Federalism in the 1980s:
Fiscal and Policy Restraint by the Reagan Administration

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Rural economies at the beginning of the 1980s, despite the encouraging improvements of the 1970s, were poised on the brink of serious economic distress. The preceding decade had brought increasing population and expanding employment in manufacturing, services, mining, and agriculture. State and local governments had expanded with assistance from Federal revenue sharing and other grants, and had become stronger partners in identifying local needs and appropriate solutions from the array of Federal programs offered. But inflation and the energy crisis had begun to stall national economic activity and burden the Federal government with rising deficits, and the effects of those economic changes on rural areas would soon be clear. Severe recession in the nonfarm rural economy that began with the decade, coupled with the farm financial crisis that developed a few years later, brought an end to the population turnaround and growth of the 1970s, leaving rural areas again facing population loss and economic decline.

New Federalism in the 1980s

Ronald Reagan assumed the Presidency in January 1981 with a dramatically different philosophy of government. He had been elected in a wave of discontent with inflation, rising Federal budget deficits, and what many voters interpreted as unnecessary social spending. Armed with broad popular support for cutting Federal programs and returning the savings to private citizens through tax cuts, the new administration targeted a broad array of discretionary domestic programs for cutbacks or elimination. Rural development programs were among them.

Inflation and consequent increases in Federal spending had concerned the Carter administration, as well. Differences in governance approaches, however, affected the policies pursued by the Carter and Reagan administrations. Carter's rural policy action agenda had pushed ahead with coordination and targeting of rural programs, despite increasingly tight budgets. The Reagan administration approached the task of reigning in Federal spending with a strong conviction that the Federal government should have no responsibility for what it viewed as local programs.

Funding for rural economic development programs across the Federal government experienced dramatic drops between 1981 and 1982, as the Reagan administration took control of the budget process (fig. 8). Although Congress refused to eliminate most rural development programs, nearly all economic development loan, grant, and technical assistance funds were reduced sharply. Adjusted for inflation, obligations for a set of Federal rural economic development loan and grant programs, including selected programs of USDA, the Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), the Department of Health and Human Services (HHS), the Appalachian Regional Commission (ARC), the Environmental Protection Agency (EPA), and the Small Business Administration (SBA), fell from about $5.7 billion in 1981 to about $2.8 billion in 1982.*[1]

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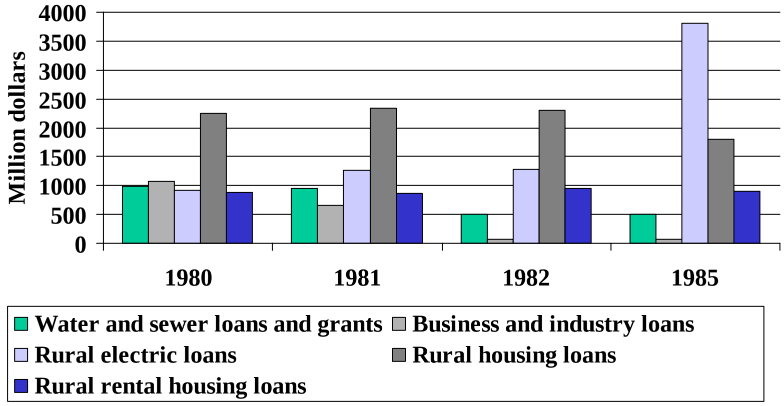
* Programs included in this analysis were USDA's business and industrial loan program, community facilities loan program, and water and waste disposal loan and grant programs; EDA's public works grants program, Title IX economic adjustment assistance program, and business development assistance direct and guaranteed loan programs; HUD's small cities CDBG and Urban Development Action Grants programs; SBA's direct and guaranteed business loan programs; HHS Office of Community Service's rural economic development and rural

Figure 8--Funding for Selected USDA Rural Development Programs, 1980-1985



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

Spending levels recovered some in 1983 and 1984, following a reorganization of EPA's water and waste water construction program. Additional funds were also recouped when the administration of HUD's Small Cities Community Development Block Grant program was transferred to the States. However, reductions began again in 1984 and, by 1987, total inflation-adjusted spending on rural programs had fallen nearly 60 percent since 1981. For example, EDA funding was reduced between 1981 and 1987, in real terms, by 75 percent, from $376 million to $94 million. Funding for all EPA water and wastewater construction grants fell 56 percent, in real terms, between 1981 and 1987, with grants to rural communities declining 91 percent; in 1987, only 8.3 percent of the waste and wastewater construction grant program funds went to rural areas, despite EPA findings in 1984 that two-thirds of rural water supplies violated drinking water standards, and their 1986 findings that 70 percent of substandard water and wastewater treatment systems were in small towns and rural areas.[2]

