Rural Amenities, Global Economy, and the Environment:
The Clinton Administration Confronts New Paradigms

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Expectations were high for a renewed Federal commitment to rural development as the Clinton administration took office in 1993. As Governor of Arkansas, Clinton, like Jimmy Carter before him, had led the government of a rural State and was familiar with many of the issues of rural policy and with the Federal system of rural development programs. Clinton headed the Lower Mississippi Delta Development Commission in a federally funded study of rural problems, which produced a 1990 report with over 400 recommendations directed to all levels of leadership, from local churches and local government to county, State, and Federal executives and legislators. The report recommended improved education and health care as the highest priorities for rural development, which many observers read as an indicator of Clinton's likely approach as President.[1]

In addition, Clinton's choice for Secretary of Agriculture, Mississippi Congressman Mike Espy, appeared positive for Federal interest in rural development, particularly for chronically distressed regions like the Mississippi Delta. A native of the Delta, Espy was familiar with the long-lived rural problems of low incomes, poor job opportunities, an aging population, scarce health care, and outmigration of talented young people, as well as the racial inequities and persistent poverty especially evident in his home region. As a Congressman, Espy had been instrumental in gaining Federal support for the Lower Mississippi Delta Development Commission study that Clinton led. Joining Espy at USDA as Under Secretary for Small Community and Rural Development was Bob Nash, who had worked for Clinton in Arkansas as head of the State's economic development agency.[2]

The Clinton Presidential campaign had, in fact, promulgated a plan for rural America that called for Federal investment not only in health care and education, but also in infrastructure and telecommunications improvements. The Clinton plan, however, indicated that the focus on State and local direction of rural development embodied in the State Rural Development Councils and other Bush administration programs would continue under the new administration—Federal investments were intended to "enable rural Americans to help themselves, create jobs, and rebuild their communities." This plan echoed the recommendations of the earlier Mississippi Delta report, which insisted that the only effective policy to improve conditions in these impoverished rural communities was to use Federal funds and technical assistance to leverage local planning and fundraising efforts. The focus on State involvement in the plan also reflected Clinton's experience as two-term governor of Arkansas.[3]

The principal concerns of the new administration, however, were to bring the Nation out of the recession that had begun in 1991 and to address growing income and tax imbalances. As signs of an economic revival strengthened in 1993, Clinton's infrastructure and job development proposals took a back seat to proposals for changes in the tax system. Two of these tax changes were particularly important to rural America and both focused on assisting the poor. First, an increase in the earned income tax credit substantially increased the after-tax income of the working poor, a disproportionate number of whom reside in rural areas. Second, the enactment of legislation creating empowerment zones and enterprise communities created grants and tax incentives to encourage growth in distressed areas, both rural and urban.

Clinton Targets Rural Development Efforts to Distressed Areas: The EZ/EC Program

Within a year of taking office, the Clinton administration announced the establishment of the Empowerment Zone/Enterprise Community (EZ/EC) program. The Bush administration had earlier attempted to launch a version of a similar program. The program provided a package of block grants, Federal tax incentives, technical assistance, and special access to Federal grant and loan programs to selected communities for 10 years. The intention was to target an array of long-term assistance to communities with widespread poverty and other forms of distress, to help these communities achieve sustainable economic development. Reflecting the high priority this program had with the Clinton administration, Vice President Gore took on the responsibility of leading the new interagency group, the Community Empowerment Board, that guided the initial design of the program and provided the interagency support deemed necessary for the program's success.[4]

The Federal EZ/EC program drew on the experiences of a proliferation of State enterprise zone programs during the 1980s. During that decade, 37 States offered tax incentives and other assistance to encourage businesses to locate or expand in economically distressed areas, both urban and rural. A 1993 study by the USDA's Economic Research Service examined the performance of these programs and determined that most had been fairly successful at stimulating economic development, but the results were highly varied, with many of the most productive zones located in very small towns. The study recommended several ways to improve the effectiveness and reduce the costs of these zones: 1) programs should be competitive, so communities would need to make some investment in planning to receive benefits; 2) additional technical assistance in strategic planning should be made available to rural areas both before and after designation; and 3) programs should set aside a number of zone designations for rural areas, since they might have difficulty competing with urban areas.[5]

Consistent with these recommendations, the Federal program allowed communities to compete for designation as an Empowerment Zone (EZ) or Enterprise Community (EC). Successful applicants received technical assistance, a special Social Services block grant of $40 million for a rural EZ and $3 million for an EC; employer tax credits of 20 percent of the first $15,000 in wages or training expenses for qualified EZ employees; tax-free facility bonds up to $3 million, $20,000 in additional tax deductions for investments in EZs; and special coordination and consideration for other Federal programs. Although ECs did not receive the special tax treatments for business, they were given special consideration for funding by other Federal programs, including many in USDA, and other programs like Community Policing and the National Service program, which provided Federally funded police officers and community service employees to qualifying communities. As with EZ communities, ECs were offered assistance in dealing with regulatory problems, in meeting Federal program mandates, and in securing permission for flexible use of Federal program funds. Even the unsuccessful communities benefited from the program, since the application process brought them technical assistance and valuable planning experience and left them with new alliances across community groups, as well as a strategic plan that many of these communities chose to implement on their own, through other sources of funding. Designated "Champion Communities," in the first 4 years of the program over 100 unsuccessful applicants for the EZ/EC program remained active and received over $340 million in USDA Rural Development program funds alone. About half of these communities applied successfully for EZ/EC designation in the next round of awards in 1998.[6]

The EZ/EC Program for Rural Communities

Rural communities competed in 1994 to become designated as one of 3 rural Empowerment Zones or 30 Enterprise Communities. To qualify as a rural community, the maximum population could not exceed 30,000 for an area no larger than 1,000 square miles. In addition, strict poverty rates had to be met--20 percent for each census tract in the area, with 25 percent in at least 90 percent of the tracts in the area and 35 percent in at least 50 percent of the tracts. Interested communities were required to submit a comprehensive strategic plan that demonstrated participation by an alliance of local government, business, and nonprofit organizations in collaboration with low-income residents and civic organizations.[7]

