of a third demographic revolution. The first demographic revolution unfolded during the 1910—1920 period when the majority of North America's population became urban as opposed to rural. (See Figures 2 and 3.)

A second revolution proceeded when the non-farm population of North America's rural regions became a majority of the total rural population during the 1940's and 1950's. (Figures 2 and 3) Farmers became a social minority. In the United States, only 702 out of 2,443 "non-metro" counties are farming counties.[a] In rural Canada, agriculturally dependent divisions are also clearly in the minority.[b] There is no longer a single Census Division, even in the heart of the Prairies, where farmers constitute more than 50 per cent of the labor force.

The possibility of a third demographic revolution appeared to lie in the "rural renaissance" of the 1970's. Historic trends were reversed when the rate of rural demographic growth surpassed that of urban regions. The rural renaissance occurred both in rural regions located within 30 miles of cities with populations of 50,000 or more, cities and those located more than 30 miles from metropolitan regions. In Canada, the farm labor force stopped declining in absolute numbers and appears to fluctuate modestly around a level of roughly 475,000 persons. The number of persons employed in the other primary industries, however, grew in absolute numbers even though their relative share was decreasing. (Figure 4 — Figure 5 shows the increase in employment in manufacturing and construction).

The recession of the early 1980's brought about the return of outmigration. Low or highly fluctuating prices for primary products had severe impacts on many rural regions. The kinds of manufacturing plants located in rural regions were particularly subject to competition from factories in newly industrialized countries. In the early years of the last decade the combination of high interest rates and a high-valued U.S. and Canadian dollar reduced exports and increased import competition. Rural tourist regions were also hit by relative declines in consumer spending during the recession of the early 1980's.

(b) The Economic Diversity of Rural North America

The North American countryside has become a diverse patchwork of farming, fishing, forestry, mining, energy, tourism, retirement, and rural manufacturing regions. While rural North America as a whole became diversified, individual regions became increasingly specialized in a particular activity. This is what is termed the macro-diversity and micro-

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[a] Non-metro counties are counties which do not contain a city of 50,000 or more persons. Farming counties are counties where a weighted annual average of 1975-79 labor and proprietor income from agriculture was 20 per cent or more.

[b] Agriculturally-dependent census divisions have 20 per cent or more of the labor force in agriculture.

specialization of North America. Because of this specialization, rural regions are sensitive to both general macro-economic conditions and commodity price fluctuations.

The prevalence of manufacturing activities is another salient feature of the economic diversity of rural North American. In the United States, a large number of non-metro counties obtain thirty per cent or more of total labor and proprietor income from manufacturing activities (Hady and Ross, 1990). The absence of such manufacturing counties in the Great Plains states, from the Dakotas down to Texas, is striking. We are in the process of deriving parallel maps for manufacturing-dependent rural counties and townships in Canada. In both countries, the question of the possible de-industrialization of North America has fundamental consequences for many rural localities.

Rural labor-intensive industries now face the expanding industrial base of countries like Korea or Brazil that have even lower wages. In a first wave of migration, some North American plants moved to low wage rural regions. In a second wave, they are moving offshore. Similarly, resource based manufacturers face competition from developing countries with access to cheaper raw materials.

Rural capital-intensive industries tend to be located in the towns of the U.S. Midwest, Southern Ontario, and Southern Quebec. Agriculture and manufacturing plants co-exist in the same region. Japanese companies are in the process of "reindustrializing" the Mid-West and Southern Ontario by locating both automobile assembly and automobile parts production in rural regions. Small, independent rural manufacturing firms have done well by using technology and skilled labor to occupy specific market niches. The challenge for these firms lies in effective marketing of their products to distant markets.

(c) The Vulnerability of North America's Rural Economic Structure in the Global Economy of the 1990's

The world market for natural resource commodities has become a crowded, highly competitive arena as the twentieth century draws to a close. "Limits to growth" allegedly imposed by an impending scarcity of energy, mineral, and agricultural commodities have been replaced by primary commodity gluts. Third-world mineral producers with low costs relative to North America's are exerting pressure on the resource sectors.

In addition the backward linkages from raw materials production are generated mostly in urban areas. A high percentage of the skilled labor jobs attached to resource extraction are, by the nature of the game, located in the countryside. However, the majority of sales and support activities, and the machinery used in these sectors originate in metropolitan regions.

The manufacturing activities which have been involved in the non-metropolitan industrial expansion of recent decades tend towards what has been called "routine manufacturing" (McGranahan, 1988). This routine manufacturing involves mature technologies and relatively low skill levels among the work force. It is precisely such routine manufacturing which is highly vulnerable to competition from plants in newly industrialized countries such as Korea or Brazil.

Looking to the future, rural manufacturing plants located in areas which are within 30 to 60 miles of urban centers, can probably plug into the financial, marketing, and high technology services required by complex manufacturing. This manufacturing activity will in turn generate jobs in services such as transportation, communication, and utilities. However, routine manufacturing plants located in more distant rural areas face an uncertain fate, as do the companies providing business services to industry.

(d) The Modern Countryside as a Chain of "Spatially Extended Cities" That Have Outgrown Their Governing Institutions

Successive demographic transformations of the rural population have been associated with a transformation of cohesive rural communities into components of spatially extended social and economic networks. These networks function similarly to the socio-economic networks that exist in urban settings. Central places are yielding their place to the extended city (Hodge and Quadeer, 1983).

At the beginning of the century, rural residents' economic and social life tended to focus on one town and its immediate hinterland. Farmers usually purchased equipment and consumers' goods, worshipped, sent their children to school, and delivered grain to an elevator in the same town. Social and economic roles overlapped: the most prosperous farmers would rub elbows with bankers, lawyers, doctors, and merchants at school board meetings, local branches of political parties, or the committee running the county fair (Fugitt, Brown and Beale, 1989). This dense and overlapping set of relations constituted the community.

The transformation of rural communities into spatially extended networks began with the spread of mass-produced automobiles and trucks after World War I (Tweeten and Brinkman, 1976). It picked up speed in the boom decades following World War II. An improved and expanded highway system, plus declining real prices for fuel, lowered the costs of travelling greater distances in rural regions.

At the same time, the rural exodus to cities was in full swing. This lowered "the density of acquaintanceship" in any single town or village and its surrounding hinterland increasing the necessity of travel to meet social and economic needs. Rural people reconstructed social networks on the basis of their preferences and available time and money for goods, services, friendship, and participation in organizations. The new rural networks are sometimes referred to as "the extended city." A family might drive for a half-hour to go to church in town A, drive the same distance in the other direction to buy furniture and appliances in town B, and go to see their children play basketball at the high school in town C.

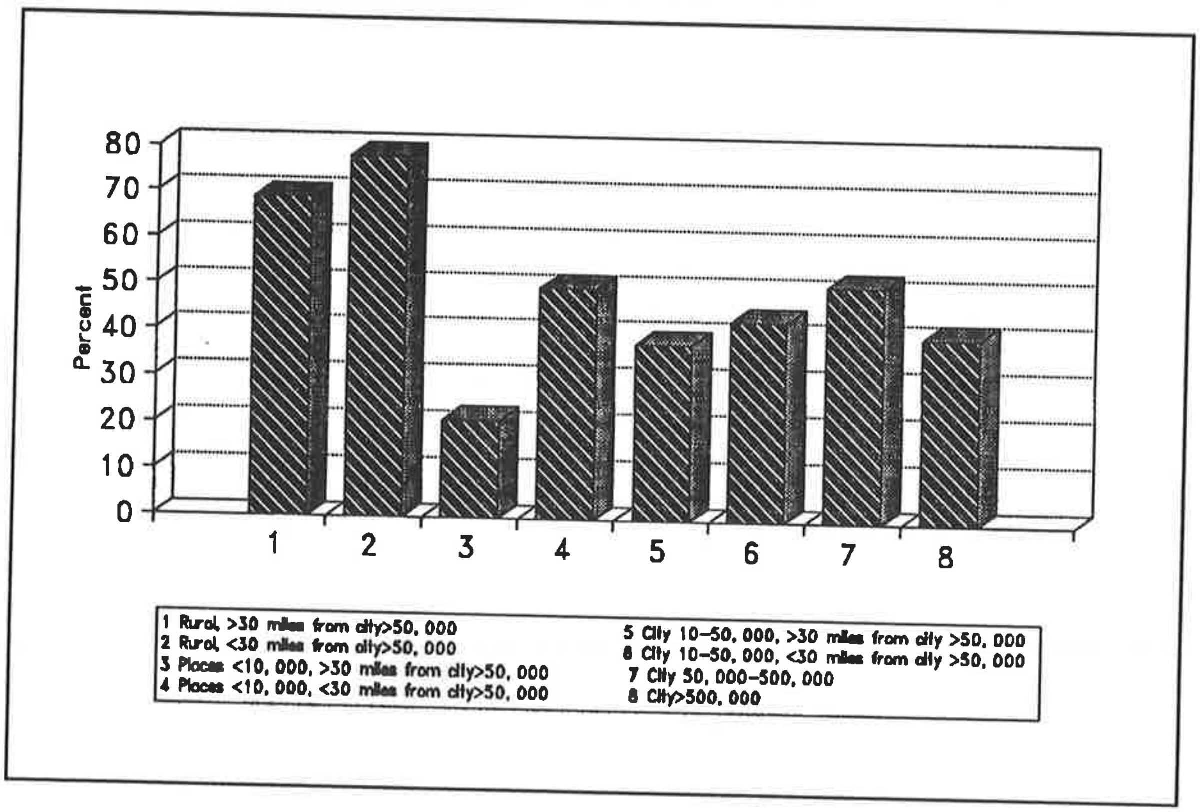
Some towns and villages have successfully adapted to the reshaping of the social landscape of the countryside while others have withered. USDA and university researchers have undertaken a substantial amount of research into the successful revitalization strategies. Villages with under 500 people at the beginning of the post-1945 agricultural transformation have been particularly subject to economic and demographic decline.

(e) Rural Residents Want to Stay and Rebuild Their Communities

An exceptionally high proportion of rural residents express a desire to remain in rural regions compared to the proportion of residents of various sized cities who wish to live in urban areas of the same size. Fugitt, Beale, and Brown (1989) recently replicated their classic study of residential preferences in the United States. Survey respondents were classified into the following groups: residents of cities with 500,000+ populations; 50,000 to 500,000 persons; and cities of 10,000 to 50,000, places under 10,000, and rural areas in two zones (within 30 miles and more than 30 miles from cities of 50,000+ population). Each person was queried as to which size community they preferred to live in, and their current residence was compared with their preferred residence.

Seventy-eight per cent of rural residents in areas within 30 miles of a metropolitan region, and 69 per cent of residents in more distant rural regions, expressed a desire to continue to live in the same type of community. This compares with 40 per cent of respondents currently living in 500,000+ cities and wishing to continue to live in a large city. (Figure 6)

Figure 6 Percent residents wishing to continue residence in same size of community United States, 1988



Furthermore, a significant fraction of urbanites expressed the desire to migrate to rural areas or small towns. One-quarter of the residents of both 500,000+ and 50,000–500,000 cities expressed a desire to move to rural areas or places with populations of less than 10,000.

The highest rate of dissatisfaction with the place of current residence was expressed by people living in small towns (less than 10,000 in population) located more than 30 miles from their original home: only 21 per cent wanted to continue to live in this kind of community. This rate was exactly the same as that observed for small-town residents in the original survey conducted in 1972.

Parallel results emerge from a 1989 Canadian survey (Decima, 1989). Not less than 89 per cent of farm residents would prefer to stay on a farm; 8 per cent would prefer to move to a small city or community; only 2 per cent expressed the desire to move to a suburb and none wanted to move to the center of a large city. In small cities and communities more than a 100 miles from a city with 50,000 or more people, 53 per cent wanted to stay in the same type of locale, 10 per cent wanted to move to a farm, and another 23 per cent expressed a desire to move to a small city or community which was less than 100 miles from a large city. In small cities and communities less than 100 miles from a city, 62 per cent wanted to stay in that kind of community, 11 per cent wanted to move to a community more than a 100 miles form a large city, and 9 per cent wanted to move to a farm. A significant proportion of both center city and suburban residents respectively expressed a desire to move to a smaller community or a farm: 38 per cent and 31 per cent respectively.

Given the expressed desire of a large proportion of citizens to remain in, or migrate to, rural areas, it is appropriate to investigate structural tendencies and policy options which could enable people to exercise their preferred options. Anecdotal evidence suggests that rural residents will often start small entrepreneurial ventures, often with substantial cuts in monetary income compared to what could be earned by migrating, rather than leaving their home communities.

Strong preferences of rural residents to stay in rural areas suggests that there may be a wellspring of energy and talent which can be mobilized in community revitalization initiatives. Revitalization or decline of towns or villages is not explained exclusively be structural factors such as changes in transportation routes, distance from urban employment markets, or patterns in farm consolidation and specialization. A great deal depends on local initiative.

Active rural development policies are an appropriate vehicle to empower citizens with the concrete means necessary to exercise their social and residential preferences. Perhaps the best example of a policy articulating this concept was the Schreyer government in Manitoba in the late 1970s that extensively promoted a "stay option" for rural communities.

SAFETY NETS AND RURAL POLICY IN TWO SYSTEMS

In both Canada and the United States the level of expenditure on explicit rural development programs is minuscule when compared to federal outlays on basic social programs. These programs provide a safety net for individuals and a stream of transfer payments into depressed rural regions. In both Canada and the United States the existence of these programs has been taken for granted but in both nations the rise of neo-conservative governments and the pressure of budget deficits has led to reductions in the scope of these support programs (Committee on Ways and Means, 1990; Doern *et al.* 1988).

It is common in Canadian political discourse to speak of Canada's deeper and more generous safety net. In fact, it is only a bit deeper. In 1985, Canada spent 13 per cent and the United States 11 per cent of their respective GNP's on sickness, old age, family allowances, social assistance, and unfunded unemployment benefits. (Brooks, 1989:241). This is at the low end of the spectrum for OECD countries.

The level of support provided to individuals through social services is a basic component in assessing the quality of life. Canada and the United States provide these services through a mix of private and public systems. We examine programs such as health care, federal support for education, unemployment insurance, minimum wage levels and social security payments as they relate to rural welfare and policy.

Our hypothesis is that although Canada and the United States spend similar proportions of their gross national products on welfare payments, the money is allocated differently, and this differential allocation has important implications for rural regions. It is the specific differences in the two nation's programs that count.

(a) Health Care

Access to quality health care is an important issue in both Canada and the United States. It is both an indicator of the quality of life and can be a factor in a community's desirability as a location for a business. In both Canada and the United States rural areas have less access to health care than do urban residents. This reflects two phenomena; one is the effect of a dispersed population and the other is lower population density. Rural residents typically have to travel further and because there are fewer of them in a given area they cannot support the same level of health care.

Major issues in rural health care involve determining an appropriate level of service to provide in rural areas, and ensuring that an adequate number of health care professionals are available in rural areas. Since rural occupations generally involve a higher risk of occupational injury, ready access to primary care facilities is important. However, there is a major trade-off between ease of access and unit cost of providing the service. In remote rural areas poor weather and long distances to health care severely increase the risk associated with accidents.

In both countries while there appears to be an adequate supply of medical professionals in aggregate, there are major difficulties in attracting these people to rural areas. Various inducements including subsidized practices, medical tuition reimbursement and importing foreign medical personnel have been used, but limited support, isolation and the lack of amenities in rural areas make attracting and retaining personnel difficult.

In the United States, access to health care is determined primarily by ability to pay. Individuals who either pay directly, or who have private health insurance, have access to relatively high quality health care. In wealthy rural areas the quality of health care is comparable to urban areas. However, low-income individuals in any area can face grave difficulty in receiving health care. Since a relatively high proportion of rural residents have low income and relatively few rural residents are covered by health insurance plans, access to health care is a major issue.

The U.S. government maintains a health care program for low income individuals — Medicaid — but in many cases the level of Medicaid payments is less than the cost of providing the service. Rural hospitals and doctors are particularly burdened since: Medicaid compensation rates are lower in rural areas than in urban for the same service, rural health care systems have a higher proportion of Medicaid patients than do most urban areas, and rural areas typically lack the revenue base to subsidize health care systems for their losses.

In Canada, the health care system prohibits discrimination on the basis of ability to pay. Provincial health care plans provide uniform levels of payment directly to the doctor or hospital. However, universal access to health care in Canada does not imply universal types of services on a geographic basis. For example, in rural areas there is no requirement that particular levels of service be provided. Given the centralized administration of health care in Canada, a rural community would be able to add additional medical services unless the provincial government approved the change.

(b) Education

In both Canada and the United States, education is primarily a local and state/provincial responsibility. The federal government provides significant amounts of support to higher education in both countries but relatively little to the primary and secondary school systems. Increasing amounts of federal funds are being used for job training purposes and remedial education for adults.

Rural areas have access to some of this funding in the U.S. through support for the Vocational Education school system. In addition the Job Training Partnership Act (JTPA) provides retraining and remediation support. However JTPA has failed to provide support to rural areas at a level that meets the proportionate need.

Costs of maintaining rural education systems are higher than in urban areas because of longer commutes, generally by publicly supplied school bus, lower population densities and difficulty in attracting teachers. Rural school district consolidation and closing of schools is a major problem in both Canada and the United States. In each case a balance must be struck between the costs of extended commuting times and distance for students, versus access to a wider variety of courses and lower per pupil outlays for education.

Canada and the United States both use local school boards as the basic administrative unit for education. In rural areas these typically follow county boundaries. Traditionally the school system has been financed by property taxes. As a result wealthy areas or areas that were willing to pay relatively higher property taxes provided higher-quality education.

Typically rural areas had lower incomes and placed less value on education than did urban areas. As a result students from many rural areas had lower educational attainment scores.

In Canada this problem was reduced in 1977 by the provision of equalization grants by provincial governments financed by general revenues. At the same time the provincial government exerted greater control over local school boards in terms of minimal standards. This process is not as far advanced in the United States. Property taxes remain the main means of educational finance. In many rural areas the school system is the largest employer in the county and is a source of political patronage jobs which tends to lower the quality of education even further. In 1989 both Kentucky and Texas were required to replace their existing means of financing school systems as a result of court rulings that the existing method denied equality of opportunity.

(c) Unemployment Insurance

Unemployment insurance has existed in both countries since the mid-1930s. It provides a source of income to qualified individuals who lose their jobs involuntarily. In both countries qualification requires working for a minimum period of time before being eligible and remaining active in the labor force.

In the United States the unemployment scheme is a joint federal state program financed by an employer payroll tax of 6.2 percent on the first $7,000 of employee compensation. States establish the level of benefits and qualifying standards and set state contribution levels which fund half the program. State contributions are at least as high as the $7,000.00 federal level. Unemployment insurance now covers most full-time workers although it was originally developed to address unemployment in the manufacturing sector.

Benefit amounts range from a low of $5.00 per week in some states, particularly the poorer and more rural, to a maximum of $382.00. Average benefits are under $150.00 and the average duration of benefits is about 16 weeks. Unemployment rates in rural areas have been in excess of urban rates through this decade.

Thus rural areas are more dependent on unemployment insurance. However rural residents are less likely to be eligible, because of a higher incidence of self-employment, agricultural employment and part-time employment. In addition states that are predominantly rural tend to have higher qualifying requirements and lower levels of payment than more urban states. This suggests that in the United States unemployment insurance provides a very minimal level of support to rural residents.

Unemployment insurance was introduced in Canada in 1940. Since 1970 it has applied to <u>all</u> wage and salary earners. The maximum insured earnings in 1985 were $460 per week and the maximum benefits payable were $276 per week. Depending on a person's type of employment, length of employment, and national and regional rates of unemployment, benefits could be extended for up to fifty-one weeks. Maximum benefits would be enough to bring a wage earner with one dependent above the poverty line. This was an erosion from the system as it functioned in 1974, when the maximum could support an unemployed person with two dependents just above the poverty line (Armitage, 1988:176).

The level of support will be further eroded if the current government's unemployment insurance programs reforms go through. Among other things, the proposal would increase the number of weeks necessary to qualify for insurance benefits. At present, 10 to 14 weeks qualify a worker for payments, depending upon the regional unemployment rate. This has been important for rural regions with high rates of unemployment. Already authority for the special provisions for seasonal and high unemployment area workers have expired. Since the beginning of 1990, uniform standards have been applied.

(d) Social Security

Social security payments for the elderly and disabled are an important source of income in rural areas. On average there are a higher proportion of elderly and disabled in rural areas than in either nation as a whole, and social security payments in rural areas make up a greater proportion of total personal income. Both Social Security and the Canada Pension Plan are entitlement programs providing benefits to all residents who have contributed to the scheme while working.

In the United States, benefits are based on earnings history, but at present both contributions and payments are capped at just under $50,000. Thus while any earnings in excess are not taxed nor do they add to future payments. In 1987 average monthly benefits for a retired man and wife were $873.00. The payment structure is such that lower-income workers receive a greater proportion of their earned income.

