1623

S. HRG. 103-651

FIELD HEARING: RURAL ECONOMIC DEVELOPMENT IN INDIANA

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED SECOND CONGRESS

SECOND SESSION

APRIL 23, 1993

Printed for the use of the Joint Economic Committee

81-667

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON: 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-044713-5

JOINT ECONOMIC COMMITTEE

[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

CONTENTS

WITNESSES AND STATEMENTS FOR THE RECORD

Friday, April 23, 1993

SUBMISSIONS FOR THE RECORD

FIELD HEARING: RURAL ECONOMIC DEVELOPMENT IN INDIANA

FRIDAY, APRIL 23, 1993

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m., in the courtroom of the U.S. District Court, Southern District of Indiana, Federal Building, 121 West Spring Street, New Albany, Indiana, Honorable Lee H. Hamilton (Vice Chairman of the Committee) presiding.

Present: Representative Hamilton.

Also present: William Buechner, professional staff member.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, VICE CHAIRMAN

REPRESENTATIVE HAMILTON. Good morning, everyone. Let's get under way. This morning, the Joint Economic Committee of the United States Congress is conducting a hearing in New Albany, Indiana, on the topic of rural economic development. There's much concern today, both in Washington and around the country, about the economic health of the rural areas of the United States.

During the past decade, rural areas were hit very hard by many of the same factors that caused problems for the national economy, plus some that were unique: High interest rates and debt burdens, the dollar problems that priced many American goods out of world markets during the 1980s, factory closings and job losses from business restructuring, the recent credit crunch and bank failures, the recession that we just went through, budget stresses that eroded state and local government investment in infrastructure and education, and fluctuations in prices of farm products and farm land.

I travel around rural Indiana at least as much as other government officials, and I have a great appreciation for the strengths of rural communities and the positive features of rural life in this part of the country. I have the greatest affection and respect for Hoosiers who live in rural areas. Economically vital rural communities are excellent places to make a home, to earn a living, to raise children, to enjoy recreational opportunities, to build close personal and family ties, and to escape the pressures of urban life.

But I'm also aware of some of the negatives: The lack of good job opportunities in many communities, the problems of farm incomes, the lack of health care facilities, infrastructure and other basics that residents of larger metropolitan areas often take for granted.

I'm deeply concerned about the future of many rural communities in southern Indiana. I talk to too many people wanting better paying jobs and see too many vacant shops and plants not to be concerned. There are many problems that need to be addressed: Economic development, job creation, schools, poverty, infrastructure, water and sewer systems, health care, and the list goes on.

I've come to the view that legislation at the federal level, although it can help, generally has only a marginal impact on rural development. Assistance from the federal government is not the key to economic growth. Far more important than legislative programs is local leadership and an entrepreneurial spirit with the willingness to invest in the future. On occasion, the Federal Government can be a partner and help in many ways, but the initiative for change and the commitment to carry it out must come from local communities. The success of a community will only be as great as the energy and skill of its members.

In that regard, we're very fortunate to have a major rural development undertaking going on right here in southern Indiana: The southern Indiana Rural Development Project. This project will bring together business, education and public leaders to develop and implement a strategy to increase job opportunities and income levels in the rural areas of southern Indiana. We will hear more about this important project later in this hearing.

We also have a new administration, a new secretary of agriculture, former Congressman Mike Espy, who is deeply concerned about rural economic development and who understands the role that the government can play in assisting development efforts of rural communities. As a member of the Joint Economic Committee, I've come to this hearing to try and help in these efforts by focusing on the economic health of rural areas and current rural development programs, particularly here in southern Indiana.

Our lead-off witness was going to be the Honorable Evan Bayh, Governor of Indiana, but as all who follow closely the events of our state, its government and the general assembly, we know that this is a very critical weekend for Indiana State Government. Governor Bayh called me yesterday afternoon and indicated that it simply would not be possible for him to be here. I regret that he is not here, but I fully understand, knowing something about the way legislatures work from time to time and the importance of the governor being there in the final days of a legislative session. He will be represented by Curt Wiley, who is the director of the Department of Commerce. We will hear from him momentarily.

We're very pleased to have an exceptional panel. Mr. Silas is the president of the Federal Reserve Bank of Chicago. He'll be our lead witness in just a moment. Dr. Keith Collins is the acting assistant secretary for economics in the United States Department of Agriculture. He is deeply involved in agricultural matters and rural development. Dr. David Rice is the president of the University of southern Indiana and chair of the southern Indiana Rural Development Project. And Dr. Morton Marcus is the director of the Indiana Business Research Center of Indiana University.

I welcome each of these witnesses. Their statements of course will be put into the record in full, and they may testify from them as they choose.

Mr. Keehn, we want to thank you for coming down from Chicago this morning to tackle the subject of rural development. It's a pleasure to have you here, and we will let you begin with your statement, as you choose. It will be my intent to have each witness come forward and make their statement, and then I will have a few questions for them, and after that they will be excused.

Mr. Keehn, we welcome you.

STATEMENT OF SILAS KEEHN, PRESIDENT, FEDERAL RESERVE BANK OF CHICAGO

MR. KEEHN. Thank you very much, Mr. Chairman. I am particularly pleased to be here and delighted to have this opportunity to testify before this regional hearing of the Joint Economic Committee. You have asked that I comment on the status of the Midwestern economy, with some emphasis on the rural challenges facing the region. For purposes of geographic definition, I define the Midwestern region to consist of all of the states of Indiana, Illinois, Iowa, Michigan and Wisconsin, which, for the most part, comprise the Seventh Federal Reserve District.

These five states account for about 14 percent of the nation's GDP and 18 percent of the U.S. manufacturing employment. The region produces some 45 percent of the nation's automobiles, 30 percent of the trucks, 38 percent of the nation's steel and more than 40 percent of the country's farm machinery. Farmers in this region account for nearly a fifth of the nation's annual sales of farm commodities and half of the corn, soy beans and pork produced nationwide. Some of the largest manufacturing, retailing and financial service firms in the United States are headquartered in this region.

With the exception of defense activity and certain computer-related production, given the size and diversity of the Midwest economy, it is not surprising that it mirrors the economic challenges and opportunities in the U.S. economy as a whole. As in the nation, recent Midwestern performance has improved, but the pace of the improvement continues to be impeded by further financial and industrial restructuring.

Restructuring problems are not a recent development in the Midwest. The recession of 1981-82 was devastating to Midwestern industry. The Midwest lost nearly one and a half million jobs during the back-to-back recessions of the early 1980s, accounting for a sizable portion of the nation's job loss of some two and a half million workers over this period.

Somewhat like our recent experience, expectations that the cyclical downturn would be followed by the usual rapid recovery in Midwestern employment were disappointed. A vigorous recovery followed the 1981-82 recession and some of the cyclically sensitive jobs returned, but many jobs were lost forever as a result of structural change. Intense competition and changing markets, both domestic and international, have forced firms, particularly those involved in the manufacture of durable goods, to put heavy emphasis on productivity as a way of reducing manufacturing costs.

Midwest manufacturing firms have invested an average of 5 to 10 percent more in equipment per production worker annually than firms in the rest of the nation. Estimates of the relative improvement in Midwestern manufacturing suggest that efficiency in the Midwest improved by about 20 percent more than in the rest of the nation. These improvements, brought about by the very painful process of restructuring, have put these firms in a better position to compete in the domestic and international markets.

Today, I am reasonably optimistic about the current outlook for the Midwest economy. The level of economic activity in the Midwest has improved and the outlook is positive. Auto and light truck production in the first quarter of this year was about 21 percent higher than last year, and second quarter production schedules, while somewhat reduced from the initial levels, have been set about 10 percent ahead of last year. This translates into a domestic automobile production level of about 6.2 million cars and 4.6 million light trucks at an annual rate. We currently forecast that sales of cars and light trucks this year will total about thirteen and a half million units, an increase of almost 4 percent from last year.

The steel industry, very important to the Midwest and most particularly to Indiana, has shown improvement, and mills in the Midwest are currently operating at about 85 percent of capacity. Industry forecasts suggest that some 85 to 86 million tons of steel on a nationwide basis will be shipped this year. The machine tool and equipment industries, also important to the Midwest, have shown signs of improvement with industry sources forecasting 8 percent growth for this year, with a 5 percent increase in exports and a 7 percent decline in imports.

Employment in the Midwest has increased from the low levels reached at the bottom of the last recession and unemployment levels in Midwestern states, except Illinois, were running under the national average. The latest data available for Indiana shows that its unemployment rate was almost 1 percent below the national average.

But significantly, the employment increases in the district have been more modest than the overall increase in economic activity. This dichotomy results from the enormous productivity efforts on the part of Midwestern companies to retain the competitive positions obtained at such very great cost. While this has been very beneficial in overall economic context, it raises in my mind the question of the sustainability of this expansion. Personal expenditures have been moving ahead at rates higher than increases in disposable income. Unless there is a commensurate increase in employment and a resulting increase in disposable income, it will be very hard to maintain this higher level of personal consumption that has been so fundamental to the growth in the economy over the last few quarters.

My remarks about the restructuring of the Midwest industrial sector also apply to the region's agricultural sector. While the financial condition of the farm sector today is vastly improved from that of the mid-1980s, it exhibits a cautious approach to spending and continues to go through considerable restructuring to achieve greater production efficiencies.

The agricultural sector in the Midwest still operates with a vivid awareness of the devastating setbacks suffered by farmers and agribusiness firms as the agricultural credit crises of the 1980s washed out the excesses that developed during the boom of the 1970s. The subsequent improvement in farm earnings and the level and quality of farm debt has been substantial, placing the industry on a much more solid footing for the 1990s.

Yet, the actions of farmers and agri-business firms reveal a mood of uncertainty and caution. This mood is tied in part to the painful memories of the 1980s. It also reflects the continuing focus on trimming the federal budget deficit and the implications for the safety net provided in farm income and price support programs. The cautious mood of farmers is also related to concerns about the longer run prospects of export markets, which are so vital to U.S. agriculture.

Midwestern banks in general, and Indiana banks in particular, continue to show improving earnings and capital. In 1992, the average return on equity for commercial banks in the Midwest was up slightly from the level in 1991, but slightly below the national averages. The average return on assets last year was also higher, but again slightly below the national average. But in a longer context, Indiana banks, on average, over the last five years, have consistently exceeded the national average, with respect to returns on assets.

The improving health of Midwestern banks is further attested to by the fact that there has been a 70 percent decline in the number of lower rated banks in the Midwest since the end of 1986. A key factor in the improving condition of banks in the Midwest has been the gradual winding down of their asset quality problems. Nonperforming loans first stabilized and then declined, reflecting the improving economic conditions and further charge-offs of the worst loans.

Indiana banks have done even better than those in the other states in the Midwest. Over the past five years, nonperforming loans for commercial banks in Indiana never exceeded 2 percent of total loans, and as of the end of 1992 stood at only 1.4 percent of loans. I would note further that banks in the southern part of the state, as of the yearend 1992, had an even better record, with only about one half of 1 percent of their loan portfolio nonperforming.