Spending on USDA's Farmers Home Administration (FmHA) rural development programs, excluding housing, fell, in real terms, by 69 percent over the 8-year period, from $1.67 billion in 1981 to $490 million in 1987. Business and industrial loans and community facilities loans were cut most severely, by 85 percent. Water and waste disposal and community facilities programs declined by about 50 percent over the 8-year period, as community facilities spending fell from $260 million in 1981 to $95.7 million in 1987. Water and waste grants declined from $210 million to $117 million, and water and waste loans dropped from $750 million to $330 million.[3]

Much of the funding that remained in these programs was modified from grants to loans: direct grants became low-interest direct loans and low-interest direct loans became guaranteed loans, which reduced government costs but also made government assistance less accessible to

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community facilities discretionary fund; ARC's community development water and sewer programs; and EPA's water and waste systems construction grants program.

low-income individuals and communities.† Between 1981 and 1987, EDA direct loans were eliminated and guaranteed loans increased slightly, SBA direct loans were reduced and guaranteed loans increased more than 100 percent, and FmHA's direct community loan programs were cut 50 percent. As a consequence, resources tended to be directed to fewer and smaller projects to make the most of remaining funds. For example, the average FmHA water and waste water disposal loan declined nearly 40 percent from 1981 to 1987.[4]

A further erosion of Federal aid to rural areas came with the end of general revenue sharing in 1986. Revenue sharing, begun during the Nixon administration, returned a portion of Federal tax receipts to State and local governments for spending at their own discretion, within specified program limits. The Carter administration had renewed the Federal revenue sharing plan but ended the State component in 1980, as State tax revenues began to increase with inflation and Federal budget deficits began to rise rapidly. Local revenue sharing, however, had continued through the early years of the Reagan administration, helping local governments to support development activities of their own design. According to ERS research, the loss of these Federal funds created a crisis for some local governments, forcing a reduction in capital spending, an increase in tax rates, a deterioration of local fiscal health, and a reduction in the ability to attract industry.[5]

Office of Rural Development Policy

Meanwhile, the Rural Development Policy Act of 1980 required the President to prepare a rural development strategy. To carry out that responsibility, the new Secretary of Agriculture John R. Block established an Office of Rural Development Policy (ORDP) in October 1981. Briefly administered by John McCarthy, Willard (Bill) Phillips, McCarthy's deputy director, became Director after McCarthy left in February 1982. Phillips, a West Virginia native who had held positions with the EDA, the Appalachian Regional Commission, and several congressmen, remained Director for the life of the agency.[6]

The new office incorporated the planning assistance and rural program coordination responsibilities formerly assigned to the Rural Development Service in the Farmers Home Administration. Its primary responsibility was to prepare a rural development strategy to present to Congress. The ORDP produced its first report in January 1982, documenting the Reagan Administration's activities towards creating a rural strategy during its first year. The report described the overall health of the rural economy, based on data from 1979 that showed increases in population growth and employment over the preceding decade, and highlighted the increased capacity of local governments to respond to their communities' problems, which ORDP attributed to experience from confronting the problems of growth common to many rural areas. The report also noted, however, the persistent poverty of rural minorities and residents of particular geographic regions, while pointing out the ineffectiveness of government solutions to the problem.[7]

The ORDP report featured a significant new emphasis on farm programs as vehicles for rural development. Whereas previous rural development efforts had often pointed out the need to separate rural community development from agriculture, the Reagan administration insisted that agriculture was fundamentally integrated into the rural economy. Rural development policies

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† Grants could be provided directly to low-income individuals and communities, while guaranteed loans required meeting threshold eligibility requirements through the lender, usually a bank. Difficulty in meeting those threshold requirements reduced the eligibility of low-income individuals and communities.

had to address the needs of agriculture if they were to respond adequately to the needs of rural America.[8]