In addition, since only a portion of Social Security benefits are taxable, and given lower tax rates for lower income individuals, the ratio of disposable income from Social Security relative to employment income is higher for lower income individuals. Indexation of Social Security benefits helps to maintain purchasing power and to the extent that rural retirees have lower costs than the urban based adjustment factor their benefits will increase relatively more.

The Canadian public pension system is one of the weaker links in the social safety net. The system makes stronger assumptions than its U.S. counterpart concerning the ability of people in the labor force to supplement public old age pension payments with revenue from private pension funds and savings. Retired Canadians who have been in the work force most of their lives would, on the average, receive a lower proportion of pre-retirement income than would their American counterparts.

The maximum Canada pension plan payment in 1989 was $556.25 per month. In the absence of private pension fund payments or savings, guaranteed old age income supplements would bring a person just about to the poverty income cut-off level.

(e) Levels of Social Support

Canada and the United States spend a roughly comparable proportion of their gross national product on social safety net programs. On an average per capita basis, they provide a roughly comparable level of support. Averages, however, can be deceptive.

In rural areas, citizens below the retirement age are likely to be better off in Canada than the United States due to better access to health care, educational support, and unemployment insurance. The rural poor in Canada are also likely to be better off in Canada than their American counterparts.

Retired Americans, however, are more likely to receive a higher level of support if they had worked, since the combination of Medicare and Social Security provides a reasonable standard of living. Given the high proportion of older people in rural areas, this is significant. If they are poor and participated sporadically in the labor market, however, that is another story.

On balance, we think that the Canadian system is more favorable towards encouraging sustained growth in rural areas. People of working age are more likely to make decision to stay in rural areas in terms of their current welfare and that of their children as opposed to what will happen after retirement.

CONCLUSION

Rural areas are considered to be remote, but they have been more affected by global trends in recent years than most urban areas. At the same time, rural and small town citizens have, to a great degree, been institutionally disenfranchised in terms of policies and opportunities. Rural residents face a daunting set of challenges as they seek to adapt to a changing economic and political order.

Trends in the world economy make it unlikely that rural North America will be able to "muddle through." Rural North Americans have become the continent's biggest minority group. Like other groups, there is a need to organize so that rural interests will be considered across a broad range of policy issues.

Resource-based industries, overwhelmingly concentrated in rural areas, continue to have a disproportionate share of exports in both countries. This makes their importance to the North American economy greater than their share of GNP would suggest. The people who work in these industries are increasingly seen as having the same social citizenship rights as their urban counterparts. It is imperative that institutions be created which can aggregate the disparate voices of rural North American citizens so that their legitimate aspirations find effective representation in the political system.

Despite the problems rural communities face, the majority of rural and small-town residents, as well as a sizeable number of city dwellers, express the desire to stay in, or move to, these communities. North American society should have the institutional ingenuity to create institutions and rural living conditions which will enable people to exercise this option.

In the face of these problems, rural areas can expect limited assistance from their national governments. In both Canada and the United States the federal governments are withdrawing from economic and social development programs. This withdrawal reflects two phenomena. The first is a philosophical belief that such programs, if they are to be provided, are more appropriately provided by provincial/state governments. The second is a response to budget deficits that place programs with weak political support at greater risk than those with a powerful clientele.

Consequently rural areas should expect only limited support, primarily through existing programs in dealing with the future. Without a change in federal regimes, rural communities will have to rely mainly on their own resources to cope with the structural and institutional challenges of the coming decade.

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GOVERNMENT PROGRAMMING TO AMELIORATE NEGATIVE CONSEQUENCES IN RURAL AREAS OF LIBERALIZED TRADE: LESSONS FROM CANADIAN EXPERIENCE[a]

J. Martin

SUMMARY

The social and economic well-being of Canada's rural residents is being buffeted by many forces and events. This paper addresses one of these: the 1987 Canada-United States free trade agreement (hereinafter referred to as the CUSTA) — a not insignificant event given that each country is the other's largest trading partner and the two-way flow of trade is over $200 billion.

The CUSTA is expected to have a positive effect on the Canadian economy — higher real incomes, lower production costs, and a significant increase in real output in the manufacturing sector. Manufacturing, however, is located largely in urban areas. The primary industries located in rural areas (energy, fishing, forestry, mining) are not expected to benefit as much since there are now low tariffs and relatively few non-tariff barriers to trade. Agriculture is an exception since few non-tariff barriers to trade were greatly altered as a result of the CUSTA, and horticultural products, one area subject to significant tariff barriers, is expected to suffer generally although there are a few bright spots. This leads to the tentative conclusion that the CUSTA will have positive benefits for rural Canada, but that these areas may become marginally further disadvantaged relative to urban Canada. As with all such initiatives, adjustments will be required by individuals and particular individual industries and firms.

Canada has a long tradition of providing programs targeted on reducing inter-regional disparities and helping individuals/firms facing adjustment. This experience has allowed observers to draw some general conclusions including:

- *equal access to public services is an important aspect of stabilizing regional economies and helping them to develop;*
- *development/adjustment programs should be proactive, community based where possible, and focused on human resources;*
- *development assistance should achieve self-sustaining businesses, integrated into the national and global economies.*

It is not clear, however, to what extent these results can be generalized to other industrialized countries. Future work also needs to centre on the link between centralized policy-making and decentralized decision-making processes, and whether the political systems of liberal democracies can generate reactions to severe community crises that would help them to become more self-sustaining.

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[a] This paper is based on a fuller presentation to the Arkleton Trust Seminar, entitled "Trade Liberalization and its Impact on Rural Canada", by J. Martin and D. MacRae. The opinions expressed here are solely those of the author and do not necessarily reflect the views of the Government of Canada.

THE CANADA-UNITED STATES FREE TRADE AGREEMENT

Introduction: Elements of the CUSTA

Prior to discussing CUSTA's impact on rural Canada, it is necessary to briefly review the Agreement's main elements.[1] Over a ten-year period all tariffs between Canada and the United States will be eliminated and non-tariff barriers to trade in goods and services reduced. Restrictions on investment flows between Canada and the United States will be relaxed and dispute-settlement mechanisms should make for a more stable investment climate for those export industries which have faced the disruption of U.S. trade actions in recent years. In more detail:

– Tariffs: to be eliminated following a ten-year schedule based on the type of good. Goods must be produced entirely or largely in the two countries.

– Quantitative Restrictions: GATT restrictions on their use extended.

– Technical Standards: committed to make these more compatible.

– Agriculture: current non-tariff barriers left in place. Some changes will benefit marginally the other country (e.g. less stringent future U.S. sugar quotas for Canadian products or relaxed Canadian restrictions regarding when wheat imports are permitted).

– Wine and Distilled Spirits: schedule set for providing national treatment in listing, distribution, and pricing practices, with certain exceptions.

– Energy: most restrictions on exports and imports eliminated. In case of short supply, the exporting country will allow for access up to the historical proportion for energy commodities and will not impose higher prices for export.

– Automotive Trade: the Auto Pact and its safeguards for current automobile manufacturers are retained. Minor changes to the Rules of origin, to rules regarding used vehicle trade, and elimination of duty waivers and remissions.

– Emergency Measures: more stringent standards in the application of safeguards (quotas or restrictions) to bilateral trade.

– Government Procurement: increased access of suppliers to purchase contracts let by the other federal government.

– Trade in Services: disciplines covering many service sectors (tourism, architects, computers, and enhanced telecommunications), incorporated the principles of national treatment, rights of commercial presence and of establishment.

– Financial Services: access to each other's markets preserved and new areas of competition in securities underwriting and banking opened.

— Cultural Industries: explicitly exempted.

— Temporary Entry for Business Purposes: made easier.

— Investment: national treatment provided in relation to each other's investors (no export, local content, local sourcing or import substitutability requirements). Existing laws, regulations and published policies "grandfathered".

— Dispute Settlement: a binding binational dispute settlement mechanism created to guarantee the fair application of respective antidumping and countervail laws.

— Institutional Provisions: establishes the Canada-United States Trade Commission to supervise CUSTA's implementation and resolve disputes.

A preliminary evaluation of CUSTA'S impact on rural Canada

While a major event in Canadian history, evaluating CUSTA is far from being trivial. Not only are data not yet available, it is difficult to unravel the impact of the CUSTA from other factors such as fiscal and monetary policy, shifts in consumer preferences, exogenous technological change, trade liberalization within the multilateral context, increased global competition independent of liberalized trade and currency fluctuations (e.g. between December, 1988 and December, 1989 the Canadian dollar appreciated by about three percent—more than enough to offset many of the CUSTA tariff reductions). Indeed, to date the government has only been able to get a start on the evaluation of the CUSTA (Informetrica Limited recently developed an evaluation framework[2]). This paper, therefore, must be considered highly preliminary.

In the early part of 1988, a number of federal government departments undertook a preliminary assessment of the CUSTA for their respective economic sectors and the Department of Finance undertook to forecast the eventual overall macro-economic effects. This section briefly summarizes the more relevant findings.

(a) Overall economic impact[3]

An overall macro-economic assessment was performed, based on the phase-out of tariff measures (the other CUSTA provisions being too hard to capture in the econometric models). As of 1987, Canadian tariffs collected on imports from the United States represented 4.5 per cent of the value of those imports. When non-tariff barriers in the form of quantitative restrictions and preferential purchasing of non-defence goods are taken into account, an average 6.1 per cent price protection was provided for Canadian industry (that is to say, it was estimated that prices of imported goods and services would have been able to be that much lower as a result of the trade barriers in place between Canada and the United States in 1987). American protection was estimated to be somewhat lower: 2.8 per cent for tariffs and 4.7 per cent for all forms of protection. However, these average levels of protection conceal a wide variation across industry groups, ranging from a low of zero to a high of 22.7 percent.

The direct impact of the CUSTA on specific industries will in the main be via the alteration in the array of selling prices they face in the domestic and U.S. markets and the consequent rationalization and restructuring of production to achieve economies of scale and to compete in the wider market created by the elimination of tariffs. Since the alteration of selling prices arises from tariff reductions and since these reductions are most significant in the manufacturing industries, the potential for realizing economies of scale through rationalization will be greatest there. The largest first-order free trade impacts could be expected to arise in manufacturing. At the same time, as tariffs on imports from the United States are lowered to zero, the prices of a wide range of consumer goods, both imported and import-competing, can be expected to fall. This macro-economic impact will be to the benefit of Canadians in both urban and rural areas. The Department of Finance estimated that the direct and induced effects of reductions in tariff and non-tariff barriers will produce a reduction in overall consumer prices by about 1 percent by 1993. Table II.1 shows an overall positive impact for the Canadian economy forecast by Finance Canada.

Table 1
Long-run economic impacts of the free trade agreement[4]

	Per cent Change
Real Income	2.5
Scale-related cost reduction in manufacturing	2.1
Sectoral changes in real output:	
—primary	2.1
—manufacturing	10.6
—service	0.9
Total	3.5

(b) Sectoral impacts/rural implications

In addition to this relatively aggregate analysis, departments prepared reports on their respective sectors[5] and these studies are canvassed below with a view to providing some insight into the eventual impacts of the CUSTA on rural Canada.

– Agriculture: the agricultural sector is essentially 100 percent rural, at least as regards primary production. The impact of CUSTA varies by agricultural sector:

– Grains and oilseeds: minimal impact except possibly on oilseed production resulting from decreased American tariffs on the oil. Marginally lower prices for domestically used food grains.

– Livestock and red meats: reduced tariffs and technical barriers may increase the shipment of live animals perhaps to the detriment of Canadian packing houses. There may, however, be a longer-run expansion of exports of high-quality meat cuts to the U.S. provided packers change their production practices.

– Feather products: under supply management, will be marginally affected. Minor adjustments in domestic pricing and production policies may be required to accommodate the further processing industry.

– Dairy products: due to supply management and inclusion in the Import Control List, dairy products will not be significantly impacted.

– Horticultural products: CUSTA phases out tariffs over a 10-year period with the proviso that both countries retain the right for 20 years to re-impose temporarily the MFN tariff if import prices fall below a threshold level and other conditions apply. The effects on this subsector will be generally negative, but with certain new trade opportunities arising.

– Energy: The energy sector is one which has a significant rural locale, but it will not be drastically affected by the CUSTA. The oil and gas components had already been substantially deregulated in the years immediately prior to the CUSTA and liberalization of the regulatory scheme for electricity in international trade was already under review. Since there is presently a situation of free trade for much of the energy sector, the CUSTA does not imply anything like the degree of restructuring which significant tariff reductions might produce in the manufacturing sector. In the case of electricity, the CUSTA-agreed removal of "least-cost-alternative" pricing for electricity exports may lead to greater exports and more competitive pricing.

– Fisheries: In the case of the fisheries, the CUSTA should stimulate exports of substantially-processed fish products which have been subject to significant U.S. tariffs. In contrast, semi-processed fish products have been subject to low or non-existent tariffs in the United States and will be little-impacted by the CUSTA. To the extent that current fisheries supply concerns are alleviated, fishermen as well as processors should benefit from increased processed export opportunities. This could help stimulate job creation in the Atlantic provinces, an area which is economically depressed.

– Forestry: Much of the Forest Products sector is located in rural Canada but since over 85 percent of our exports from this sector enter the United States free of duty, the tariff-reduction aspect of the CUSTA will be secondary to the improved security of access associated with the dispute-settlement mechanism and safeguard measures under the CUSTA. The consequent improvement in the investment climate may help promote the continued growth and competitiveness of pulp, lumber and newsprint production. Adjustment problems may arise among producers of converted products such as sanitary tissue, container board and fine papers and kitchen cabinets where tariffs have encouraged the proliferation of small-scale enterprises serving the Canadian market. However, these firms tend to be located close to the urban markets they serve so that rationalization of this segment of the industry will not primarily impact rural areas of the country.

– Mining: The primary mining sector is non-urban, but will not be greatly affected by the CUSTA since U.S. tariffs on unprocessed mineral products have been small or non-existent. However, in the case of further-processed metal and mineral products, the phase-out of U.S. tariffs should stimulate the industry in Canada which, prior to the CUSTA, was stifled by tariffs equal to a substantial percentage of the processing value added. The further processing of minerals and metals is located in both urban and rural areas. Regions with readily-available low-cost energy will be in the best position to participate in the gains expected in aluminum, certain ferro-alloys, magnesium and zinc.

In the case of uranium, the CUSTA prevents the United States from reimposing requirements that Canadian uranium be processed in the United States. This removes a major threat to the continued export of Canadian concentrate worth about $350 million per year. Canada, for its part, agreed to eliminate the further processing requirement and this may partly offset the increase in exports of concentrate in terms of export revenues.

– Manufacturing: The Department of Industry, Science and Technology has prepared a number of assessments of individual industry groups, which provide some insights into the possible impact of the CUSTA. We will not attempt to summarize these here, although some have been covered in the above review of other sectors. Suffice it to say that the location of production facilities is essentially urban; manufacturing, however, is the sector expected to gain the most from the CUSTA. A major issue, therefore, is whether rural Canada can benefit proportionately from this increased activity. While there are many attractions to rural Canada from the perspective of the investor (less expensive infrastructure, an often readily available and reliable labour force), it is far from assured that they would be willing to expand operations in these areas.

To conclude, those sectors most important to rural Canada appear to be positively affected by the CUSTA on a net basis, although there clearly are areas negatively affected and where adjustments will be required (e.g. horticultural producers in Ontario of certain forest product manufacturers in Eastern Canada).

Given the major positive benefits foreseen for manufacturing, and given its urban base, it was not clear whether there would be significant gains for rural Canada in this domain, other than through the reduction in prices for goods and services. One might *speculate* therefore that, while rural Canada would benefit from the CUSTA, it would not fare as well as urban Canada as a result of the CUSTA *if success were to be measured primarily in terms of employment creation*.

FEDERAL PROGRAMS PROMOTING REGIONAL DEVELOPMENT

Canada has long had to contend with a very difficult geography. Regional differences and disparities and the means for coping with them have in many ways come to define the country. With an event as important to the Canadian social and economic fabric as the CUSTA, governments have sought how to restructure programming to mitigate negative consequences that may arise. This process is not yet complete. Nevertheless, it is useful to review the past experiences with programming as a guide to designing programs for the future in Canada and elsewhere. First, however, an appreciation of the constitutional context is critical.

A constitutional perspective

The Canadian confederation was established in 1867. The ten provinces and two territories differ markedly in terms of language, ethnic origins, degree of urbanization, resource endowments and the basic structure of the local economy. Provinces have, as a result of these and other historical factors, very different approaches to governance, the provision of basic social services, and attitudes towards the central government authority and the Canadian state. This is not the place for a prolonged discourse on Canadian history, so it will suffice to say that the many different Canadian publics, the Canadian constitution and jurisprudence, and hence Canadian politics have focused on inter-governmental and inter-regional issues to an extraordinary extent.[6]

As a confederation, each order of government is sovereign within certain, arguably vague, areas of competence as provided for in section VI of the Constitution Act, 1867[7]. Thus:

– The central authority is responsible for external affairs, inter-provincial commerce, certain key country-wide industries (such as banking, postal services, navigation), and certain "framework" areas (such as intellectual property, naturalization, criminal law, the military).

– Provinces are responsible for all matters of a *merely local* or private nature *in a* province including natural resources, property and civil rights, administration of justice, intra-provincial commerce, and local governments.

– The two orders of government share jurisdiction over agriculture and immigration (with the federal government having primacy).

In 1982, when the constitution was patriated, certain constitutional amendments were made to ensure provincial control over non-renewable resources and to constitutionally guarantee certain fundamental rights and freedoms. Another amendment of particular interest is the requirement for the federal government to address regional disparities. This section is worth quoting in its entirety:

> 36.1 Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to:
>
> (a) promoting equal opportunities for the well-being of Canadians;
> (b) furthering economic development to reduce disparity in opportunities; and
> (c) providing essential public services of reasonable quality to all Canadians.

> 36.2 Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

This new article reflected the basic facts of Canadian political life and of the Canadian institutional framework, as it had evolved over the then 115-year life of the country. It is also important to note that the new Charter of Rights and Freedoms[8] further strengthened the federal government's official policy of bilingualism and multi-culturalism, to preserve and enhance the heritage of Canadians of whatever origin.

The importance of the Constitution cannot be underestimated. The decentralization of government authority, the "equalization" requirement, and the legal and moral support for linguistic and ethnic groups reflect the basic nature of the country – communities count and government policy and programs are expected to aid specific communities or to aid individuals to remain within their communities.

Currently, the country is caught in a constitutional impass following the demise of the Meech Lake Accord, an inter-governmental agreement that would have seen further decentralization of federal power to the provinces[9]. Despite an all-government agreement, over three years ago, to pursue this initiative, subsequent changes of government in three provinces led to a breakdown in the consensus. While constitutional reform appears stalled for the moment, provinces can be expected to push in future negotiations for more radical decentralization than envisioned in the Meech Lake Accord.

Federal regional and rural development programming

It is now possible to situate federal government efforts to reduce regional disparities and the impact of external forces on disadvantaged regions. In 1988–89 the federal government spent approximately $1.2 billion on programs explicitly intended to tackle regional economic development. This expenditure reflects a tradition established in the earliest days of the country, whereby the federal government has always participated actively in the promotion of Canadian social and economic development.

Following the second world war, the government of Canada adopted a particular framework for Canadian social and economic development, more oriented towards the well-being of individual Canadians[10]. Prosperity was to be found through fiscal and monetary policies "to maintain high and stable levels of employment and income", a system of supplementary measures to stabilize family income, and social insurance against the contingencies of life (unemployment, sickness, old age). Employment, the keystone to any social security system, would be enhanced through access to stable and freer world markets (Canada almost negotiated a free trade deal with the United States at that time, and foreign affairs more generally became a very serious government concern). By the late 1950s, there was a growing recognition that this strategy had not been successful in eliminating regional disparities. Furthermore, as most social programming fell within provincial jurisdiction, the inter-governmental, and hence regional, dimension took on new importance[11].

In 1960, the federal government announced the first of many programs specifically designed to combat regional underdevelopment: a set of tax write-offs for firms locating in designated high unemployment/slow growth areas. This was followed by implementation of the Agricultural Rehabilitation and Development Act (ARDA), a federal-provincial program targeted on augmenting small farmers' productivity through new marginal land uses, creating alternative job opportunities, and enhancing the effectiveness of water and soil resources. Other resource industries were also eligible, notably the fisheries.

In 1966, this program was expanded to other rural areas and its name was changed to the Agricultural and Rural Development Act. At the same time, the Fund for Rural Economic Development (FRED) was created, providing assistance for five designated regions to develop infrastructure and industry. For example, essential research, technicians, and staff could be provided, as could interest-free forgivable loans for capital investment. Each program was to be part of a comprehensive development plan.