The somewhat better condition of Midwestern banks led to relatively better credit availability during the past three years. This health not only meant that fewer banks were forced to reduce their lending, it also eased the adjustment for borrowers at banks that were facing capital and asset quality problems.

At a recent meeting of our Small Business and Agriculture Advisory Councils, I again carefully reviewed the question of the adequate availability of credit for these very important economic sectors with the members of our council. The view continues to be that banks have become much more careful in the loan extension process, that credit standards have been raised, documentation requirements have been made more demanding, and spreads and fees have risen.

But most importantly, and I would like to emphasize this, our council members almost universally felt that adequate credit is generally available for borrowers with good credit qualifications. Indeed, some members reported that banks in their areas are aggressively seeking loans.

On the other hand, many council members were concerned that environmental regulations are making certain types of transactions unbankable. Leery of the potential liability, some banks have shied away from a credit whenever an environmental issue is even a remote possibility. Those banks that are willing to proceed are very demanding in their requirements for complete and costly environmental studies. Both our Agriculture and Small Business Advisory Councils feel strongly that environmental regulations are and will continue to impede the extension of credit to these key sectors.

From the perspective of Midwestern banks, the restructuring of credit markets is now largely complete. Credit terms have ceased to tighten, asset quality is on the rebound and most district banking organizations have now built up their capital positions to a level that they can now focus more of their attention on the business of lending.

One of the key themes of our hearing today is that of rural development. The research program at the Federal Reserve Bank of Chicago has made a special effort to recognize the key importance of agricultural and rural issues in the Midwest economy. For example, we publish an agricultural newsletter, and a recent article in our *Economic Perspectives* publication examined the issue of trends and prospects for rural manufacturing.

As I see it, one of the primary challenges for rural areas during the post-World War II era has been to replace jobs lost by the declining labor force needs of natural resource intensive industries. As productivity has increased in farming and mining, or as natural resources are exhausted in forests and fisheries, the movement of labor into other activities or the outright loss of jobs has been the result.

Our research has found that manufacturing has become the primary economic base for many rural counties in both the Midwest and in the rest of the nation. At the same time, service firms, retailers and other industries are abandoning remote counties and are centralizing their operations in urban areas.

While, as I have noted, the farm sector's economic condition has stabilized following the correction of the 1980s, farm jobs, especially those as a full-time occupation, continue to disappear as smaller farms consolidate into larger units. In sum, as one writer has put it, "Many small rural towns ... have been transformed from farm service centers into minor cogs in the national manufacturing system."

I think that rural communities will benefit from this trend toward enhanced manufacturing employment. First, we have passed through the 1980s, when both agricultural and natural resource-based industries fell on hard times. Second, the process of decentralization of manufacturing has enabled rural areas to replace part of their lost job base.

One statistic that I feel illustrates this point rather strikingly is that over the last 20 years, rural counties in the Midwest have had a rate of manufacturing job growth greater than that of the metropolitan counties, and that manufacturing has become the element of stability of the employment composition in several rural counties. Over this 21-year period, metropolitan manufacturing jobs have declined by 20 percent, while rural counties have seen their manufacturing employment increase by about 15 percent. Currently, it is estimated that about one-fourth of all manufacturing jobs in the Midwest are located in rural counties. This compares with just under 20 percent in the late 1960s.

This is not to imply that all rural counties have fared well in the 1980s, with regard to manufacturing job growth. There is still a significant number of rural counties that have not been able to benefit from this relocation of industrial activity.

southern Indiana provides an example of this diversity in rural performance. For example, the three counties of Dubois, Jackson and Jennings have all experienced rates of personal income growth over the decade of the 1980s in excess of the Indiana average growth rate. In contrast, Jefferson and Union counties experienced more difficult times and benefited less from the decentralization of manufacturing.

It is likely that the trend in the movement in manufacturing activity toward rural areas established over the latter part of the 1980s will continue into the 1990s as export markets grow, and in a relative sense the region suffers less from the reduction in the nation's defense industries.

The experience of the 1980s shows widely divergent shifts in the Midwest in terms of the shift in manufacturing activity toward rural counties. Questions remain regarding the reasons why some counties have prospered and others have not. The answers to many of these questions are limited by the lack of sufficient information on the relative cost and productivity of individual industries in urban versus rural locations.

in many instances, taking its place. And we find, I think, for the most part, many rural areas well-suited for that in terms of the skill base.

REPRESENTATIVE HAMILTON. Well, what is your impression of the quality of the labor force in Indiana and in the Midwest, generally?

MR. ALLARDICE. Well, general observation, of course, is hard in such a broad region without being very specific for a locale, but still it's characterized as a labor force that has fairly high skills, some of which are perhaps not adapting as rapidly as they should to some of the new manufacturing technologies. They may still be based a little more in the old mass assembly Ford-type of production orientation; and obviously the new manufacturing model is a much more flexible, small production runs, a different type of activity than we think of when we think of the old large auto assembly plant type of industry.

REPRESENTATIVE HAMILTON. I visit a lot of manufacturing operations, and the plant managers say to me that they have a very reliable, stable work force in Midwest Indiana; they are very pleased with the quality of people. At the same time, they express a concern about their skill levels, not so much today, but what they think the skill levels are going to be needed five years down the road in order to stay competitive.

MR. KEEHN. I use, as our example of emphasizing that point—I don't know whether you've seen the Inland Steel operation near South Bend—but those two lines that they put in there are technologically very, very advanced, and you tend to think about these in looking ahead. Given the enormous requirements for high technological skills to deal with the production in those operations, I think the point that you raise is absolutely right.

MR. ALLARDICE. I think, too, Mr. Keehn commented about our meetings with our Agriculture and Small Business Advisory Councils, which we just recently held, and I question when you say the problem may be in the future. The problem may be in the present, in terms of some skills, and I think they may be isolated. We still hear from those councils about some needs for typical sorts of skills related to machine tools, tool and die making, and of the need for basic math skills. They're having some problems finding a labor force that can meet some of those needs today. So the problem may be nearer rather than in the future.

REPRESENTATIVE HAMILTON. What about the role of government in economic development? Now, obviously infrastructure involves government a lot, but local government, state government, federal government, what role do you see them playing in economic development in rural areas? Do you have any sense of that at all?

MR. KEEHN. I think the two issues that we have focused on, infrastructure is one which you've mentioned, but certainly the educational issue, are so terribly important, and it does seem to me that these are an appropriate area for governmental programs.

REPRESENTATIVE HAMILTON. What about tax incentives, how important are they?

MR. KEEHN. I think the lower the tax burden, the more encouraging that will be to economic development in an area. I know we get very concerned about specific programs allocating resources in individual ways, but I would be very much in favor of a lower tax burden to try and accomplish that type of growth.

REPRESENTATIVE HAMILTON. I want to pick up on what you said there. Explain what you meant a moment ago, you get very concerned about individual circumstances?

MR. KEEHN. Well, I think when you have programs that are designed to allocate resources from one sector to another sector, you get some unevenness in the process. I would prefer to see a lower overall tax structure that would simply provide an environment in which the economy, as a whole, can grow and more economic support will occur.

REPRESENTATIVE HAMILTON. One of the phrases the President used the other day in talking about the economy was that we're having a "jobless recovery." You suggest in your statement that we're not producing all that many good jobs. Is that what we have, a jobless recovery in the Middle West?

MR. KEEHN. Let me try and give you some numbers on that, Mr. Chairman. If you look at the decade of the 1980s—that long period of very strong growth; and by that I'm referring to the fourth quarter of 1982 through the second quarter of 1992—we created during that period almost 22 million jobs. The average monthly increase was 240,000. In my view, it was an almost explosive growth in employment.

REPRESENTATIVE HAMILTON. Good paying jobs?

MR. KEEHN. Good paying jobs, yes. I think that the allegation that these are all minimum wage jobs is not right. The service sector was strong in this, but the service sector included banks, accounting and legal services and the like, and they're hardly minimum wage jobs. They were good paying jobs. It was an explosive growth of employment, and I think, perhaps, the most exciting part of the whole decade of the 1980s.

This time it's different. The average increase in employment has been much more modest. It is lagging considerably the experience in recoveries leading into the expansions that we've had since the Second World War by a significant amount. But we have had an increase. So the "jobless recovery" issue is, I think, perhaps not the appropriate adjective we thought.

I tried to emphasize in my comments, particularly as it relates to the Midwest, that productivity has been terribly important. I think firms in the Midwest have successfully invested in productivity enhancements, and as a consequence the productivity level has increased. Our firms are now competitive. We are very competitive in the international markets with the dollar about where it is now. As a consequence, the cost of this has been a lower level of employment increases, but the benefit has been that our companies really are able to compete on an international basis. I used the word in my comments "sustainability." I think this employment issue is key to the sustainability of this expansion.

REPRESENTATIVE HAMILTON. You say it will be very hard to maintain this higher level of personal consumption that has been so fundamental to the growth of the economy over the last three quarters?

MR. KEEHN. Yes. If you look at the third and fourth quarter numbers of last year, the GDP numbers, the consumption side of those strong growth rates is high, higher than the increase in disposable income. In the third and fourth quarters, consumption was financed by lower savings and by a slight increase in installment loans. That can only go on so long, and at some point the disposable income is going to have to come up to support the higher level of consumption. Therefore, the sustainability of the recovery will be the issue.

REPRESENTATIVE HAMILTON. If you go with me to a plant gate one morning, Mr. Keehn—I don't know if Federal Reserve presidents do that or not—to shake hands at plant gates, politicians do——

MR. KEEHN. I've done that.

REPRESENTATIVE HAMILTON. ——and the worker says to you, "Don't export my job. Our jobs are being exported to Mexico and Asia." Is that true, and what do you tell that worker?

MR. KEEHN. First, manufacturing employment—and I think those are the gates that you're talking about—even now we are not back up, in terms of manufacturing employment, to the level that prevailed in 1979, which was the high point in manufacturing employment, so there has been a reduction. But we are living in a global economy, and we must be able to compete in the international markets. And I don't see any way in which we cannot push on the productivity side as a way of trying to accomplish our emergence into the global markets.

But I would point out that despite these shifts in employment that you talk about, in terms of manufacturing output, we are at record levels in this country. We are producing a higher level of hard goods out of our manufacturing plants now more than we ever have in the history of our country. We're doing it with fewer people, and therefore the productivity improvement has had this very beneficial effect.

REPRESENTATIVE HAMILTON. But the concern of that worker is genuine, isn't it? I mean, we are losing some jobs?

MR. KEEHN. Well, there's no question that some of our jobs that were previously conducted in, say, the Midwest have gone into other markets. But as those other economies improve—perhaps, speaking about the Mexican economy in particular—it seems to us that the opportunity for the export of products from the Midwest into an improving Mexican economy will also increase, and therefore in the end this can result in a higher level of employment in the Midwest.