This return of agriculture to a position of prominence in rural policy affected the administration's plans for program delivery to rural areas. The President designated his Cabinet Council on Food and Agriculture, directed by the Secretary of Agriculture, as the primary means for "interdepartmental rural development leadership and coordination." State Rural Development Committees, which had brought together USDA agency heads within each state to coordinate rural development issues, were absorbed as subcommittees into the USDA State Coordinating Councils, which oversaw all USDA programs in a State, most of them farm-related. Those councils operated under the national leadership of the USDA Policy and Coordinating Council, which also subsumed a USDA Rural Development Committee chaired by the Under Secretary for Small Community and Rural Development.[9]

ORDP operated somewhat independently of farm programs in USDA. But its small staff and large reporting responsibilities limited the opportunities for identifying new directions for rural development. Moreover, the ORDP strategy update emphasized the intergovernmental partnerships already existing in the traditional farm programs as the ideal delivery system for rural technical assistance programs to local governments and the rural private sector. ORDP indicated they had proved their worth in advancing the knowledge, skills, and investments in agriculture and could be expanded to include the same kind of services for rural nonfarm interests.[10]

The new emphasis on agriculture in rural development was coupled with an emphasis on stewardship of natural resources. Although it reflected the increasing environmental awareness developed through the 1970s, the ORDP's rural development strategy connected the issue with agriculture, rather than other, broader areas of rural development like tourism or waste water treatment. Soil erosion, flood control, and water supply, as well as nonpoint source pollution related to agricultural runoff, soon became the dominant natural resource issues for Federal rural development policy attention.[11]

Public participation was an important aspect of the Reagan Administration's rural strategy formulation. Before beginning that process, however, ORDP determined key components of the rural strategy based on President Reagan's governing philosophy. Those key components committed the strategy to being adaptable to local objectives, relying on technical assistance as a primary rural development tool, linking public and private resources to create rural jobs, and providing for the most critical needs in the most rural communities. The results of a public needs assessment would have to be synthesized with these principles.[12]

A National Advisory Council on Rural Development was appointed early in 1982 (and renewed in 1984) "to provide grass roots input for use in the formulation of a rural development policy." While described as "a new way of determining policy--'from the bottom up,'" the council resembled efforts by both the Carter and Ford administrations to assess State and local views of rural policy needs.

In addition to the 25 rural leaders appointed to the Advisory Council, ORDP arranged public hearings and consultations with State governors, legislators, and USDA State Food and Agriculture Councils (formerly called State Coordination Councils). Those State Councils, in cooperation with local Extension Service personnel, held local meetings to discuss rural problems. ORDP used the networks of interest groups representing local governments, religious groups, service clubs, and unions to gather ideas for an effective rural strategy. To reach rural minorities, ORDP worked through the USDA coordinators for Indian activities and the 1890 land-grant universities and other historically Black colleges and universities.[13]

From among the mass of ideas and priorities gathered through this process, ORDP chose four critical areas which were the “the most often cited--and most urgent—challenges to rural people.” They addressed rural infrastructure and services, assistance to local governments, housing, and more jobs. The consultation process yielded a number of other program priorities that were not adopted for the rural development strategy. Among these were health care, tax reforms, Federal lands, toxic wastes, energy, farmland preservation, soil erosion, water quality and supply, minimum wages for seasonal labor, historic preservation, housing vouchers, enhanced farmer cooperatives, public transportation, crime, education and job training, and renewable resources.[14]

The Reagan Administration announced its official rural development strategy in a February 1983 report titled *Better Country: A Strategy for Rural Development in the 1980's*. The strategy focused largely on the relative well being of rural areas and on the benefits to rural areas of national economic reforms implemented by the administration. Tax relief, regulatory reform, reduced Federal spending, lowered inflation and interest rates, reduced banking regulation, new scaled-back job-training and employment programs, facilitation of international trade, and the consolidation of categorical grants into block grants for flexible administration by State governments were to bring prosperity to all sectors of the nation's economy, including those in rural areas. The proposed Federal program for rural areas included expanded technical assistance and information resources programs to aid State and local governments in identifying solutions to their particular needs.[15]

