CSD Draft Report

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George Warren Brown School of Social Work

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Wealth Building in Rural America: Programs, Policies, Research

Although some rural American communities are faring well, many face significant challenges, especially those with a high level of poverty. Lackluster local economies provide few quality jobs with benefits. Jobs in small towns and rural areas are unlikely to offer medical and retirement benefits. As a result, many rural workers are one illness away from job loss and financial ruin. Many families in rural areas pay out-of-pocket for health care, leading them to postpone or forego preventive health care.

At the household level, families have difficulty accumulating enough resources to invest for the future. The wealth held by rural families tends to be concentrated in illiquid assets such as personal residences, farms and ranches, or other forms of real estate. Rural dwellers are less likely to hold liquid assets, which can be quickly converted to cash to pay for illness and other unforeseen adverse events. They have higher rates of "liquid asset poverty" (e.g., not enough liquid assets to support them for three months) than urban residents, primarily because they have less in checking and savings accounts, stocks, and bonds (Fisher & Weber, 2004). Without these resources, rural households are less able to manage income disruptions and make investments for the future.

Similarly, rural local governments are hard pressed to pay for investments in physical and educational infrastructure because of low local revenue streams and lack of support by federal and state governments. As a result, there are not enough colleges and training facilities for rural workers. Public transportation is rare in rural areas, making it difficult for working people to reach jobs and services. This is especially true for low-income workers, who cannot afford safe private transportation. Lack of public transportation hits the disabled particularly hard in rural areas, where disability rates are high because of dangerous occupations (e.g., farming and logging) and a high proportion of elderly residents.

In addition to shortages of affordable housing in some rural areas, older construction and poor housing conditions are also of great concern. Fewer new homes are built in rural areas compared to urban areas, resulting in increased costs and lower profitability for builders. On American Indian reservations, the poorest rural communities in America, there are a number of additional barriers to home construction resulting from complexities of trust land development.

The state of rural wealth in America suggests the importance of committing greater resources for asset building for rural people and communities. This is the third edited final report in a series of three reports that focus on wealth building in rural America. This report explores research on existing wealth building policies and programs in rural America and identifies approaches that are working well in some regions that might provide models for other regions. Finally, the report makes recommendations for possible next steps in research and policy. It is divided into five sections: (1) *Wealth building programs* explores successful wealth building programs in rural areas; (2) *State policies* assesses wealth building policies in states with high rural populations; (3) *Federal policies* addresses federal initiatives in rural communities; (4) *Policy advocacy* focuses on the creation and promotion of federal and state wealth building legislation; and (5) *Policy research and development* discusses the roles of philanthropy and applied policy research in the development of wealth building projects in rural areas.

This report cannot—and does not seek to be—fully comprehensive. While many key topics are addressed, others are inevitable omitted. The hope is that main themes and directions in program, policy, and research are illustrated and highlighted, and that the reader's thoughts will be stimulated and engaged. The agenda for programs, policy, and research for wealth building in rural America is continuously in formation. This series of reports is one step—a pause to assess and rethink—in this larger process.

WEALTH BUILDING PROGRAMS

Diverse economic and social conditions in rural communities make it difficult to initiate programs and polices that are advantageous to all regions. Yet, diversity also has allowed some rural areas to be creative and innovative when designing programs and policies that fit their specific circumstance. Below are several illustrative examples of successful programs that aim to build on strengths of rural areas to increase local revenues, businesses, jobs, training, infrastructure, home ownership, and household wealth.

Harnessing a Rural Natural Resource: Wind Power

In the last several decades electricity produced through wind energy has not only become much more affordable, but it has also become an economic alternative for many rural areas (American Wind Energy Association [AWEA], n.d.). Wind, a renewable resource, does not pollute or produce hazardous waste. Several states in the Midwest and Great Plains have potential to generate wind power because of strong wind capacity (Bailey & Preston, 2004). With electricity from wind power, communities can cut fuel costs and at the same time attract revenue and jobs. In addition, because very little land space is needed for turbines, farmers can also farm the land and raise livestock in the vicinity.

Several examples illustrate the potential of wind power. In 1998 and 1999, Iowa installed wind turbines that generated 240 megawatts (MW) (1000 kilowatts) worth of wind capacity.

Turbine construction created 200 jobs for six months and when completed, contributed 40 permanent jobs for the area. In the first couple of years of operation, the project brought in $2 million a year in tax revenue to counties and school districts and $640,000 a year to property owners for land leases (AWEA, n.d.). In Minnesota, the town of Lake Benton initiated a wind power project in 1998, installing 143 wind turbines and employing 10 full-time workers. Currently, it generates $1 million annually in property tax revenue for every 100 MW produced, and increased other business activity in one area. To supply wind turbine blades, a Danish manufacturer, LM Glasfiber, opened a factory in North Dakota in 1999 that employs 130 workers (AWEA, n.d.).

Internet Connectivity in Rural America

In 1998 the U.S. Department of Commerce reported that low-income African Americans are the group least likely to be connected to the Internet. In 2001, Grambling State University in Louisiana initiated the Louisiana Rural Internet Connection (LaRINC), a 3-year program that provided low-income rural African Americans with Internet education and services (Southern Growth Idea Bank, 2005). With the help of five African American churches representing six of the poorest rural parishes in northern Louisiana, the university created computer labs using trained volunteers. The churches publicized the program and recruited 50 families to participate (Southern Growth Idea Bank, 2005).

Once the families learned to use computers and navigate the Internet, they began to access health information, pay bills online, and in one case even started an Internet-based floral business (Southern Growth Idea Bank, 2005). The project, designed to increase the computer connectivity of lower-income rural households, provided them with better access to job information, health information, help with education, and e-commerce (Southern Growth Idea Bank, 2005). When the program concluded, participating families continued to receive free technical support from Grambling State University.

Business and Natural Resources Development in Indian Country

Efforts to build wealth in rural Indian Country often draw on historical and cultural patterns of wealth creation. Contrary to the public perception, Native American communities often used elaborate systems of property rights. Individual property ownership is deeply rooted in Indian legal history, and native societies had procedures to deal with mistreatment of private property (Benson, 1992). Furthermore, upon contact with Europeans, Native Americans responded creatively to their new commercial surroundings. For example, the Iroquois Confederacy simultaneously negotiated with both French and British during much of the 18th century (Mushinski & Pickering, 1996).

In contrast to traditional models of economic development, Indian nations are undertaking innovative approaches to long-term economic development. Examples include creation of microenterprise programs, and founding Internet businesses, telemarketing,[1] and others. These efforts illustrate individual and tribal enterprises taking advantage of financial, commercial, and technological advances that help overcome the challenges of rural development.

The Harvard Project on American Indian Economic Development (HPAIED) administers an awards program that identifies, celebrates, and disseminates information on Indian Country success stories. The program, *Honoring Contributions in the Governance of American Indian Nations,* presents awards to groups that are "effective in addressing critical concerns and

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[1] Lakota Express, a Native American- and women-owned and operated marketing company, provides telemarketing services as well as operating <lakotamall.com>, with links to other Indian businesses and organizations.

challenges facing the more than 560 Indian nations and their citizens" (Harvard University, 2006). Awards fall broadly into two categories: (1) business development and improvements to the regulatory and legal environment; and (2) management of the natural environment and resources.

Among recent Honoring Nations recipients are tribes that have successfully leveraged their resource bases. For example, the Confederated Salish and Kootenai Tribes (SNK) of Flathead Reservation in western Montana have been very successful in doing this within their Flathead Reservation and have—after more than a century of mismanagement under a trust arrangement with the US federal government—begun to take control of their own resources. They formed an Office of Support Services to oversee more than a million acres of mountains, forests, grasslands, a riparian corridor, the southern half of Flathead Lake, and a wide range of wildlife and fish stocks. Tribal citizens and governments have benefited from this new approach to asset management. SNK has helped to foster a more business-friendly environment with a large number of non-farm businesses operated by SNK citizens, while maintaining tribal regulatory oversight that emphasizes sustainable resource management.[2]

Some tribes have also become more successful in creating and nurturing new businesses. In September 1994, for example, the Winnebago Tribe of Nebraska formed an economic development corporation, Ho-Chunk, Inc. Established to diversify the Tribe's enterprises beyond gaming profits, Ho-Chunk, Inc., oversees a portfolio of business activities within and outside the boundaries of the Winnebago reservation. These include hotels, grocery and convenience stores, tobacco and gasoline distribution centers, temporary hiring agencies, and telecommunications activities, such as two Internet websites dedicated to Native American

[2] Harvard Project on American Indian Ecomomy Development (HPAIED). (2003), Honoring Nations, Celebrating Excellence in Tribal Government.

commercial and cultural resources. Ho-Chunk, Inc. has been adept at maintaining a separation of business from government, which ensures that business decisions are driven by sound business judgment rather than by political considerations.[3]

Some tribes honored by HPAIED have addressed overlapping regulatory and legal jurisdictions, helping to lay the groundwork for more successful commercial development on reservations. Several tribes have successfully attracted investment capital onto the reservation through the establishment of transparent judicial institutions. Other tribes have established commercial, regulatory, and/or legal infrastructure necessary for wealth creation. Still other tribes have provided citizens with opportunities to develop human capital, increase family income, and decrease dependence on public assistance. Finally, some HPAIED honorees have increased financial literacy and creditworthiness, helping families to manage their financial affairs more successfully and at the same time accumulate financial assets.

Building Equity in Rural Households: Homeownership Programs

Rural housing also tends to be older and more expensive to maintain than urban housing. About 25 percent more housing units in non-metropolitan areas were built prior to 1930, and over one-third more rural housing units were built before 1919 (Center for Rural Affairs, 2005). Moreover, historically, rural communities have faced low and declining levels of federal housing funds. According to the Center for Rural Affairs (CRA) (2005), “On a per-capita basis, metropolitan counties receive nearly 10 times the Federal Housing Administration (FHA) assistance than do rural counties” (p. 4).

[3] HPAIED, “Honoring Nations, Tribal Governance Success Stories, 2000.”

Looking for innovative ways to increase population and economic development, several rural communities across the Great Plains have looked back at a historic wealth building strategy and applied it to modern times. Using the Homestead Act of 1862 as a model (see also Federal Policies) towns in Nebraska, Texas, Minnesota and Kansas give land under certain conditions to families who are willing to build homes in their midst. For example, in Marquette, Kansas, lots are granted to potential homeowners if they agree to build a home within one year and live in the home for at least one year. By 2004, 30 lots had been transferred to new owners (Bailey & Preston, 2004). Of course, towns must have the ability to offer certain amenities and have an adequate supply of land to help make the program successful. Moreover these types of programs seem to work better when the participating towns are closer to a larger city (Bailey & Preston, 2004).

A drawback to some land giveaway programs is that low-income families are unable to participate because they cannot afford to build a home. However, some programs also help lower-income families become homeowners. A program in Marquette, Michigan, known as Marquette County Habitat for Humanity (MCHFH) and sponsored by the U.S. Department of Agriculture (USDA) Rural Development Section 523 program, helps low-income families acquire homes. Every year, six families are chosen to participate in the program. All of the families help build the homes; no one is allowed to occupy their home until the sixth home is built. To be eligible, families must demonstrate a housing need, adequate income to purchase the home, and a willingness to help build the homes. The mortgages are held by MCHFH, which offers a 20 to 25 year loan interest free. MCHFH uses the income to finance additional housing for other low-income families. Established in 1992, MCHFH has helped 45 families either acquire new homes or refurbish old ones in seven communities.

Homeownership programs, like the ones described above, help to build wealth in rural households and communities. They also must have sufficient resources to assist in maintaining their homes and retain their homes. Individual Development Accounts (IDAs), discussed in the next section, are a tool that can assist with this.

Matched Savings Programs in Rural Areas

Matched savings programs in the form of Individual Development Accounts (IDAs) encourage saving and long-term investment in low-income households. Unlike income-based support programs, such as Food Stamps or Temporary Assistance for Needy Families (TANF), IDAs encourage saving and asset ownership among low-income families and their children. Theory suggests that assets may encourage household stability, greater confidence and self-efficacy, reduce high-risk behaviors such as violence and substance abuse, and increase long-term planning (Sherraden, 1991). IDAs are matched savings accounts mechanisms that encourage savings, matching dollars for participant savings, and asset-specific training. In most programs, IDAs provide low-income working families a means to save towards the purchase of a major asset, typically a home, post-secondary education, or a small business (Sherraden, 1991).

