



IOWA STATE UNIVERSITY • UNIVERSITY OF MISSOURI • UNIVERSITY OF NEBRASKA

Written Statement for the Record

**Charles W. Fluharty
Vice President for Policy Programs
Rural Policy Research Institute
Truman School of Public Affairs
University of Missouri-Columbia**

Before the

**Field Hearing
United States Senate Committee on Agriculture,
Nutrition and Forestry**

Steubenville, OH

October 22, 2008

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

214 Middlebush Hall • Columbia, MO 65211
(573) 882-0316 • Fax: (573) 884-5310 • www.rupri.org
email: CFluharty@rupri.org

Good morning, Senator Brown. It is again an honor to appear before your Committee.

I am Charles W. Fluharty, Vice President for Policy Programs of the Rural Policy Research Institute, a Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri-Columbia, and a German Marshall Fund Transatlantic Fellow. RUPRI is a multi-state, interdisciplinary policy research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations and individual scientists worldwide. To date, over 250 scholars representing 16 different disciplines in 100 universities, all U.S. states and 25 other nations have participated in RUPRI projects.

I am particularly pleased to appear before you in my home county, to discuss the unique needs of Appalachian Ohio, and the implications of our experiences for broader U.S. rural development policy. Forty years ago next spring, I graduated from the College of Steubenville, another excellent educational institution serving the Ohio Valley. My father returned here in the late 1940s to assist in the design, development, and nurture of this college, and spent his entire working life within leadership capacities there. At that time, the “College” served as what we would today characterize as a community college – grounded in the local culture and economy, with a mission to lift up and advance the region’s young men and women, in the place they choose to raise families and call home. Today, this hearing occurs in another outstanding institution, serving this mission. The Ohio Valley is tremendously blessed to have these two institutions, continuing to address this very critical mission.

Unfortunately, in the forty years since I left what is today Franciscan University, the Ohio Valley’s social and economic indicators, vis-à-vis Ohio in general, have deteriorated. As you well know, Appalachian Ohio, proud and resilient, continues to struggle. While these dynamics are particularly challenging, they are not solely unique to our region, but reflect the continuing rural differential disadvantage within the United States.

Senator Brown, in testimony before the House and Senate Agriculture Committees in 2001, I offered seven recommendations to build a more relevant rural policy framework in the 2002 Farm Bill. In my ensuing testimonies since then, including testimonies before both Committees last year regarding our new Farm Bill, I continued to highlight these policy recommendations:

- 1. Develop a comprehensive national rural policy, driven by specific federal policy goals and outcomes measures.*
- 2. Sustain existing categorical program and funding support.*
- 3. Build rural community capacity, collaboration, and leadership.*
- 4. Develop a more integrative, cross-sectoral, place-based policy approach.*
- 5. Address the lack of rural venture and equity capital.*

6. *Support approaches which exploit the interdependency of agriculture and the broader rural economy.*
7. *Support rural entrepreneurship, in both the public and private sector.*

While progress has been made in each of these areas, much remains undone. This morning, I would like to reflect upon specific opportunities which result from the passage of the 2008 Farm Bill, and address several specific concerns for rural America, relating to the current global crisis in capital markets.

Last week at this time, I was in Limassol, Cyprus, where I was honored to address the plenary session of the European Commission's biennial Rural Development Conference. This was a gathering of over 1,000 statesmen, government leaders, researchers, and rural development practitioners, focused upon crafting a new framework to advantage Europe's rural regions. As an American, it was a great privilege to address this body, but the nature of my comments caused me great pause. I was asked to reflect upon the current state of rural policy in Europe, with recommendations for future policy development, from a U.S. perspective.