ORDP returned to its focus on agriculture with the 1984 rural strategy document, *Rural Communities and the American Farm: A Partnership for Progress*. The report concentrated on the need for promotion of business development to provide farm families with increasingly necessary sources of off-farm income. Its four primary proposals included using FmHA field offices to offer information on Small Business Administration programs; providing technical and management assistance to rural businesses; sharing information on "innovative, small-scale rural business opportunities"; and analyzing the impacts of farm policy on rural communities and the nonfarm rural economy. The rural strategy report also stressed the need for programs to strengthen local government capacity to manage its problems. These proposed programs offered more technical assistance, particularly oriented to transportation and developments in the telephone industry, management of natural resources, and administration of Federal programs.[16]

The focus of this rural strategy report on the needs of farm people further identified rural development programs with agriculture. Included in its annual budget review of rural programs, in fact, were such agriculture programs as price supports and commodity loans, based on the view that such programs improved the financial well-being of farm families and therefore of surrounding rural areas as well.[17]

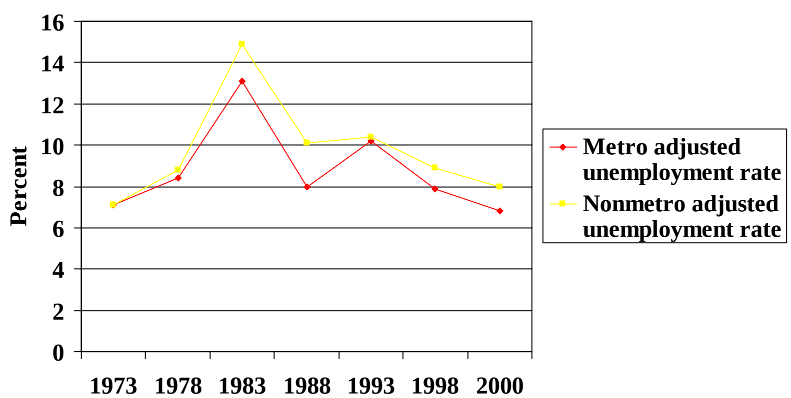
As a result of public input during the development of this new rural development strategy, ORDP created a comprehensive list of assistance programs available to rural areas. The National Advisory Council on Rural Development ranked such a resource first among its perceived needs of rural communities. Published in November 1984, ORDP’s *Rural Resources Guide: A Directory of Public and Private Assistance for Small Communities* grouped resources by category (community facilities, services, general community improvement, natural resources, information/research/liaison, and multipurpose foundations), and described 375 public and private programs offering money and technical assistance to small communities and rural areas.

It also provided the addresses of Federal, regional, and State government offices offering services to rural areas. The guide proved immensely useful for connecting local leaders with the many programs available to help rural communities.[18]

An ORDP update of the Reagan administration's rural development strategy in 1985 reiterated the approach of encouraging private investment and job creation, returning government responsibilities to local communities, training local officials to "meet the challenge of the expanded role of local government," and focusing attention within the Federal Government on the impact of national policies on rural areas. ORDP reported that "much of rural America seems to be sharing in the prosperity and economic progress of the 1980's." ORDP acknowledged some pockets of difficulty, particularly in manufacturing and farming counties, but maintained that a continued national policy of economic growth would bring recovery to those areas as well.[19]

Yet, by 1985, the rural economy had experienced widespread decline. In addition to the widely acknowledged farm financial crisis, the rural unemployment rate rose to a rate one-fifth higher than that for urban areas and would increase to almost one-third higher than the urban rate later in the decade (fig. 9). High unemployment was accompanied by falling real earnings per job, leaving nonmetro per capita income at only 75 percent that of metro areas, in contrast to the peak of 81 percent reached in 1979. Rural poverty climbed to more than 30 percent above the metro rate. Moreover, a significant pattern of outmigration, a reversal of the previous decade's trend, left rural counties with high proportions of older and younger residents, requiring high expenditures on health care and education without the taxable earnings of middle-aged cohorts to support them.[20]

Figure 9--Metro and Nonmetro Unemployment, 1973-2000*



Source: Calculated by Economic Research Service, USDA, from Current Population Survey, Bureau of Census, U.S. Dept of Commerce

*Adjusted unemployment rate includes discouraged workers and part-time workers who would prefer full-time work if it were available.

