

# Strategies to Revitalize Rural America

A compilation of articles from the  
Center for Rural Affairs Newsletter

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### *What can we do to reverse decline in agricultural communities?*

It's a question we hear often. We have presented a series of feature articles in the Center's monthly newsletter that give our strategies for renewing agricultural communities – the communities themselves and the family farms and ranches and small businesses that provide their economic foundation.

The articles focus on good ideas to plug into good process. They will reflect these principles:

Communities are stronger when more of the people working on farms and in businesses have the opportunity to own them. Quality jobs are also an asset for communities. But we must not overlook self-employment. Local owners are more committed to the community than distant corporations – which often leave at the drop of a hat.

Economic development need not and should not come at the expense of environment. To the contrary, environmental protection is a development asset. Products produced in ways that protect the environment have an edge in the market. And communities with a quality environment enjoy an edge in keeping and attracting families.

Communities that invest in themselves – in quality schools, swimming pools, recreation, etc. – can better keep and attract the young families that energize communities and create new businesses.

Community development should serve the entire community. It cannot neglect the needs of the poor. When some are left behind, the community is weakened and all suffer the resulting social and community breakdown.

Agriculture and non-farm rural development should be integrated. We must revitalize family farming and ranching and capture more food system profit close to home to enhance the contribution of agriculture to the community. But agriculture alone cannot revitalize our communities. We must also pursue non-farm strategies – especially small business development.

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Established in 1973, the Center for Rural Affairs is a private, nonprofit organization working to strengthen small businesses, family farms and ranches, and rural communities through action oriented programs addressing social, economic, and environmental issues. For more information, visit the Center's website at [www.cfra.org](http://www.cfra.org).

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## **Strategy #1**

# **A Federal Rural Policy**

It is time to establish a national rural policy that revitalizes rural communities through new initiatives and reforms to existing policy. This article will focus on small agricultural communities because they are the Center's focus. But a national rural policy must address the needs of all of America's struggling rural communities.

### **Money, Farm Programs, and Rural Development**

Discussion of federal rural policy often starts with money and ends with proposals to eliminate farm programs and commit the money to rural development. That won't work.

Ending farm programs would cause bankruptcies, farm foreclosures, and bank failures and wreak havoc in agricultural communities. We would lose many small and mid-size farms.

Some advocate divorcing rural development policy from agriculture policy and removing it from the agricultural committees of Congress. That won't work either, at least not for agricultural communities.

There's not much new money laying around to be had elsewhere in the federal budget. And a rural policy divorced from agriculture won't adequately address the needs of farm and ranch communities.

But there are practical steps that can be taken to balance federal spending on immediate income support for farmers with the critical investments that must be made in creating a future for rural communities and family farmers and ranchers. We could start by capping payments to large farms and investing the savings in sustainable rural community development.

Payment caps would keep more small farmers on the land to support rural communities. A payment cap that cut 10 percent of farm program spending would free up sufficient funds for a ten-fold increase in rural development – nearly \$10 billion over the life of the farm bill. And it would improve the income of most farm operators by reducing the incentive for large expansion-oriented farms to drive up cash rents and land purchase prices.

Likewise, the introduction of modest supply management measures for years of extreme surplus would prevent the kind of free fall in farm commodity prices that fueled record federal farm spending in recent years. That would moderate the level of farm commodity payments and generate some savings for rural development initiatives without undermining the family farms so important to agricultural communities.

### **Supporting Rural Entrepreneurship**

There is great potential to enhance rural community viability by investing in entrepreneurship. Agricultural communities often have extraordinarily high rates of self-employment – two to three times the rate of metropolitan areas in the nation's heartland.

But funding is sparse for programs that support rural entrepreneurship and small business. The federal Small Business Administration provides funds for loans, technical assistance, and training programs for micro enterprises – businesses with five or fewer employees. But funding is not adequate to come close to reaching all of the rural areas that need assistance.

The Senate version of the 2002 farm bill provided new funding for such programs in rural communities, but it was dropped in the final version. It is urgently needed.

The final farm bill did authorize a Beginning Farmer and Rancher Development Authority to support research, education, and linking programs to assist beginning farmers and ranchers. But though the program was authorized, it was provided no money to operate.

One new program that did get farm bill funding is the Value Added Agricultural Grants program. It received \$250 million to establish new value-added initiatives, high value marketing initiatives, and cooperatives that strengthen small and mid-size farms and increase the rural share of food system profit. That \$250 million will do far more to create a future for family farming and ranching than it would do in farm program payments.

The farm bill also provides financing for rural community investments in high speed Internet access. That is a start, but more policy initiatives will be needed. To succeed, rural small businesses must have quality Internet service to link them to the regional and national economy.

### **Integrating Community Revitalization into Existing Policy**

A national rural policy must ensure that all relevant areas of policy are consciously designed to strengthen rural communities. There will not be enough money to solve the problem through new rural development programs if the rest of federal policy ignores or undermines rural America.

Farm policy demonstrates the wrong approach. It is implicitly a policy to depopulate rural America and undermine rural communities.

Its bias toward consolidating farming into big units, its structuring of farm payments in a manner that causes them to accrue to often distant landowners instead of local farm operators, and the emphasis in its research programs on approaches that shift food system profit out of agricultural communities and into metropolitan-based input suppliers have all contributed to rural decline.

One step in creating a national rural policy is to fix farm policy so it helps rather than hurts rural communities. Key steps include:

- farm payment caps,
- establishing a competition policy that provides fair market access to family farmers and ranchers,
- expansion of value-added programs that enable producers to capture a fair share of food system profit, and
- awarding federal applied agricultural research grants based in part on whether the research would strengthen or weaken rural communities.