REPRESENTATIVE HAMILTON. You'll net out more jobs with NAFTA than without it?

MR. KEEHN. Yes. It will simply be a bigger pie as a result.

REPRESENTATIVE HAMILTON. You know, we had this recession, and we've not come out of that recession with the strength that we have come out of recessions in the past. We talked about a double dip. How do you feel about coming out of this period of low growth, or stagnation, or whatever? Do we need to be fearful of a triple dip?

MR. KEEHN. It's a risk because of the sustainability issue that I pointed out. We spend a lot of time on our economic forecast, and I read a lot of other forecasts, but our bank's forecast for this year, as a whole, in terms of real GDP growth, is that the national economy will experience real growth of about 3 percent. On the fourth-quarter-to-fourth-quarter basis, the number would be lower, between 2½ to 2¾ percent; lower than the full-year forecast, of course, because the fourth quarter of last year was very high.

I'd have to say that among the average of all forecasters, I have a hunch that our numbers are a little bit on the more modest side than many. Therefore, I think the sustainability issue is there, but nonetheless we have some confidence that the numbers that I've given you will occur.

REPRESENTATIVE HAMILTON. And you would not have a fall-back into a recession?

MR. KEEHN. We do not expect a fall back into a recession.

REPRESENTATIVE HAMILTON. Now, you comment in your statement about the improving health of Midwest banks?

MR. KEEHN. Yes.

REPRESENTATIVE HAMILTON. A lot of people ask me today whether or not we're going to have a bank crisis like we had an S&L crisis. Those of us in Washington are very jumpy, of course, about the S&L crisis.

What do you say? Can we just forget that; banks are healthy enough now that we don't need to worry about the health of banks; there's not going to be any bank crisis similar to the S&L crisis?

MR. KEEHN. As a regulator, I'm never allowed to forget that. We always spend a lot of time worrying about these issues and examining them very carefully, to be sure we know where the problems are that we're dealing with. But the conditions in the banking industry are very significantly better than they were two or three years ago. We were quite close to the edge of some very tough problems. We came out of the decade with capital positions that had eroded, nonperforming loans that were rising, and loan loss reserves that were inadequate to deal with those problems. That has turned around.

Interest rates have come down, spreads on lending rate have widened and have significantly improved. As a consequence of that, nonperforming loans have stabilized and are declining, and I think that at this point that loan loss reserves are adequate to deal with the problems.

Will there be more bank failures? Yes, there will be. There are some problems that are at this point baked in the cake, and they will happen. But I do not in any way—and I emphasize the point—view this as a systemic issue. I do not think that we are facing conditions that could lead to the kind of crisis that you described.

In the Midwest, we spent a lot of time looking at the numbers. In fact, we had a meeting with our board of directors yesterday, and our officer in charge of Supervision of Regulation went through a statistical comparison of banks in the Midwest with those in other areas of the country. Those in the Midwestern region are all significantly better than those that prevail in other parts of the country.

REPRESENTATIVE HAMILTON. I get a good many complaints about the lack of credit and complaints about the credit crunch. I don't know that that's changed in recent weeks. It seems to me, I still continue to hear it. I've heard it now for two or three years.

You have a statement in your testimony that says: "Banks have become more careful in the loan extension process." What does that really mean for the borrower out here? Are they having a tougher time borrowing than they used to have? What do they run into when they walk into the bank? What kind of credit conditions do they face today?

MR. KEEHN. Clearly, there has been a credit restraint, a restraint rather than a crunch. I do think that banks have gone through, as I phrase it, a self-corrective process. They have raised their lending standards as a way of trying to prevent a deterioration in their asset portfolios. But we've come out of that, and I think there has been a significant shift in attitude within the last six months, and perhaps even more within the last month or two.

I mentioned the meeting of our advisory councils; we meet with them periodically during the year. We've had this credit restraint issue on the agenda for the last two or three years. At the most recent meeting, two or three weeks ago, the members were quite unanimous that there is plenty of credit available for the agriculture and small business sectors for credits that are good, and that indeed banks in many areas are now aggressively seeking loans, good loans—I really want to emphasize that—and indeed the attitudes have changed quite considerably.

REPRESENTATIVE HAMILTON. We made some change, did we not, very recently, which permits the banks to make character loans with less paperwork?

MR. KEEHN. Yes.

REPRESENTATIVE HAMILTON. Is that a healthy development, do you think?

MR. KEEHN. Yes, I do think so. We raised that specific question at our council meeting, because the change occurred just a few days before our most recent meeting. The members of our councils felt that this would be helpful. This is the so-called character loan, low-documentation proposal that was put forth by the regulators. And I think it has been well received, particularly in the rural sectors, because they would be most affected by it.

REPRESENTATIVE HAMILTON. There was a speech by Alan Greenspan not long ago in New York in the *Wall Street Journal* that construed him as indicating that the Fed is prepared to raise interest rates. Is that your impression, that the Fed is getting ready to raise interest rates?

MR. KEEHN. I have not yet read the chairman's speech, but I've seen the reports about it in the press; I have it on my desk at the office. I certainly wouldn't want to comment on what we might or might not do in terms of policy. I think we are and have been responsive to the changes in the economy over a period of time.

If you look back over the last, oh, now almost four years, we have reduced the Fed fund rate from a little under 10 percent to about 3 percent in 24 separate moves. We reduced the discount rate seven times and have changed or eliminated reserve requirements on two occasions. I view that as a policy that has been very responsive to changes in the economic environment. Therefore, I think it's entirely reasonable to expect us to continue to be responsive.

REPRESENTATIVE HAMILTON. I compared a statement that you made recently with a statement that Mr. W. Lee Hoskins made in testimony some months ago before the Joint Economic Committee. He said:

> ... the role that monetary authorities can play in achieving maximum sustainable growth is to provide a stable purchasing power for the nation's currency, that is a stable price level. I believe very fundamentally that a stable price level is central to ensuring the highest possible standard of living for our nation's citizens.

Now, I contrast that with your statement made in March of this year before the Senate Banking Committee:

> Specifically, it is my view that it is incumbent upon monetary policy to maintain a level of sustainable growth in the economy accompanied by sufficient job creation to absorb new workers and sufficient investment to ensure our ability to produce and compete in today's global economy. This is not to say that we can or should ignore other aspects of our environment such as inflation or other signals of long-term problems, but that these conditions need to be considered in light of the real performance of the economy.

Putting those statements side by side, there's really quite a difference in emphasis. You're focusing much more on job creation and growth investment, it seems to me, than he. Am I right in reading that?

MR. KEEHN. Well, I wouldn't want to comment as to what Mr. Hoskins said or how he said it, but I happened to read his testimony, so I was familiar with the words as you read them. I happen to think that, in terms of policy, our responsibility is to develop conditions of good sustainable economic growth. Obviously, employment is part of that. But also I appreciate your including the full statement, because the second part is equally important.

REPRESENTATIVE HAMILTON. Right now, what are you worried about, job growth or inflation?

bring college courses by satellite or videotape or through innovative uses of computer technology to the rural areas of southeastern Indiana.

Although we encourage every student, we realize that not all will graduate from high school. Therefore, the Department of Workforce Development through adult learning centers, businesses, universities and area vocational schools will offer anyone the opportunity to obtain the "Gateway Certificate." Further, regional Workforce Development Centers will provide Hoosiers, urban and rural, uniform assessments and information on training, retraining, employment and career opportunities, as well as programs designed to battle the scourge of adult illiteracy.

The State of Indiana has worked aggressively under the able leadership of Lieutenant Governor Frank O'Bannon and the commerce department to promote the growth and attraction of business enterprises in rural Indiana. A recent Indiana Economic Development Council study indicates that manufacturing is the largest contributor to rural personal income. The Department of Commerce will continue to assist and attract to Indiana those businesses that offer Hoosiers the good paying jobs of tomorrow.

With a growing world market and ever increasing national and international competition, Indiana must strive to ensure that it is in the strongest position possible to compete for world-class jobs. Our economic development for a growing economy initiative, which is in the legislature right now, so-called the Indiana E.D.G.E. initiative, will provide the Department of Commerce with an aggressive but fair job creation incentive to encourage businesses to locate or expand in the State of Indiana.

It is true that some of our small communities do need help developing their infrastructures to attract the companies that offer the jobs for tomorrow. To target those small cities and rural areas that need our help, the State of Indiana administers community development programs. The Community Focus Fund Program provides capital improvement grants to local governments in rural areas to complete projects such as environmental infrastructure, human service centers, including headstart centers and senior centers, and downtown revitalization projects. To date, the State of Indiana has awarded nearly $7 million in Community Focus Funds.

The state's Neighborhood Assistance Program provides tax credits for small cities and rural communities that wish to preserve historic districts or buildings, undertake community beautification programs, revitalize neighborhoods or build housing for the poor.

Many of Indiana's rural communities have unique health care needs. Rural communities contain a higher proportion of older adults, experience higher mortality from unintentional injury and often have gaps in the delivery of medical services. To address these medical concerns and others, we have created the Center for Rural Health Initiatives. This unprecedented cooperative effort between state health officials, doctors, universities and businesses and professional organizations is housed at the State Department of Health and is charged with assuring that there are coordinated community based prevention and primary health care services available in rural communities.

The State of Indiana has been cognizant of the prominent role agriculture has played in our development and its continued importance to our way of life and economic prosperity. In recognition of this unique bond, the Bayh-O'Bannon administration created with the unanimous approval of the Indiana General Assembly the Indiana Commission for Agriculture and Rural Development in 1989. At the direction of Lieutenant Governor O'Bannon, the commission completed a strategic plan for Indiana agriculture and rural development on June 28, 1991.

Indiana's commitment to rural development is evidenced by its status as one of the few states in the nation which has a Rural Development Council. This organization brings together federal, state and local governments with private for-profit and not-for-profit organizations to create new dynamics in addressing the concerns of rural and agricultural Indiana.

Our world is changing. Our educational system must prepare students for the rapidly changing technology of the 21st Century. Indiana businesses and farmers must compete nationally and internationally. The reform of our health care system, rural and urban, must be acceptable to and sustainable by all Hoosiers, including those who receive, those who provide and those who pay.

The challenges and obstacles we face regarding rural development, education, economic development and health care will not be solved by the dogmas and slogans of yesterday. We in Indiana are not daunted by these challenges and through numerous initiatives unprecedented in scope and collaboration between federal, state and local governments and private citizens and businesses from every facet of rural life are facing the challenges of tomorrow and implementing the solutions for tomorrow.

[End of The Honorable Mr. Bayh's statement.]

[The prepared statement of The Honorable Mr. Bayh starts on p.54 of Submissions for the Record:]

MR. WILEY. I appreciate your time.

REPRESENTATIVE HAMILTON. Okay. Thank you very much, Mr. Wiley. Let me just get an overall sense from you. How do you think the economy is doing in rural Indiana today?