A similar program, the Atlantic Development Board, was set up in 1963, with funds for improving the basic economic infrastructure. That year also saw the passing of the Area Development Incentives Act, which provided accelerated capital cost allowances, a multiple year tax exemption, and higher capital cost allowances for firms locating or expanding in certain designated high unemployment regions. A cash grant feature was added to the program in 1965.

The late 1960s saw a greater emphasis in national politics on building national unity and putting in place a more comprehensive framework of social programs. Despite a strong national economy, regional disparities continued to exist and challenge the federal government. In 1968, the federal government created the Department of Regional Economic Expansion (DREE) to oversee the burgeoning number of programs and development processes that it had launched. This department developed a new mechanism of cost-shared programs, the General Development Agreements (GDAs), through which the federal and provincial governments were to coordinate their respective programs and policies to achieve an agreed-upon set of development objectives. This became the dominant federal regional development tool and evolved in the early 1980s into the system of Economic and Regional Development Agreements (ERDAs) that persisted until 1988 (some agreements are still in effect). The primary difference between GDAs and ERDAs was that the former were negotiated and delivered through DREE, while the latter were based on sectoral sub-agreements negotiated between federal departments and their respective provincial sectoral counterparts. Component programs were normally direct expenditures and incorporated into departmental budgets at both levels of government. Overall management of the programs were largely bureaucratic, although advisory committees were established.

Currently, the federal government has largely abandoned the use of ERDAs as a regional development tool, favouring the creation two new federal agencies: the Office of Western Economic Diversification and the Atlantic Canada Opportunities Agency. These agencies, headquartered in the regions have a considerable degree of autonomy to use their allocated funds for supporting projects which "make sense". It appears that these agencies are highly pragmatic, with a focus on "industrial" as opposed to "community" development. Given the youth of these agencies and no "rigidly-defined" overall federal approach to regional development, one can perhaps best characterize the current situation as an uncertain transition to a new form of programming.

It should be noted that this description has not addressed the labyrinth of federal programs targeted on natives and the northern territories; the problems inherent to these areas are immense and cannot be treated merely as an extension of general development issues. Needless to say, any comprehensive treatment of rural and regional development would have to come to grips with the condition of aboriginal peoples and relevant programs and policies of the federal and provincial governments.

In his evaluation of Canadian Regional Development programming, published in 1986[12], Donald Savoie identified several of the major criticisms of the programs implemented up to that date, including:

— it is not possible to duplicate the southern Ontario to Quebec City highly mature urban-rural structure throughout the country. Secondary manufacturing will simply not locate in the hinterland, the economic forces being too powerful to overcome;

— despite decades of explicit regional development programming, it is difficult to discern any significant decrease in regional disparities as measured by relative employment or unemployment rates;

— many conclude, therefore, that regional development programs are neither necessary nor desirable since they seem to inhibit national economic development by hindering the movement of resources to high growth areas (as Savoie notes, this criticism is not widely supported in Canada, and given the nature of the country, would lead to unmanageable regional tensions);

— the federal government has lacked "visibility" in regional development programming as a result of the use of comprehensive development agreements; this apparently purely political concern is legitimate in a federal state with inter-regional tensions;

— generally, Canadian programming has not been based on a comprehensive approach to regional development. This may reflect the less-than-satisfactory outcome when growth-poles, mega-projects, or similar development ideas have been embraced as the central organizing concept underlying Canadian programs and policy at various times; and

— the variety of projects able to be sponsored has been so wide that governments have fallen prey to the temptation to use funds to bail out unproductive industries or to sponsor ill-conceived development. Despite government statements about the need to be comprehensive and base programs on regional comparative advantage, it is difficult to identify any pattern to governments' resource allocations.

While Savoie did not draw definitive conclusions about the effectiveness of Canadian programs, he did put forward some suggestions which have influenced those concerned with regional economic development. Some of the most relevant to us are:

– in a modern mixed economy where regional differences are minimal in terms of access to education, police, fire protection, and, inter alia, health services, where everyone has access to at least a basic level of income protection against economic and other contingencies, and where regional differences in basic household necessities could be considered minimal, *regional development programming must be based on much more that simple differences in earned income or unemployment rates*;

– *use a "clinical" approach to development*; it is not possible to develop solutions to apply in all cases throughout the country. Above all, set clear and realistic specific objectives to suit the local situation;

– the two general objectives should be *long-term self-sustaining economic activity* and the ability to *integrate* into the national economy;

– *regional industrial incentives (probably cash grants) should remain the backbone* of explicitly regional economic development programming, which should be pro-active, not just responsive to random private sector proposals. Programming should also give greater attention to local strengths such as entrepreneurial talent; and

– where possible, *community-based development projects* should be used in lieu of capital-intensive or large industry subsidies; they are cheaper and arguably more effective. Build upon lots of small successes rather than risking all the funds in fewer projects.

Savoie, it will be noted, emphasized the importance of integrating local economies with the national economy, which he recognized, was coming to mean the global economy. He also stressed the importance, therefore, of having national economic objectives as a basis for regional programs.

In more recent studies[13,14] both the Ontario Premier's Council and the Economic Council of Canada, have suggested that programs focused on national economic development should avoid distorting fundamental economic forces, and should be based on framework policies to the extent possible, particularly labour adjustment. Both strongly argued that policies trying to prevent adjustment are positively destructive and lead only to dependent industries and dependent communities.

Before drawing conclusions, it is important to look at the third leg of Canadian development programming, the equal provision of public goods and services.

Basic equality of access to health, education, welfare and other government services

As Donald Savoie noted, because of Canadian government cost-shared programs in health, education, and welfare and the equalization payments of the federal government to provincial governments, regional disparities in real living standards have decreased dramatically over the past forty years. He argued that in light of this change, regional programming based on a narrow perception of differences in earned income and unemployment would be ill-conceived. In this sub-section, we will briefly outline the Canadian framework of policies and programs that has led to this situation. Indeed, given the billions of dollars flowing annually through the basic social programs of unemployment insurance, old-age security, hospital and medical insurance, education, and welfare, it can be argued that they are much more important to stabilizing and developing Canada's many regional economies than the programs explicitly targeted on economic development.

We described above the new constitutional requirement to provide equalization payments. This institutionalized the practice of the previous twenty-five years whereby the federal government undertook to ensure that every province had revenues from all sources sufficient to provide at least the average level public services without undue taxation burden.

The current equalization formula assures provincial revenues based on typical provincial taxes applied to over thirty different provincial revenue sources. For each source, a potential revenue base is calculated for each province and a population weighted average provincial rate of taxation is calculated. These averages are then applied to the potential revenue base in each province to determine the potential tax take at average rates of taxation. If for any given province this "potential" take is less on a per capita basis than an average based on five provinces, excluding the richest and the four poorest, the federal government transfers the difference to that province. Normally six to eight provinces are eligible for equalization payments in any given year. There is a wide range in the ability of provinces to generate sufficient revenues in their own right; per capita yield of provincial tax bases at average national rates ranged in 1988–89 from $2495 per capita for Newfoundland to a high of $5544 for Alberta[15].

Evidently, the relative importance of the equalization payments, will vary tremendously by province. Per capita equalization payments ranged from $1544 in Newfoundland to $390 in Saskatchewan, among the seven provinces receiving payments (which totalled $7.2 billion in 1988–89). Equalization payments represented between 30.2% and 8.2% of the revenues of these provinces[16]. Evidently, it would not possible for provincial governments to provide reasonably similar levels of services at reasonable levels of taxation without a mechanism such as this.

Some have argued that provided the federal government equalizes revenues there is no need for further federal expenditures within provincial areas of jurisdiction. In addition to equalization payments, however, the federal government does involve itself in basic health, education, and welfare programs. Since the 1930s, in one form or another, the federal government has entered into cost-sharing agreements with the provinces, whereby the federal government will pay for (usually) half the costs of provincially administered programs in provincial jurisdiction, provided that the provinces agree to meet certain minimal national standards (example: universal access to hospital and medical insurance). After the Second World War, the format of these programs changed significantly and frequently (sometimes 50–50 cost-sharing, sometimes per capita transfers with or without conditions imposed on provinces as to the level of service provided, sometimes guaranteed tax points, and sometimes all of these at once). These programs are of obvious importance to all provincial governments, totalling $23.7 billion in transfers in 1988–89. Payments ranged between $879 per capita (Newfoundland) and $963 (Quebec), representing between 17.2% of provincial revenues (Newfoundland) to 20.7% (British Columbia)[17].

This massive transfer of funds among governments for programs within the constitutional competence of only one order of government has led some to argue that a more efficient mechanism (at least in theory) would be to directly equalize individuals' personal income. This might be an adequate solution in some countries but, upon closer scrutiny, this is not the case in Canada given its constitutional and political framework.

As well, the federal government provides significant direct transfers to individuals through universal family allowance payments, income-tested child tax credits, universal old-age security benefits, and a guaranteed annual income for the elderly (the guarantee level is approximately equal to the "poverty line" for middle-large Canadian urban areas). In addition, there are the federal unemployment insurance benefits. The latter, in particular, are an important regional development mechanism because benefits are related to regional unemployment rates.

Unemployment Insurance benefits are equal to 60% of a worker's average wage (up to a maximum about equal to the average industrial wage) calculated over his or her contributory period during the previous year. The minimum contributory period required to collect benefits is a function of the regional unemployment rate and the individual's previous history of collecting benefits. The duration of benefit payouts is based on the length of the individual's contributory period during the previous year and the regional unemployment rate. Based on the premise that people should not be forced to move to find employment, given the costs entailed to both communities and individuals, the program has operated to maintain the regional labour force and the local economy during hard times. The program is financed by a mix of a payroll tax on employers, contributions from employees, and government contributions; the payroll tax and contributions are not experience rated. In 1987, there were 12.5 million contributors to the program, of whom 3.1 million, or about 25 per cent received benefits at some time during the year (for comparison, the average national unemployment level was about 1.2 million). This overall statistic covers up the problems of long duration unemployment and short term employment. Without going into the details in this paper, suffice it to say that these problems are more prevalent in certain slow growth regions and among certain population segments.

As would be expected, the Unemployment Insurance program has tended to reduce labour mobility, artificially augment the unemployment rate somewhat, and increase the overall employment rate somewhat (the program acts as a wage subsidy for seasonal industries and those located in high unemployment areas)[18]. The overall national (or regional) economic impact of the program has arguably been either positive or negative in recent years, changing in response to the overall economic situation and local development opportunities or the lack thereof. Because of the uncertainty as to the magnitude of these effects, and an apparent built-in bias against economic adjustment, the federal government has reduced in recent years the employment disincentives built into the program and further changes are currently in the process of Parliamentary approval.

In addition, the federal and provincial governments introduced in 1966 an earnings-related public pension scheme, financed through a payroll tax. Because this system is still relatively immature, benefits have only recently started to play an important role as a source of income for elderly Canadians.

The $42.3 billion of direct social transfers under national programs[19] to individuals play an important role in all regions of the country, but especially in those areas suffering from high unemployment. Such expenditures range from a high of 18.2% of Gross Provincial Product in Newfoundland (and are the equivalent of 49.0 % of provincial revenues) to a low of 5.0% in the case of Alberta (equal to 25.7% of provincial revenues).

Arguably, in the area of regional economic development and stabilization, the $73 billion transferred to individuals or provinces under national social and equalization programs have played a much more significant role than the $1.2 billion being spent on programs explicitly designed to promote regional economic development. This is certainly the consensus among Canadian observers, and reflects the basic social, political, and constitutional structures. It is an important observation in designing programs to cope with the adjustments arising from trade liberalization. It may be particularly relevant for Europe as it attempts to come to grips with regional and rural development and disparity questions in the Community following further market integration in 1992.

Finally, it is worth noting that in this section we did not review the many industrial policies and programs in place in Canada for those sectors of greatest importance to rural areas. While not explicitly "regional or rural," these have often been put in place with a view towards ameliorating the regional and community impacts of changing economic conditions. The importance to rural areas and particular provinces of the federal government's programs to promote stability would appear even greater than the data discussed, if those targeted on agriculture, fishing, and mining were added.

CONCLUSION: POLICY CONCERNS

While the CUSTA appears unlikely to have an overall negative effect on rural Canada, nevertheless adjustment on the part of many individuals and individual firms will be required. With respect to the types of programs that could be used to mitigate and negative consequences on rural Canada, there is considerable previous experience with regional development programming, although much of it has not been targeted specifically for rural areas. In this paper, of course, only a rough overview of problems and the effectiveness of possible programming could be given. Nevertheless, some useful generalizations can be drawn, namely:

(1) Equal access to public services is an important aspect of development. Arguably this has been achieved across regions in Canada, although this may not be the case within regions (urban/rural differences). Within Canada, indeed, programs to achieve this goal were largely responsible for the decrease in differences in real living standards across the country.

(2) Development/adjustment programs should be pro-active, community-based where possible, and focused on human resources (including entrepreneurship). While these programs may be designed to soften the impact on trade sensitive regions/industries, they essentially should promote economic adjustment.

(3) Development programs should attempt to achieve self-sustaining businesses and to integrate local economies into the national/global economy, and to that end they should focus on human resources and the "intellectual infrastructure", not just the regional physical infrastructure. Mechanisms to reduce risk, for example through strategic procurement and access to venture capital, are important ingredients.

In conclusion, the following three questions need to be addressed in future work on trade liberalization and its impact on the rural areas of industrialized countries:

(1) The Canadian experience shows that the issues of rural development programming cannot be divorced either from the larger questions of broad social justice or from the intrinsic nature of the country as manifested in its political structures. Broad social and economic measures appear to be more important to rural development than programs explicitly in this domain.

To what extent can we generalize about the effectiveness of policies, programs, and processes of any one country as these would be applied in *another*?

(2) Besides trade liberalization, rural communities face many new global forces that could change them beyond recognition. The brief overview of the implications of the CUSTA for rural Canada stressed the difficulty of sorting through a myriad of simultaneously acting forces. Rural and regional development planning, therefore, must come to grips with the highly uncertain nature of development. There may always be more failures than successes.

The high degree of uncertainty suggests the importance of decentralizing decision-making to ensure the full use of all relevant information; how best can governments reconcile the need for overall framework programs and policies with the need for a decentralized administrative *process*?

Or put differently, when studying what works and what does not in rural development, *decision processes* are as important as the *toolkit* of government programs available.

And finally, to nuance this issue of process somewhat,

(3) Canadian observers have generally concluded that development and adjustment programs should be designed to *accommodate not combat* the major global forces at play. They believe it is usually useless and expensive to try to evade their impact entirely.

Democratically-elected politicians correctly seek to represent the best interests of their local and regional constituencies, who often bear the brunt of adjustment costs. *Can processes* be found that will enable politicians to react to severe community crises in a proactive positive way, acceptable to the community concerned, that will not impede the community's adjustment to a more self-sustaining *basis*?

NOTES

1. See for example, P.Russell (ed.) *Nationalism in Canada*, McGraw-Hill Ryerson Limited, Toronto, 1966, or The Fraser Institute, *Canadian Confederation at the Crossroads; the Search for a Federal-Provincial Balance*, Vancouver, 1978, for discussion of various aspects of this highly complex problematique.

2. Informetrica Limited, *Assessing the FTA: Design of a Framework*, 1989.

3. Department of Finance, *The Canada-U.S. Free Trade Agreement: An Economic Assessment*, Ottawa, 1988.

4. Taken from Table IV, p. 31, *Ibid*.

5. These reports are available from External Affairs and International Trade Canada or directly from the individual departments concerned.

6. See for example, P.Russell (ed.) *Nationalism in Canada*, McGraw-Hill Ryerson Limited, Toronto, 1966, or The Fraser Institute, *Canadian Confederation at the Crossroads; the Search for a Federal-Provincial Balance*, Vancouver, 1978, for discussion of various aspects of this highly complex problematique.

7. The most recent amendment occurred in 1982 with the passage of the Canada Act 1982 by the British Parliament. These changes patriated the Canadian constitution and changed its name from the British North America Act to the current Constitution Act, 1867.

8. The Charter addresses certain fundamental rights (association, thought, peaceful assembly, religion, etc.), democratic rights, mobility rights, and legal rights. It also specifies certain government obligations in the areas of official languages and minority language education. In order to obtain provincial approval

for these changes, the federal government was obliged to introduce a clause allowing any legislature to override the specified fundamental and equality rights through specific legislation that would be in force for five years (subject to renewal). This "notwithstanding" clause has allowed provinces to introduce otherwise repugnant legislation.

9. The Meech Lake Accord would have seen a role for provincial governments in the choice of Supreme Court judges and Senators, allowed provinces to opt out of new cost-shared federal-provincial programs in provincial areas of jurisdiction in return for compensation, increased provincial control of immigration, introduced a new, more rigid formula for amending the constitution, and consolidated Quebec's authority to maintain its distinct society.

10. For a description of the evolution after the second world war of the Canadian institutional framework of social programmes see A.W.Johnson, "Social Policy in Canada: The past as it conditions the present", pp. 29–69 in S.B.Seward (ed.), *The Future of Social Welfare Systems in Canada and the United Kingdom*, The Institute for Research on Public Policy, Ottawa, 1987.

11. Much of the description in this section is based on the highly-regarded book by D.J.Savoie, *Regional Economic Development: Canada's Search for solutions*, University of Toronto Press, Toronto, 1986.

12. Chapters 10 and 11 in Savoie. op. cit.

13. Economic Council of Canada, *Managing Adjustment: Policies for Trade-Sensitive Industries*, Economic Council of Canada, Ottawa, 1988, and the companion report, *Adjustment Policies for Trade-Sensitive Industries*, Economic Council of Canada, Ottawa, 1988.

14. Premier's Council on Industrial Policy, *Competing in the New Global Economy*, Volumes I,II and III, Government of Ontario, Toronto, 1989.

15. Source: Department of Finance. For further discussion of this issue see P.Lewis, "The tangled Tale of taxes and transfers" in The Fraser Institute, op.cit.

16. Source: Department of Finance.

17. Source: Department of Finance.

18. N. Swan, P.MacRae, and C.Steinberg, *Income Maintenance Programs: Their Effects on Labour Supply and Aggregate Demand in the Maritimes*, The Economic Council of Canada, Ottawa, 1976. In addition, see *Labour Market Developments in the 1980s* and *Unemployment Insurance in the 1980s*, Employment and Immigration Commission, Ottawa, 1981.

19. This includes Quebec Pension Plan payouts which are the responsibility of the government of Quebec, but which are included here as part of a fully-integrated nation-wide scheme.

ECONOMIC CHANGE IN THE RURAL U.S.: A SEARCH FOR EXPLANATIONS

J. Norman Reid*

SUMMARY

During the 1980s, the rural economy in the United States performed poorly by comparison with the urban economy, suffering loss of jobs and population and achieving relatively poor income growth. While cyclical factors were an important cause of the economic downturn, structural changes affecting the competitive position of rural industries provide better explanations for the persistently poor performance of the rural economy throughout most of the decade. Natural resource industries — farming, mining, and timbering — have steadily declined in their ability to employ the rural work force. At the same time, the decentralization of urban-based manufacturing, which absorbed excess rural labor in the 1960s and 1970s, has slowed. Further, rural areas have failed to attract the more lucrative high-technology activities and continue to specialize in low-wage routine manufacturing operations.

Remoteness from urban centers of economic activity characterizes many parts of the rural U.S. Remote rural areas performed more poorly in the 1980s than did rural places adjacent to urban agglomerations.

It is unclear whether the deregulation that occurred in transportation, communications, and banking during the 1980s hurt the rural economy by eliminating implicit urban-to-rural subsidies. However, deregulation exposed most industries to freer competition, further subjecting the rural economy to the pressures of the marketplace. The result has probably been to emphasize the natural competitive disadvantages of rural location.

Foreign competition, especially in manufactured goods, rose during the 1980s, reflecting the diminished ability of rural manufacturers to compete in world markets on the basis of low land and labor costs. As a consequence, stiff job losses occurred in heavily import-penetrated industries.

The shift in labor demand toward more highly-educated workers has been concentrated almost entirely in metropolitan areas, leading to a widened urban-rural income differential and outmigration of the best-educated rural youth.

Population losses occurred in wide areas of the rural U.S. during the 1980s, but were concentrated in the most remote, natural resource-dependent areas. These areas find it increasingly difficult to sustain community life in their smaller towns. Government programs can do little to reverse this trend, and attention is now focused on providing information and technical assistance to help ease the transitions these communities are experiencing.

At the same time, areas suitable for leisure and retirement — seashores, mountains, lakes, and warm climates — have experienced population growth. In these areas, the traditional function of natural resources has been transformed from serving as sources of production to amenities. New population growth challenges traditional ways of living and earning a livelihood while raising concerns about the quality and attractiveness of the rural environment and how to ensure a fair distribution of the costs and benefits of growth among new and existing residents.