We do share much in common with our European counterparts. We have generally similar socio-economic, demographic, and geographic dynamics. Most importantly, we both must now address the very same structural shifts with which we will both struggle in our respective policy arenas. And, in that regard, we both stand at the same historic point of departure. Rural development and agricultural policy makers on both sides of the Atlantic are challenged by an increasingly urban public policy arena, and an electorate demanding clearer answers to questions regarding the public benefits of rural and agricultural funding. Climate change and bio-energy dynamics heighten, not lessen, this urgency.

In the U.S., the new Farm Bill has re-aligned many of the historic constituencies competing around this title, and forced a re-examination of the relationship between ag and commodity organizations and the broader rural development and environmental constituencies. As you know, leaders of both Congressional Committees realize this will be the last Farm Bill of this type. A new search is beginning, a search for context, rationale, and constituency. As we begin to implement this Farm Bill, our European colleagues also are completing a "Health Check" of their Common Agricultural Policy. Over the next five years, we will both be progressing, in a quite similar manner, cadence, and timeline, toward major ag and rural policy reform in 2013:

- We are each reassessing the relationship between ag and rural policy.
- We are each attempting to rationalize and integrate regional and rural development policies, funding, and programs.
- We are each challenged by growing rural/urban conflicts, driven by environmental, energy, and food safety concerns.
- And, all this is not only in flux, but morphing before our eyes.

Sadly, our European colleagues, who are also our most immediate competitors, are far ahead of us in reaching an acceptable, and do-able "modus vivendi" regarding these challenges. In my speech I suggested to them that several key components of their European rural development policy framework were of huge advantage, vis-à-vis the United States. I list these elements

below, as each of these better position Europe's rural regions. Sadly, these are all policies, programs, and perspectives which we continue to lack and badly need, in the U.S.

1. First, the EU has an integrative strategic planning acting and evaluative framework for all Rural Development investments.

We lack both the planning and technical assistance commitments which the EU centers their funding around and support their national, regional, and local programs through. Consequently, we have great challenge in complementarity and coherence across and among rural development programs, and no instrumentality to utilize in achieving either. In Europe, there are detailed strategic priorities for EU, national, and local rural policy funding and programs. These drive prioritization processes and evaluative measures to assure public sector funds are being efficiently and effectively utilized. We lack all such structures.

2. Secondly, the EU rural development approach is singularly different from ours in the centrality which agriculture holds within their policy framework.

While there are obvious challenges with such a design, there are three advantages with this approach. One, it enables policymakers to link climate change, renewable energy, and energy price imperatives more directly to rural development initiatives. As regional approaches to build distributed energy, regional food and regional transportation systems emerge, these policy linkages are of tremendous benefit. It also enables the innovations which must occur to exploit entrepreneurial opportunities in the bio-economy, to be directly aligned with broader rural development policies. Secondly, the European Union does a much better job of integrating regional and rural policy programs. We are singularly lacking in this regard. Finally, our European colleagues recognize that rural development may indeed be a new vehicle for agricultural policy transition, as they move away from direct subsidy payments to an "investment" framework for policy commitments to future of rural regions. This will occur, it is only a matter of time, and language may be our last major challenge here.

3. Third, the EU places tremendous importance upon "new rural governance," both through a major program, LEADER, and elsewhere throughout their policy and program design.

Three percent of all European Union rural development funds are allocated for technical assistance and capacity building. Furthermore, the LEADER program commits \$6 billion Euros over the next five years to regional collaboration, in a bottom-up, collaborative effort designed to build regionally appropriate scale for multi-sectoral collaboration between the public, private, and philanthropic sectors.

As you are aware, our Farm Bill created a major new program, the Rural Collaborative Investment Program (RCIP), which would create such a program to advantage rural people and places. Unfortunately, no mandatory funding was committed to this program. If I were to do one thing to increase U.S. rural competitive advantage, given the diversity

of need and circumstance throughout our nation, it would be to fund this program, at a very significant level.

4. Finally, EU Rural Development grant specifically target commitments to identified policy priorities, while also assuring specific attention to the multiple forms of disadvantage and inequality which exist across the European geography.