### **Conservation and Rural Development**

Rural development can likewise be incorporated in conservation policy. The rural communities that are thriving are those with environmental assets – lakes and mountains. They are thriving because people want to live there, and when they do, they strengthen the local economy by starting businesses or spending retirement income.

Most small communities are sitting on a potential environmental asset – uncrowded natural space. For example, communities that work with landowners and federal conservation programs to restore land along streams to a natural state and provide public access would have an asset that would make them more attractive places to live. And though most farm communities will never become tourist economies, providing access to natural space could provide the basis for new small businesses such as bed and breakfasts.

The new farm bill gives the Secretary of Agriculture authority to work with communities in adjusting conservation programs to fit local needs through the Conservation Partnerships and Cooperation Program. That authority should be used to work with communities that want to use a quality environment as a development asset.

The secretary should also use the authority granted by the farm bill to adjust conservation programs to help beginning farmers. It allows the secretary to be creative. For example, beginning farmers could be provided a 10-year stream of conservation payments up front to finance their start in farming, in return for a legally binding 10-year commitment to practice conservation.

### **The New Homestead Opportunity Act**

Historically, Congress has addressed the problems of high unemployment and high poverty communities by establishing “Enterprise Zones” and providing tax incentives for investors and large business to create jobs.

Agricultural communities have not been effectively served by that approach. They don’t qualify because of their low unemployment levels. The incentives for corporate job relocation and outside investment do not fit what works for them. Job recruitment strategies haven’t worked. Their greatest opportunities are in local entrepreneurship.

The “New Homestead Economic Opportunity Act” introduced by Senators Byron Dorgan of North Dakota and Chuck Hagel of Nebraska addresses those limitations. It focuses assistance on counties suffering population loss.

The Act supports entrepreneurship and local ownership by establishing government-matched savings accounts called “Individual Homestead Accounts.” Funds could be withdrawn to start a small business, pay for educational expenses, make first-time home purchases, and pay medical expenses.

This legislation could be strengthened. A 30 percent investment credit up to \$2,500 annually could be provided for investments in non-farm micro enterprises and investments by beginning farmers in operating capital, inventory, etc. Land and business owners could be encouraged to sell to beginners by offering them federal guarantees on contract sales to beginners and by exempting the interest income from taxation.

### Strategy #2

## Small Entrepreneurship

The most effective and desirable economic development strategy for many agricultural communities is small entrepreneurship – development based on locally owned and owner-operated small businesses.

Often called micro enterprise development, it has been proven to work in the agricultural areas that have not been successful in attracting manufacturers or other large employers from outside. In Nebraska's farm and ranch counties, over 70 percent of the net job growth is coming from non-farm self-employment, people creating their own jobs.

It works because the people in these areas have an entrepreneurial bent. Farm and ranch counties in the nation's mid-section have long had two to three times the rate of self-employment as metropolitan counties. It has worked in Nebraska in part because of deliberate efforts to cultivate small business development.

Small entrepreneurship is especially important today, as opportunities shrink to attract large employers to remote rural areas. Companies that formerly looked to rural communities for lower wage labor are now moving offshore for even lower wage labor.

There are also social advantages to development strategies based on small entrepreneurship. It keeps profits in the community. It creates a mix of opportunities. Small business development creates some low wage jobs, but it also provides significant numbers of opportunities for people to build assets and earn middle class incomes as business owners. In an era when real wages are falling in many industries, creating a chance for people who work to be business owners creates more equality and opportunity.

Finally, nurturing locally owned businesses puts the economic future of the community in the hands of its own members – people committed to its future. That builds local leadership and reduces dependency on outside forces.

The importance of local ownership was recently illustrated for me by a community developer from a rural Appalachian mining community. She said the people of her home community grew dependent on the mining corporations for income and employment. Over time, they lost faith in their capacity to take charge of their own future. So she was working on small business development to break dependency on outside corporations and rebuild the capacity of the community to control its own future.

We are not starting from scratch in family farm and ranch communities. We have the good fortune to have inherited communities with strong traditions of self-employment and small scale entrepreneurship. We should never lose sight of the value of that. We should nurture it and build on it.

### Strategies to Nurture Small Entrepreneurship

Most small enterprise development strategies have been based on public/private partnerships – typically non-profit organizations working with rural communities and rural people often with partial government funding. The Center's Rural Enterprise Assistance Program (REAP), which works in rural Nebraska, provides a

model for nurturing entrepreneurial development in agricultural communities.

REAP provides loans, training, networking, and technical assistance opportunities for startup and existing rural businesses (with 5 or fewer employees) across Nebraska. REAP works with communities in forming local associations of entrepreneurs, through which it makes business loans, provides extensive training on business management, and assists entrepreneurs in developing business plans. REAP also makes loans and provides technical assistances to individuals who are not part of local associations.

REAP partners with other institutions and service providers. It partners with the University of Nebraska to provide electronic commerce and business management training. It receives grant and loans funds from the U.S. Small Business Administration, the Nebraska Department of Economic Development, the Nebraska Micro enterprise Partnership Fund, and private sources.

REAP works closely with local banks. The majority of its clients do not receive loans, but rather training, technical assistance, and business planning services that make them better customers for local banks.

More than 2,000 rural businesses have been assisted by REAP. They include, for example, wood craft businesses, bird house makers, a pottery maker, picture framers, a Christmas tree ornament maker, a meeting planner, caterers, day care centers, a fitness center, tanning salons, carpenters, auto repair businesses, makers of wooden barrels and casks for movie sets and many, many others.

While REAP is the nation's largest rural provider of such services, it is not alone. There are a number of programs across the region that communities can tap for such services. To learn more about where your community can obtain these services, in Nebraska contact Jeff Reynolds with the Center 402.656.3091 ([jeffr@alltel.net](mailto:jeffr@alltel.net)). Outside of Nebraska, contact the Association for Enterprise Opportunity (AEO) at 703.841.7760 or via the web at [www.microenterpriseworks.org](http://www.microenterpriseworks.org).