MR. WILEY. I think I ought to leave that to Morton Marcus, who speaks later. He is much more well versed in that. We work hard with our community development program in the rural areas, and I think we need to focus a lot of our efforts in that area to make sure that the opportunities are in rural Indiana, as well as the urban areas.

REPRESENTATIVE HAMILTON. If a local leader comes to you and says, "Give me some help on economic development in my community," what can you do for him or her?

MR. WILEY. There has been a tradition in economic development from a state level that it's primarily a local initiative, and when that person comes to us, he can do a number of things: Provide technical assistance. We have a program that provides hundreds of thousands of dollars to local communities to create local economic development organizations, which basically provides the staff work and the housing so that organizations can become strong enough to approach some of these businesses that are doing site locations and other economic development activities. So I think we provide the technical assistance. Our primary incentive for both existing and attractions is in training. We can do some work in the infrastructure——

REPRESENTATIVE HAMILTON. What do you mean by training; what kind of training?

MR. WILEY. Businesses come to us and basically apply for Training 2000 grants. We will support those efforts in basic training, as well as other areas that are longer term than just an isolated instance within a business. We like to train the worker for a longer term growth.

REPRESENTATIVE HAMILTON. We've heard a lot here about the importance of education and its relationship to rural economic development. You can't help but be impressed in Indiana at the difference in the quality of schools. I can go into certain schools in this state—you can identify them and I can identify them—where the resources and capacities of that school—high schools, middle schools, grade schools—are simply superb. Marvelous facilities of all kinds, tremendous teachers, libraries, laboratories, computers and all the rest.

Then I can go into other schools in rural areas where none of those resources are available, or at least very few of them are available. There is a tremendous gap, I would think, in the quality of education that Indiana provides to its students. I'm no expert on this, but I wander through a lot of schools. Is that a concern of state policy? Is that a concern of yours in economic development?

MR. WILEY. I think it is, and the focus that we have on training is, to a certain extent, to fill some of those gaps that weren't filled during the course of the formal education experience. When a worker gets to a company and needs additional training, that's when they can come to us.

REPRESENTATIVE HAMILTON. I know that you're not in education, but is there any area in the state where we're trying to upgrade the quality of these schools with fewer resources? Nobody would argue that you want to bring the top schools down. That would be rather foolish, it would seem to me, but everybody would want to try to bring the schools with fewer resources up. Are we making some effort at that?

MR. WILEY. I'm sure we are. Unfortunately, that's not my area. I think the Governor's focus is on standards and standards that measure a student, whether they're in southern Indiana, northern Indiana, Indianapolis or wherever, so that there's at least a baseline of information on every student in the state, that it provide that comparison and then lead to——

REPRESENTATIVE HAMILTON. Obviously, there's huge differences in the tax bases of various communities. Okay. What about tax incentives, do we use a lot of tax incentives in Indiana on rural development?

MR. WILEY. Again, we provide to the local communities the opportunity to abate, to use tax incentive and financing.

REPRESENTATIVE HAMILTON. At their discretion?

MR. WILEY. Yes. It's a local decision. As the Governor's remarks indicated, we have a piece of legislation that's in the Indiana legislature right now—the Indiana E.D.G.E. Program, which is largely inspired by the feeling in southern Indiana that Kentucky has provided incentives that go beyond that which Indiana has provided in the past.

REPRESENTATIVE HAMILTON. Do you think this business of providing tax incentives has gotten out of control?

MR. WILEY. I just returned from Washington where there was an economic development meeting of professionals from around the country, all of whom said that it's out of control, but none of whom said they were going to stop.

REPRESENTATIVE HAMILTON. They all said it was out of control?

MR. WILEY. Yes, but nobody said they would take the first step.

REPRESENTATIVE HAMILTON. Do you think it is necessary to have federal legislation in this area?

MR. WILEY. I don't know. I think that's something you might want to consider. I know Governor Edgar is with the National Governors Association, who leads the economic development group for that organization, has suggested that there may be a role either among the governors in making a truce, so to speak, or for federal legislation.

REPRESENTATIVE HAMILTON. One of the things that came out in the Governor's Economic Conference in December was that a number of the local communities feel very isolated from the state government, and they recommended that the state should do a better job of communicating with rural communities. Are you aware of anything the state is doing with respect to trying to improve that communication?

MR. WILEY. I think there may be two things I can point out. Ed Zellers, who is with me today, is our southern Indiana Community Development representative, who travels from town to town in southern Indiana making sure that there's a communication link there.

The other effort that's under way is support of local economic development organizations in its support of regional economic organizations, which will basically bring together groups of communities in all parts of the state to work together on their economic development activities, which we think is a real strong initiative.

REPRESENTATIVE HAMILTON. Are you concerned about younger people leaving rural areas?

MR. WILEY. Sure.

REPRESENTATIVE HAMILTON. Has the State of Indiana addressed that problem in any way?

MR. WILEY. Again, I'm sure they have. I think in the economic development area, we focus our business attraction efforts and our business expansion efforts both ways. There are many opportunities in southern Indiana for smaller communities for some of these business projects that are locating now. There is a desire.

The other thing that came out of this conference in Washington was all of the urban communities lamenting their case, in essence, because of the environmental issues that are raised with business attractions that drive companies into the rural areas, or at least the suburban areas. I think there's an opportunity for some of the rural areas that might not have been ten years ago because of the anxieties that businesses have in locating or relocating in urban areas.

REPRESENTATIVE HAMILTON. I know I've asked a number of questions that are a little outside your bailiwick, but they're the kinds of things that are on my mind with regard to rural development. Let me just ask one other question. Do you have any advice for the Federal Government with regard to rural development?

MR. WILEY. I think one thing that we're encouraged by—and quite frankly was the product of John Hamilton before he left the state to come to Washington—is that the Rural Development Council, which is a partnership with the Department of Agriculture and the federal and local government, I think, is a good initiative. What it does, in essence, is allow us to structure the support that the Federal Government might be able to give to those rural communities. So, if you take programs like the Community Development Block Grant Program, as well as the rural development councils that provide Farmers Home Administration money and give the states and give people like Ed Zellers the opportunity to work with local communities in developing proposals that are more customized to their certain circumstances, I think it's much better.

REPRESENTATIVE HAMILTON. What Federal Government programs would you give high priority to and which ones low priority to? Give me a sense of the federal programs that you think are good and the ones that you don't think are so good?

MR. WILEY. We think the Community Development Block Grant Program is a good one.

REPRESENTATIVE HAMILTON. That's been in the news a little lately.

MR. WILEY. We were dismayed that it's been taken out of the stimulus package. Right now, we have two cycles a year where we provide those grants. We have about a hundred communities in the nonurban areas, 21 communities in Indiana that get direct entitlement in the rural areas. We provide that support. For the May announcement, we have a hundred——

REPRESENTATIVE HAMILTON. That program provides a lot of flexibility to the local leadership as to how the money is to be used; is that right?

MR. WILEY. It does.

REPRESENTATIVE HAMILTON. And you think, by and large, it has been effectively used?

MR. WILEY. I think so. We're real proud of what we've been able to do in the last two or three years in structuring a program that is beyond question, to a certain extent. It's graded on a point system. There were a lot of questions in the Congressional testimony about it being a pork barrel program. We don't believe that. We think that the way we've structured it, the points we give to certain aspects of the proposals make it beyond reproach.

REPRESENTATIVE HAMILTON. Anything else? Do you have anything else for the good of the record here?

MR. WILEY. No, I appreciate it.

REPRESENTATIVE HAMILTON. We appreciate the work you and Mr. Zellers do. I know that Mr. Zellers does travel the highways of southern Indiana. He and I bump into one another every now and then, and we appreciate the work that he does and that you do. Thank the Governor for his testimony, and we look forward to working with you on these and other matters. Good day.

MR. WILEY. Thank you very much.

REPRESENTATIVE HAMILTON. We'll have Dr. Collins come forward, if he would, please.

Dr. Collins is the acting assistant secretary for economics, United States Department of Agriculture. Dr. Collins, you have a statement that is prepared. Of course, that will be entered into the record in full. We thank you for joining us this morning, and we look forward to your testimony, sir. You may proceed.

STATEMENT OF KEITH COLLINS, ACTING ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

DR. COLLINS. Thank you, Mr. Chairman. I will not read the statement that you've entered into the record. What I would like to do, if it's agreeable with you, is take about 10 to 15 minutes to, in a very plain and straightforward way, summarize the highlights of that testimony.

REPRESENTATIVE HAMILTON. That will be fine.

DR. COLLINS. I would like to begin by thanking you for inviting us to participate in the discussion on rural issues. I think the USDA feels privileged to participate. Obviously, Secretary Espy couldn't be here today, but I want to convey to you his regards. I also hope that during my comments I can impart some of the enthusiasm and the spirit that he's brought to the Department of Agriculture regarding rural development and issues.

I would like to cover three areas in my remarks here this morning. The first is to provide a little perspective on the state of the rural economy from a national point of view. Second, to discuss some of the characteristics of rural areas that are shaping our policy thinking in the Department of Agriculture, and finally to mention some of the features of what is the Administration's rural development agenda, even though it's in the early stage of its design.

Beginning with the overview, I would say that compared with urban areas, the rural economy has not fared too well and has suffered, to some extent, for some time. Let me give you a couple of easily digestible statistics to make that case.

The rural unemployment rate exceeded the urban rate throughout the 1980s. In 1992, however, we had a little bit different situation. Rural areas have fared better in economic recovery in the 1990 to 1992 recession than have urban areas. We are now in the unusual situation where, in the first quarter of 1993, the rural unemployment rate was 6.6 percent, and that was below the urban rate of 7.1 percent.

The second point that I would make is that rural per capita income adjusted for inflation fell over 7 percent during the 1980s, while the urban per capita income remained unchanged. Rural poverty rate was over 16 percent in 1991, compared with the urban rate that was a little under 14 percent. The rural rate has been higher ever since official records began in 1959.

Agriculture, mining and manufacturing all suffered in the rural economy during the 1980s. Agriculture employment fell about 15 percent, mining employment fell about 25 percent, and manufacturing employment naturally was about unchanged during the 1980s, after rising about 18 percent during the 1970s.

There are several characteristics underlying the economic indicators that I would like to comment on. An important reason for the rural economic problem has been the decline in the natural resource-based industries, particularly in agriculture. Back in 1950, we had about two thousand rural counties that had economies that generated 20 percent or more of their income from farming. We often used the phrase, calling those farm-dependent counties.

Today, there are about five hundred such farm-dependent counties, and they only contain about 10 percent of the rural population. Since the mid-1970s, the number of jobs on farms has fallen by over six hundred thousand.

REPRESENTATIVE HAMILTON. Do you know how many of those five hundred are in Indiana?

DR. COLLINS. I do not offhand, no, but I have a map on the back of my testimony that indicates where the five hundred are located.

REPRESENTATIVE HAMILTON. Okay, great.