Nonmetro counties with economies tied to manufacturing and farming felt these changes early in the decade, while mining counties, including coal and petroleum producing counties, experienced the decline by mid-decade. Economic decline and its related population losses hit hardest in counties farthest from metropolitan areas.[21]

In the face of these conditions, Congress refused to continue funding ORDP and the office closed at the end of 1985. Congressional reaction to ORDP capped 4 years of policy differences between the Reagan administration and rural development supporters in the legislature. Reagan's focus on the farm economy and local control had repeatedly clashed with the focus of many in Congress on the nonfarm rural economy and Federally driven programs. [22]

Congress Addresses Rural Development Policy

As Reagan budget officials cut rural development budgets, Congressional advocates introduced legislation to continue funding of rural development efforts. Several of these efforts failed in the mid-1980s, but would reappear as successful innovations under the Bush administration in the early 1990s. A bill introduced in 1984 would have counteracted the growing emphasis on farm programs in the Reagan USDA through the creation of a Rural Development Administration to handle all rural development programs, including rural housing, separate from USDA farm services. Another bill, introduced in 1987, recommended the designation of rural enterprise zones, adapting a successful State-level urban approach to develop severely distressed areas for rural needs. The proposed Federal enterprise zone programs would grant significant tax relief to businesses willing to locate in these zones.[23]

A flurry of bills, in fact, was introduced in both the House and the Senate in 1987, as distress in farm and rural areas of the country gained increasing public attention. Some focused on increased funding for business and industrial development and support for public infrastructure. Some focused on Federal assistance to maintain transportation links to rural areas, particularly air, in response to the pressures created by Federal air deregulation policies that sometimes led to abandonment of such links as unprofitable. Similarly, responding to adverse impacts on rural health care facilities caused by changes to Medicare and Medicaid legislation was proposed to protect access to health care in rural areas.[24]

Despite the evident and bipartisan support for some response to distress in rural America, the number of competing, and in some cases conflicting, bills worked against achieving unified legislation that could pass. Legislators and advocates from rural and farm States simply did not agree on the best way to alleviate the distress and simultaneously build strong communities and a strong farm economy that could withstand future crises. Moreover, the Congressional agriculture committees, through which most of the proposed rural development legislation had to pass, found their attention riveted to the effort to save the farm credit system, crowding out any consideration of more general rural development assistance programs.[25]

The rapidly increasing Federal budget deficit added weight to arguments against rural development programs on budgetary grounds. By the latter years of the Reagan administration, defense spending was absorbing a large share of the Federal discretionary budget, and Federal revenue growth was firmly constrained by tax cuts and the new policy of indexing income taxes for inflation. Income indexing eliminated the annual increase in real Federal tax revenues as wage and salary increases pushed taxpayers into higher tax brackets. Without a unified policy direction, backed by strong public support, Congressional advocates of increased Federal spending for rural areas had little likelihood of seeing their efforts succeed.

As a result of proposals and questions raised in the 1987 Congressional debates on rural development, however, Representative Thomas Coleman (R-MO), ranking minority member of the Conservation, Credit, and Rural Development subcommittee of the House Agriculture Committee, requested that the General Accounting Office review all Federal rural development programs to evaluate whether they “could be made more productive by being located in a new

Rural Development Administration." The GAO report, *Rural Development: Federal Programs That Focus on Rural America and Its Economic Development*, appeared 2 years later, in January 1989, providing a valuable inventory of Federal rural development efforts just as the new Bush administration prepared to take office.

GAO examined all Federal programs in which rural counties, defined as counties with urban populations of less than 20,000, were eligible to participate and organized these programs into categories--economic development programs, agriculture/natural resources programs, infrastructure programs, and human resources programs--to identify what types of rural programs were receiving the greatest Federal funding support. Programs in the economic development category included small business development programs administered by the Small Business Administration and general business programs administered by the Economic Development Administration (EDA), USDA, the Department of Defense, and the Appalachian Regional Commission (ARC). Included in the agriculture/natural resources category were forestry and mining programs of USDA and the Department of Interior. USDA commodity and conservation programs were not included because GAO determined they were oriented toward purposes not within the definition of rural development, although they might indirectly provide some rural development benefits.[26]