There is also a need to expand the types of small enterprise development services available. A large proportion of rural business owners are nearing retirement age. The opportunity is ripe for establishing programs to link business owners nearing retirement with potential successors.

Such programs could assist the retiree and potential successor in planning a transfer and provide them with model contracts for transferring ownership in a manner that is workable and fair to both parties, including seller financing. Communities can help by actively anticipating retirements and recruiting community members with entrepreneurial skills or perhaps young people who have left the community to take over.

### **Help in Tapping Bigger Markets**

One key for increasing opportunities for rural small business is developing strategies to tap markets beyond the local area and link rural small businesses into larger regional economies.

Electronic commerce provides one opportunity to expand the market available to rural small businesses. Businesses with unique products have used it reach customers far beyond their home community. Training in electronic commerce is a critical element of small business development programs.

It might also be possible to use electronic commerce to link several small communities together in a single larger market that can support small businesses that otherwise would not be feasible. For example, some have proposed that retail and service businesses in a county or multi-county region link together on a single website where customers could go to find any good or service available in the area.

Perhaps the greatest opportunities for rural small enterprises to expand their markets lie in regional metropolitan centers. Rural areas have traditionally looked to large businesses in such centers to move a factory or call center into a rural community.

Perhaps instead, we should look to such businesses as a market for goods and business services provided by rural small businesses. Increasingly large businesses are “out sourcing” – focusing on the things they do best while contracting with outside businesses for other goods and services.

In Italy, small rural manufacturers have long worked through established networks to gain contracts to provide “out sourced” components to large Italian corporations based in metropolitan areas. These networks have provided a ready conduit for large companies to gain bids and contracts from many small rural manufacturing businesses – typically operating 10-person shops. The networks made it possible for small manufacturing firms to flourish in rural Italy by producing components for larger companies.

The Italian networks of small rural manufacturers may provide some lessons for rural small business here, though the opportunities of today are probably not focused in traditional manufacturing. There are opportunities in crafts and specialty manufacturing, and in providing business services to metropolitan businesses.

For example, Joy Marshall operates a service business called Performance Planners out of Arthur in the Nebraska Sandhills. It provides assistance in planning and organizing meetings to businesses in Omaha, Lincoln and across the state.

But it’s hard for rural businesses to market to metropolitan businesses without established networks for doing so. To overcome that, perhaps consortia sponsored by both large metropolitan businesses and small rural businesses should be formed to help them do business together. Alternatively, rural small businesses within a region could form cooperatives to market goods and services to metropolitan businesses in their region.

Small entrepreneurship is one of the most promising strategies for creating genuine opportunity in rural communities. But whether it reaches its full potential depends on whether more communities embrace it and public policy support it.

More government funding of small business development programs will be needed if all rural communities are to be served. And tax and business incentives programs now focused on large employers must be modified to provide support and incentives for small business development, as we discussed in our December Newsletter feature on creating a National Rural Policy.

## Stratgey #3 Niche Markets

One of the most promising ways to increase family farm and ranch viability is to tap into high-value niche markets.

The farm and ranch share of profit in the food systems is falling. But there is an opportunity to turn that around. The “mass market” is breaking up in market segments – groups of consumers seeking unique products with specific attributes. Some are willing to pay premiums for those attributes. For example, the nationwide Hartman survey found that over half of consumers would pay a premium for food produced in a more healthful and environmentally sound manner.

That offers an opportunity for farmers to go beyond producing cheap, undifferentiated commodities to adding value and earning premiums by delivering unique products that are highly valued by different groups of consumers. That may be food that tastes better. Perhaps it is locally produced and fresher or is produced in a way that improves its flavor.

It may be food that is healthier or perceived as consistent with a healthier lifestyle – such as products raised without pesticide, hormones, and antibiotics. Or it could include products that are healthier because of what they have in them such as the beneficial fats in flax and grass fed beef.

There is also a growing group of consumers who will vote with their dollars for alternatives to industrial agriculture. For example, consumer surveys and panels find that about two-thirds of consumers say they would pay premiums for pork produced humanely, on environmentally responsible farms or on family farms.

There is opportunity for family farmers and ranchers in these markets, but it is important to keep some basic principles and strategies.

**Markets with more Difficult Standards Offer Higher Premiums** – Farmers will earn and sustain higher incomes by serving niche markets only to the extent it requires more from them – more management and more skilled labor than the conventional market. Premiums for organic crops and unconfined natural pork have generally remained higher because they require more intensive management and more skilled labor in the field and barn than conventional production.

In contrast, the premiums for specialty corns – high oil corn, etc. are much smaller because they require a little extra effort, but not enough to force buyers to pay larger premiums. The companies buying it can find enough farmers willing to produce it for only a small premium. Similarly, the premiums for natural beef will be less if they require only withholding hormone use than if they also require meeting standards for family farm, humane, and environmentally sound production.

Sometimes our first instinct in agriculture is to tell wary consumers that there is nothing wrong with the way food is produced in this country. But a more profitable approach might be to ask them how they want it produced and what they will pay to get it.

**Look for Markets and Fight for Standards that Fit the Strengths of Family Farms and Ranches** – The greatest strength of family farms and ranches is the presence in the field and barn of a motivated, experienced, and skilled worker-owner who watches and understands what is happening, exercises judgment, and make decisions.

Corporate farms take markets away from family farms when the labor requirements become sufficiently routine and unskilled to be done by low-wage laborers. Hog production used to be the small farmer's niche. It was only when confinement and antibiotics provided a controlled and more predictable environment for hog production that corporations could raise hogs effectively with wage labor.