IDA programs are typically implemented by community-based organizations such as community action agencies, faith-based groups, or other nonprofit organizations (CFED, 2005). Organizations secure local financial contributions, establish relationships with financial institutions, locate sources of technical assistance and volunteers, and work with low income families to support saving. Funding sources often include state and federal agencies such as the state treasurers' offices and departments of economic development, federal departments of housing and human services, philanthropic foundations, and other private contributions. Locally, IDA programs receive support from community development credit unions, banks, community foundations, individuals, development corporations, and individuals (CFED, 2005). In addition to managing IDA accounts, community-based organizations typically provide financial education and other support services.

Building Successful Rural IDA Programs

IDA programs have been growing in number in rural areas (Gorham, Quercia, Rohe & Toppen, 2002). Schumacher and Ulmer (2005) examine implementation in eight rural IDA programs across the nation. They find that (1) IDA programs are relatively new to rural areas and serve limited numbers of participants (although more mature programs serve more people); (2) support from larger umbrella organization – whether governmental or private nonprofit – appears to enhance their capacity and is critical to success; and (3) the range of asset-building options is similar to those found in IDA programs more generally, except that they may offer only one possible asset investment option (e.g., education only or automobile purchase only).

An indepth study of IDA programs in the State of North Carolina, and published by the Center for Urban and Regional Studies at the University of North Carolina at Chapel Hill in 2002, outlines the challenges faced by rural IDA programs and makes recommendations for improvement (Gorham, et. al, 2002). First, they underscore poor employment conditions that affect participants' ability to save successfully in IDAs. Poor quality jobs with few or no benefits lead to low incomes and unexpected medical expenses not covered under employer-based health care plans. Seasonal employment also leads to fluctuations in household income, making it difficult for participants to save regularly, and challenging programs to build deposit flexibility into programs (Robles, 2003).

Second, geographic isolation and lack of transportation systems cause difficulties for rural IDA programs trying to attract and retain eligible participants. Rural populations are far more widely dispersed than urban populations and cannot be reached through traditional promotional media. More importantly, time and distance make it harder for the people actually recruited to actively participate in IDA programs. Transportation is usually limited or nonexistent for those within the target population, and would-be participants find it impractical to attend mandatory economic and financial literacy classes. Tangentially, childcare and other social services are more difficult to obtain without transportation (Gorham et al., 2002).

Third, according to Gorham and colleagues (2002), history and culture also constrain rural programs. Rural families tend to be reluctant to disclose financial information in a public setting and—like their urban counterparts—may be distrustful of public programs in which "promised benefits that might be perceived as too good to be true" are offered (64).

Finally, in a study reporting on Missouri IDA programs (and other community economic development strategies), IDA program administrators report an urban bias in funding, and difficulties they encounter in attracting funds for administration, oversight, and training (Sherraden, Slosar, Chastain & Squillace, 2003). Lack of educational facilities makes it difficult for programs to recruit and retain staff and underscores the importance of providing a variety of educational programs for participants (Sherraden, et al., 2003).

Gorham and colleagues (2002) propose five ways to improve rural IDA programs:

- *Create a client identification system*: Target a clearly identifiable clientele or work with local agencies that will refer participants to the IDA program.

- *Build critical mass*: Ensure that the catchment area is large enough to provide a critical mass of participants and program staff. Maintain operations in close proximity to where participants live.
- *Secure stable funding*: Cultivate stable sources of funding including matching funds, financial education, and administration.
- *Diversify the experience base*: Hire staff with experience in housing and microenterprise programs, especially people with experience working with financial institutions and lenders. (Microenterprises are usually very small businesses with fewer than five employees and an initial capitalization of under $35,000.)
- *Enhance MIS capability*: Build capacity to handle staffing and technical requirements of a Management Information System that will address data requirements for the IDA program (Gorham, et. al, 2002).

In sum, while IDA accounts have been successful in rural areas, they face significant challenges. The rural IDA programs studied dealt with common obstacles, including history and economics of place, decentralized populations and geographic isolation, and cultural mores. The direct fallout of these barriers includes program funding, a paucity of qualified staff, low incomes among IDA participants, ineffective outreach and recruitment, and lack of trust in IDA programs. These barriers result low recruitment and retention. Nonetheless, there is potential. Either on their own, or through partnerships with umbrella organizations, rural IDA programs are gaining experience and are stabilizing and growing, programmatically and monetarily.

STATE POLICIES FOR WEALTH BUILDING

This section explores the role that states have played in wealth building. The first part examines the status of wealth building policy in the states, including financial security, business development, homeownership, health care, education, and tax policy. As an illustration of state variation, the second part looks in depth at two policies for financial wealth accumulation adopted by many states, College Savings Plans and Individual Development Accounts.

Assessment of Wealth Building Policies in Rural States

Because of diverse conditions in rural areas, state policy is one of the most effective means of initiating and implementing legislation that may help support development and revitalization in these communities. States possess the budgetary, procurement, regulatory, and tax policies to make significant contribution to rural wealth building. Although many states are hindered by out-of-date revenue systems, they are recovering from the recent recession and generally are more fiscally healthy than the federal government. CFED's *Assets and Opportunity Scorecard* is a state-level snapshot of how states are performing on five asset outcomes (using 31 outcome measures): financial security, business development, homeownership, health care, and education. Results, represented by a letter grade (A through F), are presented in Table 1 for the 15 states with rural populations over 36 percent.

Maine is the only rural state that receives As and Bs on all 31 asset outcome measures. The other states that received the highest marks are overwhelmingly urban, including the District of Columbia, Massachusetts, Minnesota, and New York. Of the 15 rural states, only six received a grade of A or B. The South, which has the highest proportion of rural residents in the nation, earns the lowest score overall, and New England earns the highest.

Table 1: **Assets and opportunity scorecard for the 15 most rural states (2005)***			
	Percent Rural Population	Overall Assets Outcomes Score	State Asset-building Policies
Alabama	44.6%	D	Substandard
Arkansas	47.6%	F	Substandard
Iowa	38.9%	A	Favorable
Kentucky	44.3%	C	Substandard
Maine	59.8%	A	Favorable
Mississippi	51.2%	D	Substandard
Montana	46.0%	C	Substandard
New Hampshire	40.8%	A	Substandard
North Carolina	39.8%	C	Favorable
North Dakota	44.2%	B	Substandard
South Carolina	39.5%	C	Standard
South Dakota	48.1%	B	Substandard
Tennessee	36.4%	C	Substandard
Vermont	61.8%	A	Favorable
West Virginia	53.9%	F	Substandard

Sources: CFED, Assets and Opportunity Scorecard. Available [online] http://www.cfed.org/focus.m?parentid=&siteid=504&id=505.
* Rural states are states with a rural population of 36 percent or more.

The scorecard also assesses state asset policies. These rankings demonstrate public policy choices at the state level that may create (or impede) opportunities for residents to build assets. For example, some states provide an incentive for education savings plan deposits for low-income families, while others penalize low-income savers by setting limits on how much families can own and remain eligible for public benefits. Overall, the scorecard tracks 38 state policies, which cover the same areas as the outcomes index (financial security, business development, homeownership, health care, education), and in addition assess transparency of tax policies. Instead of assigning a grade, the state policy rankings are "favorable," "standard," or "substandard" (see Table 1). The scorecard is useful as a tool for benchmarking what works, what does not, and where change may be necessary. Rural states are in italics.

- *Favorable*: California, Connecticut, Delaware, District of Columbia, Illinois, *Iowa*, *Maine*, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, *North Carolina*, Oregon, Pennsylvania, Rhode Island, Texas, *Vermont*, Washington, Wisconsin
- *Standard*: Colorado, Florida, Kansas, *South Carolina*
- *Substandard*: *Alabama*, Alaska, Arizona, *Arkansas*, Georgia, Hawaii, Idaho, Indiana, *Kentucky*, Louisiana, Michigan, *Mississippi*, Missouri, *Montana*, Nebraska, Nevada, *New Hampshire, North Dakota*, Ohio, Oklahoma, *South Dakota, Tennessee*, Utah, Virginia, *West Virginia*, Wyoming

As illustrated by these rankings rural states have lagged in promoting wealth-building policies. Among states with greater rural populations, 66.6 percent are assessed as substandard, compared to 31.4 percent of predominantly urban states. To provide concrete detail, below are the assets outcomes and state policy ratings for the 15 most rural states.[4] This range of states captures key patterns in rural wealth building, both negative and positive. To illustrate, below are examples of wealth building conditions in “favorable” states, “standard” states, and “substandard” states.

[4] For more details, see http://www.cfed.org/focus.m?parentid=&siteid=504&id=513

Favorable State Conditions for Wealth Building

Iowa earned an overall A grade on the 2005 scorecard, placing it among the top 10 states in the nation. Despite the national trend indicating that nearly one in five American households has zero net worth or is in debt, Iowa received top 10 rankings in net worth of households (7th best), households with zero net worth (7th best), and asset poverty, an indicator of residents' ability to support themselves for three months at the federal poverty level in the face of unexpected loss of income (2nd lowest), as well as a first-place ranking in households with savings accounts. Iowa received an A in education, outpacing the national trend of stronger educational performance. It also achieved top-20 rankings in college degrees by race (2nd), gender (12th), and income (16th), despite relatively low overall college attainment (37th).

With strong asset-building programs, workers' compensation benefits, and unemployment benefits, Iowa is creating and supporting wealth-building strategies for its low-income citizens. Education becomes priority as demonstrated by favorable per-pupil spending, equity in school spending, and strong need-based financial aid. Despite its favorable overall rating, Iowa might consider supporting increased minimum wage legislation, asset limits for public assistance, and predatory lending norms and standards to ensure that financial security continues to expand across the state.

Maine received an overall A grade in the 2005 scorecard. Maine ranks third in the nation for households with savings accounts, and second for lowest percentage of households with zero net worth. Further, Maine is 6th lowest in the nation for asset poverty. The state also shows exceptionally strong outcomes in health care (A); it ranks eighth in the nation for having few uninsured low-income parents and children. However, Maine ranks in the middle of the pack in employer-provided health insurance (29th). Health insurance is crucial to financial security, as spiraling health care costs drive people into bankruptcy and employer-provided insurance becomes less common.

Maine's lawmakers vigorously promote asset building through policy and appropriations. Supplemental state funding is available for Headstart, and Maine is one of only five states that provides matching funds for the college-savings plan deposits of low- and moderate-income families. Targeted programs that promote first-time homeownership and help vulnerable populations with property taxes not only allow Maine residents obtain assets, but also helps protect them. A policy to eliminate asset limits for public assistance in Maine would allow low-income people to set achievable goals for asset building without jeopardizing public assistance receipt.

Standard State Conditions for Wealth Building

South Carolina earned a grade of C overall on the 2005 scorecard. Although the state does not rank high in asset accumulation (33rd in net worth of households), it receives high marks on two equity measures: sixth in both asset poverty by race and household asset equality by race. It also receives high marks for its homeownership rate (ranking 6th) and homeownership by race (5th). Despite these positive outcomes, the state's high rank (49th) in foreclosures indicates a serious threat to what is the cornerstone of wealth for many families. Further, the state's progress on improving asset equity by race is not matched when it comes to gender. The state ranks only 43rd in asset poverty by gender and 30th in homeownership by gender.

South Carolina’s asset building strengths could be strengthened if complemented by additional financial security policies, such as lifting the minimum wage above the federal level, increasing asset limits for public assistance, and strengthening short-term loan protections.

Substandard State Conditions for Wealth Building

Mississippi received a D grade on the 2005 scorecard. Its strongest performance is on the Homeownership index (B); it is among the best states for homeownership by income (ranked 2nd), home value (8th), and homeownership by race (9th). However, when it comes to other measures of asset accumulation and the ability of Mississippians to retain assets, the picture is less positive, as demonstrated by the state's D performance on the Financial Security Index. Mississippi falls into the bottom tier on several of these measures: asset poverty (40th worst), bankruptcy rate (43rd worst), sub-prime loans (48th worst), net worth of households (49th), and households with savings accounts (50th).

Mississippi's education performance is poor (F). It comes in at 45th place or below for nearly all Education Index measures: math and reading proficiency (49th and 50th, respectively), population with four years of college (48th), and the distribution of four-year degrees by race (45th), gender (49th), and income (51st). However, Mississippi is a leader in Headstart coverage (3rd). Mississippi policymakers have considerable room to explore policies that could improve the state's financial security and education performance, including asset-building programs and increased per-pupil spending.