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INTRODUCTION

For most of the just-completed decade of the 1980's, the economies of rural areas in the United States performed poorly. The decade began with perhaps the most severe economic recession since the Great Depression of the 1930's. It was succeeded by major financial problems in the farm sector that saw tens of thousands of farmers move off the land, and a precipitous drop in energy prices that put large numbers of coal, oil, and natural gas workers out of jobs. Overall, rural job growth from 1982 through 1987 was only 55 percent of the urban area growth rate. Not until 1988 did the rural job creation rate recover to the urban area rate of expansion, the first time since 1976.

Despite the importance of powerful macro-economic factors in shaping economic events in the 1980's, neither the hard times brought on by the recession of the early 1980's nor the delayed rural recovery from it can be attributed entirely to cyclical fluctuations in demand for rural goods and services. Major structural changes in the rural economy have also had a profound impact on its performance. However, structural changes are slow to develop and are easily obscured by more dramatic and visible cyclical events.

This paper has two objectives. The first is to describe events in the rural economy during the 1980's, with particular emphasis on those changes that reveal underlying shifts in the structure of the rural economy. The second is to make a preliminary examination of major factors affecting the rural economy in an attempt to discern the extent to which they may explain structural change. The paper concludes with some observations about sensitive areas likely to affect the future of the rural economy and rural policy.

RECENT TRENDS IN THE RURAL ECONOMY

The Rural Economy in the 1980's

In the decade of the 1970's, the U.S. rural economy performed well in comparison with the metropolitan economy. Until 1976, non-metro job growth kept pace with growth in urban centers (Figure 1), and unemployment was generally lower (Figure 2). Beginning in 1976, however, the rate of non-metro job growth fell below the metro area rate. In 1978, the rural joblessness rate rose above the metro area rate.

In the early 1980's, the rural economy faltered badly. During the 1980–82 recessionary period, rural employment declined at an annual rate of 0.2 percent. At the same time, non-metro unemployment rose from 6.1 to 11.1 percent. In the years that followed, the U.S. economy entered a protracted period of sustained economic expansion, and from 1982 to 1986, employment grew by 2.9 percent annually. Non-metro areas, however, were slow to share in this economic growth. Job growth in rural areas occurred at a 1.8 percent annual pace, and the large difference between the metro and non-metro area unemployment rates persisted. As the decade progressed, rural areas fell further and further behind. Not until nearly the end of the decade did the non-metro job growth rate catch up to the metro rate of expansion.

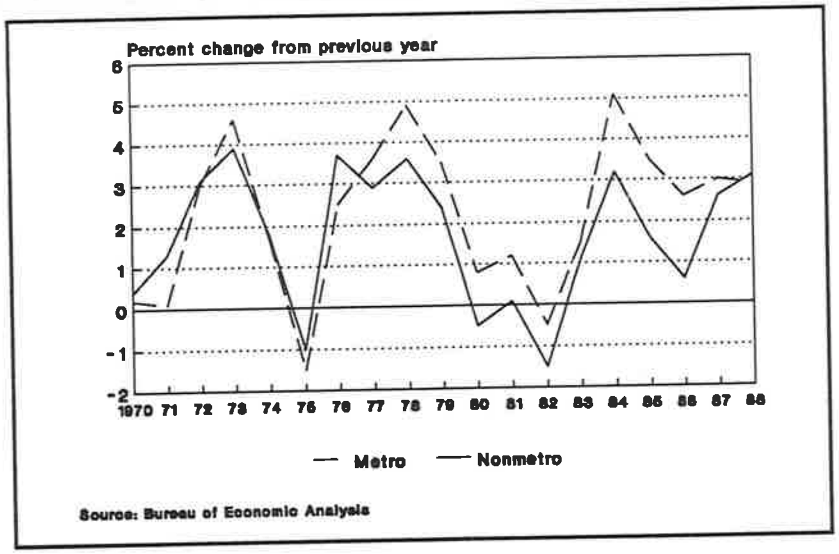

Figure 1 — Employment change, metro and non-metro areas, 1969—88

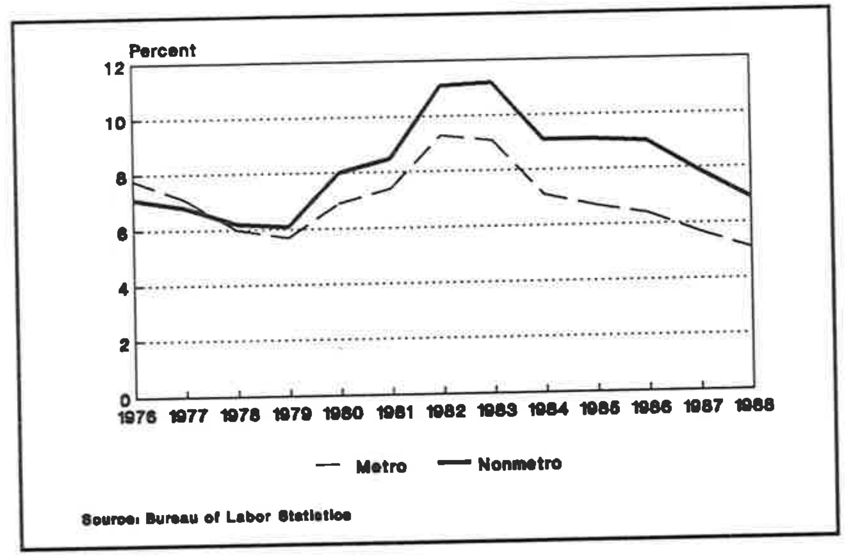

Figure 2 — Percent unemployed, metro and non-metro areas, 1976—88

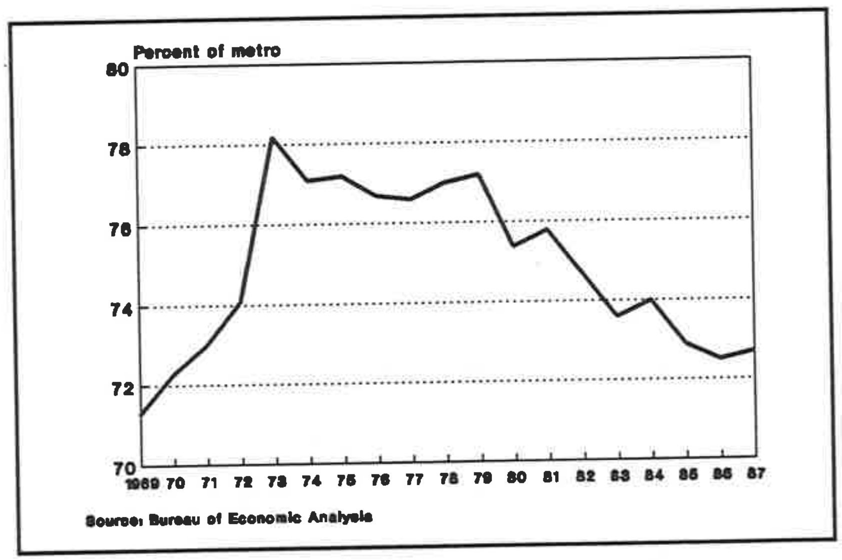

Figure 3 — Non-metro per capita income as a percentage of metro per capita income, 1969—87

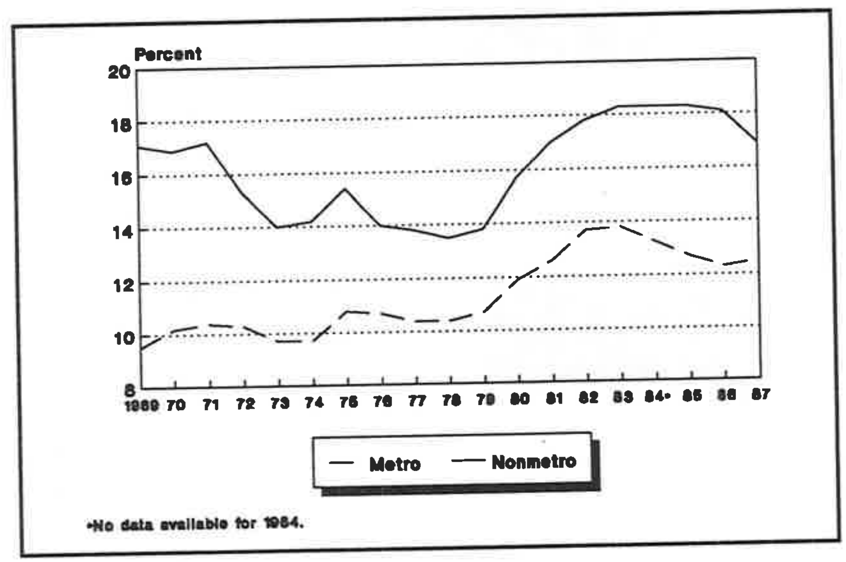

Figure 4 — Poverty rates in metro and non-metro areas, 1969—87

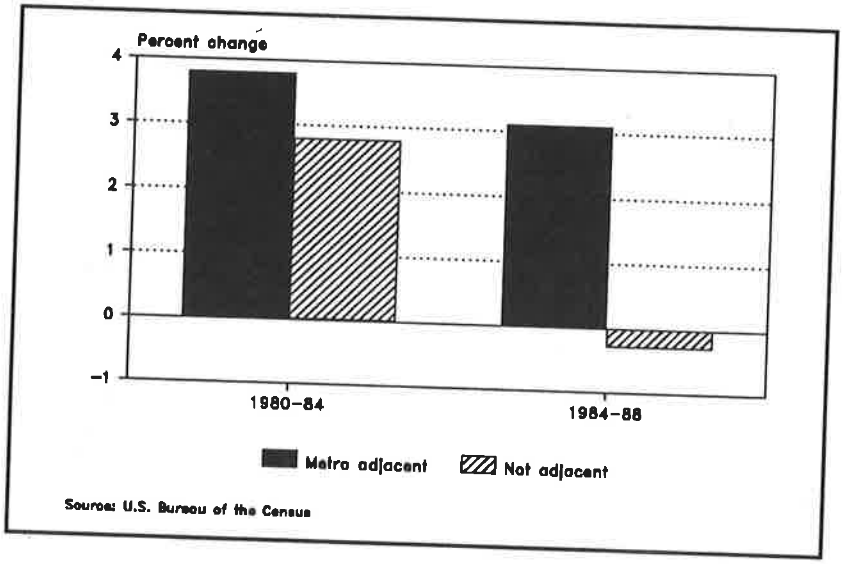

Figure 5 — Non-metro population change, by metro adjacency, 1980–88

The difference in economic performance between metro and non-metro areas is also reflected in the relative incomes of rural residents. Until 1973, the traditional pattern of rural income disadvantage was being steadily erased (Figure 3). Since then, however, non-metro incomes have progressively declined against the standard of metro area incomes, with only the barest hint that they might be returning toward the equalizing trend of the early 1970's. At the same time, the rural poverty rate, which converged toward the metro area rate during the 1970's, rose in the 1980's; at times, it was 50 percent higher than the metro area rate (Figure 4).

Inevitably, the poor job and income prospects of rural people have induced many to leave. During the 1980's, most rural counties had difficulty retaining their populations. Between 1980 and 1988, the non-metro population grew at less than half the metropolitan area rate. The most serious losses occurred between 1982 and 1987 when 1,181 counties, just under half, lost population. The losses were concentrated in counties not adjacent to a metropolitan area, many of them farming-dependent areas that have been losing population for decades (Figure 5).

Estimates of the severity of net population outmigration from non-metropolitan areas during the 1980's vary. Until 1983, non-metro areas were attracting more new residents than they lost to the cities. Since then, the most conservative estimate shows a net loss of some 345,000 residents between 1983 and 1988. Other estimates point to net population losses as high as half a million or more for some years in the mid-1980's.

Industrial Patterns of Change

This poor economic performance overlays important structural changes occurring within the non-metropolitan economy. For decades, natural resource-based industries-farming and closely-linked services, mining, and timbering — have experienced declining employment. Over the years, the share of employment in those industries has steadily fallen and it now comprises less than 12 percent of non-metropolitan employment (see Figure 8).

At the same time, the major decentralization of urban-based manufacturing into rural locations, the principal source growth in the rural export base during the 1970's, slowed noticeably during the 1980's. Slowed domestic demand brought on by the recessions of 1980–82 and intensified foreign competition hurt rural manufacturing deeply. The combination of a loss of markets to foreign competitors and the introduction of labor-saving automation led to a net loss of rural manufacturing jobs during the 1980's. Despite strong competitive pressures in low-wage, labor-intensive manufacturing industries, non-metro areas of the U.S. made no evident progress in substituting "high-tech" manufacturing for more routine operations (see Figure 13 and Figure 15).

Finally, although rural areas participated in the massive shift of economic activity from goods to services production, they have lagged urban areas in growth in the more advanced and high-paying producer services jobs. Instead, most rural service sector growth has occurred among residential services. While some growth in export-oriented services has occurred, it has tended to be concentrated in routine "back office" operations such as data processing or centralized telephone operations.

Locational Variations in Performance

Remoteness from urban economic activity reasserted itself as an important factor discriminating among the performance of rural areas during the 1980's. Remoteness was also important in previous decades (Deavers and Brown), though during the 1970's it declined somewhat in significance. But in the 1980's, it assumed much greater prominence as a factor in rural growth. Overall, non-metro counties that were physically adjacent to a metro area (excluding certain counties with no significant commuting to urban areas due to physical barriers such as mountains) grew more than twice as fast during the 1982–88 recovery period.

The sluggish economic performance of more remote counties was reflected in other statistics as well. Reductions in the rate of unemployment also lagged, falling by nearly 5 percentage points in metro-adjacent counties, but by only 3.6 percent in non-adjacent counties. Between 1984 and 1988, non-adjacent counties lost 0.3 percent of their population base, while adjacent counties grew by 2.8 percent. And net population migration, which turned from a position of strongly favoring rural areas in the 1970's and early 1980's to strongly disfavoring them by the middle–1980's, affected metro-adjacent and non-adjacent counties very

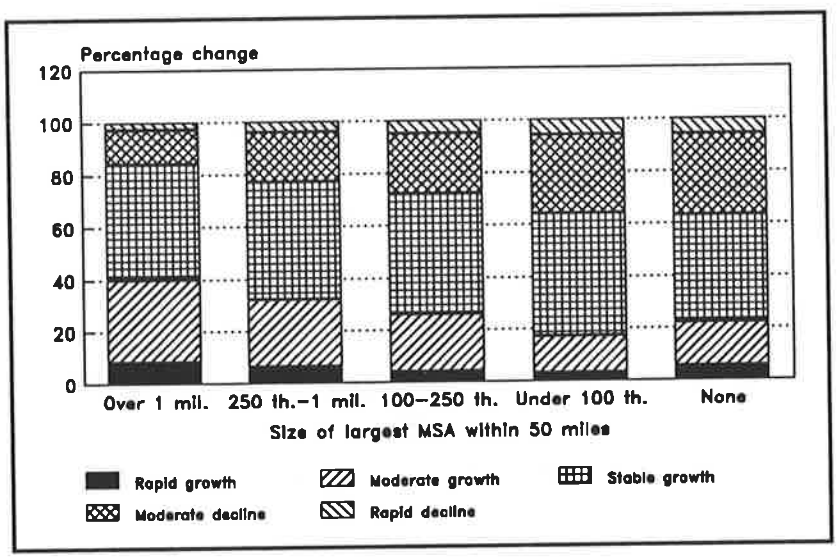

Figure 6 — Influence of metro area size and non-metro county employment growth, 1982–86

differently. Non-adjacent counties lost an estimated 633,000 residents on net during the 1980–88 period; at the same time, adjacent counties gained an estimated 611,000 residents from net population inmigration.

Job growth in non-metro counties appears to be related to their ability to benefit from the vigorous growth occurring in metropolitan areas, especially the largest ones. The employment growth rates of non-metro counties, arrayed according to the largest metro area within 50 miles, are compared in Figure 6. Non-metro counties within 50 miles of large metropolitan areas, those with populations of 250,000 or more, were much more likely to experience rapid or above average employment growth, and much less likely to experience employment losses, than counties within 50 miles of a smaller metro area. The poorest economic performance was observed for counties near the smallest metro areas and those located further than 50 miles from any metropolitan area.

These results point to the importance of urban agglomeration economies to economic competitiveness in the 1980's and suggest that the rural areas that have been least able to profit from that urban economic advantages, either by supplying commuters to nearby cities or by benefiting from economic activity spilling over metropolitan area borders to surrounding counties, have found it increasingly difficult to keep pace on their own merits.

Cyclical vs. Secular Trends

Rural economic fortunes have been greatly affected by national swings in economic growth that occurred during the last 20 years (Figure 1). In 1974–75, a recession occurred that took the rural economy from a nearly 4 percent annual job growth to 1 percent loss. Again, between 1979 and 1982, a major series of recessions turned the non-metro economy from rapid growth to serious and sustained job loss. The importance to rural economic health of these cyclical movements in aggregate demand is evident.

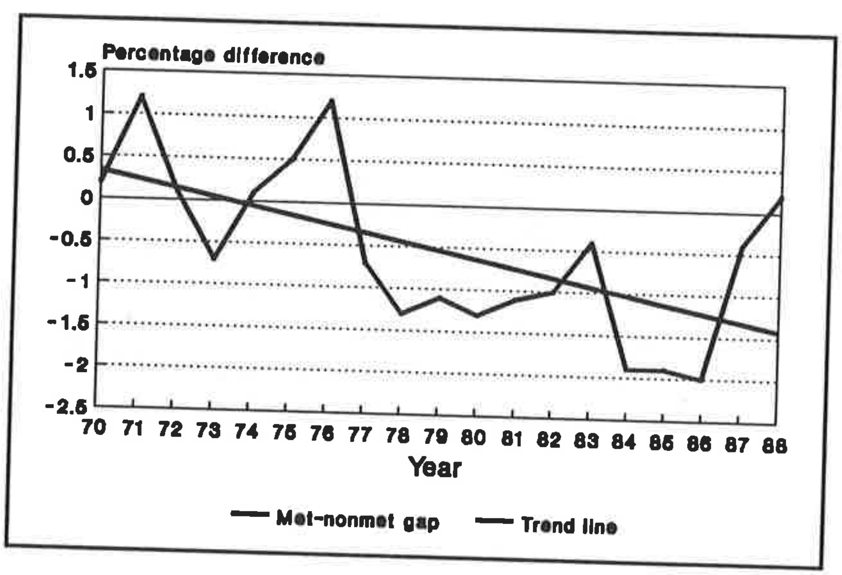

Figure 7 — Difference between non-metro and metro annual percentage change in employment, 1970–88

At the same time, the lagging rate of rural economic growth during the last 15 years has led to speculation that secular changes in rural comparative advantage may be at work as well. From 1977 to 1988, the annual rate of non-metro job growth lagged the metro area growth rate. The pattern is consistent during periods of both expansion and recovery (Figure 7). Furthermore, with the exception of 1982—83, the gap consistently widened during the period.

It is less easy to understand whether the secular pattern of lagging rural economic performance should now be considered to have ended. In 1988, the rural job growth rate caught up to the urban area rate for the first time since 1976. Preliminary data for 1989 show non-metro job growth of 3.7 percent, compared with a metro rate of 1.6 percent. On the face of it, the rising job growth rate appears to indicate that rural areas have improved their ability to compete with urban areas to the point that they are on equal footing.

A more careful look at national economic patterns suggests that the improved rural performance may result from temporary causes. In the first place, the closing of the metro-non-metro job growth gap resulted nearly as much from poorer metro job growth as from improved non-metro performance. From 1987 to 1989, while non-metro job growth rose from 0.9 to 3.7 percent, the metro rate fell from 3.0 to 1.6 percent. During 1987 and 1988, real GNP rose more rapidly than most observers believe is sustainable over the longer term. At the same time, low rates of metro area unemployment in some regions – especially the Northeast – point to a growing urban labor shortage that may be diverting job growth into more remote locations. During 1987—88, non-metro job growth in the Northeast – where metro unemployment was under 4 percent – was twice the metro area rate. While it obviously provides a short term benefit to non-metro areas, the outlook for the longer term is less optimistic. The 1989 drop in real GNP growth points to the likelihood that non-metro areas will experience slower job growth again in 1990.

FACTORS AFFECTING THE RURAL ECONOMY

Falling Labor Demand in Natural Resource Industries

During the past two decades, there has been a continuation of the long-standing pattern of reduced demand for labor in rural natural resources industries. Nationally, since 1969 employment growth in agriculture and other natural resource industries has been slow. With the exception of energy-production and fishing, natural resource industry employment growth has been well below the national rate of growth. Actual declines occurred in agriculture and mineral mining.

This pattern has been even more pronounced in rural areas. Except in forestry and wood products industries, employment growth in natural resource industries has been weaker in non-metropolitan counties than in metro areas (Weber, Castle, and Shriver, p. 113). Consequently, employment in natural resources has fallen as a percent of the total non-metro workforce (Figure 8).