USDA was given authority to select and administer the rural EZ/ECs. Secretary Espy received 227 applications, from which he designated 3 Empowerment Zones—Kentucky Highlands, Mid-Delta (Mississippi), and Rio Grande Valley—and 30 Enterprise Communities nationwide, though most were located in the South, where poverty rates were highest. The 33 EZ/EC priority projects were expected to emphasize economic development (job creation) and sustainable community development (access to housing, human services, public safety, and environmental cleanup). For example, a Kentucky Highlands EZ project planned to provide computers and training to help start 150 home-based data entry businesses and to invest the county library system with increased telecommunications capacity. In the Mid-Delta EZ, high-priority projects included increasing the number of doctors serving the area, creating a race relations council, providing access to capital, business and technical assistance, and marketing for new and established businesses and industries. The Rio Grande Valley EZ focused on developing a small business incubator and a historic district to benefit small businesses and on building a community elder care/youth recreation center. This program distinguished itself by its strategic focus, long-term relationships, holistic approach, emphasis on partnerships, and technical assistance to communities.[8]

EC projects followed a similar pattern, though on a smaller scale, given the lower level of support provided through the EZ/EC program. An EC in Georgia planned to build a vocational-technical center, establish an adult literacy program, and develop a rural transportation system. A Pennsylvania community proposed establishing a micro-revolving loan fund to help small, startup businesses and planned to help renovate a job training facility and fund workshops on subjects like computer skills. A community in California planned to expand recreational facilities for at-risk youth, establish youth job training, and refurbish facades in the downtown business district.[9]

A 1997 General Accounting Office study requested by Senators Richard Lugar (R-IN) and Tom Harkin (D-IA) found EZ/EC participants experienced varying levels of success in completing the projects identified in their strategic plans. All had at least established the organizational structures and procedures necessary for implementing their strategic plans over the first 2 years of the program. USDA explained that the nontraditional nature of the program, both in relations between communities and the Federal government and among members of the local alliances, accounted for some of the slow progress, an explanation accepted by GAO in its report. However, given the 10-year cost of investing in these communities, estimated to be about

$1 billion, USDA was urged to improve its oversight system to make possible closer monitoring of EZ/EC progress.[10]

Despite these potential concerns, Congress authorized a second round of EZ/EC designations in 1997, appropriating funds for 5 new rural EZs and 20 new rural ECs. The five new EZs included communities and tribal lands in South Dakota, North Dakota, Illinois, Rhode Island, and Georgia. Each received annual grants of around $2 million, while the 25 ECs received about $250,000 each annually. As occurred in the original round of the program, all applicants were offered Champion Community support, as long as they carried out their strategic plans according to Community Empowerment program principles and provided regular progress reports. The Consolidated Appropriations Act of 2001, signed December 2, 2000, continued the program by authorizing a third round of designations, to include two new EZs, although it offered a package of tax benefits to the zones, rather than the grants that had been provided in the previous two rounds.[11]

More Programs for Distressed Areas: CDFIs

Soon after the EZ/EC program got underway, President Clinton signed the Community Development and Regulatory Act of 1994. This Act authorized the Community Development Financial Institution (CDFI) Fund with $382 million over 4 years to support a network of banks and other financial institutions willing to provide credit in poor urban and rural areas. The Federal effort, administered by the Treasury Department, was expected to leverage close to $5 billion in loans to underserved areas, beginning with $75 million in commitments from NationsBank and Bank of America to launch the program. In addition to mainstream financial institutions like banks, savings and loans, and thrifts, CDFI funds were made available to Federal and State government sponsored investment and lending enterprises and to a growing list of locally organized and directed economic and community development financing institutions.[12]

These emerging institutions included community development banks, community development credit unions, revolving loan funds, microenterprise loan funds, and community development venture capital funds. Often operated by community-based organizations and nonprofits, these new types of financial institutions seemed well suited to the development needs of low-income communities. As part of broad economic development strategies that focused on building local resources, these CDFIs supported economic development through small business and microenterprise funding, and supported community development through loans for housing and infrastructure projects.[13]

Most of the EZ/ECs included revolving loan funds in their strategic plans. The Kentucky Highlands EZ established an alternative crop venture capital fund to help tobacco farmers experiment with new crops. Farmers applied to the Kentucky Highlands Investment Corporation, a community-based venture capital fund that predated the EZ program, which reviewed the proposed growing methods, the viability of the crop, and the farmer’s track record. Successful applicants received small loans to cover the costs of seed, equipment, and other inputs, and received technical assistance from local extension agents. Alternative crop experiments funded through the program by mid-1996 included cabbage, ginseng, and Asian pears, and the fund had plans to expand into value-added processing ventures.[14]

The Accomack/Northhampton EC on the Eastern Shore of Virginia established a microenterprise loan fund. The ECs lead entity, the Virginia Eastern Shore Economic

Empowerment and Housing Corporation, pooled Community Development Block Grant funds, Rural Business Enterprise Grants, and Enterprise Community funds and established a partnership with a local bank to provide services to recipients of loans from the new fund. The program combined training in entrepreneurial skills with the loan application process, assuring that individuals and groups borrowing from the fund had adequately considered the feasibility of their projects. Individuals could qualify for $10,000 loans, while groups were eligible for $15,000, which could be used for the enterprises of individual group members. As loans were repaid, those monies could be used to make new loans.[15]

Although EZ/EC and other rural communities could point to a number of successes in the use of CDFIs to facilitate community development efforts, Federal assistance remained limited. At the end of the first 3 years of the 4-year CDFI fund authorization, only $35.5 million of the $382 million authorized had been awarded in grants and loans to 32 organizations, both urban and rural. Moreover, some in Congress questioned the program's effectiveness in providing assistance to rural areas, and CDFI officials conceded that the institutions eligible for assistance were not as common in rural as in urban areas.[16]

Addressing Rural Environmental Sustainability and Community Livability

The Clinton administration faced a different kind of challenge to aid distressed rural communities in the context of developing the Northwest Forest Plan, which included the States of Washington, Oregon, and California. The Northwest Forest Plan responded to the conflicting demands of a regional economy dependent on timber harvesting and the demands of environmentalists for protection of the habitat of the endangered northern spotted owl. The Forest Plan initiated a regional ecosystem management strategy that included a timber harvest plan that complied with environmental regulations and laws and an economic adjustment plan that mitigated the effects of reduced timber harvest on the region's communities. The Northwest Economic Adjustment Initiative pioneered a community development approach to balancing environmental and economic demands on a region's natural resources.[17]