West Virginia earned an overall grade of F on the 2005 scorecard. While West Virginia's fifth-place ranking in households with checking accounts is encouraging and reflects widespread access to mainstream financial institutions, it ranks 41st in household net worth and household asset equality by gender. West Virginia must guard against its top-ranked homeownership rate (1st) being eroded by a high incidence of foreclosures (41st). West Virginians face other challenges as well, especially in education, where the state received low rankings in attainment of two college degrees (48^{th}), four-year degrees (51^{st}), degrees by income (47^{th}), and degrees by gender (48^{th}).

While West Virginia policy rating is substandard, its policies in support of education and training exceed those of other states. These include higher per-pupil spending, better school-spending equity, and more accessible workforce training. And, with predatory lending norms and standards and above average workers' compensation benefits, there are some protections for West Virginians' assets. The state should consider strengthening its financial security policies (raising asset limits for public assistance and improving family leave benefits), business development (providing support for microenterprises), and health care (providing assistance the hard-to-insure).

Rural States Overall

None of the rural states has adopted all the policy tools currently available to help families build and protect assets. At a minimum, state governments should foster an environment in which all residents can achieve financial security by acquiring savings, a home, an education, a small business, and health care. Moreover, states should also remove barriers to asset accumulation, support asset building, and protect assets that already exist.

Rural states face unique challenges in tackling this agenda.[5] Thousands of communities across rural America are too numerous and diverse for a one-size-fits-all asset policy approach. Rural communities often face high hurdles in identifying and recruiting families to participate in asset building programs. Local economies typically offer few quality employment options.

[5] A brief, but thoughtful discussion of rural implementation issues can be found in “Low Income Families Building Assets: Individual Development Account Programs – Lessons and Best Practices” (October 2002), Center for Urban and Regional Studies, University of North Carolina at Chapel Hill, NC.

These and other obstacles can be addressed in a number of ways. Targeting a multi-county region can expand financing alternatives as well as take advantage of a larger labor market area. Partnering with already established institutions such as the Center for Disease Control and Prevention (CDC) or a Corporate Administration Agency (CAA) or existing programs for microfinance or homeownership could increase scale, avoid costly duplication, and marshal additional expertise. Not surprisingly, more stable funding is needed, especially for administrative and overhead costs.

Fortunately, state leaders are aware of the challenges and possess improving fiscal wherewithal to make needed public investments. They have the jurisdiction to deal with the financial security risks. What is needed now is a real effort to improve their current package of public policies with regard to asset accumulation and protection. Happily, a few rural states—especially Iowa, Maine, North Carolina, and Vermont—are pointing the way.

College Savings Plans in the States

As the CFED Scorecard suggests, states can use a number of policies to increase wealth in rural households and communities. One example is College Savings Plans. Named after the Internal Revenue Code section 529, College Savings Plans (or 529 Plans) are designed to encourage savings for future higher education expenses (tuition, fees, books, supplies, and equipment) at colleges, universities, vocational schools, or other postsecondary educational institutions through after-tax contributions. Administered by State Treasury Departments, all 50 states and the District of Columbia have college savings plans in operation. Although the plans are managed by individual states, the majority of the programs are open to both residents and nonresidents.

Two main plans are available to participants: the savings plan, which lets individuals build an education fund within an individual investment account, and the prepaid tuition plan, which lets individuals purchase tuition now for use in the future. The savings plan tends to be more flexible because they can be used for in-state or out-of-state colleges, but the return on the investment is not guaranteed. In the prepaid plan, the value of the account rises at the same rate as college tuition. This plan is normally linked to an in-state school. The majority of the states have the savings option; some offer the prepaid alternative as well.

Earnings on college savings plans are exempt from federal income taxes if beneficiaries use the investments for qualified purposes. For unqualified uses and withdrawals a federal tax of 10 percent is assessed on untaxed earnings. State penalties vary. Yearly contributions of up to $55,000 per beneficiary are also allowed without federal gift tax deductions. In addition, many 529 savings plans offer state tax benefits, such as state tax-free withdrawals and annual state tax deductions for contributions. While each state's program is different, most of the college savings plans allow accounts to be open with a minimum deposit (for example $25, some with as little as $15) by way of check, money order, electronic transfer, or automatic deposit (Clancy & Sherraden, 2003).

According to the College Savings Plan Network (CSPN) (2005), as of September 30, 2005, total assets under management in 529 accounts exceeded $77 billion in almost 8 billion accounts across the country. It is projected that by the end of 2006, assets held in 529 plans will surpass $100 billion (New American Foundation, 2005).

Using the Asset and Opportunity Scorecard definition of rural states (36 percent rural or more), all 15 rural states offer the investment savings plan option. Alabama, Kentucky, Mississippi, South Carolina, Tennessee, and West Virginia also offer the prepaid tuition plan.

Earnings from 529 plans are tax exempt in all 15 rural states and each state has at least one plan open to nonresidents. Eight rural states offer additional state incentives. Plans in South Carolina and West Virginia provide unlimited deductions based on contributions; Arkansas allows a deduction of $5,000 a year for individuals and $10,000 a year for married couples; Mississippi allows $10,000 a year for individuals and $20,000 a year for married couples; Montana provides an individual deduction of $3,000 and a married couple deduction of $6,000 yearly; and Iowa provides a deduction of up to $2,500 per taxpayer for each account. In Vermont, participants receive a 5 percent tax credit for the first $2,000 contributed to an account, or up to $100 a year per taxpayer. In Kentucky, account balances are not included as assets for state financial aid purposes.

The approximately $13.6 billion of asset holdings in rural 529 college savings plans represent almost 18 percent of all assets held in 529 Plans across the country. Although significant, this amount does not match the proportion of rural state population (29 percent). Only Alabama, New Hampshire and Maine are in the top half of states with the highest 529 asset holdings. Among rural states, New Hampshire holds the most funds at $4.9 billion and Vermont holds the least at $46.8 million. The median is $649 million. There are 921,852 participants in rural states representing 12 percent of all participants in the country.

Implications of College Savings Plans

Because 529 college savings plans are available in every state, the potential for reaching large numbers of families is within reach. Centralized accounting, availability of automatic payroll deductions, simplicity of plan structures, and relatively low costs make it more possible to include lower-income families, who do not normally have access to these kinds of savings mechanisms (New American Foundation, 2005). In rural regions, 529 Plans may provide low-income families with a practical and affordable financial savings option that avoid common transaction costs associated with rural residency, such as higher program fees, travel time to participate, and fragmented services. These plans could also help provide rural areas with the opportunity to increase education levels among the populace.

Unfortunately, in many states, 529 Plans are not exempt from state financial aid asset tests. Therefore, assets held in 529 accounts may adversely affect the amount of financial aid received by a plan beneficiary. This creates disadvantages for these participants who also rely on financial aid to help pay for higher education. However, because 529 Plans are administered at the state level, policymakers have the capacity to make changes that benefit the growth and expansion of College Saving Plans. For example, states can exempt savings from financial aid asset tests. Other saving incentives have also been created. Currently eight states, two of them rural, Minnesota and Maine, have instituted some form of matched savings program for low to moderate-income families to encourage participation in 529 plans.

At the federal level, family assets are excluded in financial aid tests for low to moderate-income households ($50,000 or less who are eligible to file IRS forms 1040A or 1040EZ). One recommendation is that federal guidelines expand this exclusion to all taxpayers who make under $50,000 (Clancy & Sherraden, 2003). Other incentives at the federal and state levels could also be beneficial. For example, the Education Savings Act of 2005, a bill introduced in the 109th Congress, would provide incentives to employers to match employees' contributions in 529 accounts.

In sum, 529 state college savings plans, used effectively, could help provide rural populations, with a means to increase their human capital and, at the same time, their asset building capabilities. Because all states currently offering some form of 529 college savings plan, the opportunity to participate is increasing for all citizens. To facilitate this process, state and federal policymakers should be actively enhancing incentives for these savings plans to allow easier access and to be as inclusive as possible.

Individual Development Accounts in the States

Initially, IDAs were greeted with skepticism by many state legislators, who were convinced that poor people could not save, or that it would take a too long for the poor to accumulate the funds necessary to invest in assets such as homes, businesses, and post-secondary educations. Moreover, in the early years of IDA policy development, some policy makers perceived IDAs as a threat to means-tested income maintenance programs, believing that IDAs would compete for the same resources. Research on IDAs, including the American Dream Demonstration (ADD) and the current Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy and Practice Initiative (children's savings accounts), suggests that these concerns are largely unfounded. ADD, which was implemented at 13 program sites across the country between 1998 and 2001, found that not only could poor people save, but the poorest ADD participants saved at a slightly higher rate than participants with higher incomes. This research also suggested that rural participants, overall, saved as well as urban participants. Moreover, research has shown that states have not diverted cash assistance dollars to IDAs (Edwards, 2005).

Research on state IDA policy suggests that this strategy has helped institute a new policy focus on building assets (Warren & Edwards, 2005), and underscored the importance of helping families accumulate wealth. These policies complement income maintenance policies.

Although state IDA policy language is often replicated among states, there are significant variations in policy and program design. States continue to serve as policy incubators for IDAs and other asset-building policies (Edwards & Mason, 2003). Some of the variations in IDA policies at the state level include: expanded asset goals (beyond the “big three” of homeownership, small business development, and education), including home repair, purchasing and maintaining automobiles for employment, assistive technology purchases for people with disabilities, retirement accounts, and child care expenses. States have also established higher income eligibility guidelines to serve the working poor, allowed Native American tribal governments to directly apply for and receive state funding, and established longer time frames for saving, including a state IDA law in Missouri that allows $50,000 to accumulate in an IDA over a 25-year period, as long as income qualifications continue to be met (Edwards & Mason, 2003).

Research and practice in asset building policy have contributed to understanding about what works best in rural areas. The following sections indicate some of the key lessons. Although the focus is on matched savings, policy and program lessons are often more general.

State IDA Policy Design in Rural Areas

How successful have states been in reaching rural populations with IDAs? Many states passed IDA legislation without clear knowledge of how IDA programs operated, or how fundraising for matching dollars might be accomplished. It was frequently assumed that IDA programs would be easy to implement, and that policy designs, however restrictive, would work equally well in rural and urban areas.

Presented as a bi-partisan concept based on public/private partnerships, IDAs were appealing to both legislators and private funders. However, it turned out to be far more challenging than imagined to develop dedicated and sustainable public and private funding streams for IDAs. The design of IDA programs soon became driven by requirements imposed by funding sources that were not always effective.

Reliance on federal funding impeded local flexibility. For example, early on the federal government appeared to be concerned about the potential for fraud in IDA programs, adopting restrictive program designs that sacrificed flexibility to serve diverse populations. The restrictive nature of two federal policies rendered these IDA programs practically useless in serving some populations, despite their potential. In contrast, states have been more flexible in policy design and eligibility requirements. Indeed, some states give special considerations to rural populations, actively encouraging programs in rural areas to develop IDA programs.

Rural Coverage in IDA Policymaking

State-supported IDA programs that serve significant rural populations operate in Arkansas, Illinois, Indiana, Maine, Michigan, Minnesota, Missouri, North Carolina, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Vermont, Virginia, and Washington. Other states with significant rural populations, including Connecticut, Louisiana, and Puerto Rico serve few rural people with IDAs because programs are clustered in or near urban areas.

Some states require that at least some IDA program sites be located in rural areas. For example, Tennessee's IDA program rules and regulations, implemented in the Tennessee Department of Human Services Family Assistance Division, require that "The IDA pilot project will be carried out in six (6) urban and six (6) rural counties in each region of the state." (The pilot IDA project in Tennessee has been completed and currently is not funded.)

IDA law in Minnesota uses broader terms to address this issue, stating that "the commissioner shall select the following three sites for the project: the city of Minneapolis or Saint Paul; a city located within Anoka, Carver, Dakota, Scott, or Washington county; and a city located outside of the seven-county metropolitan area. "Similar terms are used in other states, such as Arkansas' IDA law, where the fiduciary 'Organizations' proposals shall be evaluated and contracts awarded by the Department [of Human Services] on the basis of such items as geographic diversity". Oklahoma's IDA law requires that "the service area for the contract is the entire state of Oklahoma," however, the state-supported IDA program did not serve the entire state as planned. Ironically, in a state with a large population of American Indians, no tribes were recruited or served by the IDA programs, although some urban Indians may have participated.