DR. COLLINS. So you can turn to that and get a picture.

REPRESENTATIVE HAMILTON. Thank you.

DR. COLLINS. The story is a little better for agriculture-related businesses that have created rural jobs, but at a much slower rate than rural nonfarm employment. A large part of the Department of Agriculture is focused on farm production. That's where my own career has been. But we know today that a rural development policy that focuses on farming will leave out most of rural America and will not be the best strategy for most areas. I believe that this principle will be a major factor in the way USDA reorganizes in the coming year and reallocates its money over the next four years.

A second factor has been global competition in product lines. Routine manufacturing with low-wage, low skill jobs gave rural areas an advantage over urban areas in the 1980s, but it meant increased competition from low wage foreign countries. Many rural firms were a casualty as businesses became increasingly multinational in their search for low-cost production.

The third factor is that most job growth is in service industries, and that is likely to continue. That has been the trend for 20 years, and the rural economy has not been able to participate in the high-tech information services economic boom that occurred in the 1980s.

The critical area of production services that employs high-wage lawyers, or accountants, or engineers or computer specialists has been concentrated in urban areas, and that poses two problems. One is how to attract producer-service businesses to rural areas and enjoy those higher wage jobs, and the second is how to ensure that those services are available to rural firms, because they're increasingly needed to compete in the global economy.

The last trend or characteristic that I want to mention is the changing demand placed on rural leaders. Rural leaders are faced with increasingly complex issues: Clean water, waste disposal, environmental issues. They often do not have the institutions to deal with these issues compared with urban areas. An inability to deal with basic services can foreclose on development opportunities.

In designing a rural development policy, we believe that a top-down approach will not work, not a single uniform policy. A mix of policies is needed to address the tremendous diversity that we have across rural America.

The President has proposed an economic program that I believe will benefit rural America. It includes three components: The stimulus package, which has been suffering here of late, a longer term investment program for the 1992 to 1997 period, and a deficit reduction plan.

I think this program would expand U.S. economic growth, create jobs in direct resources at rural America, particularly to improve living standards and spur local economies; and I would like to mention a couple of highlights of that program, from the point of view of the USDA. Attached to my testimony I have some tables. They're not really readable tables, unfortunately—that's the kind we make at USDA—but some tables that lay out the proposed spending by different areas in the Department of Agriculture related to rural development.

The President's proposal calls for the USDA to spend an additional $2 billion on rural programs in 1994—that's over our baseline spending—and $11 billion more over 1992 to 1997. There's nearly $2 billion to support rural water and waste disposal programs. And if you've had the opportunity to hear Secretary Espy speak, I don't think there's anyone that has been more compelling in making as a basic objective of policy putting running water in every house in America that needs it. In 1990, there were roughly six hundred thousand rural houses that lacked either piped water, toilet or a shower.

There are substantial increases for single and multiple family housing. The 1994 program alone would fund a hundred and eight thousand new homes. There's also a first-time housing voucher program. There's a substantial increase in community facility loans to build such things as health-care facilities and fire stations. Those are the things the department has focused on in the past.

And there's an expansion of guaranteed loans for business and industry, what we call our B&I program, with a special emphasis on micro-enterprise lending. I think the B&I program is an enormous opportunity that was shrunk dramatically during the 1980s. You are probably well familiar with some of the successes and failures of that program. We've had many—ethanol facilities, for example, was one that was a failure of that program and led to a shrinkage of that program in the 1980s.

The Administration's program would also involve the Rural Electrification Administration, which you may remember President Clinton singled out in the State of the Union Address. We would like to see them do more in the rural development areas, such as telecommunications efforts.

I would also like to mention agriculture. The President has proposed reductions in farm program spending. They're modest at first, but they would increase after 1996. I testified yesterday before the House Subcommittee on General Farm Commodities, and I can tell you that I spent a great deal of time answering questions about the President's proposed farm cuts and other factors, such as the energy tax and inland waterway user fees, and what their effects would be on farmers.

With tremendous demands on federal dollars, the farm program proposals reflect, I think, persistent pressure to have farmers rely more on market returns. This will place increasing pressure on the Administration to find more ways to expand farm demand. One way is through research, and the President has proposed a half billion dollar increase in a national research initiative to fund an additional five hundred projects a year to focus on new uses, among other things, such as industrial uses of farm products. It will also mean a strong commitment to conclude the North American Free Trade agreement and the Uruguay Round. Both of those we have looked at and believe it would be very helpful to U.S. agriculture.

Finally, I would say that there is a number of other things that are yet to come that are important to rural America, issues ranging from health-care reform to enterprise zones, which has not been laid out yet by this Administration.

Finally, to ensure a place for rural America in our country's future, we have to change the way government does its business. The President has recognized the need for collaborative efforts across all levels of government. Our recently established rural development councils, which were just mentioned by the previous speaker, I believe will help increase the capacity of rural areas to develop. The councils are a collaborative partnership of all levels of government and the private sector, and they're designed to facilitate cooperation and to develop rural development strategies. I think they're, in a sense, one of the ways that we were talking about reinventing our approach to rural development by the Department of Agriculture.

Mr. Chairman, that completes my statement. I will be pleased to respond to your questions.

[The prepared statement of Mr. Collins, together with an attachment, starts on p.57 of Submissions for the Record:]

REPRESENTATIVE HAMILTON. Well, thank you very much, Dr. Collins. I was looking at this map on farming-dependent counties in 1986, and it's not all that easy to decipher, but what seems to be impressive is that we have very few counties in our State of Indiana that are farming-dependent counties. I presume that's correct; is that right?

DR. COLLINS. That is correct, by that definition of farming dependency.

REPRESENTATIVE HAMILTON. And that definition is what?

DR. COLLINS. That 20 percent of the county's income come from farming, and only 20 percent. Now, that can be misleading. When some people think farming-dependent, they think that must mean the majority of income in the county comes from farming, but really it's only 20 percent, which is another indication of how little farming is accounting for income across all of nonmetropolitan America today.

REPRESENTATIVE HAMILTON. So Indiana, which is often thought of and I guess often thinks of itself as an agricultural state, would have a very few counties that have 20 percent of their income from farming; is that right?

DR. COLLINS. Yes, sir, that is correct.

REPRESENTATIVE HAMILTON. Do you have a list of these counties somewhere?

DR. COLLINS. I can get you a list of those counties, sir. I would happy to send them to you.

REPRESENTATIVE HAMILTON. Yes, I would like to see that as a part of the record. If you would, I would appreciate that very much.

[Material subsequently supplied for the record starts on p.70 of Submissions for the Record:]

How important a role does the Federal Government have in stimulating economic development in rural areas? How would you describe that role?

DR. COLLINS. I'd say that it's a role that has not been well defined. I have had the opportunity over the past twelve years to participate in many discussions in the Department of Agriculture about just what the Federal Government should do in rural areas. The consequence of that is that some of our programs have changed quite a bit during 1992.

It started out, for example—as I mentioned in my testimony—our business and industry loans being a program that's roughly a billion dollars a year. By the end of the 1980s, we were down closer to a hundred million. It was felt as we went through the 1980s that there should be less emphasis on lending to private enterprise at market rates when it was thought that businesses could acquire that funding themselves without federal intervention.

I think today, as we look at it, we probably have barely a solid conceptual basis for the programs that we have, and I would say that probably runs in several different ways. There's a set of programs that we have, which are designed to improve the health and welfare of disadvantaged people. It has a social goal, and I think that there is a role for the Federal Government to provide resources that are otherwise not available for that kind of program. I would say our housing and water and waste disposal loan programs fit into that category.

REPRESENTATIVE HAMILTON. Are we going to see big changes in the water quality and a lot of additional expense put on local communities because of requirements on water quality? Is that going to occur in the next few years?

DR. COLLINS. That is my belief. I think that's going to be a tremendous problem. It's already a tremendous problem. EPA has done——

REPRESENTATIVE HAMILTON. Do we have a lot of rural communities with inadequate standards for water jeopardizing the public health?

DR. COLLINS. Well, I wouldn't say jeopardizing the public health, but certainly below EPA standards. EPA has done many surveys. In fact, they've estimated the amount of dollars that it would take to bring rural water systems up to their standards. I have forgotten the exact figure, but it's in the tens of billions of dollars.

REPRESENTATIVE HAMILTON. Do we have studies at the Federal Government level, for example, that would tell me what the water quality problems are in the counties of southern Indiana?

DR. COLLINS. I don't know the answer to that.

REPRESENTATIVE HAMILTON. Would that be in the Department of Agriculture, or would that be the EPA?

DR. COLLINS. That would be EPA, not the Department of Agriculture.

To get back to my response to the role of the Federal Government, I think that where we see that there's perhaps a market failure, which is always an area where economics would argue government might have a role in that, where we justify some of our credit programs. I think that if you look at small rural communities, many of them have a bank, or don't have a bank at all. Many of the firm growth is in small businesses. It's very difficult for a small start-up firm, in a more remote rural area that doesn't have access to a bank, to convince a bank that it merits funds. In the same way, it's difficult for some of those small banks to provide such funds and be willing to take the risk. So I think that is the motive that underlies federal intervention, for example, in our business municipal loan portfolio.

The third area, I would say, besides health, welfare and market failure, is probably just simply public good where the benefits cannot be captured by the local area, but that there is a federal benefit to the program. And I would say education and job training is an example of that kind of program.

REPRESENTATIVE HAMILTON. I was interested in your opening figures on the rural economy. You really have higher levels of poverty in rural areas than you do in urban areas.

DR. COLLINS. Yes, sir, this is correct.

REPRESENTATIVE HAMILTON. We usually associate the question of poverty with the urban areas of the country, but in fact there is more poverty in rural America than there is in urban America; is that correct?

DR. COLLINS. When we look at national averages, yes, sir, that's correct. And I would say that what surprises some people is that farming is even higher than the national average for rural poverty.

REPRESENTATIVE HAMILTON. The unemployment rate has traditionally been higher, but not most recently, but traditionally has been higher in rural America than in urban America?

DR. COLLINS. Yes, sir. When the rural rate fell below the urban here in the 1990s, I think that was the first time in like eleven or twelve years that that had happened.

REPRESENTATIVE HAMILTON. And the income of rural people is below that of urban people, in general?

DR. COLLINS. Yes, it is. It's below nominally, and the growth has been lower in the 1980s.

REPRESENTATIVE HAMILTON. Let me ask you the question that I asked Mr. Keehn: Where will we get job generation in rural America?

DR. COLLINS. Well, I don't know that we can look toward one particular type of industry. I think that we can fairly safely say that it's not going to be in the natural resource-based industries. I do think that manufacturing will be important.

REPRESENTATIVE HAMILTON. The trends in agriculture are going to continue so that fewer and fewer people are producing more and more goods or commodities?

DR. COLLINS. Yes, sir. The decline won't be as fast as it has been in the past, but I expect that decline to continue. I think, if you look toward manufacturing, there are many projections through the 21st century that suggest by the beginning of the 21st century that manufacturing, as a percent of our national economy, will be roughly half of what it is today. That I don't think should discourage us from thinking that manufacturing will be very important for rural America.