One of the principal factors affecting employment growth in these industries appears to be continuing improvement in labor productivity (Thurow, pp. 70—77). Non-metro coal mining employment grew rapidly in the 1970's, but declined in the early 1980's even as total output increased due to the shift of production from deep mines in eastern coal fields to

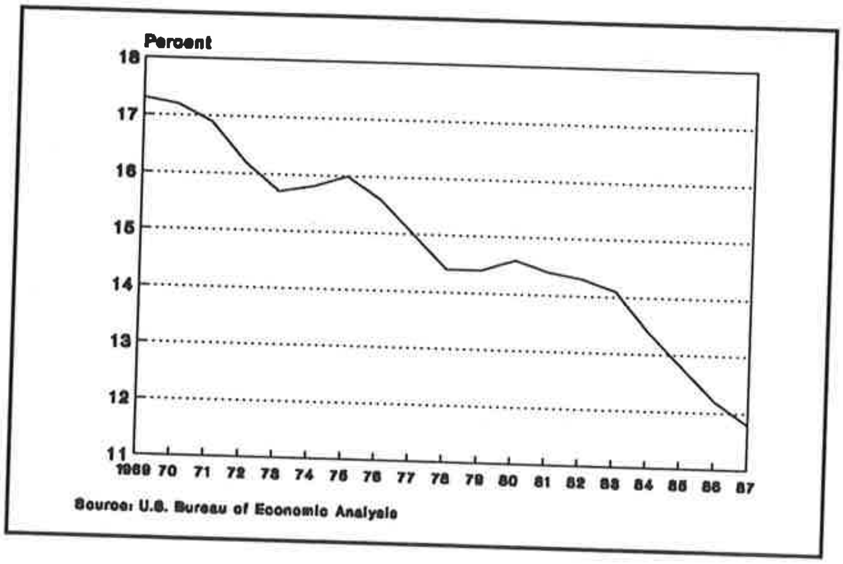

Figure 8 — Employment in natural resource industries, non-metro areas, 1969–87

surface mines in the west (Weber, Castle, and Shriver, p. 121). In forestry and wood products, rising labor costs led to major capital investments in labor-saving technology. At the same time, there was a movement of production to the South, where the use of labor-saving equipment in both harvesting and processing is more feasible, as the supply of timber increased in private, non-industrial forests planted during government-sponsored reforestation programs several decades ago (Weber, Castle, and Shriver, p. 122). As a result, employment grew slowly, despite low real interest rates in the 1970's and strong demand for housing by the baby boom generation. In other industries, particularly furniture and fixtures manufacturing, strong foreign competition pressured expansion in employment.

In addition, as national income has risen, natural resources have been a declining component of final demand in the American economy over the last several decades. Agriculture, fisheries, forestry, and mining have comprised a steadily falling share of gross national product during the post-World War II period (Figure 9).

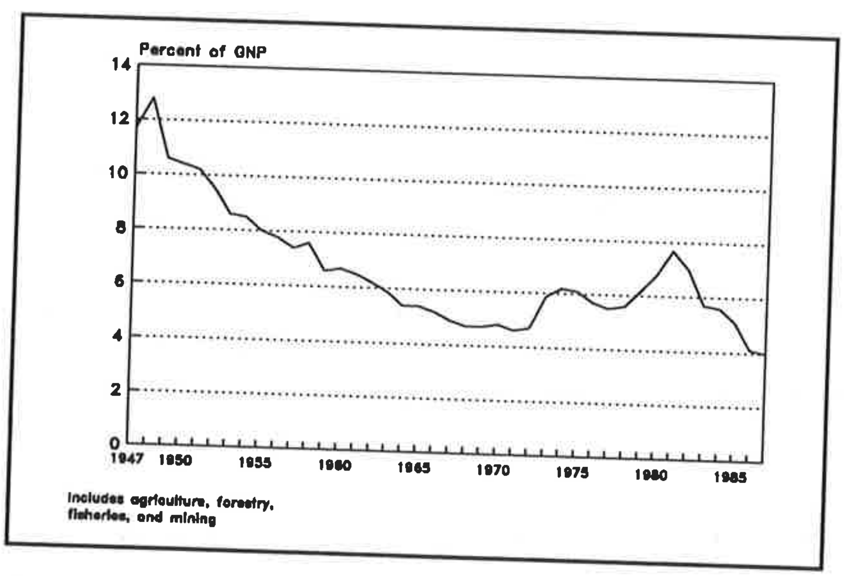

Figure 9 — Natural resource industries as a percent of GNP, 1947–87

As a result, the recent experience of rural resource-based industries must be considered to be far more than a temporary shift in the economic fortunes in these industries and the areas that depend on them. Instead, it reflects a fundamental restructuring in the rural economic base and, ultimately, in the role that rural areas will play within the national economy in coming decades.

Deregulation in Major Industries

During the 1980's, deregulation occurred in several major modes of transportation affecting both the movement of people and goods. Included were airlines, bus, rail, and trucking; in addition, deregulation occurred in the communications and banking industries. The general belief was that in most of these industries, government regulation operated to protect service to rural areas and often led to subsidies of rural economic activity. Evidence concerning the economic effects of deregulation on rural areas is briefly reviewed below.

Air transportation

The 1978 Airline Deregulation Act ended government regulation of airline routes in 1982 and prices in 1983. Service to some small communities was guaranteed for ten years under the Essential Air Service (EAS) program. Among other rural communities, far more lost air service than gained it in the post-deregulation period (Stommes and Beningo, p. 11). However, most of these service losses can be attributed to the failure of small airlines during the 1979–82 recessions, rather than cuts in service by airlines no longer subject to public regulation (Oster).

Fundamental changes resulted from the competitive pressures unleashed by deregulation. Before deregulation, losses on smaller, rural routes were often subsidized by overpricing service on more densely traveled routes. Following deregulation, price competition among air carriers produced major changes in the frequency, quality, and price of rural air service (Stommes and Beningo, p. 11). Overall, the real cost of air travel has declined under deregulation; however, reflecting the higher costs of air service on low-volume rural routes, passengers in rural areas benefited the least.

Bus transportation

The Bus Regulatory Reform Act of 1982 made it easier for private bus companies to eliminate service, as well as to add new services. Immediately following the passage of the Act, a sharp decline occurred in the number of communities served and in the number of weekly bus departures. Still, the fact that bus service had been falling prior to deregulation suggests that government regulation was merely slowing, not stopping, a loss of service in rural areas. Service cuts were concentrated in the smallest communities (Oster). Because it is mainly a public convenience and relatively few parcels are shipped by bus, the economic consequences of a loss of bus service seem likely to be smaller than from the loss of other transportation modes.

Rail transportation

Deregulation of the railroad industry affected both the organization and operations of privately-owned freight carriers. Passenger rail service was unaffected by deregulation. The Staggers Rail Act of 1980 gave greater emphasis to railroad profits by streamlining the process by which railroads could abandon unprofitable routes and permitting greater railroad freedom to set rates. The legislation and ensuing administrative changes placed railroad operation "in a position of almost complete reliance on market forces" (Sorenson, p. 767).

Sorenson uncovers no evidence that cross-subsidies for rural rail service existed before deregulation and he concludes that no loss of subsidy therefore occurred. Instead, deregulation unleashed competition among rail carriers so that in some areas where alternative rail carriers existed, rates dropped sharply after deregulation. At the same time, the freedom of carriers to make independent contracts with individual shippers may have created some rate disadvantages for rural shippers. (Sorenson).

Overall, deregulation placed the rail industry on a much more competitive footing, making rural producers more open to both the benefits and disadvantages of market forces than they had previously been.

Trucking

The trucking industry accounts for most transportation of raw materials and finished goods in the rural economy. The Motor Carrier Act of 1980 relaxed Federal government control over entry into interstate trucking markets and granted increased pricing flexibility to carriers. Some state governments adopted similar rules concerning intrastate trucking at the same time. The early evidence suggests that deregulation led to an increase in the number of rural communities served, as well as in the number of carriers serving each community. In addition, there appear to have been improvements in on-time delivery, freight losses, rates, and service in isolated communities (Pustay). On the whole, then, trucking deregulation appears likely to have had a positive influence on rural economic activity.

Communications

Deregulation in the communications industry was begun by the Federal Communications Commission (FCC) in the late 1970's (Orton). Deregulation has affected broadcast media (radio and broadcast television) and cable television, as well as local and long distance telephone service. Only the telephone service is discussed here.

In 1980, the FCC issued a decision deregulating computer-based ancillary services and customer-premises equipment, removing a part of the monopoly held by American Telephone and Telegraph (AT&T), the long-time monopoly provider of long distance telephone services and holding company for local telephone exchange companies in most of the U.S. This was followed in 1982 by settlement of an antitrust lawsuit that resulted in divestiture by AT&T of its local operating companies, providing for open competition among several long distance telephone companies which were guaranteed equal access to local telephone networks (Orton).

Prior to deregulation, rural areas benefited from national policy designed to assure basic telephone service at affordable rates throughout the country. This was achieved by industry regulation resulting in cross subsidies that offset the high costs of services to rural areas. In the changed in the regulatory environment and communications industry structure, there is now considerable pressure for telecommunications services pay their own way.

Although special mechanisms have been devised to subsidize service in high cost locations and to low income households, rural providers nonetheless face considerable difficulties in upgrading their equipment. Large investments in outdated equipment are a major obstacle to further investments in fiber optics and high speed digital switches.

Some rural places may be at a competitive disadvantage because they lack digital switching capabilities, but not so much on account of higher service prices. As newer services become available, the technical differences between urban and rural communications systems may widen, threatening the ability of innovative businesses to compete from rural locations. However, the subsidies to rural telephone service are becoming more explicit, increasing pressures to reduce or eliminate them, thus raising the possibility of future price differences. (Parker, *et al.*).

Banking

Legislation in the early 1980's moved the financial industry from a climate of strict regulation to one in which the interplay of competitive forces has much greater significance. For the most part the legislation reduced restrictions on financial institutions, allowing greater price competition, permitting the introduction of new financial instruments, and reducing the regulatory differences between banks and other financial institutions (Paulson).

The overall effect of these changes appears to be more explicit pricing for services and a reduction in the protections that traditionally benefited the banking industry in the United States. As a consequence, greater competitiveness is occurring in the industry. Paulson uncovered no special discrimination against rural areas. However, because credit and financial decisions are increasingly based on the merit of the investments, areas where business opportunities are poorer can expect greater difficulty obtaining credit (Paulson, pp. 102–3, 110).

Conclusions about deregulation

Overall, it is difficult to conclude that deregulation brought on the economic troubles that plagued rural areas of the United States during the 1980's. However, the relaxation of regulatory controls appears to have exposed the rural economy to larger economic trends. As a result, the rural economy is being forced to succeed or fail on the merits of its own competitive ability. The cumulative impact of deregulation in individual industries is likely to cause further rural economic stress as the rural economy adjusts to the changed economic environment.

Foreign Competition in Manufacturing

Manufacturing employs about 17 percent of workers in the non-metropolitan United States and is its leading basic industry. U.S. manufacturing output rose at an annual rate of 1.8 percent during the early 1980's, compared with 2.7 percent in the previous decade. In large part, this reflects the increasing internationalization of the U.S. economy in recent years. Since 1959, imports have more than doubled in importance to the U.S. economy. During the

1980's, manufacturing faced increasingly stiff foreign competition, ultimately losing a share of its markets to overseas competitors.

The trend was exacerbated by monetary and fiscal policies that led to an extraordinary rise in the exchange value of the U.S. dollar. Between September, 1980, and March, 1985, the inflation-adjusted dollar rose 37 percent against a trade-weighted average of U.S. trading partners' currencies, making U.S. manufactured goods more expensive and reducing foreign demand for them. Although the dollar has since declined, the high dollar value had a large effect on sales in trade-sensitive industries such as transportation equipment, instruments, electronic equipment, non-electrical machinery, and chemicals (Cox and Hill).

The high dollar value, together with stronger competition from Third World producers with newly-expanded industrial capacity, led to increased penetration by foreign competitors into the markets of U.S. manufacturers. A study of 317 of 452 4-digit SIC manufacturing industries found that a significant rise occurred in the number of industries experiencing a moderate or greater rate of import penetration. At the same time, the ability of U.S. manufacturers to export was reduced.[a]

As a consequence, job losses occurred rapidly in non-metro manufacturing industries experiencing a high or moderate degree of import penetration. Nearly all the employment losses in non-metro manufacturing occurred in these industries, and only the fact that they account for a relatively small share of the rural manufacturing base kept overall job losses low (Figure 10).

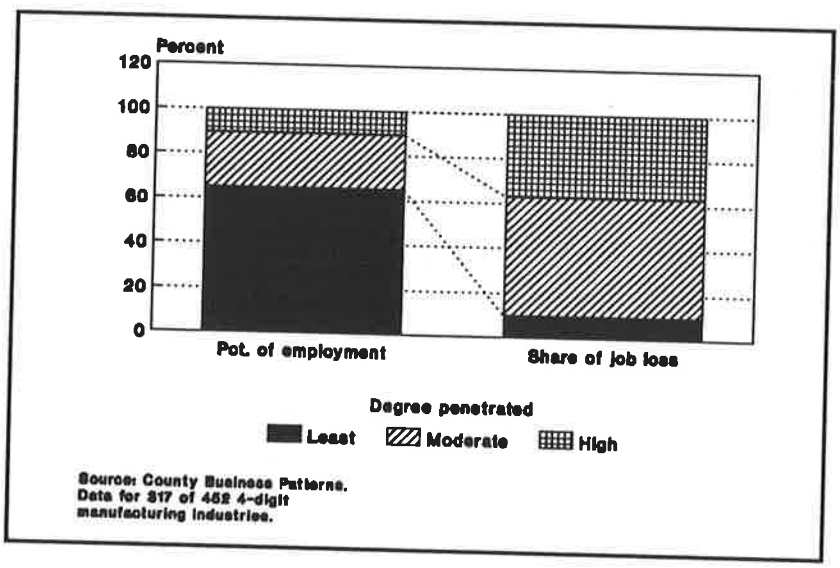

Figure 10 — Distribution of employment and job losses, non-metro manufacturing industries, 1981–86

More recently the value of the dollar has fallen against major currencies, especially the Japanese yen and European currencies, and rural manufacturing employment has returned to its 1979 levels. However, there is a continued belief that the long term competitive position of rural manufacturing has been changed and that the ability of rural producers to compete on the basis of low land and labor costs may have slipped away.

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[a] These data are drawn from unpublished research by Charles Schmidt, U.S. Department of Agriculture, Economic Research Service.

Shifting Demand for Labor

The U.S. economy is in the midst of a major shift in demand for labor, with many more jobs now requiring higher levels of education and skills than before. Whereas slightly less than a quarter of all jobs now require a college degree, by the year 2000 more than half are expected to require some education above the high school level (12 years) and a third will require a college degree (16 years). The fastest growth will be in jobs that demand higher skills in math, language, and reasoning abilities. Although many jobs demanding lower skills will be created, growth in these job categories has been, and will continue to be, slower (Hudson Institute).

The shift in labor demand has had important urban-rural implications in the 1980's. In the production sector, principally manufacturing but also including agriculture, mining and construction, a major change in worker skill demands occurred between the 1970's and 1980's (Figure 11, Figure 12).[b] While in both decades demand for more highly educated workers was strongest, in the 1980's there was relatively little demand for workers in the lower education categories. But even more striking is the extent to which new jobs in the high education categories were concentrated in urban areas (McGranahan and Ghelfi).

The result was a further concentration of lower-skill jobs in non-metro areas and of higher-skill jobs in metro areas. In routine manufacturing, which typically pays low wages compared to industry averages, there was a shift of jobs from metro areas, which lost 11 percent of jobs in this group, to non-metro areas, which gained 5 percent (Figure 13). At the same time, jobs in higher-paying complex manufacturing industries shifted out of non-metro areas and into metro areas. Both areas added jobs in the fast-growing producer services industries, but the rate of growth was only 60 percent as fast in non-metro areas. Producer services jobs are the highest-paying within the service sector and offer much better career potential than retail and personal services jobs, where non-metro areas were able to keep pace with the metro job growth rate.

While rural earnings have traditionally been lower than those in urban areas, the increasingly urban-centered demand for more highly skilled workers has led to a widening of the earnings differential between urban and rural workers during the 1980's. In 1979, non-metro males could expect to receive about 10 percent lower earnings, on average, than metro area males, regardless of education level. For females, the differential averaged around 20 percent. By 1987, the urban-rural earnings differential had widened for both males and females, with the gap among highly-educated males exceeding 30 percent.

As a result, the highly educated have been more likely to migrate from rural to urban areas during the 1980's, presumably drawn by better-paying urban employment (Figure 14). From 1986 to 1988, about 3 percent of college-educated non-metro residents of working age migrated to metropolitan areas. While non-metro residents with less education also had net outmigration, the rates were lower.

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[b] This section draws heavily on research in the Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture, especially that of McGranahan and Ghelfi.

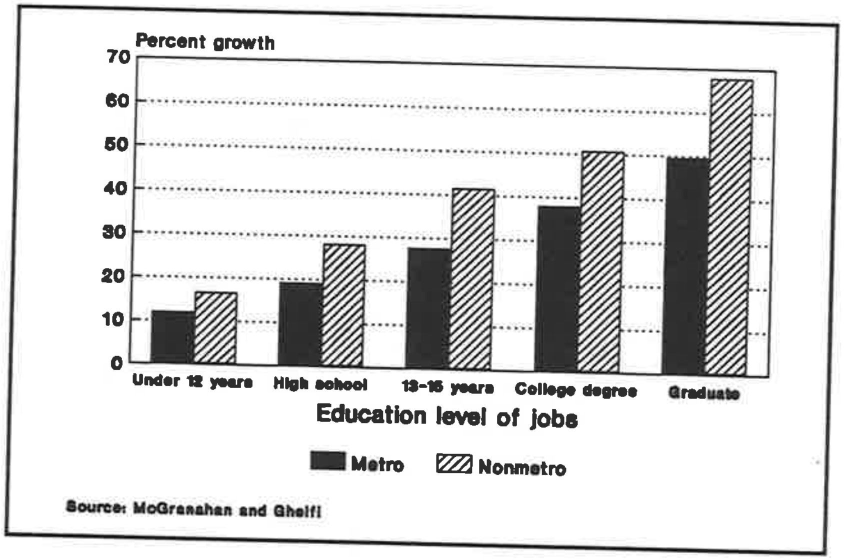

Figure 11 — Production sector job growth, by education level of job, 1970—79

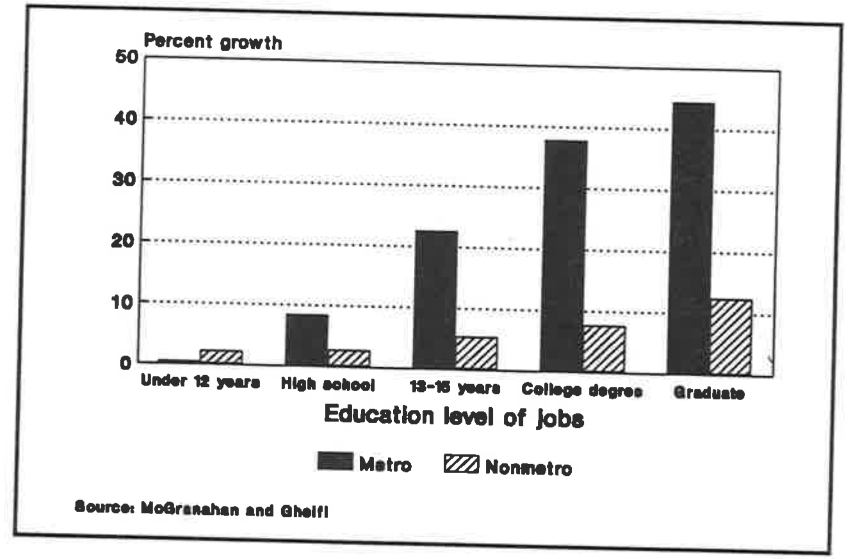

Figure 12 — Production sector job growth, by education level of job, 1980—88

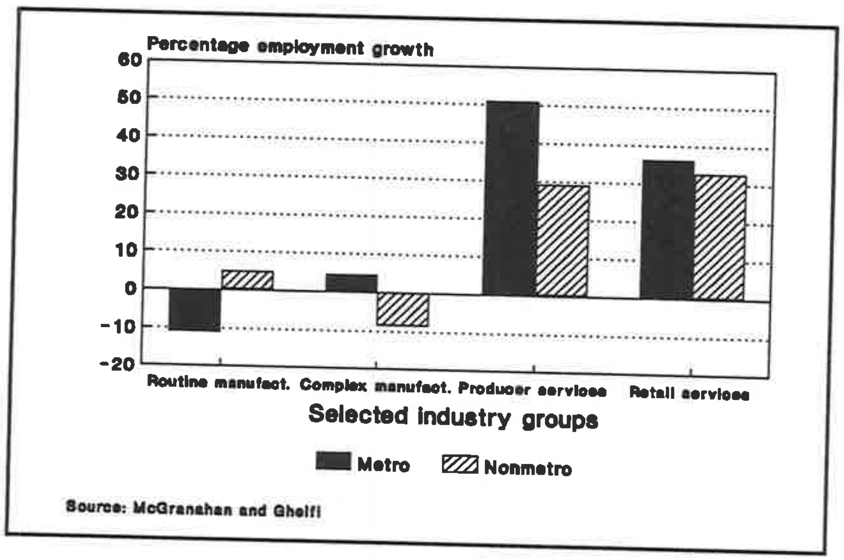

Figure 13 — Employment changes in selected industry groups, 1980—88

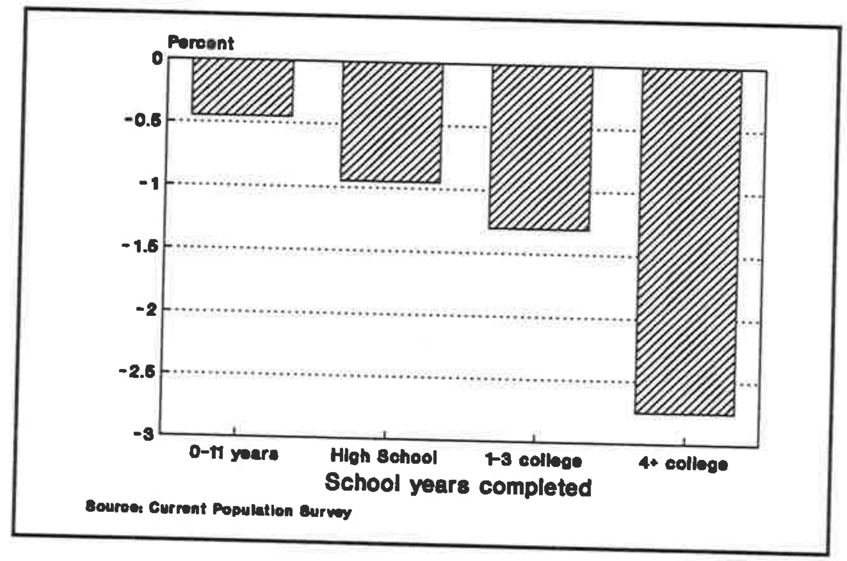

Figure 14 — Net migration of nonmetro population age 25—64, 1987—88 average

Growing Importance of Agglomeration Economies

The evidence of the last 15 years strongly suggests that being in or near a major city is an increasingly important element of economic success and is at least consistent with the notion that urban agglomeration economies are now more important in determining competitiveness than was previously the case. Since 1979, metro area job growth has been consistently more rapid than in non-metro areas, and has occurred most rapidly in the largest metropolitan areas, especially in their suburban portions. The data in Figure 6 demonstrate the benefits of location near a major city, and the penalties of a more remote location, for non-metro economic growth during the mid-1980's.