Many states (e.g., Colorado, Connecticut, Florida, Hawaii, Idaho, Indiana, Iowa, Louisiana, Maine, Maryland, Missouri, New Jersey, Ohio, Oregon, Pennsylvania, Puerto Rico, Vermont, and Virginia) that have significant rural populations, include no language in IDA laws or rules requiring the establishment of state-supported IDA programs in rural areas.[6]

Uses for IDAs in State-supported Programs that Serve Rural Areas

There is ongoing discussion about whether other uses beyond homeownership, micro- and small business creation, and post-secondary education, should be allowed. At the core of this discussion is what an asset is. Those who oppose expanded uses argue that individual

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[6] More detailed information regarding state-supported IDA policy and program requirements can be found on the Center for Social Development's web page at www.gwbweb.wustl.edu/csd/, under "State Assets Policy."

savings of low-income populations should not be publicly supported to invest in assets that may not appreciate over time. Those who support expanded asset uses for IDAs argue that asset appreciation varies widely (even in home ownership, for example), and therefore “appreciation” should not be the key reason for approved uses for IDAs. The main consideration for determining IDA uses, they content, should be how important selected “assets” are to an individual or family development goals.

People in rural areas, including American Indian reservations, might benefit greatly from IDAs if a wider variety of uses for IDAs are approved. Some examples include: home repair for existing housing stock, automobiles for transportation to jobs, family health insurance costs, childcare expenses related to employment, land-based infrastructure improvements (such as wells, attaching to local electrical lines, septic systems, and processing fees), retirement savings, and assistive technology purchases for people with disabilities (for both employment and quality of life purposes).

These uses may or may not be widely considered as “appreciable assets,” but when acquired, especially along with financial education, could improve employment opportunities and assist rural and American Indian families to gain the economic foothold needed to acquire the more appreciable “big three” assets.

Some states have expanded uses for IDAs. For example, Arkansas, Iowa, Maine, Maryland, Missouri, and Vermont allow home repair as a use for state-supported IDAs. Since available housing stock in rural areas is mostly older and need repair, rehabilitation may be key to achieving and retaining homeownership and building wealth in low-income rural communities (Bailey, 2005).

In addition, some states allow automobile purchase, insurance costs, childcare, and/or retirement (Edwards & Mason, 2003). Pennsylvania IDA law has the most flexible of all state IDA policies in this regard, citing approved uses that include the "big three" and “any use approved by the state plan”, meaning *any* uses for IDAs approved by both state-chosen non-profit fiduciary organizations and state government IDA plan administrators. Both have been flexible in this regard.

Some states allow “rollover” of IDA savings into state college savings plans, or approved retirement financial vehicles, including Oregon and Pennsylvania. (Indiana offered this option at one time, but no longer does so.) This strategy could serve a large number of people in rural areas, who are not offered college tuition benefits through employment. Schools in rural areas, often centers of social activities in rural communities, potentially could serve as marketing and educational centers for IDA programs, especially programs that focus on educational goals (for both children and adults). Research indicates that some type of incentive, such as a match, would likely be necessary for substantial participation in college savings programs by low-income families (Clancy, Cramer & Parrish, 2005).

Income Requirements in Rural IDA Policy

Some rural populations, such as American Indians, immigrants, refugees, and people with disabilities, do not benefit as much from some current state (and federal) IDA policies as their urban counterparts, due to policy and program requirements and restrictions. For one, most programs require deposits in IDAs be made from “earned" income, often eliminating a considerable number of people with disabilities, who may lose needed benefits if they earn an income (due to income prohibitions in some federal assistance policies designed for people with disabilities), or Native Americans who may be unemployed, but receiving "per capita" payments from gaming or other tribally accumulated revenues. Second, income typically is calculated by "household" rather than by "family," which affects many American Indians, Alaska Natives, Native Hawai'ians, immigrants and refugees, and others who live in extended family households. Third, many programs, as previously mentioned, restrict uses for IDA savings to the "big three" asset investments.

Funding Streams for Asset-building policy

States allocate or appropriate funds for IDAs from a variety of sources, only one of which is specifically intended to serve rural populations (Community Development Block Grant "Small Cities" funds, or CDBG funds). CDBG funds are awarded to states by the Department of Housing and Urban Development (HUD), with the intention of promoting economic development in small towns and other rural areas. Other major funding sources for state IDA policies include Temporary Assistance to Needy Family (TANF) funds, state general funds, and state tax credits (see table 2).

The most common, TANF, requires that IDA holders currently receive TANF or be TANF eligible (i.e., low-income parent/s with children), and have some earned income. TANF IDA policy could better serve people in rural areas if it allowed IDAs to be established by any low-income individual, and if states were allowed to use TANF funds for IDAs in any way they judged as "compatible" with the general goals of the TANF program. This could expand the qualified populations and uses of IDAs, without concern about IDA savers losing public assistance benefits.

A key feature of TANF IDA law is that IDAs savings do not count as assets when determining eligibility for some TANF cash assistance or federal means-tested assistance programs. Typically, these programs use an asset test that only allows recipients to own a small amount of wealth. Currently, assets are only excluded in IDAs created under Section 404(h) of the TANF law and IDAs established under the Assets for Independence Act (AIA) (Department of Health and Human Services, n.d.).

Table 2: **Main funding sources for IDA policy**

	CDBG Funds	TANF funds	State general funds	State tax credits
States	North Carolina	Arkansas Illinois*	Indiana	Colorado
	Tennessee	Indiana	Minnesota	Connecticut
	Virginia	Michigan	Pennsylvania	Hawai'i
		Oklahoma*	Vermont	Kansas
		South Carolina	Washington	Maine
		Texas*		Missouri
		Vermont		Oregon
		Virginia		Pennsylvania
		Washington*		

* These states no longer use TANF funds for IDAs, but have in the past.
Source: Center for Social Development. (2004, March). Summary Tables: IDA Policy in the States. St. Louis, MO: Washington University, Center for Social Development. Retrieved March 3, 2006, from http://gwbweb.wustl.edu/csd/policy/StateIDAtable.pdf

No empirical evidence suggests that any one IDA funding source is better suited to serve rural populations than another. However, rural program coordinators perceive that urban areas have greater access to all types of funding for IDA programs generally.[7]

Time Limits for Saving in IDAs

Extended IDA saving time frames could help rural populations by allowing them to set longer-term asset-building goals, and to develop longer-term saving strategies that accommodate seasonal employment patterns and low incomes prevalent in rural areas. For example, as

7 This suggestion has been made repeatedly during workshops at annual National IDA Learning Conferences hosted by CFED.

mentioned previously, Missouri IDA policy permits saving in IDAs for up to 25 years if savers remain eligible.

By allowing IDAs to be rolled over into other types of savings vehicles (such as those that support college savings and retirement), states extend the time frame for IDA savings. Since a significant number of people leave rural areas to find jobs with better benefits and improved access to services (Grinstein-Weiss & Curley, 2003), IDA policies allowing "roll-over" functions could provide opportunities for education and job training and small business-owner retirement savings that could create powerful incentives for people to stay in rural areas.

Implications

Like may other policies, state-level IDA policy often does not address specific challenges related to asset building in rural areas. Only a handful of states with large rural populations have designed IDA policies with features that address the unique challenges faced by rural populations, and even those states give the matter only minimal policy consideration. If IDAs are to become a significant tool for increasing asset building for rural residents, additional policy considerations must be identified and included in the policy development process local, state, and federal levels.

To date, state IDA policies have not fully addressed these rural challenges. Listed below are several policy changes that would begin to address these challenges and facilitate asset building by rural populations.

- IDA policies should be designed in a flexible fashion, allowing for innovative and expanded uses of IDAs, such as automobile purchase and home repair.

- Fewer restrictions should be placed on IDA savers, such as eliminating asset limits, earned income requirements, and determination of income by "household," to maximize participation in IDA programs by population groups such as American Indians, immigrants, refugees, and people with disabilities.
- IDA policies should require a substantial number of IDA program sites in rural areas, along with designated funding to address unique fundraising challenges faced by rural communities.
- IDA policies should be designed to allow for roll over of savings into established savings plans for college or retirement, or they should provide an expanded saving time frame and increased savings thresholds.

FEDERAL POLICIES FOR WEALTH BUILDING

The federal government has established a specific regime of rural wealth-building programs that recognizes some of the unique circumstances facing rural people and communities. The following discussion provides an overview of federal wealth-building programs, beginning with the nation's earliest and largest wealth building program. Following this, we turn to contemporary rural policy in the USDA and other federal agencies with rural-focused programs.[8]

The Homestead Act of the Nineteenth Century: Impacts and Lessons for Federal Policy

The federal government has a long history of encouraging wealth in rural households. The preeminent example is the Homestead Act of 1862. Its legacy lives on in the U.S.

[8] "Rural" as used in this paper is the general definition used in the programs highlighted herein – generally, a population center of less than 50,000 people, or a non-metropolitan area.

countryside and in the lives of millions who descended from the homesteaders that spread across the western United States.

In 1853, the U.S. government owned 1.5 billion acres of property commonly known as the public domain. This included all land owned by the federal government that was not part of the original 13 states. Obtained through territorial acquisitions ranging from state cessions to the Louisiana Purchase and the Gadsden Purchase (U.S. Department of Interior, 1998), this largely undeveloped land was an important resource and potential source of wealth. The issue of how to distribute and administer this public land, which formed a continuous strip of territory from the east to the west coast, was an important policy question that would eventually influence how the nation would grow and develop.

There were differing philosophies about how to best distribute this land. One viewpoint, promoted by Thomas Jefferson, suggested that economic democracy, including opportunities and resources for acquiring property, was the foundation of political democracy (Dorfman, 1940). Jefferson proposed that the United States, with a seemingly endless supply of available land, could best evolve as a nation of independent farmers. He supported a policy of offering low priced land to attract foreign and domestic laborers to growing areas in the West and South (Gates, 1941). Jefferson died in 1826, 36 years before the Homestead bill, which embodied many of these principles, passes. But incremental changes were made along the way that shifted policy from sales of large tracts of land at high prices to the sale and distribution of smaller plots of land at reduced prices. Eventually the Homestead Act allowed individuals who were willing to develop a plot of land over an extended time period to be granted full title to that land at minimal cost.

The Homestead Act influenced many aspects of rural land use that persist today. This discussion summarizes the key provisions of the Homestead Act, discusses its influences (positive and negative), and considers implications for rural development policy. The Homestead Act, which provided an opportunity for ordinary citizens to obtain an asset that they could develop and use to create further wealth, provides insight into policies for rural areas today.

The Homestead Act was signed by Abraham Lincoln and passed into law in May of 1862. The statute provided that anyone who was head of a household, a military veteran, and over 21 years of age was entitled to 160 acres of unclaimed public land as long as they had not carried arms against the United States Government. This allowed for single, unmarried women and men, as well as families, to be eligible. An applicant had to be a U.S. citizen or at least have filed intention to become one. Once land had been surveyed and marked off into townships of 36 square miles, as required by the land ordinance of 1785, a person could file an application with the appropriate land office, swearing that the property was for his or her own use for the purpose of cultivation and settlement. This person had six months to move onto the land and begin improvements. The land was exempt from sale, taxes or previous debt. Any time after five years, the applicant was entitled to take out final papers and receive a patent (title) for the land, after providing evidence that all conditions had been fulfilled and paying nominal charges (around $10) to the appropriate land office. If the claimant abandoned the land or changed residence, the plot reverted back to the government (Dick, 1970; Sloan, 1976).

By electing to transfer property to individual citizens in this manner, the U.S. government gave them a tangible asset, thus providing access to a source of opportunity and future wealth. Over the 77-year period in which the Homestead Act was in effect (1863-1939), three million people applied for homesteads and almost 1.5 million households won title to 246 million acres of land (U.S. Census Bureau, 1975). This represents a remarkable transfer of wealth and assets. Overall, approximately 20 percent of public land was given away to homesteaders (Department of the Interior, 1998). Shanks (2005) estimates that 46 million U.S. adults, or approximately one quarter of the U.S. adult population in 2000, are descendents of homesteaders.

Despite criticisms – that much of the best agricultural land was already taken, that urban workers could not successfully move to farming, and that the opportunity was fraudulently exploited by corporate economic interests (Cochrane, 1993) – the Homestead Act motivated many to move to largely unpopulated areas and establish family farms. As Paul W. Gates (1996), a noted historian of public land policy who earlier had described multiple misuses of homestead land, later wrote:

> The old evils of careless drafting of land legislation, weak and inefficient administrations (inadequately staffed), and the anxiety of interests to take advantage of loopholes in the laws, all brought the Homestead Acts into contempt and censure. But their noble purpose and the great part they played in enabling nearly a million and a half people to acquire farm land, much of which developed into farm homes, far outweigh the misuse to which they were put. (p.52).