Family farmers and ranchers will find their greatest opportunity in markets that are difficult for corporate agriculture to serve. It is critical to work for a standard for high-value markets that fits the strengths of family farms. For example, family farmers will gain the advantage if markets for organic and humanely raised natural milk and pork preclude conventional total confinement systems.

A big corporate farm gained a foothold for its pork in some natural markets by simply stating that its hogs had access to sunshine and fresh air. Confinement buildings with curtains for ventilation provide that. A clear, strong, and meaningful standard for "natural" pork would help family farmers capture that market and ensure more significant and more lasting premiums.

It would be especially helpful to have a clear and strong standard for family farm and ranch produced food – to make that term a meaningful product standard that gives small and mid-size farms an edge in the market.

Not all niche markets are a good fit for small and mid-size farms. There has been much talk about producing crops that are genetically engineered to produce pharmaceuticals. The primary management challenge in raising them appears to be instituting a regulatory regime to prevent pollen and seed from escaping into other fields.

Whether pharmaceutical crops offer opportunities to small and mid-size farms may depend on the nature of those requirements. In general, larger businesses are more adept at meeting regulatory requirements because they can spread the costs over many more units of production.

**Banding Together to Market and Bargain** – It is to the advantage of family farmers and ranchers to band together in cooperatives or other organizations to collectively market and bargain in niche markets.

Only together can small and mid-size producers guarantee food processors or retailers the volume they need when they need it. Most food companies don't have systems to find and do business with many different producers who meet the standards for their niche market. By banding together as a single source that can offer the supplies and quality food companies need, family farmers and ranchers are more likely to get their business. And they are in a far stronger position to negotiate a good price.

Banding together may also enable family farmers and ranchers to influence the standards for premium markets. If a family farm cooperative offers natural livestock to a retail or food company and that livestock also

meets family farm, humane, and environmental standards, that company is likely to use those claims in promoting the product. They give that company an edge in the market.

Once that product is established using those claims, it will be hard for a corporate farm that doesn't meet those standards to come in and take the market away.

There are still opportunities for farmers selling niche products individually in local markets, especially in highly populated areas where they can cost effectively sell to one person at a time. But when family farmers enter larger national and regional niche markets, collective marketing and bargaining pays.

**Pitfalls to Avoid in Niche Marketing** – There are also some pitfalls in niche marketing to avoid. Starting out with a big debt to build or buy processing facilities has been the undoing of many new cooperatives. Like commodity production, the processing business can be a high volume and low margin business. And it falls outside the knowledge and expertise of most farmers and ranchers.

In many cases, the best way for farmers and ranchers to add value is by raising crops or livestock in ways that make them worth more, while leaving processing to others who know that business well. If farmers and ranchers need to do the processing, it may be best for them to find a small or mid-size processor that does custom work at a reasonable price.

#### **Resources at the Center**

The Center is working with organizations and producers across the region to develop a multi-state regional cooperative to capture national natural meats markets for family farmers and ranchers. To learn more, contact Wyatt Fraas: [wytatf@cfra.org](mailto:wytatf@cfra.org), 402.254.6983.

We are also working with several Nebraska cooperatives developing high value niche markets. To learn more contact Mike Heavrin: [mikeh@cfra.org](mailto:mikeh@cfra.org), 402.846.5428 x 15.

Finally, we're working for public policies that provide grants and assistance to family farmers and ranchers in developing new cooperatives and higher value niche markets.

For information on the federal Value Added Agricultural Product Development Program contact Kim Leval: [kimleval@qwest.net](mailto:kimleval@qwest.net), 541.687.1490.

To learn about our efforts to restore the Nebraska value added program, contact Jon Bailey: [jonb@cfra.org](mailto:jonb@cfra.org), 402.846.5428 x 26.

**Strategy #4**  
**Land Grant Universities**

Land grant universities have a critical role in revitalizing agricultural communities.

They can focus their research on strengthening family farming and ranching. They can develop outreach programs that support small business, leadership, and community development. And by making education affordable and accessible to rural people, they give them access to the knowledge they need to thrive and lead their communities in the 21st century.

**Refocusing Agricultural Research**

Choices about what research is done shape agriculture. The past focus of agricultural research has driven technological change in directions that reduce opportunity in agriculture and rural communities.

The emphasis has been on developing expensive new technologies for input companies to sell that enable fewer and larger farms to produce the nation's food. In many cases, private companies developed the products, and land grant universities refined the production systems to put them to use.

That has helped corporations that sell inputs to farmers capture a bigger share of the profit in the food system. As their increasingly expensive inputs replace the management and skills of producers, they do more of what is involved in producing food. And their profit share grows.

Roundup Ready soybeans for example, have replaced much of the management in corn-soybean production. Seed prices and company profits have risen. Farmers' margins have narrowed, in part because seed costs have risen and in part because the reduced management requirements have enabled large farms to grow faster and drive up cash rents and land purchase prices.

The farm and ranch share of food system profit is shrinking at a rate that would take it to zero by the year 2030, according to research by University of Maine Agricultural Economist Stewart Smith.

Agricultural research has also enabled the shift to large corporate operations by creating production systems where management can be separated from labor and moved into the office. That allows labor to be provided by unskilled low-wage workers.

The development of confinement systems with a controlled environment was the linchpin in the industrialization of hog production because it routinized the work and reduced the judgment that had to be exercised by the person in the barn.

Our land grant universities could be powerful tools to steer technology in a different direction. Every relevant poll demonstrates that most people don't want the corporatization of agriculture and dying rural communities.

As public research institutions in a democratic society, our land grant institutions have an obligation to seek

out and prioritize research that responds to the needs and aspirations of their constituents and helps create the kind of future they want.

There are promising research avenues for strengthening family farming and ranching. We need research focused on developing new knowledge and production systems that enable producers to increase their incomes by using more intensive management and skilled labor in the field and barn to reduce the need for purchased inputs and add value to their production.