More telling, perhaps, than the faster urban growth is evidence concerning the nature of that growth. There are important historic differences between metropolitan and non-metropolitan areas of the United States in the industrial makeup of the economy, with a much larger concentration of industries specializing in extractive and routine processing in non-metro areas and the more advanced and innovative industries locating in metro areas (Bloomquist). Furthermore, within those industries there is a pronounced tendency for the more specialized and highly-skilled occupations to be sited in urban locations, leaving the less-skilled and unskilled jobs for rural workers (McGranahan).

The economic change of the 1980's reinforced those historic patterns. Since 1979, metropolitan areas have succeeded in improving by about 20 percent their share of employment in the more advanced and thus presumably more competitive complex industries (Figure 15). At the same time, non-metro areas — whose manufacturing is far more concentrated in routine operations, failed to make any evident progress in industrial conversion. Barkley's study of high technology manufacturing industries found that metro to non-metro shifts of industrial activity were largely restricted to metro-adjacent counties in the New England and Pacific regions (Barkley). Miller finds that new affiliates of large national corporations in high growth industries (high technology manufacturing and advanced business services) show a strong propensity to locate in metro areas and adjacent non-metro counties (Miller). A similar pattern exists in the services sector, which has contributed all net national job growth in recent years. Not only are the better-paying advanced producer and distribution services more highly

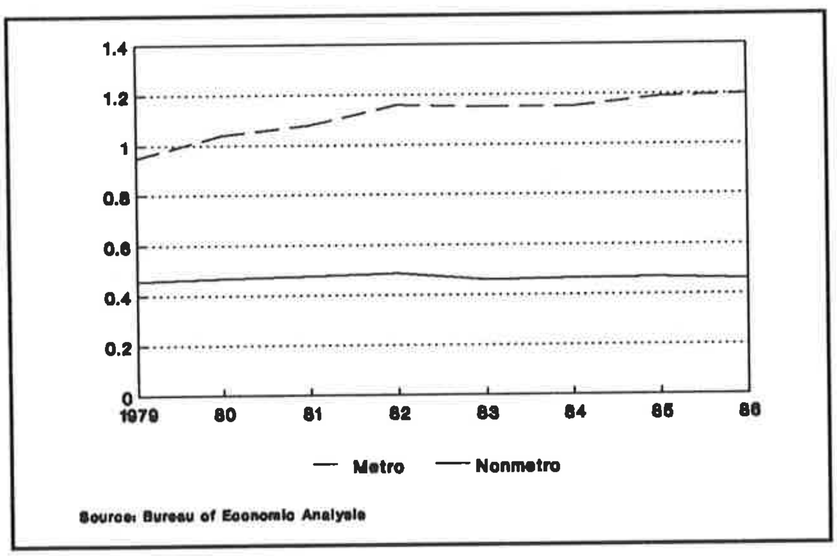

Figure 15 — Ratio of employment in complex to routine industries, 1979–86

concentrated in metropolitan areas – especially the largest ones and their suburbs – but these service industries were also more rapidly growing during the 1981–86 period (Reid, Dubin, Porterfield, and Reeder; Miller and Bluestone). Non-metro areas' largest share of service sector activity is in residential-oriented services, whose location is tied to where people live, and tourism-related services, which are also the most rapidly-growing category of rural services.

While we have no direct evidence, there are several reasons for believing that agglomeration economies have increased in relative importance in recent years. First, much growth in goods-producing industries has occurred in firms catering to niche markets. These markets demand highly customized outputs and fast responses to changing market conditions. Historically, the U.S. goods-producing sector has been organized to take advantage of scale economies in standardized, mass-market oriented goods. This has been especially true of rural manufactures of such goods as textiles, apparel, leather goods, and furniture. As U.S. manufacturing restructures to compete in changed world markets, producers are finding significant competitive advantages from locating in urban areas where they are closer to suppliers and sources of market information.

Second, in recent years it appears that there has been a shortening of the product life cycle in some manufacturing industries. As a result, some new products now move from conception and design to production and marketing in a matter of weeks or months, compared to longer gestation periods that were typical previously. Rapid response to market signals, leading to the development and production of new goods and services, appears to be facilitated in urban locations, where producers have ready access to both market information and the specialized services, such as design, financing, and marketing, that are concentrated in those areas.

In addition, the advanced service industries, which are often highly specialized, require large agglomerations in order to generate a sufficiently large market to support them. While instances can be identified of these firms choosing rural locations for lifestyle reasons, they are highly exceptional.

AREAS OF SENSITIVITY FOR THE 1990'S

While it is not possible from this analysis to draw firm conclusions about either the causes of rural change in the 1980's, or their outcomes in the next decade, we can nonetheless outline some major areas of likely sensitivity for the rural economy in the coming years. While others will undoubtedly be important as well, I focus here on three.

Sustaining Viability in Remote Communities

A substantial number of rural counties experienced rapid net outmigration and population losses during the 1980's (Figure 16). For the most part, these counties are relatively remote from major metropolitan areas, depend heavily on farming or other natural resource industries rather than a more diversified economic base, and lack mountains, shoreline, or other scenic or recreational attributes that have made other remote rural areas inviting for tourists and retirees. These counties include a group that has been losing population for decades. There appears to be little prospect that the downward trend will be reversed.

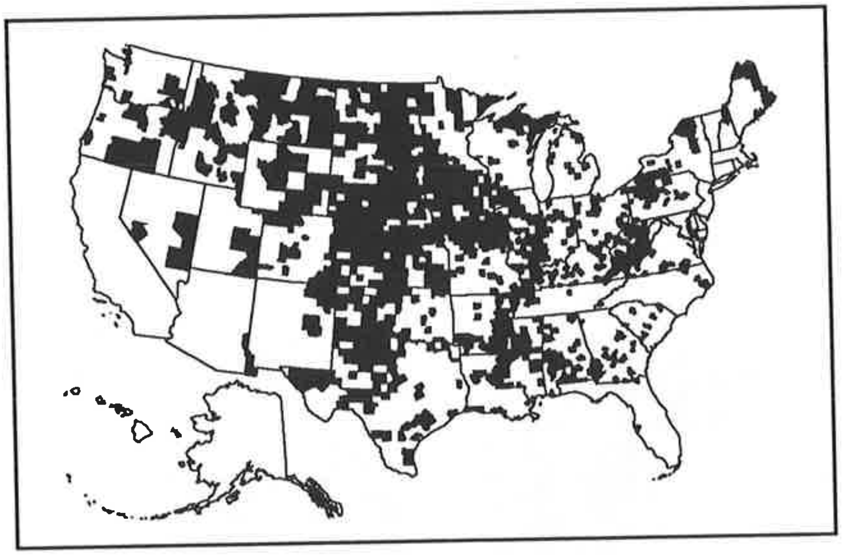

Figure 16 — Non-metro counties losing population, 1980—88

These declining counties present some of the most perplexing problems to confront rural policy in the coming years. In the case of farming-dependent areas in particular, the population losses stem from success in making their principal industry — farming — highly productive and profitable. Per capita incomes in these areas are above the average for all non-metropolitan areas in the U.S. As a result, the problem for rural policy stems not from the failure of these industries to contribute their share to national economic wellbeing, but from the inability of some areas to sustain community life on a scale they previously enjoyed.

The slow growth of these areas is tied to the narrowness of their economic base. Because education levels in these areas are generally higher than in other regions, the lack of human capital does not appear to be a major constraint on growth. Rather, it seems more likely that the principal obstacle to diversification is the disadvantage of location. Except for subsidizing business activity and public services, there appears to be little that direct government intervention can do to sustain life in many of these communities. As a result, much attention has shifted in other directions: to improving the quality and quantity of information and technical help to small communities, promoting institutional changes such as area-wide cooperation in service provision and development activities, and easing the process of adjustment for workers who are forced to leave.

It is somewhat ironic that it should be these successful rural communities that have generated most of the political support for rural policy initiatives in recent years. Residents in these areas wield national political force somewhat out of proportion with their numbers and they have been more successful in capturing the attention of the nation than other regions that might have been considered equally deserving. As a result, there will be considerable political pressure for national rural policy to resist accommodating to patterns in the marketplace as it concerns these areas.

Growing Role for Rural Areas as Leisure Sites

Despite the predominance of rural population loss in the 1980's, a number of non-metro counties have continued to grow, some very rapidly. The most rapidly growing non-metro counties during the 1980's are concentrated along seashores, in mountainous areas, near lakes, and in areas with warm climates (Figure 17). This pattern of growth reflects both the continued rapid movement of retirees to desirable rural locations and the expansion of demand for rural areas as sites for leisure.

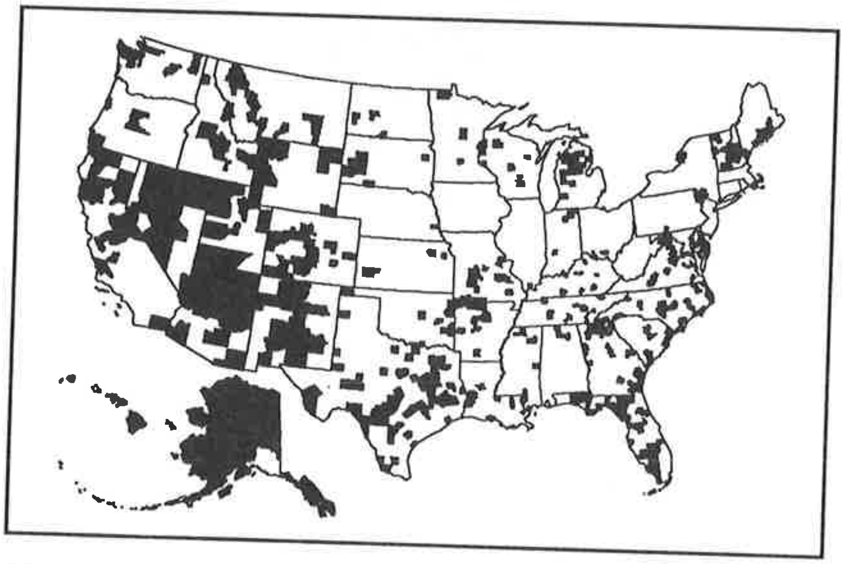

Figure 17 – Non-metro counties growing faster than U.S. average, 1980–88

With continued growth in urban incomes, the demand for rural areas as sites for second homes or for vacations is expected to continue. Travel-based industries have had strong growth in the 1980's. Compound annual growth in travel-generated spending in the U.S. was 8.2 percent from 1982 to 1987, compared to GNP growth of 7.4 percent (Economic Research Associates, p. D-7). Rural areas have shared in travel industry growth, which is expected to continue. Surveys continue to point to a strong preference among urban residents for rural living (Fuguitt, Beale, and Brown). In addition, the aging of the post-war "baby boom" will produce an increasing number of retirees from 2000 until about the year 2020; as a result, the demand for rural retirement sites is not expected to slacken during the next 30 years.

These changes raise a number of policy issues. The changing basis for national interest in rural places – from their historic role as providers of natural resources to an emerging function as sites for leisure activities – seems likely to raise the level of urban interest in rural policy issues. A change in the values that underlie rural policy is likely to accompany that greater interest. As this occurs – through greater concern for the quality and attractiveness of the rural environment, for example – the challenge to traditional rural ways of living and earning a livelihood will inevitably rise.

Rapid growth raises a number of concerns for local policy as well. Among these are how to manage the growth, how to assure a fair distribution of costs and benefits among new and existing residents, and how to retain the beauty and character of rural communities that made them attractive to newcomers and current residents alike.

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AN EXPLORATION OF POLICY PERSPECTIVES FOR EUROPEAN RURAL ECONOMIES AFTER 1992[a]

L.P. Apedaile

SUMMARY

European integration projected for 1992 brings to the forefront the persistent problem of imbalance between the performance of rural and urban economies in Europe. The relative decline of the agriculture sector and active urban participation in economic restructuring has left rural economies in a residual position. Rural outmigration remains a problem in many regions and competition from urban enterprises hampers rural economic growth. A combination of systems theory and development economics is applied to this question to explore the role of the Community in addressing these problems. Emphasis is placed on putting the issues together rather than following the traditional method of "analyzing" them, or taking them apart (Le Moigne, 1989, p339).

The paper begins with explanations of the subsidy focus of rural policy in Europe and a consideration of the rapid change occurring in rural economies. Some systems concepts are presented to enable the reader to follow the approach used in the paper. The final section presents a summary of the issues facing rural economies in the 1990s and explores policy options. The paper concludes with a synthesis of policy requirements to address the issues raised.

The economic issues center around rural investment decisions, financing, technology, subsidies, economic restructuring and the intensity of human initiative. These economic behaviours are influenced by the rural externalities generated by Europe's global competitive behaviour and by its macro-economic policies. These influences appear to be so situation-specific as to be insensitive to rural policy initiatives at the Community level.

The paper concludes that attempting intervention policies to insulate rural economies from the impacts of European integration is inadvisable and likely to be unsuccessful. On the other hand, in the presence of high transfer costs for resource mobility, a laissez-faire policy could jeopardize social and food security objectives. Ecological and technological imperatives, and established standards for rural public services also appear to preclude policies such as subsidies to block global forces, yet indicate a need for exceptions to the pure application of market-based allocative and distributive rules.

Compensation paid through local government institutions for negative externalities, implemented parallel to market forces, could keep rural economies open and span the gap in time between longer term rural production processes and global pressures for frequent change to product lines. Policies to steer rural development, such as grants, construction of public infrastructure and concessional credit, though attractive, require considerable design work if they are to complement compensation policies without distorting rural competitiveness.

Strong democratic rural institutions are required to resist tendencies to close economic boundaries between rural and urban Europe and to manage the process of structural and institutional change in the rural milieu.

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EUROPEAN RURAL ECONOMIC SYSTEMS: "PROBLÉMATIQUE"

Rural Policy Based on Subsidies

Agriculture, despite its relative economic decline, remains at the center of European rural policy. The major element in this rural policy has been the Community price guarantee program for agricultural commodities (Commission, 1989). The agricultural sector and the other parts of the rural economy linked to agriculture have grown to depend on these and other subsidies of all sorts. The emphasis on agriculture may be attributed to its historic dominance of rural politics and its continuing high profile in land use. The dependence on subsidies is a habit built up over the years of output incentives since World War II, and of a growing real need for financial support of farmers.

There are several different explanations for this need. The conventional and neo-classical economic argument is that the development and adoption of technologies in agriculture results in an expansion of production faster than demand can increase. Thus under prevailing market conditions, commodity prices remain weak, consumers are well fed and farm incomes are low. The low incomes place agriculture's social objectives in jeopardy and put long-run consumer interests at risk, thereby justifying subsidies.

Other arguments are put forward as well. Institutional economics explains that farmers and consumers are disorganized, each one or group unable to influence prices by withdrawing from the market. In contrast, inputs manufacturing, food processing, wholesaling and retailing are highly concentrated, enabling the exercise of monopoly power. The result is higher-than-necessary food prices and lower-than-necessary commodity prices. Marxist arguments on this problem also revolve around the exercise of power, but by an exploitive social class of capitalists and landowners extracting the marginal value product of peasants' resources.

Development economics notes the role of governments using fiscal, monetary and exchange rate policies in ensuring cheap food for the industrial work force, and in financing capital projects in other sectors of the economy by transferring value added in agriculture to other sectors. Such transfers can lead to reduced capital formation and slow rates of technological advance for agriculture. In the context of these arguments, subsidies may be seen as the fine tuning of such transfer policies to avoid jeopardy to food security and to the other parts of the economy linked to agriculture such as farm machinery manufacturing.

To these three mainline economic explanations may be added a social and political rationale for agricultural subsidies. Agrarian fundamentalist arguments emphasize the need to compensate farmers for achieving non-profit objectives of value to the rest of society, such as the preservation of the rural domain, conservation and family institutions. Political arguments are more obvious. Parties and politicians seek the support of rural constituencies. All arguments acknowledge in some way that farm family incomes would be "inadequate" if left to market forces and political exigencies.

A systems synthesis suggests another line of reasoning. The need for subsidies is chronic and an inevitable feature of the interplay of technology and economic structure, arising from the functions carried out by the agriculture and food system. These functions, such as the production of cereals and livestock, are relatively inflexible in time, space, quality and quantity. Farmers, in the absence of subsidies, tend to be impoverished by such inflexibility and by any weakness in these functions and their linkages. Terms of trade problems induced by markets or governments also suppress farm incomes. The development of this human system, which constitutes agriculture, especially learning, investing and creating capital to produce the goods and services valued by consumers is at the root of these issues. The design of subsidies, the choice of technology and the economic structure of agriculture interact in complex ways, not well understood, to impede or promote this development.

Rapid Change: A Current Feature of Rural Systems

The most rapid change in rural Europe is the decline of control by rural people over their economy. Control over opportunity and the power to choose and execute that choice are values particularly associated with the self employment which characterizes successful agriculture and rural business. Rural systems are driven by their choice of goals and their use of technologies, shaped by these and other values which characterize the system milieu. Increasingly however, these two driving forces originate outside the boundaries of rural systems. Ecological, food safety and recreational goals of urban populations and a constant stream of industrial technologies are a major source of the rapid change influencing rural development.

The extent of these changes varies markedly from country to country in Europe and from region to region. Production processes are intensifying. The labour force is declining relative to capital and land. Part-time farming or pluriactivity is increasing. Underemployment in agriculture is continuing. The number of farms is declining. Production and land ownership is becoming more concentrated on holdings over 50 ha. Family farms are becoming more like the Jeffersonian concept of owners operating the farms. Rural economies are diversifying. And the rural population is becoming more diverse, particularly as regards skills and values. These conclusions are drawn from the Commission's bulletin entitled "The Future of Rural Society" and from the 1985 study of farm structure carried out by Eurostat (Commission, 1988; Eurostat, 1989).