Even with imperfect administration and implementation, the Homestead Act has had a lasting influence on land distribution in the United States. In addition to the absolute number of people making homestead claims, there are other ways in which the Homestead Act influenced rural development, both positively and negatively.

Commitment to Development of Land, Not Short-term Speculation

The five-year residency requirement emphasized the priority of long-term tenure and a commitment to sustained development of land over short-term speculation. In fact minor adjustments were made to ensure protection of the environment and reduce the possibility of short-term stripping of minerals and resources. For example, when it appeared that forests were being harvested too quickly, some states created incentives for homesteaders to set aside part of their acreage to plant trees or required loggers to purchase land not settled according to the value of the timber it contained (Robbins, 1976). Although such laws were not always strictly enforced, the message was a priority for long-term investment. Even when special provisions were made in some areas for mining, cattle ranch grazing, and exceptional irrigation needs, this was usually determined by average rainfall and differential soil quality and not intended to shift the original commitment to agricultural cultivation (Dick, 1970; Peffer, 1951).

Impetus for Population Growth and Initiation of Statehood

According to the Northwest Ordinance of 1787, settlements had to reach a population of 60,000 free persons to apply for statehood. Although the majority of territories had become states by the time the Homestead Act passed in 1862, many unsettled areas remained. If a 160-acre plot of land existed as part of the unappropriated public domain, it was eligible for homestead claims regardless of location. However, as populations increased in established cities and settlements, what was thought of as the open frontier moved further west. The offer of free land and the opportunity to improve one’s situation was appealing and hundreds of thousands of people were willing to move to these less settled regions in an attempt to make a new life for themselves as homesteaders.

In addition to populating unsettled land and creating opportunity for individuals, U.S. land policies also allowed for economic growth (North, 1974). Although the United States already was becoming more of an industrial economy, expanding agriculture ensured an adequate food supply, provided raw materials for processing and manufacturing industries, and created surplus commodities that could be traded as exports (Fite, 1976).

Long-term Support of Small Farmers and Agriculture

An institutional support system developed to complement the efforts of farmers and those filing for homesteads. Any new area that was open for settlement required planning agencies and land grant offices to administer paperwork and claims. In addition, the July 1862 Morrill Land-Grant Act set aside federal land to establish colleges to support agriculture and mechanic arts and other fields, as well as to expand educational opportunity in every state (Hyman, 1986). Thus, as homesteaders moved to areas with varying soils and climates where traditional farming techniques were not successful or efficient, land grant colleges were beginning to form to provide research and assistance. Alternative agricultural practices tested innovations such as crop rotation and new irrigation approaches that proved helpful to farmers. Land grant research and Cooperative Extension experimented with these ideas to help farmers cultivating crops in new terrain.[9] Again, it took time for these institutions to mature and become respected, but the framework, much of which still exists today, was put in place alongside the Homestead Act.

Immigration

[9] There were actually several historic Acts passed by Congress to create state or federal partnerships for education, research, and training related to agriculture, including the Morrill Land-Grant Acts of 1862 and 1890, the Hatch Act of 1887, and the Smith-Lever Act of 1914.

Unlike the tenancy and peonage systems that developed in Latin America, the widespread distribution of land ownership in the United States through the Homestead Act and the sale of land at relative low prices led to a higher standard of living, development of a middle class, and an influx of immigrants (Mosk, 1951). As Everett Dick (1970) writes, “land was the most important single social factor in frontier history”; it “became the lure that enticed immigrants to America and settlers farther westward” (p. ix).

Early immigrants, mostly from Northern Europe, were German, followed by Swedes and Norwegians. In addition to farm settlements in the Great Plains, Wisconsin, Minnesota, and Iowa, they made other contributions to American agriculture. They served as farm laborers; introduced new farm techniques, seeds, and lifestyles; created agricultural societies, cooperatives, and even banks (Saloutos, 1976). Homesteaders built farms and economic ventures, they also established churches (mostly Lutheran and Baptist), schools, musical groups, and sporting competitions (Trotzig, 1977).

Later immigrants came from Eastern and Southern Europe. Through diary entries and historical journals, it is possible to gain a sense of how much the Homestead Act influenced immigration. For example, Jewish societies and foundations encouraged group emigration to the United States and often provided initial funding to assist the large influx of Eastern European Jews in the period around 1900. Small groups of families made plans to travel and eventually formed farming communities (Fields, 2002; Schulte, 1990). Most Jewish homesteaders moving to North Dakota did not remain in farming, including many who sold their land and move into occupations and cities that were more attractive to them (Schulte, 1990).

But these histories also often have a racist undertone. Although facing hardships, including backbreaking labor, economic depressions, occasional droughts and natural disasters, European immigrants were could take advantage of the Homestead Act and become independent property owners. In contrast, non-European immigrants could not. The Chinese Exclusion Act of 1882 prohibited Chinese immigrants from entering the United States. Agreements were made with the Japanese government to limit the number of Japanese immigrants. These groups were prohibited from taking advantage of the Homestead Act. Mexicans and Filipinos, hired as seasonal workers and temporary employees on the West coast and on the railroads, and immigrants from the Bahamas, brought in to pick fruits and vegetables on the East coast, were excluding from this policy (Saloutos, 1976). Even some U.S. born groups could not qualify for the Homestead Act. The history of slavery, sharecropping, and Jim Crow laws also made land ownership under the Homestead Act almost impossible for U.S.-born Blacks.[10]

Circumstances of American Indians

As the United States government brokered deals and made acquisitions that established the public domain, it continued to force Indian tribes off their own land. Promoters, frontier settlers, and fur traders pressured the government to enter into treaties with Indians that today would be regarded "as unconscionable" (Gates, 1976, pp. 223-224). Even agreements that had been made were often honored only when reservations "did not contain land desired by the whites" (Robbins, 1976, pp. 233). In pursuit of his economic philosophy, Thomas Jefferson permitted government agents to acquire land while maintaining peace with the Indians, advising that it was best to force sale and encourage the exchange of land for barter trade (Dorfman, 1940).

[10] For more on the specific situation of Blacks and the Homestead Act see Williams (2003) and Shanks (2005).

Numerous historical accounts detail the unfair treatment of Indian tribes by the U.S. government. An example is the story of the Cupeño Trail of Tears. In 1795, a small group of American Indians numbering between 500 and 750 lived near missions in Southern California. As ranchers took over land in the area, the Indians began to work for them. In 1893 the Downey family acquired the property and sued for the removal of the Indians, a case that was eventually found in the family's favor by the Supreme Court. A commission chose an area in which to locate the tribe members. On May 12, 1903, the Indians were physically evicted and 25 families were forced to leave. The group eventually migrated to Los Angeles (Bahr, 1997).

Provisions Too Prescriptive for Some Regions

Another negative consequence of the Homestead Act is that, for certain regions (such as the semi-arid areas of the Great Plains), the policies led to establishing farms that were probably too small to be viable over the long term (Hansen & Libecap, 2004; Libecap & Hansen, 2002). In most of these areas initial settlement took place during periods of higher than normal rainfall, which gave the perception that homesteading could be as viable and successful as it had been in states further east in areas where average rainfall is higher. During periods of drought, however, many of the homesteads failed and were deserted.

More successful strategies in these areas might have included larger acreage so that some land could remain fallow, gathering nutrients and moisture or to use land in even larger plots to raise livestock. In 1878, an advocate for this type of land use, John Wesley Powell recommended larger land allocations in the Great Plain region, but opponents dismissed his report, *Report on the Lands of the Arid Region*, and defeated subsequent bills in Congress (Hansen & Libecap, 2004). Recent statistical analyses demonstrate that larger farms would likely have survived the area's periods of drought (Hansen & Libecap, 2004; Libecap & Hansen, 2002). Thus, many people attracted to the territories that are now the states of Montana, Nebraska and North and South Dakota, sought homestead land, but these areas subsequently have suffered major population declines after extended droughts forced small farmers to leave their property.

Implications for Federal Policy Today

With urbanization and industrialization, the U.S. economy is much different today than during the time of the Homestead Act (between 1862 and 1939). With the trend toward large consolidated farms, most people in rural areas no longer own or work on farms and most agricultural land is not maintained by one household (Deavers and Hoppe, 1992). But as people contemplate today's rural context, it may be helpful to look back at the land policies and historical context in which many of these areas were settled and populated. Even though there is much less unappropriated land for the U.S. government to manage and what exists is no longer quickly given away for private property, a thoughtful set of policies could help develop under-populated rural areas.

Building on the example of the Homestead Act, such policies might embody certain principles. These could include: (1) a commitment to long-term development that de-emphasizes speculation or short-term market forces; (2) incentives and/or opportunities that attract population or at least curtail population decline; and (3) institutional supports to assist these strategies. Furthermore, planning should avoid further marginalizing vulnerable groups and avoid being too prescriptive.

Especially the challenge for policymakers is to provide incentives and resources for rural development and innovative entrepreneurial activity without being too prescriptive. An additional challenge is to create a context where the most vulnerable groups are included. Ideally, low-income households, single mothers, people with less than a high-school education, people with disabilities, and people leaving incarceration would be included in planning efforts and eligible for participation in these economic development efforts.

In sum, the Homestead Act was part of a long-term strategy to develop land that ultimately provided a wealth-building opportunity for many. Over the more than seventy years that it was in effect, there were misjudgments and problems with implementation, yet the Homestead Act inspired thousands to take up the challenge of establishing a family farm in unfamiliar territory. Given that some of these same areas are facing population decline today, it may seem ironic to revisit principles of the nineteenth century Homestead Act. However, if policymakers can establish a long-term vision that provides real economic opportunity for those willing to live and invest in rural areas, a re-imagined twenty-first century homestead policy may remain a viable policy direction.

Contemporary Federal Wealth-Building Policy

In the contemporary context, rural America is at a federal funding disadvantage. The Consolidated Federal Funds Report for 2003 (the most recent data available) shows a $6.5 billion annual federal funding deficit to rural areas compared to urban areas, with a per capita deficit of over $100 for each rural person in the nation (U.S. Census Bureau, 2003a). Even more lopsided is the rural disadvantage in community development funding. Each year from 1994 to 2001, the federal government funded two to five times as much per capita to urban community development than to rural community development. The federal government provided only one-third as much for rural areas during the same period, an annual $16.5 billion funding disadvantage (National Rural Network, 2005). Our analysis suggests that much of the rural funding disadvantage is in programs promoting and assisting wealth-building activities.

A review of grant programs dedicated to economic and community development in all agencies of the federal government in the 1990s found that only 16.2 percent of grants went to rural areas (out of a total of $43.6 million) (USDA, 1997).[11] This resource deficit further challenges wealth-building activities in rural areas.

Home Ownership in Rural America

Home ownership in rural areas of the nation is higher than in non-rural areas. Occupants own 75 percent of occupied housing units in rural areas (U.S. Census Bureau, 2003b; U.S. Census Bureau, 2002a). Thus, many rural households possess an important asset. However, despite relatively higher rates of home ownership in rural areas compared to urban areas, rural housing stock is older, poorer quality, and more likely to be in disrepair. In total, nearly one in six rural occupied housing units were built prior to 1930 (U.S. Census Bureau, 2002a).

The types of homes owned by rural residents also vary significantly. Nearly one in six owner occupied housing units in non-metropolitan America are mobile homes -- nearly double the national total (U.S. Census Bureau, 2002a) –a number that has increased in rural areas by 38 percent since 1987 (U.S. Census Bureau, 1999). Although a legitimate housing option for many, the prevalence of mobile homes in rural areas often acts as a deterrent to construction of permanent housing, particularly for low-income families and individuals (National Rural Housing Coalition, 2001). Mobile homes also do not provide many of the benefits of traditional,

[11] This review includes grant programs devoted to agriculture, housing, business development and community development. These data are aggregate figures for all programs reviewed. In individual programs, rural areas received the vast majority of grant funds, particularly in agriculture and in some community infrastructure programs.

permanent housing; they decrease in value over time and rarely maintain their value long enough to be sold or passed down.

Rural areas also have a disproportionate amount of the nation's substandard housing. Approximately 1.5 million low-income (80 percent or less of the area median income) rural families live in severely inadequate housing (i.e., units without hot or cold piped water, and/or leaky roofs or walls, rodent problems, inadequate heat, and peeling, and often lead-based, paint) (National Rural Housing Coalition, 2001). In total, 2.6 million rural residents live in inadequate homes, compared to 2.4 million central city residents and 1.3 million suburban residents (National Rural Housing Coalition, 2001).