Congress appropriated funds to begin the economic adjustment program in December 1993; the forest management plan followed a parallel course and was adopted in April 1994. Although the new management plan allowed for some renewed timber sales, the reduced harvest precluded an easy solution to the economic hardship that had been growing during the previous two years' court injunctions on timber harvesting and a decade of controversy over levels of timber harvests. To help individuals and communities cope with the permanent change from previous timber harvest levels, the economic adjustment initiative emphasized economic diversification. Programs were offered to retrain workers, to provide grants and loans to communities for stimulating business growth and economic development and for improving infrastructure, and to employ displaced workers in ecosystem restoration projects. The projects were funded and administered through Community Economic Revitalization Teams in each of the three States served by the initiative. In conjunction with the initiative, the administration secured congressional approval of a system of payments to reimburse county governments for the lost income from their share of timber sales receipts.[18]

The Northwest Economic Adjustment Initiative, in conjunction with the ecosystem-based forest management plan, was forged in the first major conflict over environmental and economic sustainability. But the call for sustainable development was broader than the spotted owl controversy of the Pacific Northwest. At the same time the Northwest Forest Plan was being negotiated, President Clinton created a Council on Sustainable Development, co-chaired by a leading environmentalist and a corporate leader, to define and set national goals for sustainable development in the United States. After 3 years of work, the President's Council reported 10 goals for sustainable development centered around 3 primary principles—economic prosperity, environmental protection, and social equity. To reach the goals, the Council provided an extensive set of recommendations for, among others, revamping policy, rewriting regulations, improving education, rethinking economic and environmental accounting, creating strategic plans for community development, and providing incentives for environmentally sustainable agriculture and industry.[19]

The recommendations for sustainable community development echoed many of the requirements for strategic planning incorporated in such community-based rural development programs as the EZ/EC program. They also incorporated the partnership ideas of the National Partnership for Rural Development, a continuation of the Bush administration's State Rural Development Councils program. At Clinton's request, the Council on Sustainable Development continued to investigate successful strategies for sustainable development, focusing particularly on global climate change, environmental management, leadership in international sustainable development policy, and sustainable communities. From a wealth of detailed recommendations for achieving community sustainability, the Council chose three overarching, systematic actions it believed could help build and support sustainable communities, all of which feature prominently in the community development initiatives developed by the Clinton administration. The three types of government actions that together make sustainability achievable were: (1) provision of information and technical assistance; 2) provision of economic incentives and financial assistance; and 3) building local capacity and partnerships among diverse constituencies.[20]

The results of the Council's 1993-1996 investigations and deliberations were eventually incorporated into the Livable Communities Initiative, or Livability Initiative, announced by the administration in January 1999. Although the initiative addressed a wide range of community quality-of-life issues, for rural areas the most applicable were those addressing preservation of natural amenities and mitigation of sprawl. Both were problems for rural communities experiencing the population rebound of the 1990s.[21]

After the population decline in the mid-1980s, rural areas began to grow again in the 1990s, but the growth was not evenly distributed. Rural communities in close proximity to metropolitan areas and those with attractive natural amenities did not share in the decline of the 1980s and experienced increased population growth in the 1990s. Rather than economic distress, these communities experienced the pressures of rapid growth. Public infrastructure was often not adequate to meet the needs of sprawling new development, often mostly residential. Development and population growth often damaged the very natural amenities that drew increased population. Long-time residents often faced employment growth opportunities in low-paid, even seasonal, service jobs. New residents, in contrast, often brought their personal wealth with them to their new communities and were accustomed to a level of public services and amenities not available in their new community.

Through its focus on growth issues, the Livability Initiative complemented the New Markets Initiative, which targeted additional assistance to chronically distressed rural places.

Congress did not fund major programs of the Livability Initiative in its first consideration of the proposal in 1999, but a number of land preservation, public transit, recreational trails development, and community quality-of-life programs scattered across Federal agencies made contributions to many of the initiative's goals.[22]

Shared Policy Direction Continues with National Rural Development Partnership

In addition to such new programs as the EZ/ECs and the CDFI fund, the Clinton administration continued several programs established under former President Bush's rural development initiative. Among these were the State Rural Development Councils (SRDCs), a network of independent strategic planning and coordinating partnerships that brought together representatives of Federal, State, local, and tribal government agencies involved in rural development, as well as representatives of nonprofit and business interests interested in rural issues. There were 39 active councils as the Clinton administration came to office in 1992.[23]

The administration reorganized the national-level component of the network. The overall program became the National Rural Development Partnership (NRDP). The Federal-level coordinating entity became the National Rural Development Council (NRDC). The NRDC included representatives from about 60 Federal agencies with rural development programs or interests, as well as from national-level representatives from public interest, private sector, and community-based organizations. The changes reflected a maturing of the program and an effort to create an organizational parallel between the State and Federal levels of the program's operation, as well as indicating a commitment by the new administration to adopt the program as its own.[24]

The new NRDC provided a stronger focus on national-level guidance and facilitation of SRDCs efforts, as well as more effective representation of SRDCs in national-level decisionmaking. Moreover, the governance underpinnings of the NRDP changed with the presidential transition, from the agenda of devolution, deregulation, and deference to the private sector that characterized the Bush administration, to the principles of New Governance, or Reinventing Government, which the Clinton administration embraced. Rather than removing the Federal government from most economic development activity, these new principles advocated a modified partnership role at the Federal level, characterized by a collaborative approach to decisionmaking that blurred the boundaries between the levels of government and the public and private sectors. At the same time, Clinton administration commitments to racial and ethnic diversity and to targeting aid to economically distressed areas led to efforts from the Federal level to press for more diversity on State Councils and to explore ways for the Councils to work with new Federal rural development initiatives like the EZ/EC program.[25]

The NRDP inherited ongoing activities from the earlier Bush-era program, and this was evident in the range of approaches various SRDCs chose to take in moving forward on rural issues in their States. For example, in Maine, the SRDC had focused on a project to design and implement a system to disseminate new product technology and marketing information throughout the State's wood products industry. In Kansas, coordination through the SRDC led to a public/private collaboration to fund and construct a small dam and a savings of over $240,000 through a more efficient bridge design. The Idaho SRDC facilitated efforts to improve coordination of the State's 6 Department of Commerce Economic Development Districts and 7