The consequent problem facing rural people is their economic participation in an evolving society of conflicting values. Rural people are pursuing other peoples' goals, working for firms often owned by "outsiders", and using technologies developed for differently structured industrial and urban economies. It is not surprising that the terms and conditions of this participation are also established elsewhere and that structural dislocation generates economic and social "hurt". In 1993 this process of control shifting away from rural inhabitants and their institutions may be expected to accelerate.

Whether these changes are good or bad is not the issue. What is at issue is to determine how rural populations can participate in the overall prosperity of Europe through a commensurate contribution to that prosperity (Commission, "The Future of Rural Society", 1988). Preservation of traditional rural economic structure, possible only for a short time, and in a closed rural economy, is inconsistent with this participation and contribution.

It is normal for rural structures to evolve over time, including outmigration of labour and capital. A normal pace of change matches the need of rural enterprises to compete for national resources and at the same time permits learning and revision of local institutions. What is not normal is that rural economic structures change so fast as to destroy wealth, reducing the population and its institutions and enterprises to dependence on government transfer payments. It is in this context of rapid change and ensuing structural dislocations that the question is raised of managing transitions imposed necessarily by the "larger-than-life" global forces outside the rural economic system.

The Broad Policy Options

Policy options for rural Europe take on different meanings at each level of government. This paper focuses on the Community level. However each member nation also implements policies and allocates monies to rural development. So do each of the subordinate jurisdictions such as ministries, states, departments, municipalities, communes, counties and villages according to the political structure of each country. Each level has its own rules and varying degrees of control over the policy processes. Thus policies may compete, contradict, complement or supplement each other. Nonetheless they are directed primarily toward addressing the externalities of market driven decisions.

The broad rural policy options at each jurisdictional level are; to block or otherwise isolate rural economies from global and other market forces; to attempt to steer these market forces to achieve rural development without distortion; to redistribute the gains and losses arising from global forces by means of taxes and compensations; and to let market forces work to effect rural economic development. The factors underlying the choices among these options are explored in this paper

Elementary Systems Concepts

The rural economy is treated as an open system-trading and exchanging information with other systems. It has a milieu made up of the rural economic, social and political institutions, and the rules, both written and unwritten, which govern day-to-day behaviour of the members of the system. The milieu is often based on agrarian traditions characterized by homogeneous values (Apedaile and Schilizzi, 1991 forthcoming).

The system also has an environment. The ecosphere is the name given to the atmospheric, water, soil and biological parts of the environment. The environment also includes other systems which are beyond the control of the rural system. These are the rest of the systems within Europe and in the world. These systems transmit and exert so-called global forces on the rural economy.

The rural system performs a multitude of economic and other functions centering around the allocation of resources, production, buying, selling, distribution of rewards, consumption, saving and investment. Both direct and indirect linkages determine the interrelationships among these functions. The system is purposeful, aiming to achieve the goals set by its milieu and by others in the wider economy. The system has a structure which is often a unique element in its identity, distinguishing it from other systems. The system is also a repository of knowledge and understanding which constitute its technology and memory. The speed and directions of change of technology, from both internal and external sources, influence and are influenced by the functions and structure of the system itself.

Technology underlies the ability of systems to perform successfully. Generally technology determines whether an industry experiences increasing, constant or decreasing cost. By exploiting complementarities, mechanical, biotechnical and information technologies usually enable average costs to decrease as volumes of production expand. Self-employed family firms have greater difficulty achieving decreasing costs than do large corporate firms. Large trans-European companies obtain their price cutting ability from decreasing cost structures as well as from predatory practices funded through cross-subsidization. There is little defense for most rural firms against competition based on economies of size.

Systems behaviour is characterized by the indirect feedback loops which modify otherwise direct causal relationships among the functions. These loops are similar in concept to economic externalities. Externalities in general are the uninvited events, gains and losses created by behaviour within one system for another system not a party to the original behaviour. Externalities are present within rural systems and at the boundaries of such systems with other systems. An example is nitrates in city water supplies originating from intensive farming to satisfy consumers' need for low priced food.

Externalities may have positive or negative effects on system performance in terms of stable achievement of purpose. Part of the nature of system complexity is that the same externality may have both positive and negative effects depending on the system functions which are affected, the history of events in the system, human morale and the nature of the global or environmental forces acting upon the system at the time. The source of synergism in economic systems may be seen as lying within the play of externalities upon the functions and structure of a system. Synergism is what makes the whole system greater than the sum of its parts.

GLOBAL FORCES ON LOCAL COMMUNITIES

Two Aspects of Global Forces

The term "global forces" refers to economic, social, political and technological events affecting, yet beyond the influence of rural communities. Two aspects of these forces are addressed in this paper. The first is the effect of changes in the worldwide economy, often referred to as global restructuring. The second aspect is the new way of doing business in Europe following the economic integration anticipated for 1992. Either way, global forces act through markets to generate externalities. Their impacts on rural economies are already extensive and far reaching, while at the same time being ephemeral and subject to speculation and rumour.

Global structural changes are beyond the control of individual nations let alone rural economies. These changes are important because they steer the direction of global technologies, determine terms and conditions of financing available to rural enterprises, and increase competition for those enterprises. Global change may also include redefinition of standards, such as refrigeration and bulk handling regulations, requiring substantial capital investments and changes in attitude to retain access to markets. Consequent structural change in rural economies may turn into distortions beyond the capability of enterprises and governments to deal with.

Europe Challenged to Compete Globally

The competition challenge arising from global restructuring appears to be one of the driving forces behind European economic integration. The formation of transnational conglomerate enterprises, wherever technology permits, appears to be the main strategy to enable a European presence in world markets (Vergopoulos, 1986). Paradoxically during a second phase of integration, in contrast to Arnold's findings, the foreseeable outcome of this process is reduced competition as fewer large firms enter into "live-and-let-live" agreements over global market shares, or emerge as monopolies tied to national or regional interests (Arnold, 1990 forthcoming). The stakes are the monopoly rents and political power associated with economic control of markets. The implications for rural economic systems in Europe depend on how successful Europe is, in competing with the other economic blocs in the world, and how competitive domestic European markets become. The Commission of the European Communities has a history during the 1980s of weakening resolve on reducing non-tariff barriers (Strak, 1986). These barriers impede rural development by limiting the expansion of rural enterprises and favouring the entry of transnationals into rural markets.

Rural areas, as consumers, would benefit from this process of competition. Gains could be expected as long as prices of important goods and services reflect improvements in productivity based upon worldwide technology and free trade. However it is not clear whether the European Commission's competition policy can be effective in the face of supranational competitive pressures which require subsidization in domestic markets through monopoly practices similar to those of the French airlines industry. Rural economies may be expected to bear the costs of these practices in the form of expanding differentials (basis points) between urban and port-of-entry f.o.b. prices and rural prices.

Rural areas may have difficulty maintaining employment and business volume during the competitive phase of European integration. It seems likely that every one of the structural components of rural economic systems will be distorted during the nineties. In particular the small size and family nature of rural enterprises coupled with relatively low capital labour ratios, the modifying effects of agrarian values upon the competitive will, and specialization in activities tied to natural endowments may be expected to limit the uptake of technology and the restructuring necessary to compete within Europe, let alone globally. Furthermore the tastes and preferences underlying the demand for rural goods and services may be expected to change rapidly with European and global restructuring. The option of speeding up integration of the rural economies with their urban counterparts runs in conflict with preservationist values in European society which would oppose the location of factories in rural areas and would fight the accelerated management of forests, agriculture and recreation.

The Green Movement

The new factor in the economics of European rural areas is the preservationist, or green mood, in the wider economy. Preservation of the biosphere in its natural state would preclude human intervention for agriculture, forestry, mining or recreation. Human activities perceived in this context, are understood to create an artificial ecosphere and to require regulation.

The acquisition of rural natural resources by Green oriented urban families and corporations for leisure and recreation is changing the demographic and economic structures of the rural economic systems. This phenomenon has appeared in the Dordogne, Bretagne, Normandie and Languedoc/Roussillon regions of France. As a result these economies have become more seasonal and service oriented, while resource extraction has been reduced considerably.

The consequence of these tendencies and choices is to replace the beliefs and values of the rural agrarian society with those of an urban culture biased to the upper middle class and above. Land subdivision, already prevalent in these French departments, can be expected to accompany such a transition, gradually increasing the population density and providing a base for a strong service sector. The rural economic system would thus be completely open, becoming an integral part of the urban industrial system dependent on growth of urban disposable incomes. This highly income elastic demand situation would be in marked contrast to the currently income inelastic demand for rural goods and services, thereby providing new opportunities for small scale service and artisan enterprise. With these opportunities would come greater dependence of rural incomes on the performance of the overall economy in the Community

CURRENT SCOPE OF COMMUNITY RURAL POLICY

Diversity of Rural Systems

Agriculture is often a minor sector within European rural economies. Agricultural activities in the Community as a whole in 1987 though prominent in 75 percent of rural areas had declined to only 8.4 percent of the rural work force and 3.4 percent of Community GDP (Commission, 1989). Bryden reports that in most regions of Europe agricultural labour accounts for less than 10 percent of the work force (Bryden, December 1989). Other sectors include services, construction, commerce and the other natural resource sectors of forest extraction, quarrying, mining and tourism. These natural resource activities are location-specific arising from natural endowments. In some cases, they compete with agriculture for land and water use. In rural areas closer to population concentrations, industrial plants and commercial warehousing or other services take advantage of cheaper land and unorganized labour, especially along transportation corridors.

Thus rural economies are highly diverse systems for the most part, less and less susceptible to development through agricultural policies. Furthermore both the upstream and downstream restructuring of inputs industries, food processing, handling and distribution, and of consumer services have reduced the economic multiplier effect of agricultural incomes on the local economy. Therefore rural development becomes very much part of the self interest of urban people for reasons extending well beyond food security. One could view the rural economy as laundering urban money.

Food Security and Commercial Agriculture

Responsibility for rural and agricultural policy in the European Community is divided between the Community and the member nations. The Community policy has four main themes, measures relating to products, harmonization of national laws, supporting consumer interests and adjusting agricultural structures (Commission, 1989, ch IV).

The overall food security objective for Europe, by means of self-sufficiency in cereals, oilseeds, sugar, livestock and livestock products, was fully achieved by 1985 (Commission, 1989, p14). The common agricultural policy is currently described as being in a state of reform to deal with over-production and high treasury costs (Commission, 1989, p82).

The projected level of spending in 1989 by the Community to meet the agricultural objectives was ECU 29.758 billion, or 66 percent of the preliminary draft Community budget of 44.173 billion for all purposes (Commission, 1989, p104,105). Of this amount, 95 percent was allocated to the Guarantee measures relating to products. The Guarantee program upholds farm incomes in proportion to volume of sales by means of price support above world levels. During the second half of the 1980s, inflation has been allowed to erode the real value of these supports, attempting thereby to convert the incentive effect of the program to extensification from intensification.

In 1987 stabilization mechanisms were introduced in a serious effort to maintain budgetary discipline and to scale down stocks. Nevertheless the levels of prices expressed in national currencies continue to rise for most commodities and for most countries. Production subsidies paid to farmers over and above the price supports are projected to rise 9.4 percent in 1990 (Eurostat, 1989, p3). Farmers who produce little volume of marketable product continue to be excluded from these major sources of subsidization.

Policies for Marginal Agriculture

The policy towards marginal agriculture is contained in the Guidance programs of the European Agricultural Guarantee and Guidance Fund (EAGGF) and in the provisions of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The orientation to agricultural structures in these programs appears consistent with the overall policy objective of food self-sufficiency. However, specific objectives are more complicated in that they address the side effects of the price supports, the development of the less favoured areas and mountainous areas, as well as the more general problem of structural modernization of agriculture in Greece, Spain, Portugal and southern Italy. The EAGGF budget, until recently divided into direct expenditures to farmers, and indirect expenditures involving co-financing by national governments, is now disbursed entirely through national governments.

Disbursement of all structural and Guidance funds through national governments conforms to principles of association of member states but renders each state dependent on its absorption capacity for development spending. The states and regions most in need of the Community programs administered through these three Funds have the least developed administrative and leadership capacity. Their weaker rural institutions and the low capitalization of their rural firms, compounded by the national layer of government between them and the Community create a shortage of development capacity relative to the intent and resources of the Community. The problem is exacerbated when unspent monies near the ends of fiscal years are reallocated to the states having the absorption capacity. These are in northern Europe, with the possible result of widening the development gap between the favoured and less favoured regions of the Community.

Total projected expenditures through the Guidance provisions of the EAGGF for 1989 were ECU 1.434 billion (CEC, 1989, p104). The cumulative shares by program of the ECU 3.852 billion expended between 1980 and 1987 were 48.6 percent for less favoured areas, 27.1 percent for general socio-structural investments and 24.2 percent for marketing (producer) organizations. In 1987, 38.8 percent of expenditures were direct with the remaining 61.2 percent indirect.

The Community's Rural Development Policy

The Community's Bulletin on the future of rural societies outlines seven types of rural circumstance based solely on locational criteria. These are; 1) peri-urban; 2) coastal; 3) transportation corridors; 4) lagging agriculture in the Mediterranean and semiarid; 5) remote; 6) hilly and mountainous; and 7) poorly endowed (Commission, 1988). These categories are not mutually exclusive and therefore do not constitute a suitable typology for economic analysis. Nevertheless these categories of circumstances promote the objective understanding of the ecospheric and spatial constraints to development and to policy for rural areas and correspond to groupings of political interest. In each situation of "natural" endowment there is also an overlay of institutional heritage about the way things are done, sanctions for violation of accepted behaviour, and indications of what decisions are allowed to be market driven and which are not.

This classification of areas illustrates the long-standing schizophrenia about rural development. Agriculture is the traditional occupation of rural people. Yet rural development is not perceived to be for agriculture. The political justification for publicly-funded programs for rural development, while not excluding agriculture, are designed for the so-called less-favoured areas within these seven situations. Generally, the apparent impossibility of successful agriculture appears to define the presence of a less-favoured area.

The less-favoured areas account for 41 percent of the farms, 37 percent of agricultural labour, and 25 percent of the agricultural activity in the Community (Commission, 1989, p.63). Farms in these areas are less indebted, less capital intensive and use almost twice as much labour per ECU 1000 of gross margin than do farms in so-called normal areas. Output per farm is less than half that in the normal areas.

The less-fávoured areas provide evidence that the farm income problem is related directly to labour productivity. The shortfall in incomes is more or less proportional to the margin by which output per unit of labour is lower than in the normal areas (Commission, 1989, Tables P and R pp 67 and 69). The composition of income and the measures of productivity in both areas include returns to labour, management and capital, and rents in keeping with the self employment nature of agriculture in both areas. No evidence is available as to the relative performance of the other rural sectors in normal and less-favoured areas. However it may be expected that their performance also requires an effective demand for their products and productivity to justify healthy wages, rents and returns to capital. Non-resident ownership of productive assets and outmoded technology could deny the latter two, while inadequate skills limit wages.

The heart of the rural policy question is the ability of a rural economic system to produce goods and services which are valued both within the system and in the wider global economy. Rural economies are jeopardized by either one or all of; overproduction, high cost outputs relative to substitutes produced elsewhere, or failure to satisfy tastes and quality standards of consumers. The lessons are evident from agriculture and may be applied to the other sectors. The dairy industry is a good example in Europe of overproduction, high cost outputs, health concerns by consumers and competition from vegetable substitutes.

POLICIES TO ADDRESS POST-1982 RURAL ISSUES

Summary of Issues

Economic integration in principle reduces barriers to trade within Europe, opening the rural economies to both international and global economic forces. These forces include re-ranking of goals, new objectives, the Green movement, rapid transitions in demand patterns for rural goods and services, technology, more global capital markets, increased competition from firms with economies of size, more powerful monopoly and oligopoly behaviour by "competitors" and a redefinition of political relationships within nations of the Community and with the Community itself.

The matter of reunification of Germany introduces uncertainty surrounding the timetable for economic integration of the Community. Integration, when and if it happens, can be expected to open rural economic systems up further to the wider European economy. To the extent that Europe also opens its economy to the world, rural economies should become more exposed to global forces. These include new and changing tastes and preferences altering the demand for rural products and services, higher health and sanitation standards, urban goals and interests, increasingly concentrated market structures, more formal financial arrangements, higher domestic costs as Europe tries to lead or keep pace with the rest of the world, the political force of the Green lobby and integration of national property, labour and capital markets globally. These forces extend to competition by eastern Europe for capital financing necessary for agricultural and rural development in the Community.

The policy focus for rural economies by the Community has been heavily weighted towards subsidies supported by agricultural trade restrictions. This emphasis is changing with the reform of the common agricultural policy. The rural economic system is complex however, and policy design is difficult especially for the less favoured areas. The system performs many economic and other functions which are linked directly and indirectly by markets and by non-market externalities more susceptible to social and political treatments.

The agrarian milieu is rapidly changing as agriculture industrializes and the beliefs and values of the population become less homogeneous. The effects of the global forces and of changes within the rural system are expected to require substantial change to the structures which are so fundamental to the rural identity and wealth base. Structural distortions evoke political expression.

Four themes describe the Community's policy toward rural economies. They are, improvement of production, harmonization of standards and business conditions among member nations, consumer service and rural restructuring. The policy distinguishes favoured from less favoured rural areas mainly on the basis of natural conditions for agriculture. The favoured areas receive income support through the guaranteed commodity prices. The less-favoured areas receive a growing number of development programs co-financed by the Community and member nations. These programs are funded from the structural funds, the agricultural guidance funds and the regional funds. The less-favoured area programs face the limited absorption capacity of national and local government institutions and on the part of private firms.

Policy Options

The need to keep the boundaries of rural economies open, in the same way as economic integration is needed to open up national boundaries, invites externalities from other economic systems. The four broad policy options identified by the systems synthesis to address the problems created by these externalities are: 1) to block the effects of European integration from reaching rural areas; 2) to steer the effects of integration to reduce negative externalities and develop positive feedback effects; 3) laissez-faire; and 4) to compensate rural firms, institutions and individuals for the adverse side effects of integration and larger global forces.

Blocking is inadvisable and will be unsuccessful in achieving rural economic development because, in the context of systems synthesis, it closes the rural economic system. Closing leads to gradual deterioration of the vitality and order of the system, translating into impoverishment and growing income disparities. Blocking out global forces is also undesirable to the extent that it is tied to, and often advocated by narrow vested interests. More fundamentally, blocking violates the underlying purpose of European integration, which is to enable all Europeans to contribute to and to participate fully in the benefits of development.

The steering option would appear to be the focus of the nine main areas of Community action anticipated for the nineties by the Bulletin on the future of rural society. Within the framework of the common agricultural policy the nine programs cover the environment, selected economic sectors, some institutions, technology, information, education and animation. These programs are of the same types that have been used by aid agencies for third world development over the past thirty years. It is not clear that the effects of these policies may be expected to extend much beyond those of the laissez-faire option. Yet the steering option remains attractive in concept, despite its requirement for substantial research and design work to cope with the complexities of the systems and the specific circumstances of the twelve Community members and their various rural economies.

The laissez-faire option presupposes that macro-economic policies governing the whole Community are sufficient for rural economies. These policies include interest rates, money supply, fiscal measures, exchange rates, tariffs, non-tariff barriers to trade, standards and regional equalization payments. Under a laissez-faire policy, rural firms and resources operating in this policy environment would obey Community-wide market forces, relocating or closing if not profitable.

A laissez-faire policy presumes similar lengths of time for rural production processes and product lines as for urban industrial and service enterprise. Low transfer costs of resource mobility and acceptable social consequences of ensuing structural change are also presumed. However relatively inflexible product lines, long production processes, low rural population densities, weak fiscal resources, unacceptable ecological consequences of desertification and established standards for public services and family purchasing power appear to require exceptions to the market based allocative and distributive rules. Compensation policies to supplement a laissez-faire approach would appear to be required.

It seems that the most propitious policy option lies in compensating rural firms, institutions and governments for the negative impacts of the global forces promoted by economic integration. The problem is that the tradition in democracies is to address externalities by political means. Inadequate weight is often given to the economic logic of the problems or to the need to protect synergistic processes in the long run interest of the rural economy.

The role of local governments, irrespective of the choice among these broad rural policy options, is to enhance economic synergism, respond to income inequity and to forestall shocks to rural financial equity. The role of the higher levels of European government in rural policy is to ensure a measure of fiscal equalization, enforce competition policies and to harmonize standards of public services.

A Synthesis of Policy Requirements

The systems synthesis suggests a number of possibilities for policy making in the new environment of economic integration in 1992. First is to manage the extent to which the rural economic systems are open to each of the various systems in their environments. Second is to promote the ways to strengthen and balance the various economic functions of the systems. Third is to identify and deal with negative feedback links among the functions of the systems, otherwise termed negative externalities. Fourth is to monitor and seek compensation for negative externalities created by global forces transmitted and newly generated by the process of economic integration of the Community, which are judged to put unacceptable stress on the structures of the rural systems. Fifth is to strengthen the technological learning by the system milieu. Sixth is to democratize the institutional changes within the milieu, as values change, to enhance the feeling of popular control over events and to develop the sense of destiny and purpose for the inhabitants of the rural areas.