Infrastructure programs included community programs housed in HUD, USDA, Interior, and Education; transportation programs administered by the Department of Transportation and the ARC; utilities programs of USDA and Commerce; and public works programs located in Defense, EPA, USDA, and Interior. Rural development programs in the human resources category could be found among community services programs of HHS and EPA; vocational education programs of Education, USDA, and ARC; general education programs of the Department of Education; training and employment programs of the Department of Labor; health programs of HHS and ARC; and housing programs of USDA and HUD.[27]

Following work by researchers at USDA's Economic Research Service, which has monitored the distribution of Federal funding to rural and urban areas since 1970, GAO was able to calculate the rural share of Federal spending by category using county-level data on expenditures for these programs. On average, 17 percent of Federal funding from these programs went directly to rural counties as defined by GAO. Since about 16 percent of the U.S. population lived in these counties, the rural share of Federal expenditures appeared generally appropriate. However, the total funding levels varied widely by program, with 60 percent dedicated to agriculture/natural resources programs compared with only 5 percent for human resources programs.[28]

GAO's assessment seemed to downplay the need for a centralized administration of Federal rural development policy, since most Federal rural development activities were simply components of other programs with a wider scope than rural development. They concluded "a rural development focus . . . at the Federal level . . . could be created by restructuring and supplementing existing programs." If Congress adopted a new rural development policy that established a Rural Development Administration, however, GAO concluded that USDA's experience and breadth of responsibility with rural development programs made it the agency most qualified to implement that policy. Congress would follow that advice a few years later in its efforts to strengthen USDA's rural development mission [29]

State and Local Initiatives Demonstrate New Development Capacities

The reductions in Federal rural development programs and the inability of Congressional advocates of rural development to settle on a unified strategy for Federal assistance to rural areas experiencing the economic stress of the 1980s left room for State and local efforts to fill the void. The capacity of State and local governments and nonprofit agencies to respond to the rural distress had benefited from investments made during the 1970s. Many Federal assistance programs required cooperation from State and local government and nonprofits, often as administrators and implementers of categorical grants and revenue sharing funds. Leadership training and capacity-building grants made many of these agencies more capable of independently designing and administering development programs. Though most would have preferred increased funding for rural programs at the Federal level, some of the more prosperous States responded to distress in their own areas through legislation and local programs designed to encourage economic development and provide services to displaced and distressed residents and communities.

In one of the earliest of these state-led efforts in the 1980s, the New York State legislature established a Commission on Rural Resources in 1982 to "study all aspects of the rural economy and rural life." The Commission presented an action strategy based on this study to the legislature in 1985 and new programs began to appear by the next year, focused on State-level coordination of rural development and on programs to improve transportation, health care, and education services in rural areas. In 1987, Arizona, Georgia, and Minnesota established State rural development authorities and initiated planning, loan programs, and technical assistance to both coordinate and nurture local efforts to overcome the accumulating effects of economic distress in the agricultural and rural industrial sectors.[30]

In the same year, Washington, West Virginia, and Pennsylvania established State coordinating and technical assistance programs targeted to encourage development and technological innovation in particular industries—"office-based industries" in Washington, forest products in West Virginia, and oil and gas, forest products, and tourism in Pennsylvania. Montana, Texas, and Florida targeted programs to their agricultural industries, particularly research, technical assistance, and loan programs to develop value-added businesses, diversification of products, and enhanced marketing opportunities.[31]

A New Initiative to "Revitalize Rural America"

The Reagan administration updated its rural strategy in December 1987, recognizing the economic difficulties in rural farm and nonfarm areas. In addition to describing ongoing rural development programs, the administration's update acknowledged the lingering economic difficulties experienced by rural America. To highlight positive steps to support recovery, the report included the Six-Point Rural Regeneration Initiative announced in Congressional testimony in May 1987 by Secretary of Agriculture Richard Lyng, who had replaced John Block in March 1986.