USDA Resource Conservation and Development areas, including work to merge the 13 strategic plans created by these entities into a single plan. [26]

USDA Rural Development Programs Reinvented and Reorganized

A hallmark of the new Clinton administration as it took office in 1993 was the National Performance Review (NPR), headed by Vice President Al Gore. Based on the principles of improved government accountability and responsiveness, the NPR embodied the ideals of the movement to reinvent government. The new administration approach was buttressed by the congressional contribution to reinventing government, the Government Performance and Results Act of 1993 (GPRA), which required all Federal agencies to measure and account annually for the outcomes of their budget expenditures. USDA, already under congressional pressure to streamline a bureaucratic structure seen as fragmented and entrenched, responded to NPR recommendations by identifying four key principles to guide a major reorganization of the Department: (1) improve customer service; (2) fulfill mandated missions; (3) become more employee-friendly; and (4) cut costs. The Federal Crop Insurance Reform and Agriculture Reorganization Act of 1994 reorganized the Department by establishing seven mission areas and significantly reducing the number of USDA agencies by realigning many programs.[27]

The mission statement for the new Rural Development mission area—to "enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need with activities of greatest potential"—reflected the maturing rural development theme of assisted self-development and targeting resources based on need. The new mission area was made up of three new agencies and two special programs offices—the Rural Utilities Service, the Rural Housing Service, the Rural Business-Cooperative Service, the Office of Community Development, and the Office of the Deputy Under Secretary for Policy and Planning. These new agencies and offices replaced and incorporated the rural development programs of the Farmers Home Administration (FmHA), the Rural Electrification Administration (REA), the Rural Development Administration (RDA), and the Agricultural Cooperative Service. They also oversaw a number of new initiatives such as the EZ/EC program, the NRDP, and several regional initiatives, including the Rural Economic Area Partnership (REAP), the Northwest Economic Adjustment Initiative, and subsequent initiatives in the Southwest Border area and the Lower Mississippi Delta.[28]

The Rural Business-Cooperative Service (RBS), the smallest of the new agencies, inherited programs from RDA, REA, and the Agricultural Cooperative Service aimed at providing credit and technical assistance to rural businesses and cooperatives. The Rural Utilities Service (RUS) became the home agency for electric, telecommunications, and water and waste water programs, woven together by their shared mission to provide technical assistance, grants, loans, and loan guarantees for rural infrastructure development. The Water 2000 initiative—modeled on the rural electrification initiatives begun in the 1930s and intended to provide "clean, safe, and affordable drinking water to all rural homes by the year 2000"—also operated out of RUS. The Water 2000 initiative obligated about $1.3 billion in grants and loans to 1,000 high priority projects in its first 3 years of operation.[29]

By far the largest of the new agencies, the new Rural Housing Service (RHS) took over the community facilities and housing grant and loan programs formerly operated in partnership by RDA and FmHA. RHS gained responsibility for USDA's contribution to the National

Partnership for Homeownership, an interdepartmental Presidential initiative to provide assistance to 8 million new homeowners by the year 2000. A key priority of that initiative was to increase the number of rural female homeowners.[30]

Together these three new agencies had a combined budget authority of $1.6 billion, which translated to a program assistance level of about $9.9 billion when loans and loan guarantees were added. RHS accounted for the bulk of the funding and for about 85 percent of the total mission area staff. Following the reorganization in 1994, staffing levels were cut, declining by a total of 24 percent by 1998 from 1993 levels. Part of the staff reductions came as a result of field office consolidations. A component of the departmental reorganization was the creation of consolidated USDA Service Centers, where the field staffs of the new Farm Service Agency, Natural Resources Conservation Service, and Rural Development mission area would be co-located to better serve customers and to cut costs. By 1998, about 1,300 county offices serving various USDA agencies and programs had been moved or closed, leading to significant reductions in staff, as employees who chose not to move with their offices were not replaced.[31]

In addition to the three main program agencies created in the new mission area, an office was established primarily to administer the EZ/EC program. The Office of Community Development (OCD) was responsible for oversight of the Rural Economic Area Partnership (REAP), an initiative originally designed to assist distressed areas in the Northern Great Plains, a region with significant economic problems but lacking the high poverty rates required to be eligible for the EZ/EC program. The initiative paralleled the formation of a congressional commission to study the rural development needs of this region, which had been suffering population loss and community decline for many years. This study echoed the approach taken to address long-term development problems in the Mississippi Delta and in the Appalachian region under previous administrations.[32]

The REAP program later expanded beyond the first two multicounty areas in North Dakota to include two new zones in upstate New York and eventually an area of rural Vermont. These zones, designated for a 5-year period with the possibility of renewal, provided some limited financial and technical assistance from Federal agencies and special consideration and preferences for general rural development programs. To receive assistance, REAP zones were required to follow the same long-term, community-based strategic planning and reporting model as EZ/ECs.[33]

OCD also participated in two other area development initiatives, one for the Lower Mississippi Delta region and the other for the Southwest Border region. The Delta Initiative began in 1996 as an effort to address the needs of an area repeatedly identified as among the poorest rural areas in the nation. The initiative was designed to be a catalyst for building capacity in local nonprofit organizations by identifying successful projects and existing community efforts and plans that could be funded through the resources of Delta-area institutions. Originally implemented through a $200,000 contract with the Housing Assistance Council (HAC), a private, nonprofit organization, OCD's involvement became part of the Department of Transportation-led The Delta: Beyond 2000 Initiative. A subsequent report--*Delta Vision, Delta Voices: The Mississippi Delta Beyond 2000*—issued in May 2000, summarized progress in the region over the decade since the 1990 report of the Lower Mississippi Delta Development Commission and made recommendations for further Federal action.[34]