If you look at rural America now, about 20 percent of the jobs are in manufacturing nationally. While manufacturing has not grown during the 1980s, manufacturing continues to provide some higher wage jobs than some of the other industries that have grown. One of the faster growing areas in the 1980s was retailing, but the job or the wage rates in retailing are not as good as manufacturing.

So certainly, I would say that manufacturing is important. The key is to figure out how rural manufacturing can acquire some of the more information-rich, more complex manufacturing that has occurred in urban areas. I think one of our earlier witnesses mentioned more flexible manufacturing; perhaps find niche markets; something other than routine low-wage manufacturing that was dominant from the 1970s and much of the 1980s.

REPRESENTATIVE HAMILTON. Can you make any generalizations about the kind of manufacturing that is found in rural America as compared to the kind of manufacturing found in urban America?

DR. COLLINS. Well, at this point——

REPRESENTATIVE HAMILTON. Textiles, apparels are big in rural America; right?

DR. COLLINS. Textiles is the single largest manufacturing industry in rural America.

REPRESENTATIVE HAMILTON. In southern Indiana, we have a lot of shoe factories. We have fewer now than we did. What's the future of the shoe business? Maybe that's not a fair question to ask you.

DR. COLLINS. I can't tell you. I don't know. We all need a lot of shoes. That's about all I know. I can't answer that.

REPRESENTATIVE HAMILTON. Somebody told me the other day that 60 percent of all shoes we wear in America come from China.

DR. COLLINS. Well, that may be. We certainly have raw material to make leather shoes. We have a massive cattle herd in America, but yet we do import lots of shoes. I know they come from Brazil; they come from Spain; they come from China. I don't know the proportions, but certainly that's an industry that has been under siege for a long time.

REPRESENTATIVE HAMILTON. Well, is it fair to say that manufacturing in the rural areas tends to be less high tech, less sophisticated than manufacturing in urban areas, or can you make that kind of a generalization?

DR. COLLINS. That's a hard statement to make, but that would be my judgment. I think that is the case. I think that manufacturing in urban areas is a little more complex. It tends to utilize producer services——

REPRESENTATIVE HAMILTON. And would it follow from that that the manufacturing in urban areas probably has a better future than the manufacturing in rural areas, if our economy is moving more and more to the high-tech side and more sophisticated side?

DR. COLLINS. Other things equal, perhaps. Urban areas provide more advantages than the rural areas for complex technical manufacturing. I think the key will be to see if we can provide some of those kinds of advantages to rural areas; and the biggest advantage being to overcome the isolation and remoteness of rural areas, to provide the access to information, the access to technology in rural areas that urban areas benefit from.

REPRESENTATIVE HAMILTON. One part of your testimony that struck true to me was the comment about the increasing demands today on rural leadership and how thin the institutional capacity is in rural America; and how mayors, for example, are part-time and don't have much staff to help them out, and have a very small, if any, professional staff. Big city mayors will come and testify before the Congress with fancy color charts and a big battery of economists and technical people. The smaller town leaders just don't have those kinds of resources available to them.

DR. COLLINS. It reminds me of the surveys that we took in the late 1980s when we were trying to develop a national initiative on rural America, which resulted in state rural development councils. We asked people all across America what were the major problems confronting them in rural America. And the top two, my recollection is, was lack of new jobs, which is an obvious one, and the problem with local leadership. So I think that's exactly right. And that is something that we've directed some efforts on at the Department of Agriculture, but it's probably an area where we could do more.

REPRESENTATIVE HAMILTON. I noticed your plug for NAFTA, and I'd like you to indicate to me, is NAFTA going to be beneficial to American agriculture?

DR. COLLINS. Yes, sir.

REPRESENTATIVE HAMILTON. In all respects?

DR. COLLINS. Overall, it's without question.

REPRESENTATIVE HAMILTON. What about the Midwest agriculture, is it going to benefit from NAFTA?

DR. COLLINS. I would say without question Midwest agriculture will benefit.

REPRESENTATIVE HAMILTON. We'll sell corn and beans to Mexico?

DR. COLLINS. We will. Just to give you a rough indication, we recently completed a study that we released last week, which looks at the effect on agricultural exports when NAFTA is fully implemented. That study goes commodity by commodity. It looks at about 30 different commodities. By the time of full implementation, it projects that our exports of agricultural commodities to Mexico will rise between two to two and a half billion dollars a year, whereas our imports from Mexico will increase by about half a billion dollars.

REPRESENTATIVE HAMILTON. Is it your impression that the major farm organizations of the country support NAFTA?

DR. COLLINS. It's quite mixed. There are national farm organizations that fully support it. There are commodity organizations that fully support it.

REPRESENTATIVE HAMILTON. Citrus farmers are very unhappy about it, I guess?

DR. COLLINS. Citrus farmers are unhappy. California citrus, as a matter of fact, is an area where we could expect some expansion. We think we can export high quality naval oranges to Mexico. We cannot, however, export juice oranges from Florida.

REPRESENTATIVE HAMILTON. What about vegetable farmers?

DR. COLLINS. Vegetable farmers, by and large, are not happy.

REPRESENTATIVE HAMILTON. They're not happy?

DR. COLLINS. They're not happy. We've looked at 27 fruit and vegetable commodities. Out of the 27 commodities, we estimated that we will increase imports of about 18; we will increase exports of about 9. So again it's a mixed picture. We have some of our highest rates of protection in vegetables, such as broccoli and asparagus, and we would expect to see more imports of those kinds of commodities. Tomatoes, for example, too. Winter fresh vegetables from Mexico.

REPRESENTATIVE HAMILTON. You mentioned the impact of the energy tax and the inland waterway fees. That's an important matter down here. I'm hearing a lot from farmers on it, and as you may know, we have a barge-building industry nearby here, not too far from where we sit. Tell me about that?

DR. COLLINS. As I came over the river this morning, I was struck by the barges moving on the river, and I thought the barge tax might come up. I can only tell you that those proposals of the Administration are part of the deficit reduction package. I would say that they're motivated by different factors. The energy tax is motivated by a desire to raise revenue and by the desire to increase energy conservation.

REPRESENTATIVE HAMILTON. Does the energy taxes, as constructed by the Clinton Administration, disproportionately fall on the barge industry and on the farmer?

DR. COLLINS. I would not say that the BTU tax disproportionately falls on the farmer. U.S. agriculture is slightly more energy- intensive than the average industry in America. It's a little less energy-intensive than manufacturing in general. It's a little more energy-intensive than service industries. So I would not say that it was disproportionately on farmers.

Now, there are certain farmers, when you get into agriculture itself, we have some very highly energy-intensive commodities, particularly irrigated crops and crops such as cotton and rice. In that case, when we start looking at crop by crop, you will find quite a bit of differential impact.

The barge tax percentage-wise is a very substantial increase. It's 525 percent.

REPRESENTATIVE HAMILTON. What's the Administration's rationale for that?

DR. COLLINS. The rationale is very straightforward: That the inland waterway system is one of the most heavily subsidized transportation modes in America. Today, about 85 percent of the total construction, maintenance and operation costs of the inland waterway system are paid for by the taxpayer. So it's simply an attempt to find and require a larger contribution on those that use the system.

REPRESENTATIVE HAMILTON. Are there similar increases in fees in other industries in the proposal of the President?

DR. COLLINS. There are, but it's not a comprehensive thing.

REPRESENTATIVE HAMILTON. But it really zeroed in on the barge business; right?

DR. COLLINS. It's zeroing in on the barge business. I know that the President has in public statements discussed the barge tax. There was some question when the final package came out on April 8 as to whether the barge tax would be included in it. Indeed, it was included in it, so as far as I know the issue is still alive.

There is an interagency task force within the Federal Government, which has been created and is chaired by the Office of Management and Budget, to look at the barge tax. So there is some work within the Administration going on now to try and assess the economic effects of the barge tax.

REPRESENTATIVE HAMILTON. Yes, we're looking at it in the Congress as well. I tell you, Dr. Collins, I'm very appreciative of your testimony. I have two other witnesses, and we're going to have to move on. Thank you very much, sir.

DR. COLLINS. Thank you very much.

REPRESENTATIVE HAMILTON. It was a pleasure to have you. Give my regards to Secretary Espy. Tell him that we regret that he was not able to attend.

DR. COLLINS. I'll tell him. Thank you.

REPRESENTATIVE HAMILTON. Let's have Dr. Rice and Dr. Marcus come forward, if they would. We'll have them both sit there.

DR. MARCUS. I brought my Girl Scout cookies along.

REPRESENTATIVE HAMILTON. What, are you bringing lunch? I'm ready for it. Okay.

DR. MARCUS. These are extra copies, although I have found errors, so I will note those errors as we go through.

REPRESENTATIVE HAMILTON. All right. Very good.

DR. MARCUS. These are corrected copies.

REPRESENTATIVE HAMILTON. Okay. Thank you. Our two witnesses are Dr. David Rice, who is the president of the University of southern Indiana, and he is the chair of the southern Indiana Rural Development Project; and Dr. Morton Marcus, who is the director of Indiana Business Research Center, School of Business, Indiana University.

Gentlemen, thank you for joining us this morning. We're very pleased to have you here. It doesn't make any difference to me in which order we go. Does it to you?

DR. MARCUS. I believe the university president should always take precedence.

REPRESENTATIVE HAMILTON. Dr. Rice will go first. We'll follow protocol here. All right, Dr. Rice. Bring that microphone right up, if you would.

STATEMENT OF DAVID L. RICE, PRESIDENT, UNIVERSITY OF SOUTHERN INDIANA; AND CHAIR, SOUTHERN INDIANA RURAL DEVELOPMENT PROJECT

DR. RICE. Thank you, Congressman Hamilton. It's a privilege to be here to represent the southern Indiana Rural Development Project. The project focuses upon the predominantly rural counties of southern Indiana located in the 8th and 9th Congressional districts. It was conceived as an effort to provide action-oriented economic development initiatives by networking and connecting southern Indiana rural counties coping with a downward economic spiral.

If you remove Vanderburgh County and the predominant link with the urban area, you end up with 29 rural counties in southern Indiana that have serious problems relating to loss in population, jobs, decreased earning power and low income, community deterioration and limited capital development resources. It's interesting that eight of the state's ten counties with the lowest per capita income are in the project area.

Also, if you drive across U.S. 50 from Vincennes to Cincinnati, 93 percent of the counties in the area have less than 12.4 percent of the adult population with a baccalaureate degree or higher, whereas the national average is 20.3 percent.

Participants in the rural development round table of Governor Bayh's summit on economic growth last December identified as critical a shaping of rural development they called visionary councils to determine goals and strategic planning.