Such research would build on the competitive strength of family operations relative to corporate agriculture – the presence of a highly motivated, skilled and experienced owner operator working in the field and barn. More research is needed in new livestock production systems like hoop houses for hogs and intensively managed grass-based dairy and beef cattle systems that minimize capital expenditures and maximize management in the field and barn.

A great need exists for research in agro ecology – the study of the interactions between living organisms in the field and how they are affected by management practices. Such research would provide new knowledge and management strategies that farmers could use to minimize pest problems, enhance nutrient availability, and reduce the need for purchased inputs.

Research is needed to enable family farmers and ranchers to secure premium markets. Today, the best opportunities to increase farm income lie in responding to unique demands of consumers not met by conventional agriculture. There are a variety of high value niche markets.

Land grant universities can help family farmers and ranchers capture those opportunities by providing market research – to determine the demand, price, and key product characteristics for premium markets – and production research on how to produce for them.

Although individual researchers have responded to many of these needs, there is a profound absence of institutional leadership. It's time for land grant universities to focus their agricultural research programs on supporting the kind of agriculture most of their constituents want. There are good places to start, including:

- Create an integrated research strategy to reinvigorate family farm and ranch livestock production. Family farm hog and dairy production is particularly under siege. Rural people and the public consistently demonstrate a strong preference for family farm livestock production. Our land grant universities should respond.
- Create an integrated research program on strategies to earn a middle class income on 640 acres. Analyze the strategies being used by the farmers making it work. Focus research on production strategies and systems that generate more income per acre.
- Establish research centers focused on enabling family farmers and ranchers to tap high value markets.

- Create a new research and administrative position with the responsibility of analyzing alternative directions for future research, identifying new research with potential to increase family farm opportunities, and working with land grant ag researchers to plan their future research so it strengthens family farms and ranches.

Land grant universities also have critical roles to play in small business and community development. They have broad expertise and the capacity to deliver it to rural people through their extension services.

### **Provide training and technical assistance to support small business formation**

Land grant universities can offer small business management courses and technical assistance in business planning. They can offer courses in E-commerce to help family farms and small businesses develop strategies to use the Internet to reach new distant customers.

They can provide technical assistance in transferring small businesses from retiring owners to new entrepreneurs, including developing innovative transfer models and contracts that work for both parties. Extension programs could help link retiring business owners with prospective entrepreneurs interested in taking over.

### **Support rural development initiatives and enhance the effectiveness of rural leaders**

Land grant colleges can provide community-based educational programs on alternative development strategies, assist communities in analyzing development options, and link communities to development resources.

They can provide technical assistance in community planning that engages the public and develops broad buy-in. They can deliver leadership development programs in rural communities to help rural leaders hone their skills.

### **Provide rural people access to lifelong learning through distance education**

If rural small businesses and family farms and ranches are to compete with large corporate enterprise, they must have access to educational opportunities. If rural communities are to thrive, rural citizens and leaders must have opportunities to build their knowledge and skills in community development and governance.

The Internet makes it possible to deliver college courses directly to the homes of rural people. But it is expensive and time consuming to develop distance education courses.

By making distance education a priority, identifying the educational needs of rural people and making those courses available, land grant universities can help build a future for rural people and communities.

### **Keep higher education affordable and accessible**

A well educated citizenry and work force is a critical development asset to any community. That is no less true in rural communities, where a higher proportion of people are expected to be leaders – in their own busi-

nesses and in community institutions. But incomes are lower in rural areas, making the rising cost of education a greater burden and barrier.

Land grant universities were created to make education affordable and accessible to ordinary people. Fulfilling that mission is critical.

By keeping tuition at affordable levels and providing financial aid to low and moderate income students, land grant colleges can ensure rural people access to the education that can help rural America thrive in the future.

One innovative approach would be to provide college loan repayment assistance to students who work or start businesses within the state but don't make enough money to make their student loan payments. Currently, students who have to borrow heavily to get through college are almost forced to move to metropolitan areas (often out of state) where pay is higher.

### **People's universities**

Land grant colleges were created to be the people's university – to help people build better lives and stronger communities. That mission is as critical to rural America today as at any time in history. It should remain a priority of land grant universities.

## Strategy #5 Making Communities Desirable Places to Live

For rural communities to thrive, they must be places that people want to live.

Making rural communities desirable places to live is not the whole answer. If there is no economic opportunity in an area, young families can't live there no matter how much they might want to. However, economic opportunity is more likely to be created in attractive places to live because they draw young families and entrepreneurs who start new farms and businesses and revitalize existing enterprises. In recent decades, rural communities with natural amenities to draw people – lakes, mountains, rivers, or climate – have grown.

Most farm and ranch communities don't have mountains or lakes. They aren't likely to become the next tourist-filled Aspen, and most of us wouldn't want that. But each of our communities has assets, strengths, and opportunities we can build on to draw people – native sons and daughters back to raise their families and others seeking a rural life style. Those assets range from natural amenities, to strong schools, to friendly neighbors. The best place to start is with existing strengths.

**Strong Small Schools.** Small schools have long been a drawing card for rural communities. Communities that make a commitment to provide a quality education in small, community-based schools and invest in them will always have a powerful advantage in attracting young families with children. But small rural schools are facing increasing financial pressures and are under growing political pressure to consolidate.

Only local people in each community are in a position to make decisions about whether and when to consolidate schools or override levy limits to increase school funding to enhance educational quality. But the contribution of strong, small, community-based schools to the viability of the community should be a strong consideration.

State policymakers should not blindly force school consolidation that undermines both education and communities under the misguided assumption that bigger is better and more efficient in education. The research indicates that small schools have the best educational outcomes for most children.

Fewer kids fall through the cracks. And the efficiency gains of consolidation often disappear when construction and transportation costs are counted and efficiency is measured in cost per graduate. Small schools graduate a higher percentage of their students.