The Southwest Border Initiative involved a demonstration project undertaken collaboratively with the Bank of America and the Ford Foundation. The initiative's objectives included designing and implementing two different models of resident-led, long-term community development in five colonias (extremely poor unincorporated communities along the U.S.-Mexico border) in New Mexico, Texas, and Arizona. In the process, the initiative sought to simplify access to technical and financial services for planning and to identify ways mainstream, profit-oriented financial activities could be used to encourage development in these communities. The Southwest Border Initiative, like the Delta Initiative, was implemented through contracts with HAC and with Valley Interfaith, a community-based organization in the Southwest Border region. Also like the Delta Initiative, the Southwest Border Initiative became part of an administration-wide effort to address development needs in the region. President Clinton created the Interagency Task Force on the Economic Development of the Southwest Border in May 1999 to coordinate a comprehensive development strategy that would alleviate the region's problems through sustainable economic development.[35]

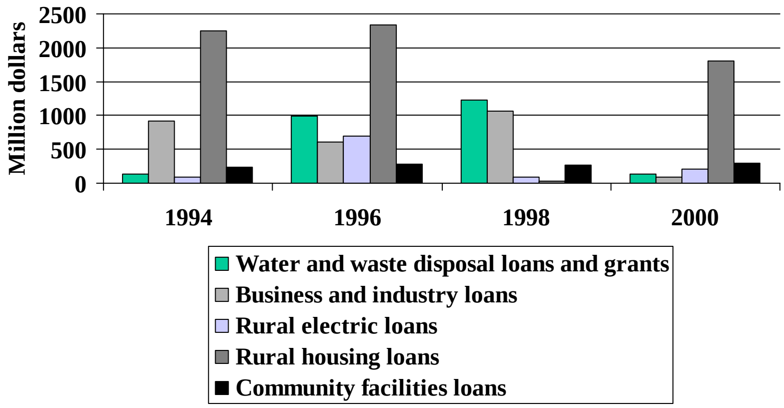
New USDA Leadership Meets a New Congress

Secretary of Agriculture Mike Espy was succeeded in March 1995 by Dan Glickman, an 18-year congressional representative from Kansas who served on the House Agriculture Committee and was a key player in fashioning the 1990 farm bill. Glickman chose Jill Long Thompson, chair of the Congressional Rural Caucus since January 1993, as Under Secretary for Small Community and Rural Development, a position that underwent several name changes as the 1994 reorganization was implemented. She succeeded Michael Dunn, who served a brief tenure as Acting Under Secretary for Rural Economic and Community Development.[36]

At about the same time, the 1994 congressional elections brought a conservative Republican majority to the 104th Congress. The new Congress, especially the House of Representatives, focused its energy on cutting discretionary social spending and revamping entitlement programs to reduce Federal budget commitments to a wide variety of domestic assistance programs. Among programs targeted by this effort were many economic development agencies. Most rural development programs survived, both those within USDA and in other agencies, including EDA and ARC. USDA's recently completed reorganization protected its programs to some extent, since the Department could point to significant program streamlining, staff cuts, field office consolidations, and incorporation of local and State direction.

Although rural development programs survived, many faced funding cuts, particularly during the first session of the new 104th Congress, when rescissions for the 1995 fiscal year budget were enacted and budgets for fiscal year 1996 were under consideration (fig. 11). The Rescissions Act of 1995 reduced some budgets for the remainder of 1995, and the Omnibus Budget Reconciliation Act of 1996, passed 6 months into the new fiscal year, reduced many programs from previous funding levels. In addition, a 3-week government shutdown in fall of 1995 and the delay in finalizing budgets for many departments and agencies until April 1996 led to de facto budget cuts as many programs operated on temporary, reduced budget appropriations for the first half of the 1996 fiscal year.[37]

Figure 11--Funding for Selected USDA Rural Development Programs, 1994-2000



Source: Calculated by Economic Research Service, USDA, from U.S. Budget

The budget delay led to significant cuts in a number of programs providing benefits to rural areas. The Rescissions Act of 1995 reduced airport improvement funds by $2.1 billion and Federal highway aid by $132 million, and cut $1.1 billion from the EPA clean water State Revolving Fund, which finances construction of wastewater treatment facilities. The 1996 Omnibus Budget Act cut an additional $664 million from the Airport Improvement Program, as well as cutting funds for programs in public transportation, Amtrak, and local freight rail assistance. USDA's RUS water and waste disposal program lost 25 percent of its appropriations in 1996, EDA's public works program was cut by 20 percent, and Native American programs lost 8 percent.[38]

Beyond the budget cuts, two major pieces of legislation passed by the 104th Congress had significant impacts on rural areas and rural programs. The first, the Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Farm Act) authorized several important changes to USDA's rural development programs. The second, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (familiarly known as the 1996 Welfare Reform Act) overhauled the Federal welfare system, placing new requirements on States and local areas to provide the employment, training and education, child care, and transportation resources necessary to move needy families from welfare to work.[39]

For predominantly rural States, these requirements presented marked challenges. Many rural counties with high levels of welfare dependency also had high levels of unemployment—60 percent of 586 counties classified as highly welfare dependent in 1994 were also classified as high-unemployment counties. Supplemental block grant funds authorized in the 1996 law, as well as a program of Welfare-to-Work grants authorized in the Balanced Budget Act of 1997, were expected to provide some assistance in creating job opportunities, as well as in providing training and job support counseling to help chronic welfare dependent workers remain employed.

Congress appropriated $3 billion, to be divided between fiscal year 1998 and fiscal year 1999 spending, for the Welfare-to-Work program.[40]

The 1996 Farm Act changes to rural development programs arose out of an intense debate between members of Congress favoring increased direction of domestic assistance programs by the States through a new series of block grants and those, supported by the Clinton administration, who favored retaining Federal control of these programs. These block grants would have given State governments decisionmaking authority over which communities and programs should receive Federal assistance for education, training, infrastructure, health, welfare, and community and economic development. This reorganization of funding into State block grants created the potential for States to ignore Federal attempts to ensure targeting of programs to rural places and people.[41]

In a compromise, the 1996 Farm Act kept control of rural development program spending at the Federal level, but created a new program—the Rural Community Advancement Program (RCAP)—that provided for increased flexibility to move funding across programs to better meet State needs. The new program required State Rural Development Directors (appointed by the Secretary of Agriculture on the recommendation of a State's congressional delegation) to prepare 5-year strategic plans for delivering USDA rural development resources to small towns and rural areas in the State. The legislative language establishing the RCAP assigned priority to the smallest and poorest communities in each State.[42]