President Reagan's Six-Point Rural Regeneration Initiative

Designed to invigorate the Department's rural policy, the Initiative's six points included:

1) Increased emphasis by the Extension Service on rural education and training;
2) The organization of Rural Enterprise Teams at the State level to assist communities with business and employment problems;

3) The enhancement of the National Agricultural Library's Rural Information Center services;
4) Expanded research by the Economic Research Service, the Agricultural Research Service, and the Agricultural Cooperative Service on rural development topics, including rural unemployment, infrastructure needs, and nonagricultural rural business opportunities;
5) A restructured FmHA Business and Industrial Loans program focused on job creation in communities with high unemployment; and
6) The placement of USDA's Rural Development Initiative under the direction of the Office of the Deputy Secretary of Agriculture, also chair of the White House Working Group on Rural Communities, which enhanced USDA's leadership of all rural development efforts of the administration.[32]

None of these initiatives deviated significantly from earlier approaches; they continued to emphasize technical assistance and the traditional USDA delivery system to address rural problems. Neither did any bring significant increases in spending for the Department's major rural development programs administered by FmHA. Lending for the Water and Waste Disposal program, remained the same, at $330,380,000, for 1988 as it had been for 1987, as did lending for the Community Facilities program, at $95.7 million. Business and Industrial program lending fell slightly between 1987 and 1988, from $95.7 million $95.4 million. Although the amount of lending for single-family housing increased from $1,143,926,000 to $1,270,803,000, the number of loans fell from 35,612,000 to 35,508,000. Lending for rural rental housing followed the same pattern, increasing slightly in total value from $544,899,000 to $544,936,000, but falling in number of loans from 744,000 to 722,000.[33]

The new initiative, however, contained seeds of change for thinking about how rural development should be approached. In addition to the GAO review of Federal rural development programs that indicated widespread, though limited, efforts on behalf of rural America across the Federal bureaucracy, two Reagan administration rural development evaluations that arose from the Rural Regeneration Initiative pointed to a conception of rural development problems that moved beyond the farm.

The President's Economic Policy Council designated USDA as the lead agency in the Rural Regeneration effort and Secretary Lyng designated his Under Secretary for Small Community and Rural Development, Roland Vautour, as coordinator and promoter of the Administration's program. The revitalization effort was to incorporate not only USDA's programs, but those of all other Cabinet departments and independent agencies. As part of this revitalization effort, Secretary Lyng appointed a National Advisory Council on Rural Development in August 1987 to advise him on rural development policy. The Council included 30 members from different parts of the rural United States who were to represent the "broad spectrum of Rural America's concerns and needs." The National Advisory Council on Rural Development issued its "Final Report to the Secretary" in January 1989. While acknowledging the continued importance of agriculture in the rural economy, the Council noted the need to emphasize nonagricultural aspects of rural development, going so far as to suggest the Department of Agriculture be renamed the Department of Agriculture and Rural Affairs. The group emphasized that State and local governments should lead in rural development work, but also suggested an increased role for the Extension Service and an effort to increase awareness of the Department's rural development programs at the local level.[34]

Simultaneously with the Council, Secretary Lyng and Under Secretary Vautour had prepared a final report of the Department's revitalization effort, *Signs of Progress: A Report on Rural America's Revitalization Efforts,* as the Reagan administration prepared to pass its responsibilities to the incoming Bush administration in January 1989. Paralleling the direction of the Advisory Council's report, Lyng and Vautour described the changing structure of the rural economy, including the growing diversity of rural areas and the declining role of agriculture in the success of many rural communities. That theme was reiterated throughout the report, echoing the GAO approach, by presenting department-by-department briefs on Federal programs providing assistance to rural people and places, demonstrating the wide range of programs available to meet rural America's diverse needs.

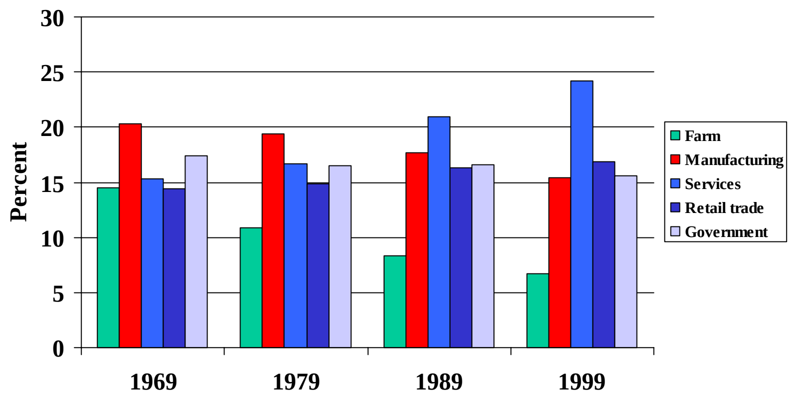
The report also presented the results of a series of hearings, called Town Meetings, held in rural communities around the country during 1988, highlighting their common themes. The important role of local leadership and local initiative took center stage, providing a limited Federal role in training and leveraging local efforts. Taking their cues from testimony at the Town Meetings, Lyng and Vautour asserted that Federal resources made available to rural areas should "manifest themselves as information, technical assistance, direction and support, and, where absolutely necessary, dollars from the Federal coffers."[35]