These differences are directly addressed through EU Cohesion Funds, but also within their rural development framework. In the U.S., we have moved most Rural Development grants to a guaranteed loan framework over the last decade. This approach has significant benefits, but also costs. In a study which RUPRI conducted last year, we found that in FY05 the USDA Rural Development guaranteed loan programs leveraged \$304 million in federal outlays to fund nearly \$6 billion in program delivery, resulting in 137,000 full time equivalent jobs, with an annual contribution to rural GDP of over \$8.5 billion. This was a phenomenal 28 to 1 GDP contribution per program cost.

While this is a significant leveraging of public sector funds, and is to be celebrated, the reduction of specific grant funds within the USDA RD portfolio lessens the ability of our nation's most disadvantaged rural regions in competing with those areas that are experiencing economic growth.

I would argue that the appropriate balance has not yet been struck on either side of the Atlantic. However, as we begin to deal with the severe economic challenges and dislocations which will result from our current recession, attention to prioritized grant funding should be re-examined by USDA RD.

While I was pleased to highlight, and celebrate, these European structural advances in rural development policy, I mention them because they are emblematic of public policy opportunities we are failing to utilize here to advantage rural people and places. In summary, our European Union competitors are answering five critical questions through the policy instruments outlined above:

1. Do we know where we want to get? (Strategic prioritization and planning)
2. Are we working together to get there? (Rural governance)
3. Are we using the assets we have? (Ag/natural resource linkages – innovation/entrepreneurship based)
4. Are we putting our money where we say we want to be? (Targeting/granting)
5. Are we trying to work smart, and help one another achieve? (Evaluative frameworks)

This Field Hearing occurs at a very difficult time for our nation and world, in a region which has been disadvantaged for decades, as you know. Over the past several weeks, we have come to realize our nation's citizens have been the victims of massive institutional malaise and malfeasance, and we are now in the early stages of a serious reassessment of the structural relationship between the public and private sectors. Americans today are asking serious questions about the nature of the body politic. Our nation's social contract is badly frayed, and change will be demanded. Following this election, we will enter into a national conversation

regarding the role and scope of our federal government, which, at its core, is central to our democratic experiment and federal republic. Values will be re-examined and assumptions re-assessed.

As you know, Senator Brown, my testimonies before your Committee, and my counsel to you, your colleagues, and staff, have altered very little over the past two decades. All public policies and budget are ultimately about visions and values. We do not lack a basic understanding of rural need or rural opportunity. What we lack is the political will to act upon these understandings.

I would hope, in the policy debates which are about to ensue regarding approaches to address our global financial crises, that this Committee would better consider the rural implications of alternative policy considerations. Because of their conservative nature, our nation's rural financial institutions have not fallen prey to the arcane and complicated instruments which have resulted in the downfall of many of our nation's most famous investment banks, financial institutions, and hedge funds. However, it is also true that the conservative values which have sustained these institutions may also lessen their willingness for risk in the business climate which will exist over the next several years. Furthermore, many of these institutions will lack sufficient scale to advantage the rural regions in which such great stress will be placed.

Consequently, I would suggest this Committee should immediately re-examine existing opportunities within your statutory jurisdiction, to address opportunities for enhanced rural capital formation and innovation/entrepreneurship development. As you know, the Farm Credit System has recently initiated an experimental program called Mission Related Investments, which has been used in a number of rural regions to leverage existing investments through and across local community banking institutions, to provide better scale and reach for capital investments by these institutions. This program was designed to target rural financial needs beyond the primary sector, agriculture. However, since 90 percent of farm household income in the United States is generated in the broader rural economy, such an approach merits careful consideration. I fear none of us yet realize the very real rural disadvantage which will result from the current financial crisis. Unique policy options should be explored by this Committee, with the statutory mandate to ensure the future of rural America. Now is the time for creative and courageous public policy decision makers to force these considerations. Otherwise, rural concerns will maintain a residual, and silent, concern.