There are opportunities for communities to work together in ways that enable them to keep and strengthen their schools while holding the line on costs. Some districts are sharing a superintendent. That spreads the costs of the highest salary and perhaps enables each district to gain the advantage of a more talented leader than they could each hire individually.

Others are sharing teachers and offering joint classes by distance education or by transporting upper-level students between communities to enable them to offer advanced courses with low enrollments at a reasonable

cost.

**A Sense of Community.** Many people long to live in a community where people know and care about each other. It's not surprising. Surveys on happiness and life satisfaction suggest the factor most strongly correlated with satisfaction is regular contact with a network of friends – community. It's more strongly correlated with satisfaction than income.

Communities that create spaces for people to meet and interact and work at being friendly are more likely to attract and keep families and businesses than those that don't. That is especially true of native sons and daughters who have experience living in the community. They are more likely to return home to raise their families if they experienced a strong sense of community and supportive interaction as children.

**Social Capital.** When Christian Science Monitor reporter Laurent Beltsie was interviewed on National Public Radio about his series, "Alone on the Range," he was asked whether he thought the rural communities of the Heartland could turn it around and survive. He said that while all the trends were against them, he would not count them out because he was so impressed by the people he had interviewed – their spirit, their entrepreneurial bent, and devotion to working together to make their community work.

That's social capital.

Communities that have it are more attractive places to live because things work better. People work together to solve problems and make things better. They have disputes, but they resolve them rather than letting them simmer.

Communities can enhance their future by establishing a culture of working together to solve problems, launch new initiatives, and make the community a better place to live.

Young people and families must be involved in the community. If we want them, we need to give them some influence in making the community a place they want to live and raise their families.

They have unique needs. They want swimming pools, summer baseball, and other programs to enrich the lives of their children. Perhaps they want better Internet service or have ideas for making the community more attractive by restoring historic buildings and character. Communities that allow them to lead will more likely keep them and draw more like them.

**High Speed Internet Service.** It's a necessity. Young people see it as a contributor to quality of life. It enables them to connect to the outside world in a way that brings cultural and other amenities of distant places closer.

**Access to Nature and a Quality Environment.** In the future, access to uncrowded natural land will be increasingly hard to come by, and it will be an increasingly valuable asset for communities. Communities that offer it will have a leg up in attracting families to start businesses and drive revitalization.

Access to a quality environment also offers a base for tourism-related businesses like bed and breakfasts and guest ranches that offer a weekend away within an easy commute of population centers. This is one of the factors where farm and ranch communities have a natural advantage. They are surrounded by land. But often, there is little public access and in some areas, almost every acre is cultivated.

Still, almost every community has potential natural assets. Those with small streams could work in partnership with landowners to restore the stream corridor to grass and trees and provide public access for hiking, biking, and fishing. Likewise, Conservation Reserve Program acres with farm ponds could be good for hiking and fishing.

Tyler Sutton of the Conservation Alliance of the Great Plains suggested in the Lincoln Journal Star that restored grasslands could draw people to Great Plains communities. He wrote, “Not long ago the Northern Great Plains was one of the most spectacular grasslands on the planet. It was alive with wildlife, rivaled only by Africa’s Serengeti. People came from around the world to experience one of the greatest wildlife spectacles on earth.”

Sutton proposes changes in management of national grasslands and public-private partnerships to own land, acquire conservation easements, and set wildlife management objectives. These newly created areas would be a natural amenity for local communities – “reasons for people and businesses to stay and to move to the surrounding communities.”

New public policies can facilitate development of natural amenities. The Conservation Partnerships and Cooperation Program created by the farm bill authorizes the Secretary of Agriculture to undertake conservation projects in partnership with communities and make needed adjustments in conservation program rules to make the projects work.

For example, landowners could be provided a bonus through the Conservation Reserve Program for restoring land along a stream and providing public access, in concert with a community plan.

The federal government is restoring 40 million acres through the Conservation Reserve Program. Why not manage it creatively to also help communities? It may also be necessary to revisit state laws to ensure that cooperating landowners who provide public access are protected from liability for any injuries that occur. Finally, the growing value of a quality environment in community revitalization should give pause to those who would weaken the authority of local zoning boards to control the location of giant livestock facilities.

The economic development benefits of mega-livestock operations are often less than anticipated and outweighed by the negative influence of such facilities on the decisions of families and businesses about whether to locate in the community.

People who want to start businesses, farms, and ranches prefer to do it in good places to live. Making our communities better places to live is one of the critical factors in enhancing their future.

## Strategy #6

# A Regional Cooperative

A new kind of regional cooperative could be a powerful force for revitalizing family farms and ranches. Such a cooperative could capture high-value “niche” markets for family farmers and ranchers, bargain collectively on their behalf, provide technical assistance in meeting quality and production standards, and provide capital for new farmers and ranchers to serve these markets.

The Mondragon cooperative in Spain demonstrates the potential of a cooperative to create genuine opportunity in a depressed region.<sup>1</sup> It was established in 1956 by five engineers inspired by the ideas of a Catholic priest about creating a business model responsive to the needs of working people and communities. The cooperative has created 30,000 jobs in 67 enterprises, each owned by its employees in the economically depressed Basque region of Spain.

Mondragon is a worker-owned industrial cooperative – not a family farmer-owned cooperative. In spite of that difference, it offers some useful insights that can be applied by family farmers and ranchers.

**Cooperatives can be effective instruments for social change** if they have a clear sense of purpose and remain true to it. Mondragon began with a commitment to building a worker-owned and -controlled company dedicated to the well being of its members and their communities.

A new farm cooperative with a commitment to strengthening owner-operated family farms and ranches and their communities could be a powerful force in creating a better rural future.