Further, housing "cost burdens" (the percentage of income attributable to housing) are greater in rural areas. The accepted housing "cost burden" is 30 percent. In rural areas, 21 percent of rural homeowners (5 million) pay more than 30 percent of their income for housing, making them cost-burdened (National Rural Housing Coalition, 2001). It is estimated that 1.1 million rural homeowners are severely cost-burdened (paying over 70 percent of income for housing), and 1.9 million homeowners pay more than 50 percent of their income for housing costs.

Home ownership rates, therefore, do not tell the entire story of rural housing. Age, condition, type, and relative cost of rural housing make it "apparent many rural homeowners do not gain the benefits that typically accrue to home owners" (National Rural Housing Coalition, 2001). This reality presents unique challenges to wealth building based on homeownership for rural families.

At the same time, rural areas are faced with a "low and declining level of federal housing assistance" (National Rural Housing Coalition, 2001). Every federal housing program spends far less in rural areas than in urban areas. Over twice as many urban or metropolitan area homeowners receive government-assisted mortgages. According to the 2001 American Housing Survey, 13.6 percent of metropolitan and 14.1 percent of urban homeowners receive federal assistance, while only 6.7 percent of rural and 5 percent of non-metropolitan homeowners do (U.S. Census Bureau, 2002a).[12] Rural homeowners fare only slightly better with state and local mortgage assistance programs. In 2001, 5.6 percent of metropolitan homeowners received assistance from state and local programs, while 4.2 percent of rural homeowners received such assistance (U.S. Census Bureau, 2002a).

With respect to spending by the Federal Housing Administration (FHA), only six percent of assistance goes to non-metropolitan areas. On a per-capita basis, metropolitan counties received nearly 10 times the FHA assistance than do rural counties ($264 for metropolitan counties vs. $25 for rural counties) (National Rural Housing Coalition, 2001).

Nonetheless, some federal policy initiatives have begun to address rural housing challenges:

- The U.S. Department of Housing and Urban Development (HUD) administers the largest single program for rural community and economic development, the Community Development Block Grant (CDBG) program. Most rural areas are so-called “non-entitlement,” or rural, CDBG areas. The funds are administered by states on a competitive basis.[13] CDBG funds are used for a variety of economic and community development activities, but one of their primary purposes is to “provide decent housing

[12] Federal programs included in this calculation are the Federal Housing Administration, Veterans Administration and USDA Rural Development and Rural Housing Service.

[13] Non-entitlement areas are those municipalities with populations less than 50,000 and counties with populations less than 200,000; this definition corresponds closely to other federal program definitions of “rural.”

and a suitable living environment, principally for persons of low- and moderate-income." (U.S. Department of Housing and Urban Development [HUD], 2006a). In FY2004, 29.7 percent of all appropriated CDBG funds went to non-entitlement communities. Using the same percentage distribution for subsequent years, the CDBG funds available for rural areas have decreased by over 4 percent since 2002.

- HUD also administers the Rural Housing and Economic Development Program. This program supports "capacity-building at the state and local level for rural housing and economic development and to support innovative housing and economic development activities in rural areas" (HUD, 2006b). Funding for this program has also experienced a recent funding decrease, from $25 million in fiscal year 2002 to $24 million in fiscal year 2005.
- The USDA administers a variety of rural housing programs that provide loans and grants for single and multi family housing, rental housing, home repairs, and assistance for home buying and rental payments in rural areas.[14] The overall funding trend in the USDA rural housing programs is to support wealth building among rural people by increasing funding for homeownership and decreasing funding for rental units. For example, the funding level for the Section 502 Single Family Loan program increased by over $200 million between FY2002 and FY2005, and is proposed for an additional $200 million increase in the fiscal year 2006 budget.

[14] Funding for these is from Section 502 Single Family Loans, Section 504 Repair Loans, Section 504 Rental Loans, Section 523 Land Development Loans, Section 524 Site Loans, Section 538 Multi-Family Loans, Rental Assistance Grants, Mutual and Self-Help Grants, and Rural Housing Assistance Grants.

Business Development

Nearly a third of all rural residents are self-employed, and nearly half of rural workers are employed by firms with 20 or fewer employees (National Rural Health Association, 2004). While a significant number of rural self-employed are farmers and ranchers, non-farm self-employment and small businesses play an important and growing role in rural economies. For example, 42 percent of jobs in the most rural and agriculturally dependent counties of a region that includes Kansas, Iowa, Minnesota, Nebraska, North Dakota and South Dakota are in self-employment (20 percent are farm or ranch proprietors and 22 percent are non-farm proprietors) (Bailey & Preston, 2003).

Small business and entrepreneurship is also the most important engine for job growth in the six-state region described above. Despite population decline and a loss of farmers and ranchers, rural, agriculturally-based counties of the region created more self-employment and small business jobs than did metropolitan counties. Nearly 60 percent of all jobs created during the 1990s in the most rural and agriculturally-based counties of the region are attributable to non-farm self-employment and small businesses (Bailey & Preston, 2003).

Small business development and entrepreneurship is crucial to future economic viability in many rural areas. According to the Association for Enterprise Opportunity (AEO), the average microenterprise in the United States employs 1.7 people (including the business owner) and states with large rural populations tend to have higher rates of microenterprise employment. Further, the creation and expansion of microbusiness has the potential to create a spiral of business activity within rural communities. Local small businesses invest much of their economic activity in the local community. For example, a study of home-based businesses in the rural South found that 38 percent purchased supplies locally, 47 percent acquired services locally, and 42 percent made local sales (Brown & Muske, 2001). This multiplier effect may have potential to significantly enhance rural economies. A number of federal programs help support business creation and development in rural areas:

- The USDA Rural Community Advancement Program (RCAP), established by the 1996 Farm Bill, features strategic planning assistance, grants, loans, loan guarantees, and other assistance to meet the development needs of rural communities. Special emphasis is placed on the smallest communities with the lowest per capita income. The vast majority of RCAP funds go to community infrastructure and facility projects. However, some RCAP funds go to establish businesses and housing in low-income and distressed rural communities.
- The USDA Rural Enterprise Zone and Enterprise Community (EZ/EC) programs provide incentives to develop businesses and create jobs in distressed rural communities. Further, the Rural EZ/EC Community Round II Grants Program also provides grants that support economic opportunities and sustainable community development in economically distressed rural areas.
- The USDA Rural Economic Area Partnership Program (REAP) establishes county or regional zones facing significant economic challenges or constraints. REAP zones are eligible for priority USDA assistance and funding to meet those challenges and constraints.
- The USDA Rural Community Development Initiative (RCDI) program provides grants to qualified intermediary organizations to provide financial and technical assistance to recipients to develop capacity and ability to undertake projects related to housing, community facilities, or community and economic development.

- The USDA Resource Conservation and Development (RC&D) program, a program of USDA's Natural Resources and Conservation agency, funds local business and job creation projects. RC&D areas are locally sponsored areas designated by the Secretary of Agriculture, and receive federal funds for technical and financial assistance to local projects. There are currently 375 local RC&D councils, representing about 85 percent of the nation's counties.
- The USDA Rural Business Enterprise Grants (RBEG) Program finances and facilitates development of small and emerging private business enterprises located in rural areas.
- The USDA Rural Business Opportunity Grants (RBOG) Program provides grants to support economic planning in rural communities, as well as technical assistance and training for rural entrepreneurs and economic development officials.
- The USDA Intermediate Relending Program (IRP) finances business facilities and community development projects. Qualified intermediaries re-lend funds to beneficiaries and to establish revolving loan funds.
- The Economic Development Administration (EDA) of the Department of Commerce provides funding to economically distressed communities for planning, infrastructure development, and business financing designed to promote economic growth and stability in today's global market.
- The Delta, Appalachian and Northern Great Plains Regional Authorities are USDA federally funded nonprofit agencies that create public-private partnerships for economic and community development projects within their multi-state regions.
- The Small Business Administration (SBA) also has several programs that provide capital and technical assistance to new and growing small businesses. Several SBA programs

focus on providing capital and assistance for very small businesses, known as microenterprises, with five or fewer employees. The number of businesses and jobs in microenterprise is generally much greater in rural areas than in urban areas, and microenterprise development has proven to be an effective and viable rural development strategy. SBA programs that foster microenterprise include the Small Business Development Centers (SBDC), the Microloan Technical Assistance Program, the Microloan Program, and the Program for Investment in Microentrepreneurs (PRIME).

- Temporary Assistance for Needy Families (TANF) block grants, administered by Health and Human Services, to states are also used to promote microenterprise development in several states. State TANF plans determine the use of funds received by the federal government, but federal law recognizes microenterprise development as an allowable use.

These business development programs are scattered across several different federal agencies. Moreover, despite their numbers, they tend to have relatively small budgets. Altogether, the programs described above received about $600 million in funding in fiscal year 2005. Moreover, many are slated for reduction or elimination. In President Bush’s proposed FY2007 budget, the SBA Microloan Program and the PRIME program would be eliminated, and the budget proposes a $500,000 reduction in the Women’s Business Centers program and a $47 million reduction in the Community Development Institutions Fund (AEO, 2006).

Education and Training

Residents of non-metropolitan areas have significantly lower educational attainment levels than do residents of metropolitan areas. Over 37 percent of metropolitan area residents 25 years old and older have at least an Associate’s degree compared to 25 percent of non-metropolitan residents (U.S. Census Bureau, 2002b). Nineteen percent of metropolitan residents and 11 percent of non-metropolitan residents have Bachelor's degrees and nearly twice as many metropolitan residents hold advanced and professional degrees as rural residents (U.S. Census Bureau, 2002b).

Two major factors contribute to these patterns. First, fewer people in rural areas attend higher education beyond the Associate degree level. Second, many rural people do not return to rural areas after earning advanced degrees.

The impact of education policies that support higher education is difficult to gauge. Programs such as Pell Grants and student loans may help rural high school graduates to seek higher education, but the evidence suggests that relatively few return to rural communities (Gibbs, 2004). Among those who live in rural communities and lack education beyond high school or an Associates Degree, and often too far from institutions of higher education, to take advantage of student loans and grants.

In contrast, data suggest that vocational education may be more suited and beneficial for rural areas. While only eight percent of non-metropolitan residents over 25 years of age have Associate degrees (which often focus on vocational education), this is slightly higher than for metropolitan residents. The growing presence of community colleges and vocational training institutions in rural areas provide an attractive educational alternative for many rural areas that may contribute to rural wealth building strategies. Vocational education and training allows residents of rural communities to enhance their human capital, which in turn may benefit rural families and rural economies. Higher wages and salaries can result from increased education, training, and skills. Rural communities also can benefit from a more highly skilled workforce, greater business services and opportunities, and the economic multiplier effects that accompany higher incomes and more business development.[15] As mentioned earlier, enhancing incentives for 529 college savings plans may also help to ensure that people of all income levels can attend a vocational education program in their area.

LOOKING FORWARD: POLICY INITIATIVES FOR WEALTH BUILDING

Federal Policy: Innovation and Advocacy

Although local and state innovation, leadership, and support are required for rural wealth building, they will be less successful without federal leadership and participation. Two major and competing policy shifts are under consideration that would significantly alter federal wealth-building policy for rural America. One approach, illustrated by the New Homestead Act (discussed below), proposes to expand resources to address the issue of depopulation in certain rural areas while also creating assets and wealth in those communities. The other approach proposes a retrenchment in the federal role in rural wealth building strategies.