Appalachian Ohio offers a unique microcosm of the structural, geographic, and cultural dynamics which continue to confront rural policy makers. I want to commend you again, Senator Brown, for holding this hearing in Steubenville. As you may recall, when I testified before your Committee in early 2007, I presented a series of detailed analyses and maps regarding the unique and growing interdependency between urban and rural areas. I also attempted to highlight the current challenge with existing rural definitions. As you know, during the Farm Bill process, all these were called into serious question. However, I would urge thoughtful consideration be given to the risks inherent in any rush to judgment regarding using these definitions for across the board funding criteria. I have included as an appendix to this testimony two RUPRI documents which we believe highlight this challenge. We meet in Steubenville, in Jefferson County, in a Metropolitan Statistical Area. However, if you were to

drive with me the fifteen miles from here to our family farm in Smithfield, you would realize you are in a very rural place.

Furthermore, while there is great need in urban Ohio, our state's rural citizens suffer unique, and often hidden, challenges. This is particularly true in Appalachian Ohio. Throughout my lifetime, those of us who live in Appalachian Ohio have often felt a closer tie to Pennsylvania and West Virginia than to Columbus. Fortunately, this has changed in recent years, and the very fact that this hearing is occurring here indicates a growing appreciation for the economic impact all of Ohio experiences as Appalachian Ohio continues to struggle. As you will note in the enclosed RUPRI documents:

- The rural Ohio per capita income remains at 76.6 percent of metro. In 2006, the per capita income in nonmetropolitan areas was about \$8,000 less than in metro areas in Ohio.
- From 2000 to 2007, 41 counties in Ohio lost population, and the majority of them were nonmetropolitan. From 2006 to 2007, 49 counties lost population, again the majority of them nonmetropolitan counties.
- 81 counties in Ohio had unemployment rates higher than the U.S. average, and the majority of these counties were nonmetropolitan. 15 Ohio counties (14 of them nonmetropolitan) experienced unemployment rates more than 1 ½ times the U.S. rate.
- Seven Ohio counties (6 of them nonmetropolitan) had poverty rates over 20 percent in 2005.

These rural needs are very real, but so are the rural opportunities within Ohio. What we need are political leaders such as yourself, willing to acknowledge and act upon a realization that these are not rural, or Appalachian, challenges, these are American challenges. We are all coming to realize that, in the final analysis, the future of our planet lies every bit as much at its periphery as it does in its urban centers. Such an approach is preferable, of course, not only because it reverses the past, and is sustainable, but also because it honors our common debts and obligations to one another and our planet – as persons, communities, cultures, and nations.

This past summer, I was honored to coordinate a European Union Rural Development Study Tour, organized by RUPRI and the German Marshall Fund, and sponsored by the Farm Foundation and the W.K. Kellogg Foundation. The delegation was comprised of over 25 of our nation's leaders from agricultural and commodity organizations, associations of government, and USDA Rural Development, including Undersecretary Tom Dorr. The purpose of this 10 day exchange was to highlight for CEOs and Presidents of our nation's major ag and rural development organizations the unique collaboration which exists within Europe to advantage agricultural producers, rural citizens, and rural regions.

The intent of the organizing and sponsoring organizations was to begin a Trans-Atlantic dialogue between senior principals in both political cultures, to better appreciate and understand one another's problems, challenges, and opportunities, and to craft a more enlightened framework for ag and rural policy in the next Farm Bills on both continents. Our U.S. delegation will meet again in mid-December, to continue this journey together. Change is difficult, but reflective leaders everywhere are recognizing the increased importance of rural regions, and are beginning

to act in concert to rethink failed policies and craft new and innovative approaches to better link rural and urban futures.

Senator Brown, as you know, Appalachian Ohio, like much of rural America, is in dire need of such leadership. I applaud you for holding this Field Hearing, and I look forward to working with you and your colleagues, to assure these opportunities are captured.