The strategic plans were to be prepared in consultation with public and private individuals and institutions most likely to be affected by or involved in the administration of covered funding, including tribal governments. In return for developing this strategic approach to rural development in the State, the Directors were permitted to transfer up to 25 percent of funding from any program to another among those included under RCAP—community facilities, rural utilities, and rural business and cooperative development—to best meet the needs identified in the strategic plan. In other words, if a State plan identified a greater need for community facilities development than for rural utilities, up to 25 percent of that State's rural utilities funding could be spent on community facilities programs.[43]

The RCAP program encouraged local flexibility in implementing rural development programs, but required State Rural Development offices to engage in comprehensive and collaborative development planning with input from State government and local communities. It was one of an increasing number of highly competitive Federal grant and loan programs for rural areas that encouraged more strategic planning and rewarded innovative programs. For example, within the Department of Housing and Urban Development, the Rural Housing and Economic Development grant program, created in 1999, distributed $25 million in grants to State development agencies, Native American tribes, rural nonprofit agencies, and community development corporations for innovative programs in 2000. Of 750 applications, only 91 received grants.[44]

Many communities had limited resources on which to draw for such planning efforts, making it difficult for them to compete well under these new funding programs. A new USDA program, the Rural Community Development Initiative, began operation in 2000 under RCAP with an initial infusion of $6 million. The program provided technical assistance grants for private, nonprofit community development organizations and low-income rural communities to help them improve their ability to carry out housing, community facilities, and community and economic development programs.[45]

Two other new programs, both established by the 1996 Farm Act, offered new opportunities for business and entrepreneurial development and for innovative programs and research. The Rural Business Opportunity Grants (RBOG) program, which superseded the Rural Planning Grants (section 111) program in place since the early 1970s, offered funding to help local governments, nonprofit agencies, Indian tribes, and cooperatives develop entrepreneurial skills and new businesses in their communities. Funds could be used for planning, technical assistance, entrepreneurial training and leadership, and creation of business support centers. When RBOG finally received funding in 2000, the program joined the broad array of loans and grants offering assistance in developing and expanding business and industry in rural communities.[46]

The Fund for Rural America, administered through the Cooperative State Research, Extension, and Education Service (CSREES) and authorized at $100 million a year for 3 years, could be used to fund a wide range of rural development activities. One-third was dedicated to funding rural development programs, another third to rural development research, and the remaining third to either programs or research at the discretion of the Secretary. Expectations were high for the creation of innovative new programs through the Fund, but appropriated funding for the first year, totaling $80 million—$20 million was redirected for supplemental disaster aid--was not available until well into the fiscal year (in January 1997). By the end of that year, only $34 million had been disbursed, all for research projects, and funding for the second year was withheld except to implement projects funded in the first year. In the third year, $60 million in funding was released, $40 million for rural development and $20 million for extension activities.[47]

Telecommunications and Transportation Emerge as New Priorities

The general approach to rural economic development shared by the Clinton administration and the Congresses of the 1990s focused on helping communities and larger rural areas pull together the resources needed to implement a comprehensive development plan. Rather than direct payments to sustain disadvantaged individuals, Federal support provided credit, technical assistance, and training to help communities move forward on their own initiative. A key component of this assistance was infrastructure development, which built the physical and technological foundations for development of the businesses and community services envisioned in local strategic plans. Chief among these infrastructure developments in the 1990s were telecommunications and transportation.

By the 1990s, Federal support for developing transportation and telecommunications infrastructure already had a long history. Rural road development efforts could be traced back to the late 19th century in USDA. The Rural Electrification Administration (REA), with roots in the New Deal of the 1930s, had been providing credit to rural cooperatives to fund electric power and telephone systems for 60 years. Both the Tennessee Valley Authority (TVA), also of New Deal vintage, and the Appalachian Regional Commission (ARC), a War on Poverty initiative of the mid-1960s, contributed much of their support through infrastructure development activities, TVA primarily through electrical power generation and ARC through a major highway development program. All three of these agencies continued to operate in the Clinton era, although the REA became a part of the Rural Utilities Service (RUS) in the 1994 USDA reorganization.

Advances in telecommunications drew much attention in the 1990s. The Internet, often called the "Information Superhighway," promised to make geographical remoteness practically irrelevant, allowing rural areas to grow economically without physical proximity to metropolitan areas. Many observers pointed out, however, the widely different levels of access to Internet service and computer technology between urban and rural areas, and most particularly in poor rural areas. This difference, termed the Digital Divide, threatened to leave underserved areas behind the rest of the Nation as new industries and educational and employment opportunities tied to the Internet and computer technologies brought economic growth.

While the 104th Congress tackled welfare and farm policy reforms, it also acted to deregulate the telecommunications industry with the Telecommunications Act of 1996. The legislation endorsed the concept of universal service, including the principle of universal access to advanced telecommunications services in rural areas. In practice, universal service requires a minimum level of service to all who wish telecommunications services, which must be provided at a cost below a set maximum charge. The new legislation provided for a Federal-State Joint Board, appointed by the Federal Communications Commission, to determine the standard for universal service—i.e., what would be considered the minimum service level and what the maximum charge could be. The Telecommunications Act also allowed the Joint Board to alter the definition and standards for universal service over time, to permit flexibility in responding to changing telecommunications technology, particularly with the Internet. Under previous legislation, all long-distance telecommunications providers, primarily telephone companies, contributed to a fund to subsidize the cost of providing universal service; under the 1996 legislation, the possibility was left open to eventual inclusion of Internet service providers, should Internet service come within the universal service standards.[48]

To ensure rural access to new communications technologies, USDA's RUS was authorized to provide subsidies to reduce connection costs. In a report commissioned before passage of the Act, the GAO determined that 13 programs were already dedicated to expanding telecommunications in rural areas, ranging from USDA's rural utilities programs to HHS rural health care programs, and from National Science Foundation education networking programs to the Department of Commerce's National Telecommunications and Information Administration. Together these programs provided $715.8 million in 1995 in grants and loans to improve telecommunications capacities in rural America.[49]

Spending on USDA's rural telecommunications programs increased in subsequent years during the Clinton administration. The RUS Telecommunications Loan Program's activity increased at least 25 percent every year between 1996 and 2000, with a 76-percent jump between 1997 and 1998. Although percentage increases in the Loans for the Distance Learning and Telemedicine Program varied more widely, from nearly 2,000 percent between 1996 and 1997 to only 3 percent from 1997 to 1998, growth between 1999 and 2000 reached over 1,000 percent. Despite these rates of growth, however, the programs remained relatively small, with the loan level for both programs in 1999 at only $370 million.[50]

The Information Superhighway was not the only kind of highway receiving attention from Congress and the Clinton administration in the 1990s. Traditional highways, as well as rail and air transportation, continued to feature prominently in rural economic development plans.