Indicating the close relationship between the outgoing Reagan administration and the incoming Bush administration, Lyng and Vautour's final report under Reagan included a "1989 USDA Rural Development Strategy." The strategy laid out plans for a Revitalization Task Force, as well as several cooperative projects among Federal agencies to better coordinate delivery of rural development programs, all of which the new Bush administration would implement as the starting point for its own approach to rural development policy.[36]

A Maturing Rural Development Research Base and Its Impact on Policy and Programs

Perhaps the most meaningful long-term shift in thinking about rural development was the increased emphasis on research to inform rural policy and programs that appeared in the Reagan administration's Six-Point Rural Regeneration Initiative. USDA's Economic Research Service (ERS) did the bulk of this new research, which built on many years of earlier work on the changing rural economy. A number of significant research publications emanated from the agency during the 1980s. An early working paper by an ERS staff member in cooperation with a researcher at the University of Wisconsin identified the end of the rural population revival of the 1970s that had raised such high hopes for the future of rural areas. By the mid-1980s, population migration had returned to its former rural-to-urban pattern. This reversal reflected the loss of manufacturing jobs and accompanying service opportunities to increasing international competition, and the loss of employment and business opportunities in the farm sector as a result of long-term changes in the structure of farming and the more immediate farm financial crisis (fig. 10). Although the rural economy had diversified throughout the 1960s and 1970s, the economic troubles of the 1980s indicated that many rural areas still depended on too narrow a range of industries.[37]

Figure 10--Nonmetro Jobs in Selected Industries, 1969-1999



Source: Calculated by Economic Research Service, USDA, using data from Bureau of Economic Analysis, U.S. Dept of Commerce

Some researchers and policymakers concluded that rural America was returning to its long-term trend of decline, with the exception of rural areas close enough to share in the expansion of nearby metropolitan areas. Little could be done in the face of this decline but to assist in the transition to a reduced rural population and economy by providing training and other support services for rural residents wishing to migrate to metropolitan areas. Although such pessimistic notions were abandoned during the subsequent rural rebound of the 1990s, they influenced policy in the late 1980s and early 1990s.

A second critical publication of the mid-1980s arose from earlier research at ERS in the 1970s intended to document the diversity of rural America. Now known familiarly as the county typology, *The Diverse Social and Economic Structure of Nonmetropolitan America* identified counties based on the concentration of particular types of economic activity or population characteristics. The typology confirmed the overall diversity of the rural economy, particularly the growth of service industries and the decline of farming in many rural areas. The new typology also showed that the diversity was regionally concentrated, making policy responses to the wide range of rural problems seem more possible.[38]

In 1986, the Senate Agriculture Appropriations Committee placed language in USDA's appropriations law requesting that ERS study "alternatives for maintaining and strengthening economic development in rural communities." The agency responded with a major publication, *Rural Economic Development in the 1980s: Preparing for the Future*, that examined the state of the rural economy and identified opportunities for effective rural development policy. Providing evidence of the changing structure of the rural economy, its diversity, its primarily nonfarm character, and its ties to the national and global economy, the study examined policy approaches that concentrated on financial, human, and natural resources, and on tailoring policy to the particular needs of diverse geographical areas. The study became the social science research basis for rural policy discussion over the next decade.[39]

Thus, as the Reagan administration entered its last year in office, Federal rural development policy appeared ready to move in new directions. During Reagan's 8 years in office, stresses in the farm economy, and the influence of strong, traditional farm leadership in USDA, had returned commercial farm policy to a central place in the Department's articulation of rural development issues. But the Six-Point Rural Regeneration Initiative had encouraged publication of research and exploration of program objectives that brought nonfarm rural development issues to greater public notice. Although the Reagan era ended by moving toward reestablishing a Federal policy direction for rural development, it seemed clear that Federal policy would continue to emphasize the primary role of local and State government and the private sector in devising rural development solutions.

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