**Cooperatives can be engines of development.** The Mondragon cooperative works as an umbrella. It spurs formation of new member cooperatives – each with no more than 500 employees – and services them. A regional family farm and ranch cooperative could spur formation of smaller cooperatives, each focused on helping family farmers and ranchers secure a particular market. Equally important, it could assist new family farmers and ranchers by linking them to markets, capital, and technical assistance.

**Cooperatives can be most effective when they bring together an array of services.** Mondragon has its own bank that lends to the cooperative enterprises under its umbrella, runs its own research and development arm, and operates its own university for training cooperative managers. A regional cooperative could be a one-stop shop for family farmers and ranchers to enter premium markets.

### The Need for a New Cooperative

Great opportunity for family farms and ranchers waits in high-value markets – but that opportunity is at risk of being lost.

The nationwide Hartman Survey of American consumers found that about half would pay a premium for food produced in ways they support – particularly food produced in an environmentally responsible manner.

About two-thirds of participants in a Better Homes and Gardens consumer panel said they would pay a premium for pork raised on a small farm, on an environmentally responsible farm, or humanely. Others will pay a premium for antibiotic-free meat or products with unique flavor or other special attributes.

But family farmers and ranchers who want to enter special markets with premium prices – sometimes called niche markets – often find it very difficult. They frequently must develop their own marketing channels from scratch and must also develop new production methods. Those just starting have to line up capital. It's much harder than walking into the office of a corporate integrator and signing up as a contract producer.

A cooperative could make it more feasible for family farmers to enter high-value markets and, in the process, capture this opportunity for them. If family farms and ranches don't capture it quickly, it may be lost to corporate farms. They have taken note of organic, natural, and other niche markets and responded.

Corporate farms are attractive suppliers to food companies wanting to put natural and other specialty products on supermarket shelves. It is cheaper and easier to go to one large corporate supplier for raw farm products than to find hundreds or thousands of small farmers who can certify that they meet quality and production standards and provide a steady and adequate supply when it's needed.

But a cooperative that markets for many family farmers and ranchers would have those advantages and more. Like a large corporate farm, a family farm cooperative could offer food companies a guaranteed and steady supply of farm products that meet niche market standards in one stop.

That would make it far easier for food companies to develop products to serve niche markets, encourage more of them to enter, and in turn create more opportunities for family farmers to sell in these markets.

Securing raw farm products from a family farm cooperative would give food companies an added advantage with consumers who want to vote for what they believe in with their food dollars. They could say their food was raised on a small family farm – something many consumers would like to support.

For example, there could be a significant market advantage for a cooperative selling high-quality meat, certified as raised on small family farms and ranches without hormones or feed antibiotics, and meeting objective standards for stewardship of the environment and humane treatment of animals.

The cooperative with the ability to provide a steady supply of products offering that market edge would be able to secure a significant premium for its members.

### **What Services Should Such a Cooperative Provide?**

A cooperative could help family farmers and ranches secure premium markets without raising large amounts of capital to build or purchase processing facilities or even a brand name. The key would be offering a core set of strategic services.

**First, the cooperative would need to provide marketing and collective bargaining services.** It would be the vehicle for family farmers and ranchers to collectively market products that meet specific standards – for

taste, quality, and for the way they were produced. By pooling a steady supply of production from many farmers, the cooperative could gain the economic power to secure markets and negotiate good prices.

The cooperative could go the full step of selling its own branded products to retail stores. Or, it could take the less expensive and less risky approach of selling livestock or crops that meet exacting standards to food companies already familiar with branding products and getting them on supermarket shelves. Cooperative members would receive a premium because their production methods increase the price the food company could charge for its product.

**Second, the cooperative could provide technical assistance on niche market production.** Niche markets offer premiums because producing for them requires specialized knowledge and, generally, more intensive management. It is not practical for every family farmer to search out that knowledge and develop those skills from scratch. A cooperative could help by providing information and technical assistance.

**Third, the cooperative could help link new producers to capital.** For example, it might link beginning farmers who want to produce for a niche market with supportive land owners willing to rent to them. It might link beginning farmers and ranchers with socially motivated investors who would buy breeding stock and lease it to them in return for a percentage of production. Or it might find socially motivated investors willing to make loans to beginning farmers in return for a federal income tax break.

**Finally, the cooperative could have market research staff to search out new premium markets family farmers and ranchers could serve.** As potential new markets are identified, the cooperative could organize interested producers and work with them to develop and capture that market. For example, a cooperative with roots as a livestock cooperative might also discover an opportunity in organic medicinal herbs and help a new group of family farmers capture that market.

### **A New Model for the 21st Century**

The opportunities for family farmers and ranchers in producing undifferentiated commodities are declining. But new opportunities exist in niche markets. To capture them, family farmer and ranchers need a new type of cooperative.

<sup>1</sup> The discussion of Mondragon draws on the book, *From Mondragon to America: Experiments in Community and Economic Development*, by Greg MacLeod. For more information on the Mondragon cooperative, visit their website at <http://www.modragon.mcc.es>.

### Strategy #7 State Policy

State policy can be a powerful force for economic development that builds strong rural communities and creates genuine economic opportunity for people.

It is more difficult in the midst of today's state budget crises. But it's not impossible. States must make the commitment to sustain the most important programs for rural revitalization. That sometimes requires a willingness to balance spending cuts with tax increases. And it requires a willingness to scrutinize the use of every dollar available to community and economic development to ensure limited dollars are used in the best way possible.

One place to start is by making common sense reforms in corporate job creation tax subsidies – reforms that could generate substantial savings to reinvest in rural revitalization. States can budget and cap the amount spent on job creation tax subsidies. States can cut the costs of such programs by imposing job quality requirements on beneficiaries and denying subsidies for poor jobs. In addition, a corporate minimum tax would raise revenue and ensure that all profitable corporations – including those receiving job creation tax subsidies – contribute something to educating kids and providing vital services.