For some time, Congressman Hamilton has been asking a number of people what's the future of rural communities and how can we focus leadership to help shape that future. Congressman Hamilton has been insistent that it wasn't enough to talk and plan, that action-oriented leadership had to sail into the troubled waters of implementation in order for the visions, goals and strategies to lead anyplace.

With the encouragement of Congressman Hamilton, approximately thirty individuals from southern Indiana—and a list of those individuals is attached to the document—have been actively engaged in community economic development efforts, have volunteered to organize, to seek funds and to serve as a steering committee and board for southern Indiana Rural Development Program. That group has organized and is seeking funding for the initial three years, and will seek continuing funding thereafter.

The mission of that project is to develop and implement strategies and strategic approaches for long-term economic growth and development of southern Indiana. The long-range goals of the project are to aggregate analytical data on the region, to develop economic development programs, to collect case studies of success stories, to develop better trained leaders, to create models for economic development that will help overcome the barriers, such as infrastructure, capital and social training, and to develop meaningful implementation efforts.

The first three years of the project will be initiated to focus upon three phases: First, establishing project priorities of specific program activities; second, developing strategic plans of action to address the specific program activities; and third, working the plans for implementation.

In skeletal form, the three phases will include a think-tank phase to establish visions and priorities. And extensive number of individuals will participate in that activity. And then prioritize those, develop strategic approaches to shape plans of action, to act on the visions and priorities and then carry those out in an implementation phase.

We really anticipate there will be a rich base of traditional and non-traditional initiatives that will be identified, analyzed and prioritized. The program activities that we will prioritize will try to devote the efforts of the project to those that are judged most valuable to stimulate economic development and to combat the community deterioration in the rural counties of southern Indiana. We think there are a number of examples in the literature of successful practices that would be helpful, and those we will focus upon.

The initiatives that we have focused upon and discussed to date that are in embryonic stage is to follow up on the Hudson Institute's Study of southern Indiana, and there are basically three recommendations that came out of that study. One was we needed to strengthen the contributions of what I call rural community life institutions: The schools, the churches, social institutions, social structure of the community.

Second, to take advantage of technologies of communication, fiber-optic networking, particularly focused upon linking the rural schools together to enhance work force development opportunities and also to provide some work stations in the rural communities which have a good life, quality of life, so that professional people would in the years ahead who are not place bound in terms of where they work because of the linkage through the fiberoptic networking and provide employment opportunities there.

Third was to enhance the infrastructure, basically the highway infrastructure. Another set of initiatives are to work with the economic development networking, clustered around themes such as transportation corridors, infrastructure improvements, the networking of communities together to get a greater critical mass. For instance, examples like the Patoka reservoir, ten communities that came together, put together a more efficient, effective water system. And then to initiate, grow, nurture businesses, jobs, wealth, quality of life in the rural communities by stimulating different economic activities.

Fourth would be to develop support initiatives to stimulate the economic development in counties that are inhibited by low income, important initiatives such as community foundations, entrepreneurship and economic venture efforts, so forth.

One of the key considerations and key discussions of the individuals has been the need to focus upon governmental efficiencies and effectiveness of the rural counties of southern Indiana and to nurture and enhance leadership development.

As Congressman Hamilton indicated, we feel that southern Indiana has many strengths and assets. It has friendly, caring people with strong work ethics. It has a rich historical background, numerous historic sites and quality of life, beautiful rolling terrain, low population density, available land at reasonable cost, climate which gives us four good seasons, abundant natural resources of forests, limestone, gravel, water, coal, oil, gas, and the energy-generating capabilities, electrical in particular, of southern Indiana.

If you look at the greater marketplace of say Chicago, Detroit, Nashville, St. Louis, we're located in the center of that diamond, so we have favorable markets with regard to the network of rivers, highways, rail and air. And then the rural communities do have access to urban communities which provide the mercantile business, medical, health care, financial cultural centers.

The southern Indiana Rural Development Project has volunteered to serve as that visionary council, it would help determine goals and strategies, and perhaps more importantly to commit to the continuing commitment to contribute to the implementation of those visions and strategies. We think that the time to address those is now and that the project will enhance the assets of southern Indiana.

We have some other members of the board present: Clyde Allen, Mr. Zellers and Mr. Yeager are in the audience and would be available to respond later. I think the next meeting we were going to ask Morton to join us, so this will be a good introduction to that.

[The prepared statement of Dr. Rice starts on p.79 of Submissions for the Record:]

REPRESENTATIVE HAMILTON. Very good. Thank you, Dr. Rice. Dr. Marcus, proceed, if you would, please.

STATEMENT OF MORTON J. MARCUS, DIRECTOR, INDIANA BUSINESS RESEARCH CENTER, SCHOOL OF BUSINESS, INDIANA UNIVERSITY

DR. MARCUS. Well, first, Congressman, I want to say that it's a pleasure to be able to come and speak to your group as you were kind enough to come and speak to my group in Washington just recently. I have prepared a brief statistical profile of southern Indiana, and I would be happy to go through that. But I also have a large number of comments relative to statements that have been made earlier in this hearing, and I'm going to move quickly through the statistical material so that we can get to some of the policy issues.

One of the first problems we have is that we don't know what we're talking about when we talk about southern Indiana. There are different definitions, quite clearly. On the first page of this statistical profile, I've tried to identify southern Indiana, according to one very simple definition. I took Highway 50, which Dr. Rice has already mentioned, and starting in Cincinnati across the state to Vincennes, and said that if Highway 50 goes through it, or it is south of Highway 50, then it is southern Indiana. I did the same thing for separating northern and central Indiana, using State Road 18. But based on my experience as to economic relationships and commuting patterns, which we have not had a chance to analyze from the 1990 data, this might be a good way of looking at southern Indiana. So the data that we have here is based on that.

As we turn the page, one of the first things that we can notice where we see population is that southern Indiana grew faster than any other section of the State of Indiana, in terms of population. Now, this is a 1.4 percent increase, which is not very much different from 1 percent increase, and the whole State of Indiana, by growing at 1 percent, grew at only 1/10th of the rate as the nation. The nation, of course, grew at a 10 percent annual rate of growth.

What we have seen in southern Indiana, as we move across that same line, is that real earnings per job have dropped by 4.4 percent. That is a critical factor as I see the issue. It has dropped throughout the State of Indiana, and in this part of the state, which did not drop as much as in northern Indiana because northern Indiana lost many jobs in the steel mills, but this part of the state was more adversely affected than in central Indiana.

The other things that I would like to note on this page, without dwelling too much on it, is that only one county in southern Indiana, Dearborn County, which is largely suburban Cincinnati these days, grew faster than the national rate of growth. We had many counties in Indiana that did grow faster than 10 percent, but only Dearborn County did that. Eleven counties in southern Indiana, as I define it, declined in population.

We also had 15 counties in southern Indiana that declined in real earnings per job, while 11 grew in real earnings per job. Now, the importance of that is that we are dealing with a highly diverse area. It's very difficult to make extreme generalizations about the area.

If you turn the page, you'll see, however, that real earnings per job in southern Indiana, while they declined, started out lower than in other parts of the state and continued to be lower than in other parts of the state. When we talk about why do we have low per capita income, why do we have low earnings rate, why do we have low ability to support local government, it comes because real earnings per job, which is the total amount of money that people make because they work divided by the number of jobs, is low.

The actual figures are shown on the next page, and I would like to point out in the far right-hand column—again, I'm trying to move quickly—the audience has a copy that shows millions of 1990 dollars; that should be thousands of 1990 dollars. But in the far right-hand column, we have only three counties in southern Indiana where the average job holder does not qualify for the earned income tax credit.

If you look at what is the qualification level of the earned income tax credit, you'll see that there are just three counties: Martin County, which of course is a federal military installation; Pike County, which is largely mining income where those jobs are disappearing rapidly; and Warrick County, which of course has a major industrial complex. Those are the only counties where the average job holder does not qualify for the earned income tax credit.

Per capita personal income, shown on the next page, you'll see again is lower in southern Indiana than it is in other parts of the state. It has risen in the past decade, but continues to be below. And as we move to the next page, which provides the actual data, only four of the counties here are above the state average and what we see is that southern Indiana, the average person in terms of personal income, has one thousand, and it looks like two hundred dollars less than the average person in the State of Indiana in terms of personal income.

Now, this is the ability to support not only one's family, but to support business in the area and the ability also to support government activities in the area. And it is here that southern Indiana does not have the same advantages as other parts of the state, and I believe leads to some of the disparity that we see in terms of education, as the Congressman pointed out earlier.

When we look at the changes in population on the following page, the bar chart—and I know I'm moving very rapidly—southern Indiana has a very different pattern from the rest of the state. southern Indiana is the only area in the State of Indiana where the urban population declined during this past decade. In all areas of the state, farm population declined, and in all areas of the state rural non-farm population grew. But southern Indiana's population growth is strictly because of the rural non-farm population.

The next page shows the figures on rural nonfarm population, and of the counties in this area, the growth in population was either led by or caused exclusively by the growth in rural nonfarm population. And this is where I believe we come to the most serious policy issues and the most serious confusion of the discussions that we have heard so far today, is the failure to distinguish between the rural nonfarm population and its components and other aspects of rural activities.

We see that on this page in the far right-hand column that southern Indiana had a 14.9 percent increase—or for those with a Purdue background, we'll call it 15 percent, since complex numbers are difficult to be managed by them—a 15 percent increase in rural nonfarm population. Almost all areas of the state had a 40 percent decline in the farm population.

Now, some of the things that have happened here—and I'm going to skip through here rather rapidly and go to the page that says rural farm and nonfarm population as a percent of total. What you'll see is that in this part of Indiana, 20 of the 26 counties the rural population exceeds the urban population. This is a page with only two columns of numbers on it, visual relief. In 20 of these 26 counties the rural population dominates. That is either the farm and/or the nonfarm population exceeds the total urban population. We have some counties in this area that have no urban population at all. Urban is defined by the Census Bureau as having a community of 2,500 or more persons, and we'll come to that in a moment.

I want to emphasize that this is also an old part of the state, in terms of age. We have, if you look at the pie chart, 23 percent of the population is 55 or older, and I therefore fall into that portion. At the same time, we have 26 percent who are under age 18. If you look at the bar chart that shows the older population by age, you'll see that in every age category, 55 to 64, 65 to 74 and 75 and older, the percent of the population who are in that age group is greater in southern Indiana than it is in other parts of the state. Older populations have different needs and different interests than younger populations.

The next page shows what I call a dependency ratio. It's something I picked up from sociology, and one can pick up a variety of things from sociologists, not all of which are pleasant. The dependency ratio takes the total number of persons who are under age 18, and adds to it the number of persons who are 65 and older, and divides that by how many people are 18 to 64, which we conventionally consider the labor force in this country.

We think of the persons under age 18 and the persons over 65 or 65 and older as dependent in the following sense: Not that they rely directly on the population 18 to 64 for their income, but that a good deal of their income is based on the activity of persons in the labor force. That is, if you're on a pension, that pension money is coming to you because of investments that have been made, and now you are reaping some of the benefits of the income that is being generated currently by persons who are working. Social Security is clearly money that one receives because of the working population.