European policy to manage the openness of rural system boundaries to global forces has consisted mainly of incomes, location and inputs subsidies to supplement economic forces, subsidies for research and development of biological and mechanical technologies to address the ecospheric forces, and subsidies for development of producer groups to manage the political forces. In the emerging climate of economic integration, these policies should become increasingly difficult to design and to implement. They each interfere with markets, particularly in the equity of market outcomes among member states.

Interference in markets with subsidies introduces inefficiency when they are partially or wholly capitalized into land and quota values, or result in product for which there is no effective demand. Subsidies enhance fiscal vulnerability when they prompt inefficient investment decisions. In general subsidies close the economic boundaries of rural systems fostering a decline in economic and technical efficiency within the system. However, similar outcomes for efficiency and equity may be expected to arise from uncompetitive market forces and in all cases involving constant or increasing returns to size. Therefore technology policy, public regulation of prices and subsidy design should assume greater importance to rural development as integration proceeds.

Policies to strengthen the economic functions of rural economies lie at the heart of current rural, structural and regional policy in Europe. Yet seasonality, underemployment, remoteness and the rural milieu among other system attributes, continue to defy sustainable policy solutions in the less favoured areas of the Community. The absence of reasonable expectations of being able to recover the costs of investment impedes private enterprise and prevents the growth of a tax base to meet the recurrent costs of local government, let alone the costs of financing capital works. The effects of macroeconomic policy and locational circumstances limit the ability of rural policies to stimulate system functions.

Negative feedbacks or externalities within the rural system and entering from adjacent environments appear to be particularly insensitive to policies implemented at senior levels of government. An example of an externality within a rural system is the effect of plant closures on the debt financing capabilities of farmers and the effect of manure disposal on the demand for resort services. An example of a cross-boundary externality is the effect of changing milk handling standards to remove a nontariff barrier to trade on the capital costs of cheese plants. Often outside the scope of a market solution these negative feedbacks are usually handled by political and social action requiring an intimate knowledge of the particular circumstances.

Strong local institutions including powers to invoke compensations for needed adjustments are required for timely solutions to the constantly changing array of negative feedbacks. Similarly positive feedbacks or complementarities are usually apparent only to local interests and can be enhanced only by rural governments. Examples are the timing of a project to widen a bridge and intervention with a new employer to introduce job sharing which would permit greater pluriactivity by adolescents and women.

Policy to promote technological learning may be expected to produce the largest payoffs of all possible expenditures. The self-employed character of rural enterprises requires emphasis on technology and technique rather than on skill training. The opening of the rural economy introduces the need to expand, to consider new product lines, to formalize accounting procedures and to supervise personnel, all new for many rural firms. There is the further need to develop new techniques, to adapt imported technologies and to invest in development of technologies for rural enterprises. A policy to meet all these requirements would have to be decentralized to respond to needs, and to be linked to a technological resource network.

The last policy is to democratize rural institutions to improve the level of consensus, to manage the pace of institutional change and to develop the sense of destiny required to keep people active, intense and interested in taking initiative. This policy need is perhaps less obvious than the others. Yet it goes to the heart of the rural milieu which in many parts of Europe may not have the same democratic traditions as do the national levels of government. A resigned and docile peasantry is not a strong human base on which to found rural development. Policies to address this issue should probably originate at the Community level.

CONCLUSIONS

This paper has addressed policy issues affecting European rural economies in the context of economic integration in 1992 and beyond. A systems synthesis was employed in an attempt to develop a holistic perspective. The result reveals a measure of schizophrenia on the part of the European Commission, often associated with treatments of agriculture and rural economies. The Commission defines less-favoured areas in the Community in terms of agricultural potential. Rural policy has been dominated by agricultural support programs, including the structural Guidance programs. Yet the future of less-favoured areas appears to lie with nonagricultural enterprise. Agriculture is declining in importance, is increasingly cross-subsidized by pluriactivity elsewhere in the rural economy, and already constitutes a minor source of employment relative to the larger economies of most of the twelve countries of the Community.

The principal rural policy trade-offs for Europe lie in balancing the much wider issues of rural economic development and the environment with the more focussed objective of food security. The paper concludes that subsidy design, technological development and public regulation of markets will become more important issues under economic integration than they are at the present time. Macro-economic policy and locational circumstances of rural areas limit the extent to which any rural economic policy can stimulate rural economic functions. Negative externalities arising from global and Community markets and from Community macro-policy appear to be so situation-specific as to be insensitive to actions at the Community level. Technological learning by rural enterprises is central to long-term flexibility of rural economies in responding to global forces. The increasingly heterogeneous rural milieu and greater openness of the boundary to urban forces requires stronger participatory institutional processes to resolve anticipated conflicts over goals and structures, to enable economic progress.

The conclusion for Community rural policy is to promote domestic market competition and to strengthen the capabilities of national and local governments to manage externalities arising from global competitive action by the Community. This partition of roles by level of government extends beyond the principle of subsidiarity. Stronger policy capability of member States and regional governments includes proactive interventions by the Community in the public interest of equity and of stronger rural economies, in addition to passive redistributions of Community revenue to the levels of government best able to implement policy measures.

The dialectical issues which arise in this division of roles may provide the checks and balances necessary to steer technological advance toward the rural economies and to moderate the impact of distortions inherent in structural change by means of short term transfers of income among the gainers and losers. Attempting to block the impacts of economic integration from affecting rural systems by measures such as subsidies is inadvisable, while a laissez-faire policy appears to be unacceptable. A combination of properly designed steering and compensating measures may favour the development of the rural economic systems, more or less in conformity with Pareto criteria.

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ANNEX I

ABOUT THE AUTHORS

Dr Peter Apedaile is a professor in the Department of Rural Economy at the University of Alberta and a grain farmer at Willingdon in east central Alberta. He obtained a B.Sc. in agriculture at McGill University in 1960 and a Ph.D. in economics at Iowa State University in 1968. His principal professional interest is agricultural and rural development using a public policy perspective based on systems analysis. Dr Apedaile has practised in this field for extended periods in Canada, Zambia and Nepal, and has carried out research on various agricultural development topics in countries of Europe, Africa, Asia and South America. He directed work in China on institution building for higher education in agriculture during the period of family farm reforms. In 1990 he completed sabbatical studies at the Montpellier research station of the Institut National de Recherche Agronomique in France, on the topic of systems theory. He is currently working on dynamical systems modelling of structure, technology and subsidy issues for rural economies.

John Bryden is Programme Director of The Arkleton Trust and Research Director of The Arkleton Trust (Research) Ltd. He was formerly Head of the Land Development Division of the Highlands and Islands Development Board, a lecturer in economics at the University of East Anglia, Economic Development Advisor in the Eastern Caribbean, and Economic Assistant in the Economic Planning Staff of the first Ministry of Overseas Development. He was educated at the University of Glasgow where he read Political Economy and Agricultural Economics, and the University of the West Indies. His Ph.D. was concerned with the economic and social impact of tourism in the Eastern Caribbean, and was published in book form by Cambridge University Press in 1973. He has subsequently published widely in the field of rural development and agrarian change.

Sophia Efstratoglou-Todoulou is an Associate Professor at the Department of Agricultural Economics, Agricultural University of Athens. Previously, she was a senior research fellow at the Centre of Planning and Economic Research (Athens). Her interests concern mainly research in agricultural and rural development aspects and in agricultural and regional policies evaluation. She has done research on the economic implications of structural change and resource adjustments in rural areas and on the impact of agricultural and regional policies, particularly of the CAP. Since 1986, she has been participating in the research programme "Rural change in Europe: Farm structures and pluriactivity" coordinated by the Arkleton Trust.

Professor Philip Ehrensaft teaches at "l'Université du Quebec à Montréal" and specializes in rural sociology and economic sociology. He is responsible for organizing the National Seminar on the Development of Rural and Single-Industry Regions, the annual policy seminar organized in Canada by the Agricultural and Rural Restructuring Group.

Current research includes the Development and analysis of Agriculture Canada's national data base on rural economic and social change; evaluation of the local performance of Employment and Immigration and Canada's Community Futures Program; the impact of social policy in rural and single-industry regions; and participation in the Rural Sociology Society's Task Force on Rural Poverty.

Jim Martin Following a Bachelor of Mathematics degree (University of Waterloo) and a Ph.D. in Educational Planning (University of Toronto), Jim Martin joined the Public Service of Canada in 1974. Since then he has occupied a number of policy and senior management positions in the departments of National Health and Welfare, the Ministry of State for Social Development, Agriculture, and is currently the Director of Regulatory Affairs, Treasury Board of Canada. During this period, he has helped develop federal policy and programs relating to income security (notably public and employer pensions, family income supports, tax/transfer integration), national agricultural stabilization and development, and regulatory policy. He is also the author of several articles in the areas of the economics of aging, the design of information systems, and multi-variate statistical analysis.

David Freshwater is an associate professor in the Department of Agricultural Economics, University of Kentucky. Previously he was a senior economist on the staff of the Joint Economic Committee of Congress. He has also held positions on the staff of the Senate Committee on Agriculture, Nutrition and Forestry, and was a visiting professor at USDA's Economic Research Service.

He has been on the faculty at the University of Manitoba, and has served as a consultant to a number of Canadian federal and provincial government departments, private companies and the United Nations Industrial Development Organization.

Heino von Meyer is senior Research Fellow and Deputy Director at the Institut für ländliche Strukturforschung (research institute for rural studies) in Frankfurt/M. His academic interests mainly concern regional and environmental issues, especially in the context of the European Community and its Common Agricultural Policy: in these fields he has made extensive research into their economic aspects and policy implications, leading to numerous articles and papers. Particular mention may be made of his joint work with von Urff: *Landwirtschaft, Umwelt und ländliche Raum: Herausforderungen an Europa* (Nomos Verlag: Baden-Baden, 1987).

William E. Nothdurft is a Washington D.C.-based writer and independent public policy consultant. He has authored or co-authored dozens of reports and state policy initiatives on welfare reform, adult literacy enhancement, education and training reform, agriculture policy, rural development, and state marketing programs. He is the author of several recent books, including *Out From Under: Lessons from a Quarter Century of Wars on Poverty*, published by the Council of State Policy and Planning Agencies, and *Schoolworks: Reinventing Public School to Create the Workforce of the Future*, published by the Brookings Institution. He also writes the *Development Report Card for the States* each year for the Corporation for Enterprise Development. His latest book is *The Niche Makers*, an analysis of European small business export market development programs, soon to be published by the German Marshall Fund of the United States and the Brookings Institution.

J. Norman Reid is Deputy Director for Rural Development, Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture, where he oversees a program of research on rural economic conditions and their public policy implications. He has written on rural economic and social trends in the U.S. and OECD countries, entrepreneurship, rural development policy, public infrastructure, government aid programs, and regional approaches to rural development. He has served as an advisor to the Secretary of Agriculture on rural development policy and as staff director of a presidential commission on rural development. He was awarded a Ph.D. in political science from the University of Illinois-Urbana in 1975.

Michael Tracy has worked on agricultural policy issues in various international organisations, including the Secretariat of the Council of Ministers of the European Community (in Brussels), where he was a Director from 1973 to 1983. He has also pursued an academic career: his main work is his book, of which the third edition appeared in April 1989 under the title *Government and Agriculture in Western Europe, 1880-1988*. He has held lecturing appointments at various institutes in different countries. In 1984-85 he was President of the British Agricultural Economics Society.

ANNEX II

THE EXCHANGE PROGRAMME

European, U.S. and Canadian Networks

The tremendous social and economic changes which are occurring in the lives of rural people in North America and Europe, and the governments' response, has fostered the creation of regional networks of rural practitioners, policy makers and researchers – one in Europe, the United States and Canada. Although the purposes and organizing principles are different, each network represents important access to information and people key to rural concerns in the home country.

In Europe, the Arkleton Trust, a research organization with charitable status and based in the U.K., has been supported by the European Commission to study changing farm structure and multiple job holding in rural areas of the 12 EEC countries. The study has three main parts, and will be conducted over a five-year period. It is designed both to monitor the impact of current policy changes, and to inform further agricultural and rural policy innovations in the period running up to the full implementation of the Single European Act in 1992. The study programme is comparative in nature, involving 24 study areas throughout Europe; as such, it will provide essential information to the Commission on the impacts of both agricultural policy and the structural fund reforms on different levels of farm households and rural areas throughout Europe. It is expected that the results of the study will have profound significance for the nature and pace of further economic and political integration in Europe. The findings will be particularly relevant for policies aimed at stimulating better jobs and improved incomes for rural people. In undertaking this study, the Arkleton Trust has brought together over 80 researchers, academics, agriculturalists, and civil servants in 12 nations of Europe, a uniquely rich network of individuals, institutions and experiences to draw on for comparative research purposes.

In the United States, rural change and lack of policy information led the Ford Foundation and Wye Institute to create the Rural Economic Policy Programme at the Aspen Institute. Working with a 14-member advisory board, the REPP has recommended support for dozens of rural research projects, convened numerous seminars, and helped to bring together researchers, rural community leadership and policy makers around rural concerns. Although no single study unites the REPP effort, this network represents significant rural activity and expertise across the United States.

The School of Rural Planning and Development at the University of Guelph, represented by Dr. Anthony Fuller, together with Statistics Canada, the main government statistical agency, have created a network of researchers in Canada. Through a process of research, dialogue and dissemination the network will attempt to raise the level of debate on the shaping of rural futures in Canada. While this network has been formed more recently than the other two, the Donner Foundation of Canada has recently funded a series of research and dissemination activities which should accelerate its development. Known as the Canadian Agriculture and Rural Restructuring Group (ARRG), it currently has 16 members from throughout the university community in Canada, and will be expanded in the near future to include more official and community-based representation.

Over the past two years, representatives of the three programmes, the Arkleton Trust, the REPP and the ARRG, have participated in joint seminars on three occasions. The collaboration and exchange which took place was felt to be enormously useful by participants on both sides of the ocean. As part of their on-going programmes in 1986 and 1987, the REPP and the Arkleton Trust partially sponsored two symposiums in the United States at which representatives from Canada and Europe met and discussed rural issues with participants from the United States.

The first seminar, co-sponsored with the University of Wisconsin, brought together seven of the researchers from the Arkleton 1992 transition study with rural university, government and not-for profit representatives from the U.S. The two-day conference at the Wye Institute in Maryland was attended by 35 people involved in studying and shaping rural development policy. Participants debated sector specific policies, infrastructure investment strategies and the importance of and methodologies for stabilizing rural household income. Participants wrote statements outlining policy options for the 1990s for the United States and Western Europe, and the University of Wisconsin published the proceedings in a book which has been widely distributed [1]. A number of research relationships were subsequently formed and all participants agreed that the conference had expanded their approaches to rural problems.

In November 1988, in collaboration with the U.S. Department of Agriculture, REPP held a second international symposium on rural transition on a more specific subject: the possibility of and impediments to redirecting policy interventions from agriculture to a broader set of rural concerns. In February 1989, REPP and Arkleton staff travelled to Canada to meet with the ARRG group and exchange information, and several researchers and community activists have also visited North America and Europe.

The Rural Exchange Programme

The Arkleton Trust, the REPP, and the ARRG, thus created an international exchange programme which would support up to six exchanges a year of researchers, community leaders and policy makers active on rural questions during the next several years of dramatic economic change. They believed that both the problems for rural people and the opportunities for a broader and more effective set of policy interventions share important similarities in Europe and North America, and provide a good basis for comparative research and exchange. The programme was designed to meet one or more of the following purposes:

- To allow analysts and rural practitioners in one region to study the policy experience of another with the possibility of stimulating the replication of a

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[1] *Agriculture and Beyond: Rural Economic Development*. Summers, G., Bryden, J., Deavers, K., Newby, H., Sechler, S. (eds). University of Wisconsin-Madison, 1988.

successful strategy. A particularly interesting example of this can be found in the German Marshall Fund's series of international exchanges around the flexible manufacturing networks operating in Italy.

- To stimulate comparative research and analysis as a basis for programme development. Both the Arkleton Trust and the REPP have found that a researcher's training and experience can stimulate very different approaches to research questions and that an opportunity to work together to build a comparative research project often leads to deeper and more balanced results in both research and programme terms.

- To broaden and stimulate the thinking of policy makers and community leaders in rural areas by exposing them to different policy approaches to rural economic development.

- To use the results of the learning that will take place to stimulate and educate a wider group of researchers, community developers, and policymakers through seminars and publications.

Fellowship topics would fall roughly within an expanded version of the following four themes which arise from recent work undertaken by the Arkleton Trust and the Rural Economic Policy Programme of the Aspen Institute. The themes are:

1. Comparative examinations of the changing economic and policy frameworks for rural people and development, including changes in trade policy, regulation and public investment, and the role of constituency and interest groups;

2. The effects of public and private development strategies, including regional policy approaches, strategies for diversification, sectoral interventions and local development strategies;

3. Environmental and agricultural issues as they relate to the well-being of rural people, especially issues of 'sustainable' agriculture and rural development and the achievement of farm income targets through environmental means; and,

4. Rural household adjustment strategies such as migration, multiple job holding, use of public welfare, training and retraining.

ANNEX III

PARTICIPANTS IN THE SEMINAR

Peter Apedaile
51 Rue Michel Ange
Le Parc Des Ormeaux
Bat. J. 23 (3 Eme etage)
34000 Montpellier
France

Peter Baumann
Under-Secretary
Ministry of Agriculture
Slotsholmsgade 10
DK-1216 Copenhagen K
Denmark

Edward Bergman
University of North Carolina
Department of City & Regional Planning
Chapel Hill
NC 27514,
USA

Dr André Brun
INRA-ARDON
Centre d'Orleans
45160 Olivet
France

Dr John Bryden
Programme Director
The Arkleton Trust
Nethy Bridge
Inverness-shire
PH25 3EA
UK

Dr Patrick Commins
TEAGASC
Agricultural & Food Development Authority
19 Sandymount Avenue
Dublin 4
Eire

Prof Sophia Efstratoglou
Agricultural University of Athens
Iero Odos 75
Votanikos 118 55
Athens
Greece

Philip Ehrensaft
Départment of Sociologie
Université du Québec a Montréal
Case postale 8888, Succursale A
Montréal
Quebec H3C 3P8
Canada

Ms Claire M Fortier
Programme Officer
Donner Canadian Foundation
PO Box 122
Tornoto Dominion Centre
Suite 2010
Toronto MK5 1H1
Canada

Professor Anthony M Fuller
School of Rural Planning and Development
University of Guelph
Guelph, Ontario N1G 2W1
Canada

Lady Elizabeth Higgs
Chairman of Trustees
The Arkleton Trust
Enstone
Oxon
OX7 4HH
UK

Mr Christian Huillet
OECD
37 bis, boulevard Suchet
75016 Paris
France

Ms Tracy Huston
Rural Economic Policy Program
The Aspen Institute
133 New Hampshire Blvd
Washington DC 20036
USA

Mr David Kirk
Head of Rural Development
Scottish Development Agency
Rosebery House
Haymarket Terrace
Edinburgh
EH12 5EZ

Mr Dick Long
Agricultural and Rural Economy Division
Economic Research Service
US Department of Agriculture
1301 New York Avenue, NW
Suite 314
Washington DC 20005-4788
USA

Mr James K. Martin
Director, Regulatory Affairs
Regulatory Affairs Branch
Office of Privatization and Regulatory Affairs
Ottawa K1A 1J2
Canada

Professor Howard Newby
Chairman
Economic and Social Research Council
Cherry Orchard East
Kembrey Park
Swindon
SN2 6UQ

Mr Wm Nothdurft
Wm Northdurft Associates
5611 Greentree Road
Bethesta
Maryland 20817
USA

Mr Norman Reid
Agricultural and Rural Economy Division
Economic Research Service
US Department of Agriculture
1301 New York Avenue, NW
Suite 314
Washington DC 20005-4788
USA

Dr Elena Saraceno
Centro Recherche Economico Social srl.
(CRES)
Riva Bartolini 18
Udine 33 100
Italy

Ms Susan Sechler
Director
Rural Economic Policy Program
The Aspen Institute
1333 New Hampshire Avenue NW
Suite 1070
Washington DC 20036
USA

Dr Iain Skewis
Development Board for Rural Wales
Ladywell House
Newtown
Powys
SY16 1JB

Mr Elliot Stern
Tavistock Institute of Human Relations
120 Belsize Lane
Hampstead
London
NW3 5BA

Professor Michael Tracy
"La Bergerie"
20 Rue Emile Francois
B-1474 Ways-la-Hutte
Belgium

Heino von Meyer
Institut für ländliche Strukturforschung
Zeppelinallee 31
D-6000 Frankfurt/M 1
West Germany

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