For most of the decade, highway and public transit programs were funded through the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). However, transportation funding for highways, air, and rail received substantial cuts in the 1995 Rescissions Act and the 1996 Omnibus Spending Act.[51]

New legislation in 1998, the Transportation Equity Act for the 21st Century (TEA-21), authorized a 40-percent increase over the levels authorized in ISTEA for highway and public transit funding. The TEA-21 legislation also based distribution of funding on a new formula that guaranteed at least 90.5 percent of money contributed by a State to the Highway Trust Fund would be allocated to programs in that State. More importantly for rural communities, the new legislation provided for greater input from State and local officials in decisions about how State allocations of Federal highway and public transit funds should be spent. Authorized funding also increased for several targeted programs with particular value for rural areas, including bridge repair, Appalachian roads, and rural public transit[52]

Just a year earlier, in 1997, significant increases in funding authorized for air transportation programs promised renewed support for programs benefiting rural areas. The largest percentage increase, 15 percent, went to the Essential Air Services Program, which helped support air service in rural communities that lost their commercial service as a result of airline deregulation in the 1980s. Authorized funding was subsequently doubled for the program the next year, to $50 million. Following a delay in reauthorizing Federal air transportation programs in 1999, legislation in March 2000 authorized sharp increases in funding for the Airport and Airway Trust Fund through 2003, including a 79-percent increase in total funding for the Airport Improvement Program to $3.4 million. Funding for rail service improvements has fared less well, and freight rail service in rural areas faced a new set of potential difficulties as major freight rail lines merged or planned to merge throughout the decade.[53]

In May 1999, the Department of Transportation launched a Rural Transportation Initiative designed to help rural areas achieve the greatest economic development benefits from transportation improvements. The initiative took a broad approach, linking assistance on a variety of transportation-related issues for rural places, including railroad improvements, air and bus intercity transportation, transportation safety, and tourism. The goal was to make it easier for rural communities to achieve coordinated planning and implementation across the range of transportation solutions.[54]

The Global Economy Challenges Rural America

By the last decade of the end of the 20th century, rural America was already well on its way to participating in an increasingly global economy. Trade liberalization policy played a key role in this trend, with ratification of the North American Free Trade Agreement (NAFTA) in 1993, establishment of the World Trade Organization (WTO) in 1994, and passage of permanent normal trade relations (PNTR) with China in 2000. Because the U.S. rural economy depends more on employment in the sectors most affected by trade—agriculture, manufacturing, and mining provides 26 percent of nonmetro jobs compared with 14 percent of metro jobs—developments in trade have a disproportionate impact on the rural economy.[55]

Although increased exports resulting from trade liberalization benefited the rural economy overall, some industries faced challenges adjusting to foreign competition. Because of the disproportionately rural character of many of those industries, trade liberalization left many rural unemployed in places where such industries, like textiles and apparel, were most important, particularly in the Southeast. Two Department of Labor programs designed to help mitigate the loss of jobs through trade liberalization, the Trade Adjustment Assistance (TAA) program and the NAFTA Transitional Adjustment Assistance (NAFTA-TAA) program, reflect the highly rural character of industries affected by more open international trade. In the first 5 years after implementation of NAFTA, about 40 percent of the worker groups certified to receive assistance under both programs were in nonmetro areas, twice the proportion of nonmetro workers in the overall U.S. population and labor force.[56]

The two programs continued to receive appropriations in 2000--$349 million for TAA and $66 million for NAFTA-TAA. Both programs provided reemployment training and other assistance directly to displaced workers. The TAA program also provided technical assistance to employers in businesses negatively impacted by trade liberalization through the Department of Commerce.

The Community Adjustment and Investment Program (CAIP), operated under the auspices of the North American Development Bank (NADBank), a joint U.S./Mexico development institution created as part of the NAFTA agreement. The CAIP, part of the NADBank's Business and Industrial Loan Guarantee program, provided credit to businesses in U.S. communities with substantial job losses associated with NAFTA. Unlike the Department of Labor and Department of Commerce programs, which assisted affected workers and businesses, the CAIP was designed to assist affected communities by helping private businesses create and retain new jobs in those communities.[57]

While trade liberalization was aimed at opening up the U.S. economy to worldwide markets, the administration established its New Markets Initiative in 1999 to open up neglected markets within the United States. Similar in many respects to the EZ/EC program, the New Markets Initiative aimed to stimulate development in economically disadvantaged areas through a variety of programs offering tax and credit incentives and technical assistance. The initiative was similar to the Livable Communities Initiative, which aimed at improving overall quality of life. In particular, the Livable Communities Initiative offered communities at the other end of the economic spectrum, those experiencing rapid growth, assistance in coping with the negative consequences of such growth, including sprawl, congestion, pollution, and crime.[58]

Many of the New Markets Initiative's tax and credit incentive programs were not funded by Congress for fiscal year 2000, but the initiative was able to operate through continued funding of several supporting programs. The EZ/EC program received continued funding and provided many of the tax and credit incentives envisioned for the New Markets Initiative to the 58 communities included in the program from the 1993 and 1997 rounds. The CDFI Fund, which had grown from $37 million in 1996 to $96 million in 2000, offered many of the credit and investment support services critical to New Markets development ideas. The Small Business Administration began a series of new initiatives to support and encourage investment in low-income and "historically underutilized business zones." Perhaps the most effective and impetus for the program came from two highly publicized tours Clinton made in 1999 to distressed areas around the Nation, touting the investments made in these communities by major American corporations. Late in 1999, a tentative agreement was made between Clinton and House Speaker Dennis Hastert (R-IL) to submit bipartisan legislation to achieve other elements of the President's New Markets policy.[59]

Rural Development Meets the New Farm Crisis

Although the administration focused many of its rural development efforts on the nonfarm rural economy, agriculture continued to play a central role in definitions of rural America and in efforts to assist rural areas. Early in his first term, as part of a series of focused conferences on issues of interest to his administration, Clinton traveled to Iowa to host a summit on the future of rural communities and the preservation of the family farm.