Federal Expansion: A New Homestead Act

Drawing on the principles of the original Homestead Act of 1862, the New Homestead Act was introduced in 2003 in the Senate (with a companion bill in the House) and was re-introduced in 2005 by Senator Byron Dorgan (D-ND) and co-sponsored by 13 Senators. The New Homestead Act (S. 675), also called the New Homestead Venture Capital Fund Act, proposes to attract new residents and businesses to rural areas country suffering from high rates

[15] These benefits accrue to rural residents, families, and communities only if recipients of training and education remain in rural communities. The externality of “brain drain” and “poaching” rural residents who obtain enhanced skills and training by urban areas is one that could dampen the economic effect of any wealth building strategy that promotes this type of higher education and training.

of out-migration. It would provide incentives to generate wealth building in rural America including:

- Forgiveness of 50 percent of college loans for recent graduates who live and work in qualifying counties
- A tax credit of up to $5,000 for home purchases in qualifying counties
- Tax incentives for new buildings
- A federally subsidized $3 billion venture capital fund to invest in businesses in qualifying counties
- A tax credit for microenterprise businesses in qualifying counties
- An Individual Homestead Account, a matched savings account identical to Individual Development Accounts (IDA), to help build savings and increase access to credit

Counties would qualify for the provisions of the New Homestead Act by being a non-metropolitan county with at least 10 percent out-migration for the 20 years preceding adoption of the Act. As of June 2004, a total of 677 non-metropolitan counties in the United States would qualify, representing about 22 percent of the nation's counties.[16] Qualifying counties are scattered around the nation, with the largest number in the Great Plains and upper Midwest. All but 13 states and the District of Columbia have at least one qualifying county. Except for California, Florida, Hawaii and Washington, states without qualifying counties are located in the Middle Atlantic, Northeast and New England areas.

Individual Homestead Accounts (IHAs) could be used for medical expenses, first-time homeownership, business capitalization costs and higher education costs. If implemented, the effects of IHAs on rural communities could be widespread. They have the potential to create new

[16] Information provided by the Economic Research Service, United States Department of Agriculture.

jobs and business activity, expand access to financial resources, improve training and skills development for residents, free up money normally used for health care expenses for other uses in low-income households, and build assets for the citizens and community (Center for Rural Affairs, 2005).

The Center for Rural Affairs (2005), a rural development research and advocacy group, recommends that the use of Individual Homestead Accounts be expanded to allow for home repair, training and skills enhancement not tied to institutions of higher education, and business development planning and technical assistance. With these modifications, the CRA believes the Act would respond more effectively to the needs of rural people and their communities and be able to serve them more efficiently (Center for Rural Affairs, 2005).

At this writing, the New Homestead Act has been referred to the Senate Finance Committee, but unlike the 2003 legislative proposal, it has not spawned a similar effort in the House of Representatives.

Federal Retrenchment? The Strengthening America's Communities Initiative (SACI)

In the proposed FY2006 budget, President Bush proposed creating the "Strengthening America's Communities Initiative" (SACI). The premise behind SACI was to "streamline and simplify" federal economic and community development programs by taking the 18 current programs and rolling them into the new SACI program. Another premise of SACI is budgetary. Together, the 18 programs to be rolled into SACI received $5.6 billion in FY2005 appropriations (most of which went to CDBG). The SACI proposal would cut that funding by over a third to $3.7 billion. Although the proposal was not enacted in 2006, a modified version was presented in the President's fiscal year 2007 budget with $700 million decrease in funding.

The qualifying criteria for SACI funds are not yet known, in fact, Congress would have to do considerable legislating to authorize and appropriate a new program of this size, while also eliminating 18 programs scattered through five federal agencies (Housing and Urban Development, Commerce, Agriculture, Treasury, and Health and Human Services). In public statements and documents about SACI communities that are suffering “economic distress,” as demonstrated through low income, high poverty, high unemployment and significant job loss, would qualify for funds (U.S. Department of Commerce, 2005; White House Office of Management and Budget, 2005).

The implications for rural wealth building are substantial. If SACI becomes reality, there may be less funding for rural economic and community development, including programs that create opportunities for home ownership and business development. The eligibility criteria, depending on how they are measured, may also mean fewer communities have access to federal programs that assist in building wealth, particularly low-income communities that may have higher unemployment rates and are without large employers. Finally, programs that serve rural areas exclusively would cease to exist, and rural people and rural communities would be forced into competition for fewer resources with each other and urban communities, businesses, and individuals.

The federal funding disadvantage faced by rural America and the greater rates of asset poverty in rural areas cry out for a greater federal policy attention to programs that create wealth for rural people and in rural communities. While a cursory look suggests that numerous programs promote wealth-building activities in rural communities, most have small budgets that struggle to meet the demand of nearly 50 million people in thousands of rural communities.

Rural wealth-building programs are experiencing political and budgetary pressures that will not resolve the funding and asset poverty deficits in rural America, nor the demand for wealth-building strategies in rural areas. Recent and proposed budget cuts and the proposed restructuring of federal community development programs under SACI are likely to exacerbate rather than resolve these funding and access challenges. In particular, SACI could put an end the few wealth-building policies that currently focus on rural areas.

This is not to suggest that improvements cannot be made to existing rural wealth-building programs. The current policy regime presents a confusing, often difficult to navigate set of programs that are under funded and difficult to access, particularly for individuals and small rural communities without full-time economic development officials and staff. In fact, communities that find it most difficult to access these programs are forced into a competitive, often adversarial position in their quest to access funds from many of these programs. For example, the CDBG program requires rural, non-entitlement communities to compete against each other for finite funds. However, the defects of rural wealth-building policies and programs can be fixed without destroying the commitment of federal support for rural wealth building.

Federal Policy Directions

Innovation should be a priority. For example, policy ideas such as the New Homestead Act may further federal rural wealth building. Notwithstanding limitations, concepts articulated in this legislation could form the basis for a comprehensive federal wealth-building policy for rural America.

Flexibility should be another priority. Drawing on the example above, federal policy could support greater expansion of IDAs into rural areas. Several states work with non-profit organizations to apply for matching grants from the federal Assets for Independence Act (AFIA). State general funds are a potential source of non-federal, or "local," match required for AFIA grants, which could provide considerable additional funding for state IDA programs. AFIA could stipulate that a portion of awards would be designated for largely rural counties or regions.

AFIA rules and regulations present barriers for some groups. For example, Indian populations have limited access to AFIA funds because implementing agencies must be nonprofits, which are scarce or nonexistent on Indian reservations because tribal governments are the chief social service providers. At the same time, most tribal communities suffer high levels of unemployment and poverty, severely limiting their ability to fund IDA matches and support IDA programs without outside assistance.

Some states find AFIA requirements to be too restrictive for the investment they must make to get the federal match.[17] At this time, state governments have yet to forge significant numbers of partnerships with nonprofits to apply for AFIA funding (Warren & Edwards, 2005). Federal policy in this, and many other areas, should be made more flexible to enable states and community organizations to participate more fully.

State Policy: Innovations and Advocacy

Among the most promising advocacy developments is the numbers of states that are working together to develop advocacy networks and promote innovation in wealth building. Although many are focused on IDAs, they are beginning to expand into other areas, such as microenterprise, housing development, and other economic development areas. The first part of this section describes the growth of IDA networks. The second is an in-depth examination of the

[17] The exceptions are Indiana and Pennsylvania, both of which were "grandfathered" into the current AFIA law, and have flexibility to design their programs in any way they view as effective.

development of a bi-state network, whose focus is evolving from IDAs to other wealth building strategies.

State-level IDA Networks

Geographic constraints and other challenges related to fundraising for IDAs in rural communities are beginning to spawn statewide IDA networks, partnerships, coalitions, and collaboratives. State governments, private philanthropy, and financial institutions support IDA networks in Michigan, North Carolina, and Texas. A few have even achieved self-sufficiency, including North Carolina's network, which has filed for 501(c)3 status.

A goal of many of these networks is to develop effective strategies to improve the implementation and sustainability of IDAs in rural areas. The Texas IDA Network is currently limited to certain, mostly urban, regions of the state, but plans to expand the current IDA collaborative to eventually cover the whole state. They plan to create "anchor sites," IDA programs in large-population areas, which oversee and assist in the implementation and support of smaller rural IDA programs. The anchor sites would designate members of the collaborative to specialize in specific tasks, according to the strengths of those organizations, such as fundraising and delivering financial education. The Texas IDA Network is also considering developing or acquiring online and distance learning services to better facilitate banking and financial education for rural participants for whom distances and transportation are challenging.

The Michigan IDA Partnership (MIDAP) uses a large scale, state-level collaborative design, which consists of a three-tier program structure of central administration, regional coordinating bodies, and local program sites, serving both urban and rural areas (Losby, Hein, Robinson & Else, 2003). This system promotes consistent program implementation, provides support to the whole partnership (including rural areas), and allows each tier to focus on its area of expertise (Losby et al., 2003).

A third example of a statewide system designed specifically for rural populations is the North Carolina IDA and Asset-Building Collaborative. A 2002 study identifies factors that contribute to the success of North Carolina's IDA programs. These include establishing a geographic area large enough for a qualified pool of applicants, but local enough not to present transportation issues; securing a consistent source of program funding that can ensure quality staffing; and developing the ability to handle technical requirements for data collection, a factor that could pose problems in the most rural areas of the state if not accomplished in a centralized and collective fashion (Gorham et al., 2002). Because the North Carolina IDA program primarily uses CDBG funds targeted to small cities and rural areas, research findings on this collaborative may point to effective ways to design IDA policy and programs that serve rural areas.

These experiences point to several possible ways that networks promote effective service delivery of rural IDA programs.

- Administration of support systems can be accomplished in a cost effective manner when they serve several connected geographic areas in the state. This type of administrative structure may provide valuable resources and assistance to rural programs that normally do not have the means to develop them on their own, such as designing IDA programs, obtaining financial education materials and partnerships, technical assistance for program operations and research, and establishing partnerships with a variety of financial institutions. Also, state government may be more willing to appropriate funds for IDAs if a structure is in place that can deliver IDAs to all areas in the state in a cost-effective manor.

- Large non-profit partner organizations can perform fundraising tasks and provide rural programs with more funding options than would smaller, remotely located, non-profit organizations. At the program level, increased funding translates into adequate staffing, a perennial problem in rural areas.
- As part of a larger collaborating group, rural programs also gain from being included in broad marketing and advertising campaigns (such as radio and TV service announcements), which are expensive to undertake individually.
- IDA program staff at smaller, newly established, rural sites benefit from the experiences of larger, more experienced IDA programs, particularly in data management, debt reduction and credit repair strategies, and asset-specific financial education for participants (e.g., homebuyer training).

MOKANSave: A Regional Approach to Wealth Building Policy

The Missouri-Kansas Asset-Building Coalition and Policy Project, also known as MOKANSave, was launched in February 2002 as a collaborative project of the Missouri Association for Social Welfare (MASW), the Kansas Association of Community Action Programs (KACAP) (in cooperation with Heart of America Family Services and El Centro, Inc.), and Center for Social Development (CSD). The goal of MOKANSave is to promote knowledge and develop asset-building policy and programs in Missouri and Kansas aimed at building tangible assets in poor households and communities and promoting long-term investment in family financial and human capital and well being. Other goals of MOKANSave include increasing access to information and research on asset-building strategies for low-to-moderate income individuals and families, assisting coalition-building efforts of organizations and groups across Missouri and Kansas, and providing assistance with policy efforts in both states.

The concept of a bi-state asset-building coalition grew out of MASW's longstanding interest in community economic development. MASW, formed in 1901, is a statewide nonprofit organization dedicated to improving the welfare of Missouri residents. It sponsors the Missouri Asset Development Coalition (formally the Community Economic Development Task Force), which spearheaded in 1999 an effort to establish Family Development Accounts (FDA), Missouri's statewide IDA policy. The Kansas Association of Community Action Programs (KACAP) was formed in 1968 to offer services to low income families and communities in urban and rural areas, including more than half of the states rural counties. This formal partnership between a Kansas-based nonprofit and a Missouri-based nonprofit enables MOKANSave to more efficiently and effectively identify and collaborate with asset-building stakeholders in both states, further strengthening the bi-state coalition.

The Center for Social Development (CSD) at Washington University in St. Louis examines the potential for IDAs in Missouri (its home state) and the potential for developing a bi-state IDA policy and program initiative with Kansas.

MOKANSave consists of six components: (1) Expanding the scope of activities beyond IDAs, (2) sponsoring community educational forums and meetings, (3) creating an accessible website, (4) disseminating information about financial education, (5) organizing bi-state conferences for policy makers, providers, and other stakeholders, (6) exploring additional opportunities for regional asset-building collaboration and coalition building.

Expanding the scope of activities beyond IDAs to incorporate broader asset-building initiatives that are inclusive and reach diverse populations. MOKANSave work focuses on a range of asset-building initiatives, including microenterprise development, state college savings plans, financial literacy, and homeownership initiatives. These expanded goals are intended to lay the groundwork for more universal asset-building policies that reach marginalized populations such as the rural poor, Latino and Southeast Asian immigrants, refugees, American Indian tribes, and individuals with disabilities. Currently, participants in MOKANSave are informing legislatures in both states about the state of knowledge and asset building initiatives in the bi-state region and nationally.