The revenue raised could be used to balance corporate job creation incentives with investments in more entrepreneurial development approaches that work in rural communities – small business, cooperative and grassroots leadership development. Key approaches include:

Microenterprise development programs provide grants to programs that provide loans, training, technical assistance, and market development assistance to new and established owner operated businesses, typically with five or fewer employees. Studies have demonstrated that microenterprise development programs create jobs at a fraction of the cost of corporate job creation tax subsidies.

Agricultural development programs provide funding and technical assistance for cooperatives and new market development initiatives. There are growing opportunities in higher value products – natural meats, local foods, and other niche products. But family farmers and ranchers must develop new cooperatives and markets to capture those opportunities. Criteria for awarding funds should favor projects that increase the farm and ranch share of food system profit, increase self employment opportunities in farming and ranching, and strengthen small and mid-size operations. Without such criteria, agricultural development programs can easily turn into subsidies for corporate farming and agribusiness development.

Grassroots Leadership and Community Development – Community revitalization starts at the grassroots. Community members must come together, develop their leadership skills, and build consensus and commitment on moving forward in securing their future. States can provide seed funding for technical assistance and training to help communities make it happen and provide the impetus for neighboring communities to band together to make their efforts more effective. The emphasis should be on initiatives that engage the whole community from the grassroots up.

Individual Development Accounts are public or privately matched small savings accounts that can only be used for home ownership, small business development, or higher education. They help people build long-term economic well-being by building assets through home ownership, business ownership, or enhanced education. Asset building provides important psychological and social effects that cannot be achieved by simply increasing income. It gives people a stake in their community and encourages them to take responsibility for its future. States that appropriate funds for individual development accounts for low and moderate-income people can gain federal matching funds.

### **Tax Incentives for Rural Development**

States can also shape their tax policy to foster the small entrepreneurial approaches that work in rural communities. Few existing business tax incentives are designed for the small start-up operations. That could be changed. States could provide an investment tax credit for starting or expanding owner-operated businesses with five or fewer employees.

That concept is embodied in proposed federal legislation – the New Homestead Opportunity Act introduced by Senators Byron Dorgan (D-ND) and Chuck Hagel (R-NE). It would provide a tax credit equal to 30 percent of the money invested by an individual in starting or expanding their own small business. The maximum tax savings would be limited to \$25,000 over five years. The Act has not passed. This approach could be adopted by states.

Property tax relief can be designed to strengthen small and medium-size farms and ranches and thereby open opportunity to more beginners. For example, states could provide income tax credits when property taxes on owner-operated farmland take an excessive share of the operator's income. By limiting the relief to a modest amount of land, such a provision could target relief to smaller and beginning farmers and help them compete for land with larger operations. Maintaining small and mid-size farms and increasing the number of beginners is rural development.

Such an "owner-operator tax credit" could be combined with a similar tax credit for modest income homeowners – both rural and urban. That might give it the votes to pass in legislatures that rarely have the rural votes to pass property tax relief targeted only to farmers and ranchers.

Tax credits can also provide incentives for landowners to rent land to beginning farmers. The Nebraska Legislature created a program to provide a tax credit to landowners who rent land to beginners for a share of the crop. Share rents substantially reduce the capital requirements of getting started, and they provide a means for the landlord to share some of the risk of falling prices and crop failure. The tax credit can offset the risk that a landowner assumes in share renting land to a beginner.

Such incentives can be broadened beyond farming and ranching to also encourage innovative and favorable leases of existing non-farm businesses to new operators. Many rural business people are nearing retirement. Incentives for them to transfer their businesses to a new generation could make a critical difference in determining whether businesses are shut down and their assets sold, or new families are offered the opportunity to start businesses and lives in rural communities.

Finally, the tax code can provide incentives for charitable giving in support of community development. Many rural retirees hold substantial assets and are in a position to give back to their community. The state of Montana provides income tax incentives for people to donate to community foundations and other nonprofit charitable initiatives to foster community development and community institutions. It is estimated to have created \$74 million of endowment for community development over five years at a cost of \$24 million.

### **Boost Renewable Energy Opportunities**

Renewable energy production offers rural communities the chance to become energy producers, rather than energy importers. Recent reductions in the cost of wind generation of electricity combined with federal tax credits open opportunities on the windswept plains. State policy-makers can give a boost to wind energy development by establishing a requirement for the minimum percentage of a state's electricity that must be generated from renewable sources.

In Nebraska, the Legislature may need to revise its longstanding policy of requiring public power producers to provide power at the lowest cost possible, to allow environmentally friendly alternatives that support community development. Other states have adopted tax credits and public funding for generating electricity from renewable resources.

States also have numerous tools to promote development of liquid fuels from biomass, including providing incentive funds for developing biofuel projects and requiring that service stations sell gasoline that includes biofuel blends.

### **Encourage E-Business over the Internet**

States can act to overcome the digital divide – to ensure that rural people have access to high-speed Internet service. The policy options are too numerous and complex to discuss here. New technological developments are reducing, though not eliminating, barriers to quality Internet service in rural areas.

The key rural development challenge is ensuring that rural businesses are able to use the full potential of the Internet to sell in large, distant markets. The initial impact of the Internet may be more negative than positive for rural economies by enabling distant retailers to penetrate rural markets formerly controlled by rural businesses. States should consider options for funding or directly providing technical assistance to rural businesses on how to use the Internet to its full advantage in reaching new, distant markets.

### **Distribute State Job Locations**

State expenditure is a powerful driver of economic development. Where the state spends, the economy grows. Typically, state expenditures are concentrated in the capital city and metropolitan centers. But states can establish explicit policies to distribute state jobs and money to rural areas when feasible.