Central to the agricultural issue for most of the administration was the 1996 Farm Act, which transformed 60 years of U.S. agricultural policy. Farmers received freedom to make nearly unfettered planting decisions in return for the dismantling of the price support program that had provided a safety net against low prices. Farmers received market transition payments to help them as they moved toward a market-based agricultural economy, and a loan program that promised to provide a minimum level of income support should prices ever fall low enough. In the years of low stocks and high prices that greeted the new Farm Act, such an eventuality seemed unlikely, and agriculture and farmers appeared to be in position to benefit from a new, market-based decisionmaking orientation. Within 2 years, however, supply and price conditions had changed dramatically. Large worldwide production replenished stocks and deflated prices, while a financial crisis in Asia rapidly reduced demand from what had been one of the fastest growing markets for U.S. agricultural products. By 1998, farmers began to feel the absence of the traditional countercyclical farm safety net. The economic stress of production agriculture required the close attention of the Federal government. The Clinton administration, led by Agriculture Secretary Glickman, and Congress, led by farm State representatives, responded to the distress signals with multibillion dollar emergency assistance payments. These payments were repeated for the next 2 years, and were augmented by additional multibillion dollar assistance payments to farmers facing weather disasters, including drought and floods, which plagued various regions of the Nation from 1998-2000.

This fueled calls to revisit provisions of the 1996 Farm Act before it expired in 2002. Arguments in support of reestablishing a countercyclical safety net focused often on the value of the family farm to preservation of rural America, and indeed, a key component of the Clinton administration's recommendations for changes in farm policy centered on the preservation of family farms and serving the needs of small farms. Thus, as the 20th century drew to a close, the traditional image of a rural America made strong by the prosperity of its small family farms remained powerful in the minds of what had become an urban Nation.

Uncertain Legacy, Challenging Future: Rural Development Policy 1972-2000

Rural development policy followed a circuitous path from 1972 to the end of the 20th century, repeatedly reaching a comprehensive set of national goals and a coordinated strategy for achieving them, only to face a new set of political and economic circumstances as implementation attempts began. Efforts born during the era of Federal intervention in the 1960s confronted the New Federalism of the Nixon and Ford administrations and the demographic and economic progress of the countryside that was recognized by the mid-1970s. Worsening economic conditions and pressures for Federal fiscal restraint complicated the Carter administration's support for a federally directed rural development policy. Although primary responsibility for the direction of Federally funded rural development programs remained at the

Federal level in the 1970s, healthy State economies and their governments took more responsibility for implementing the rural and urban development efforts. In the process, they gained the technical and leadership capacity for independently implementing programs, while aided by significantly increased Federal block grants and other forms of Federal assistance.

In 1981, the Reagan administration brought an immediate redirection of rural policy. Agricultural policy regained its dominance as the primary Federal assistance to rural areas, and an effort was made to devolve responsibility for rural economic development to the State and local level. Although some State and local governments may have been prepared to accept this new challenge, many were not. Even those with the most well-developed capacities were hampered by the recession and farm crisis of the 1980s, which ended the economic expansion and population growth of rural areas. At a time when some State and local governments might have tried to implement rural development programs and strategies locally, they faced falling revenues and rising costs, restricting their fiscal capacity to pursue rural development. By the time the lingering economic problems of rural areas were recognized at the Federal level, the capacity to provide relief had been eroded by deep cuts in many Federal programs.

Although the second half of the 1980s witnessed substantial economic recovery in rural areas, the early 1990s brought further weakening of the national economy. The prospects for increased Federal funding of rural development programs did not improve, and State and local governments experienced fiscal stress from reduced revenues and increased expenses accompanying a new recession. The Bush administration's commitment to State Rural Development Councils offered the promise that improved State and local capacities would be effectively coupled with available Federal programs, while the establishment of a new Rural Development Administration promised coordination and leadership for Federal rural development policy, at least within USDA.

During the Clinton administration, renewed prosperity in some rural areas eased some of the pressure to increase Federal resources to assist the rural economy. Congress' effort to balance the Federal budget and provide additional tax cuts also limited funds available for rural development. A new strategy, somewhat reminiscent of the Kennedy, Johnson, and Carter administrations, emphasized alleviating rural poverty by targeting Federal assistance to the most distressed communities. Several new programs in the early years of the administration, most notably the Empowerment Zone/Enterprise Community program, reflected this emphasis. These new programs, particularly after the passage of welfare reform, incorporated a new vision of the rural economy and rural development. They looked away from traditional subsistence assistance toward development assistance, which makes greater use of partnerships between public and private entities and focuses on helping those in areas of high poverty to improve their communities over the long run. The programs acknowledged the globalizing economy, the increased momentum and influence of the environmental movement, and the growing value placed on rural landscapes and open space by a nation increasingly concerned with quality of life issues.

Despite the stops and starts of policy and program development, one undeniable accomplishment of the rural development policy debate during the last three decades of the century was the accumulation of knowledge about the rural economy. The results of increased research on rural economics and economic development problems offered a clearer picture of rural strengths and weaknesses and a greater knowledge base about effective solutions. Among the greatest accomplishments of this research was an understanding of the economic, social, and geographic diversity of rural areas--and of agriculture as a part of a comprehensive rural development policy. Additionally, most observers came to recognize that national and global economic trends influence the rural economy, sometimes facilitating rural development policies and other times undermining them.

Looking back from the 21st century, observers can clearly note the changing political, economic, and demographic conditions that continually altered the policy context for rural development during last 30 years of the 20th century. These changes led to a lack of political consensus about the directions a national rural development policy should take. Particularly problematic were disagreements over the relationship of farm policy to rural policy and over the share of responsibility local, State, and Federal governments should shoulder for rural economic and community development. Although a consensus developed that acknowledged the diversity of rural economies and populations, the certainty that political, economic, and demographic conditions would continue to change made a long-term commitment to a flexible and coordinated Federal rural development policy a challenging goal.

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