*Growing and strengthening the bi-state coalition through community forums and meetings across Missouri and Kansas***.** Forums and meetings, increase public awareness of and engagement in asset-building initiatives. They build on previous successes by providing opportunities for technical assistance, statewide strategic planning, and policy discussions. To date MOKANSave has hosted seven such forums across both states. The communities visited include Wichita, Garden City, Salina and Topeka in Kansas and Cape Girardeau, Springfield, Kirksville and Columbia in Missouri. In organizing and hosting these forums, MOKANSave works closely with local organizations to create an agenda, invite speakers, and follow up. Attendees come from nonprofit organizations, financial institutions, foundations, colleges and universities, faith-based groups, city offices, and state government. Workshop and forum partners provide financial and in-kind support, and The Federal Reserve Bank of St. Louis, United Ways of the Plains, Salina Area United Way, Mid Kansas Community Action Program, and the South Central Community Foundation.

Increasing public awareness of financial education. In its work with the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Bank of St. Louis, University of Missouri

Extension, and Kansas State University Extension, MOKANSave promotes effective financial education initiatives, programs, and curricula across Missouri and Kansas.

Maintaining and expanding the MOKANSave website and database. The MOKANSave website (www.masw.org/mokansave), launched in July 2002, provides up-to-date information on asset-building initiatives, program development, and advocacy efforts in both states, as a model and resource for other states interested in developing multi-state coalitions and providing links to other asset-related websites around the country. MASW's web counter shows that the MOKANSave website is accessed regularly with number of visits peaking before and after community forums and statewide meetings. This suggests that it is important to link face-to-face meetings with website postings. MOKANSave has a database of 570 interested persons and organizations in Missouri and Kansas. Of these 45 percent have attended a MOKANSave forum and/or bi-state IDA conference. The database is expanded after every workshop and forum. Along with the website, the database provides enormous potential to disseminate information about program developments, funding opportunities, and advocacy needs, as well as to discuss program issues with the entire network.

Organizing bi-state conferences and meetings for policy makers, providers, and other stakeholders. MOKANSave organized a bi-state conference in May 2003, which was held at the Ewing Marion Kauffman Foundation Conference Center in Kansas City. The title of the conference was "IDAs in Missouri and Kansas: Knowledge, Tools, and Networks for Asset-Building Success." The conference focused on knowledge, tools, and partnerships to strengthen IDA policy and programs in Missouri and Kansas. The conference generated momentum for MOKANSave activities, and strengthened its credibility and recognition across Missouri and

Kansas. Requests for technical assistance from MOKANSave increased and several conference attendees commented to the project coordinators that they "no longer feel alone" in the field. A MOKANSave stakeholders meeting was held a year later at the same venue. Participants included people who had participated in MOKANSave workshops and forums, and other key players in the asset-building field in both states. Participants discussed the possible creation of a Governor or Treasurer-sponsored Task Force for Asset Development in both states to foster asset building policies and programs. This meeting also resulted in the partnership with KACAP, which led to the establishment of the first MOKANSave office in Kansas. Participants from Kansas created a steering committee to guide development of an IDA bill in Kansas. MOKANSave also made a formal presentation before the Economic Development, Tourism and Local Government Committee in the Missouri Senate in January, 2004 on the history of IDA policy in the State of Missouri and its social and economic impacts on individuals, families and communities.

Exploring opportunities for regional asset-building collaboration and coalition building. Multi-state asset-building coalitions are emerging in Arkansas, Mississippi, and Louisiana, as well as Iowa and Nebraska. MOKANSave will work with these coalitions and explore opportunities to move toward a regional coalition or collaboration, which could ultimately lend strength to policy initiatives at the national level, and ultimately contributing to a more universal asset-building policy in the United States.

In conclusion, MOKANSave has used community forums, conferences, legislative briefings, a website and stakeholder database to build a bi-state coalition to promote asset-building programs and policies in Missouri and Kansas. Through workshops and forums, MOKANSave reaches rural areas in Missouri and Kansas, such as southwestern Kansas and the Bootheel region of Missouri, where asset-building programs are by and large unknown. Through community workshops and forums, bi-state conferences and meetings, MOKANSave increases awareness among providers, policymakers, and other stakeholders in Kansas and Missouri about state and federal asset building developments. MOKANSave forges linkages among existing programs and stakeholders, and has created a network of IDA providers, partners, and stakeholders across both states. The network can be readily mobilized to advocate for policy innovation and change. MOKANSave is poised to take the next steps to strengthen and expand this emerging network into a coalition that will advocate and implement effective and more universal asset-building programs and policies across Kansas and Missouri.

Networks can help develop programs and policies, putting people in touch with each other to share innovations, but federal and state policy funding remain critical components. State and federal support for IDAs should include funding for state-level networks that could provide cost-effective delivery of IDAs, technical assistance, centralized fundraising functions, assistance with delivery of financial education, and establishment of partnerships with financial institutions, to better serve all IDA programs in the state, including those in rural and remote areas. IDA networks are but one example (see conclusions on networks and collaboratives below).

Looking back, this report has provided a wide mix of policy and program examples, which offer specific models as well as more generalizable lessons for wealth building in rural America. In the process, a lot of ground has been covered, and a lot has been skipped over. The report cannot do everything, but hopefully the reader's thinking has been informed and nudged by the examples and lessons.

Looking at the broad picture, there is considerable reason for optimism. Rural America has indeed been through a rough patch, but the future seems almost destined to be different. There is vast potential for development in rural American. It is not so much a matter of if—but rather when—it will be realized. What is the most efficient and effective way to get there from here?

POLICY RESEARCH AND DEVELOPMENT

In this final section, we pause to reflect on policy R&D for rural wealth creation. Among many potential strategies, innovation and applied research to inform programs and policies will often be the most effective in the long term. A knowledge foundation is essential. This is not to say that many other strategies are not also worthwhile. Especially in the short term, organizing, political, educational, and other change mechanisms can be very effective. But in order inform, build, and sustain a social and economic innovation, careful testing and documentation are required. When objective data on an innovation are available, it becomes more tangible. It is no longer an idea, but a concrete reality. It is no longer easy to dismiss, because of data on outcomes. When these conditions are achieved (never an easy task!), both public and political discussions can be built, with potential to put into place meaningful, substantial, and long-term policies and programs.

Innovation and Applied Policy Research

Perhaps we have a bias. Many of the authors of this series of reports come from a rich American tradition in applied research that is used to inform program and policy development. They work in organizations like the Rural Policy Research Institute and Institute for Public

Policy at the University of Missouri, the Center for Rural Affairs in Nebraska, Cooperative Development Services in Wisconsin, and the Harvard Project on American Indian Economic Development. These are but a few organizations in a vibrant knowledge-building infrastructure in applied social and economic research. This infrastructure is a treasure (possible only in a democratic and prosperous nation). To be sure, many of the studies sit largely unread on the proverbial dusty shelves, but some of the studies—by virtue of asking incisive questions, careful research, thoughtful distribution of findings, timing within the political context, and dumb luck—have tremendous impacts. The best applied research can alter thinking and lead eventually to sweeping policy changes. When this occurs, the payoffs are so great, and the return on investment so large, that the effort as a whole is more than worthwhile.

At the Center for Social Development (CSD) at Washington University in St. Louis—as at many other applied research centers in the United States and around the world—we have seen this happen in the case of asset building, particularly IDAs, and in other areas of CSD applied research, such as civic service and productive aging.

Related to the agenda in this series of reports, applied research at CSD has introduced the concept of "asset building" and "asset-based policy" into social policy discussions in the United States and other countries. Concrete evidence from research on IDAs has been influential in shaping state and federal policies. Along with many other partners, CSD is now in the process of testing the concept of a universal and progressive Children's Savings Accounts (CSAs) in the SEED initiative (SEED stands for Saving for Education, Entrepreneurship, and Downpayment). Through SEED, our goal is to inform a very large-scale policy, much like the Child Trust Fund in the United Kingdom that began in 2005, giving each newborn an account, with larger initial deposits from government into the accounts of children in the poorest families.[18]

Beyond Demonstrations

Having strongly endorsed innovation and applied research, we are also very cognizant of the limitations, and sometimes dysfunctions, of demonstrations. For example, IDAs were never intended to be short-term (three to five year) savings instruments for the poor, but rather universal, life-long asset-building accounts, to be used for many different purposes across the life course (Sherraden, 1991). The current form of IDAs as short term savings is entirely an artifact of "demonstration" funding, which is necessarily limited in duration and targeted, and therefore the IDAs are of limited duration and aimed at the poor. This has been a very productive period in terms of knowledge building, but the policy in the United States is still far from where it should be.

In a sense, this can be thought of as "demonstration alley", a detour (and too often an eventual dead end) for programs that aim to include the poor. When the U.S. Congress enacted 401(k)s in 1978, which today are delivering about $100 billion per year in tax benefits, almost all to the non-poor, there was never any call for a "demonstration" or research to document that 401(k)s could be successful. Instead, it was simply done. But when there is a proposal to include the poor, then public policy often goes into the research and demonstration mode. In keeping with the rural theme of this report, we might call this policy pattern "bumper crops" for the non-poor but "small potatoes" for the poor. Of course, this is part of the story of how social

[18] From 2000 through 2005, CSD advised the Blair government, both Prime Minister's Office and Treasury, on policy design of the Child Trust Fund. CSD's advice was sought because of our research on IDAs in the United States. This is another example of the potential of applied research, in this case influencing policy in another nation, which in turn will likely influence policy back in the United States. IDA research has also been instrumental in policy and program changes in Canada, Australia, Taiwan, China, Indonesia, Australia, Uganda, and other countries.

class is structured, operates, and is maintained in the United States. In this context, a demonstration may be the best we can do—and we should always try to take the most advantage of it—but it is at the same time morally and politically unacceptable. If a policy makes sense for the non-poor, it should also include the poor, without putting upon their backs a prolonged "demonstration" that may ultimately lead nowhere.

How to overcome this pattern, we do not know, but part of the answer is not to shy away from making large-scale proposals that can build wealth for all. In the context of rural America, proposals of the scope of the original Homestead Act should be on the table. It is clearly time for a major transformation, rather than "small potatoes".

Philanthropy: Achievements and Potential

Philanthropy is one of the great hallmarks and strengths of America. At its best, philanthropy can initiate, test, and refine ideas that are not yet ready for large-scale application. This has certainly been the case in "asset building" strategies for the poor. The leadership of foundations—among them Ford, Charles Stewart Mott, Annie E. Casey, F.B. Heron, Citigroup, W.K. Kellogg, Joyce, Ewing Marion Kauffman, MetLife, Levi-Strauss, and others—has made tests of IDAs and other asset building strategies possible. These philanthropic investments within the past decade have literally created a large discussion. Phrases such as "asset building," "asset-based policy," and "wealth creation" are now common in public and policy discourse.

This series of reports on wealth building in rural America can be seen as one part of this story. But much more can and should be done. American philanthropy can use these reports, and other key studies, as a foundation upon which to launch a truly visionary and bold agenda for transformation of rural American through the concept of wealth creation, broadly defined.

Directions for the Future Research and Development

The agenda in applied social research should include on-going tracking of key wealth trends, and systematic investigation of innovative strategies. Studies should address the roles of different levels of government, the private sector, and non-profits and other civil society organizations. Applied research should carefully examine impacts on different groups, especially the poor, people of color, and older adults. The disabled in rural America should also be a focus of attention due to transportation and health care challenges. Other studies should look at global impacts on rural wealth building, e.g., the effects of NAFTA and CAFTA. Studies of immigration, residency, and livelihoods in rural America are essential.

There should be studies of public subsidies for particular industries and agricultural production in rural areas—which today by and large do not promote innovation and new wealth but rather sustain large and traditional modes of production, which in all likelihood do not represent the future. Research should ask whether these public subsidies are efficient and stimulate economic growth and social cohesion, or do not. Studies of alternative uses of the public funds, e.g., in specialty crops or alternative fuels generation, should be a high priority.

Also a high priority should be the social and organizational innovations, especially the testing of umbrella organizations, coalitions, and collaboratives, designed to reach “scale” by sharing resources and political voice, with to goals of achieving greater efficiencies and greater influence. In this report, IDA and asset building networks is but one example.

In closing, major new R&D initiatives in rural wealth creation should be considered. Perhaps these initiatives should run through the existing infrastructure of applied research centers and institutes, or perhaps a new Institute on Rural Wealth (or similar name) should be created to embody the larger objectives and focus on this critical agenda for the United States in the decades ahead.

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