We see that Daviess County has a dependency ratio that says there are 82 persons who are in this sense dependent per hundred persons in that county, who are in the labor force. And southern Indiana has a much higher dependency ratio than the state: 66.4 compared to 63.

The incidence of poverty, which is the next to the last page, the incidence of poverty in southern Indiana is greater in every age group, with the exception of 18 to 54 where it ties the state level. But for all of the people in southern Indiana and for children as well, those under 18, poverty is more severe a problem as defined by the Census Bureau, and that is given in detail on the final page.

Now, if I may, and I know I've used a good deal of time, let me try to focus on what I see as the central issue. We have seen in these numbers a large growth of the rural nonfarm population. The policies of the United States over a long period of time have encouraged rural nonfarm population growth. Rural nonfarm population again are persons who are not living on farms, not dependent directly on farming for their income, but not necessarily living in places and do not live in places of 2,500 or more population. So they may live in small villages or very small towns.

But often what we see in southern Indiana as you drive through are that these people are strung out along the roads. From one town to another, you have almost continuous habitation of people who do not work on the land on which they live. They're going someplace else to work at a job.

By encouraging the growth, or what we could call rural sprawl, what we have done is we have increased the transportation costs of this country. We have increased the sanitation costs to the extent that we provide sewers that are perhaps less efficient and less costly. We have to build water lines out to these areas, or we use the water lines that we have already built to the farmer's home.

If we're looking for policy, I believe that the policy of the United States should ask first the question: Is rural development good for America? And by asking whether rural development is good for America, I mean is rural sprawl good for America? Is continued growth of the rural nonfarm population a desirable thing for this country?

My feeling is, and I do not have answers, although I do have feelings and I have opinions on almost everything, is that what we have done is we have encouraged people, through federal, state and local subsidies and a variety of other practices, to live in rural areas.

Let me give you an example of some of those subsidies. At the local level, we are in effect saying to any individual: You may go and build a home wherever you want, and we the taxpayers of your county will send a school bus to pick up your children. It does not matter where you live, we will send a school bus, and we will pay for it.

I would think that one of the first things that we ought to do in the State of Indiana is to get rid of school bus subsidy. Now, I know that we bus in some places for racial integration purposes, but that's not what I'm referring to. I'm talking about the fact that we're encouraging people with children to move wherever they want. If they had to pay for the school buses themselves directly, we might discourage that behavior.

We've talked about the Rural Electrification Administration. The time for that type of electrical service to continue to be subsidized needs to be reconsidered.

We have similar situations with the maintenance of rural roads. How much plowing of those roads should we be doing in the wintertime? We have to do a great deal of it because a large part of our urban work force is out there in rural areas, and if you're going to have them come to work, you have to maintain safe roads for them. But for those who are working the land, many farmers are very much accustomed that when it snows, they're not going to go to town, and they deal with those things. But when you have a rural population that is dependent on going to town, then we have pressures on local government to keep those matters plowed.

There has been talk here, if I may continue, about state programs for beautification of small towns, historical preservation of small towns and housing for the poor. That's not what we need. I think what we need is a program that tries to work very hard on strengthening our small communities.

I notice, Congressman, you're going to be the commencement speaker at the Crothersville High School on May 30. I think you ought to look at Crothersville. It's a very interesting example of a small town that is just hanging on, where the newspaper editor also runs the dry cleaning establishment in town out of the newspaper office, which is right next door to the family mortuary; where next door to this building there is no building. On the prime corner in town, there is no building because it burned down and nobody wants to invest in that area.

Crothersville and hundreds of other small towns in southern Indiana, I believe, are a great economic development resource, a resource that is a natural resource-based item. I thought it was interesting that the representative of the USDA said that the future of southern Indiana and other rural areas is probably not going to be on natural resource-based growth.

One of the demographic trends in this country, very clearly, is retirement, and the communities of southern Indiana and other what we have called rural areas—and I hate using the term rural and urban, because rural in many people's minds means farm and urban means large cities, and I would rather talk about communities regardless of what their size—but with the tremendous growth that we have and will continue to have of people who are able to live where they want to, and many people want a sense of community, smaller communities might be able to offer that.

The State of Alabama, as far as I know, is the only state that has a very aggressive program of trying to attract people to every county in Alabama for retirement purposes. southern Indiana, as we have already heard through Dr. Rice's testimony, is a very attractive area, and I believe that attracting retirement from cities of the extreme north, such as Minnesota, Wisconsin, and other areas where the weather is not as clement as our wonderful southern Indiana weather, we can begin to build retirement-based facilities here.

I have a variety of other comments to make. Let me make one comment in response to one of your questions, Congressman, and that was that you asked what can the Federal Government do. I would recommend that the Federal Government do some things with some of the Federal Government departments.

First, I believe all community development activities should be removed from the U.S. Department of Agriculture. The U.S. Department of Agriculture is, as we heard its representative say today, a production and marketing organization for farming. That is what it has been traditionally, and that is what it does best. But it is not a community development area program. And it's community development, not rural development, that I believe we should be thinking about.

Housing and Urban Development should be renamed and should assume the community development functions now at the USDA, and we should have, as a matter of national policy, a question of what kinds of communities should we have. As it stands now, HUD is basically an agency of large cities and is thought of as an agency of large cities. It should not be engaged in housing activities; it should be concerned much more with the concept of community development; what is the settlement pattern of the United States; something that used to be the function of the U.S. Department of Interior.

Finally, I would eliminate the U.S. Department of Transportation. Since the Congress is always creating new departments, such as Veterans Affairs, and I believe there's another one on the books right now, I would at least get rid of one department. I would get rid of the Department of Transportation, not because they're bad people, but because they're involved in two very distinct kinds of functions. One of those functions is the matters of national policy, and that should go to the Commerce Department, back where it was before the Department of Transportation was formed. And I would take subnational, local and regional transportation issues and put that with the Community Development Department, which I've just mentioned.

This is my shotgun approach in trying to answer some of the issues that came up this morning.

[Applause from the audience.]

I always bring my own fans.

[The prepared statement of Dr. Marcus starts on p.86 of Submissions for the Record:]

REPRESENTATIVE HAMILTON. First of all, let me just express a word of appreciation, Dr. Rice, to you for your willingness to take over the leadership of the southern Indiana Rural Development Project. I've been very pleased at the direction in which you have given it, and I'm appreciative of that and want to continue to work with you on it. I think it really does give us a focal point that we've not had in terms of dealing with some of these problems of community development, as Dr. Marcus terms it.

Let me ask a very sweeping question. Are you optimistic about southern Indiana?

DR. RICE. Yes, very much so.

REPRESENTATIVE HAMILTON. Why?

DR. RICE. I came to southern Indiana in 1967 and have watched the development. One of the problems is the low proportion of young people going to college, and we have picked up the Berea College model of saying that the high indebtedness in going to college will usually not attract the people of rural communities. We've linked together the process of getting jobs for the students in the urban community, and it's been very successful. Two out of three of those students remain in southern Indiana, and I think we're making some changes. We've doubled and tripled in the counties of southwestern Indiana the number of young people going to college, and predominantly because of the fact we've been able to link together the urban community and jobs and pull students in and do that.

REPRESENTATIVE HAMILTON. And most of them are staying?

DR. RICE. Most of them are staying. They're enthusiastic. I think the quality of life that southern Indiana offers them is very great, and I think the eastern communities would say that the bedroom communities—and we really ought to study some of the successful bedroom communities where people work and commute and see if there are some successful opportunities there.

I've been intrigued in meeting with the group; they've been very concerned about reorganization of governmental leadership in southern Indiana. I think there are some approaches that we can look at that will be very satisfactory. The unrest in the urban areas and the uncertainties of retired people living there, I agree, have a recruitment program like Morton says, retirement people into southern Indiana and a rich opportunity, I really think so.

REPRESENTATIVE HAMILTON. Dr. Marcus, are you optimistic?

DR. MARCUS. Well, I'm called the bear from Bloomington for a good reason. I think that southern Indiana has excellent potential, but I do believe that it requires a good deal of change of attitude on the part of large numbers of people in southern Indiana, an attitude that says, "We're willing to see things change." Their attitudes must change so that they're much more willing to accept change, and by this I mean that they shouldn't be saying, "Oh, we don't need a new Interstate. It will only speed up the drive from Evansville to Indianapolis by a few minutes. What is the idea of trying to look at the Highway 41 corridor?"—the initiative that has recently begun to link Terre Haute and Evansville. There is a great deal of skepticism and a great deal of a culture that says we like things as they are, and we don't want to see change. It's very difficult to introduce progressive activities here.

I would argue that rather than attempting to keep our own young people, we shouldn't be afraid to have our young people go. We ought to ask, how can we have young people from elsewhere come in and bring with them some new ideas?

How can we have young people from elsewhere find this area attractive as a place for settlement, if we have to have a rural adoptive program that suggests that they don't find the area attractive?

REPRESENTATIVE HAMILTON. What are the most important factors in economic development in southern Indiana? Do you think infrastructure is one, do you?

DR. MARCUS. Yes. Infrastructure is very clearly transportation. Highway 65 is a great corridor of growth. And if it is not growth-directed, such as we have seen in the Columbus area and in the Seymour area, what it does is provide a quick avenue toward jobs. Scott County is now part of the Louisville Metropolitan Area, according to the Census Bureau, because of increased commutation, which is a result of Highway 65.

REPRESENTATIVE HAMILTON. But I-64 is not.

DR. MARCUS. I-64 has made it possible for many people to have better incomes, as well as stay in Crawford County, than they ever would have had. I-64 has helped dramatically in Harrison County, in terms of its development as a residential area.

REPRESENTATIVE HAMILTON. Yes.

DR. MARCUS. We have not seen it move across because I-64 doesn't have the other infrastructure that is so necessary. It doesn't have the water. It doesn't have the sewers. And I-64 is typical of Indiana highways. It was built through the less populated portions. Indiana has built every single one of its interstate highways to avoid its cities.

REPRESENTATIVE HAMILTON. What else do you put on that list of the important factors? Dr. Rice, you agree with the infrastructure, I presume?

DR. RICE. Infrastructure, yes.

REPRESENTATIVE HAMILTON. What else do you put on it?

DR. RICE. Education and work force development.

DR. MARCUS. And that means education of a population that is already out of school. We have to find a way of getting those persons who graduated or left high school more than ten years ago back into an education pattern so that their skills can be upgraded. I don't have with me the figures on illiteracy, but they're also very high in southern Indiana.

REPRESENTATIVE HAMILTON. What would you identify as the major economic generators of good paying jobs in rural America, in rural Indiana in the next decade?

DR. MARCUS. Well, in the past decade, it's clearly been manufacturing. In the next decade, I suspect health care is going to become increasingly important.

REPRESENTATIVE HAMILTON. You know, in community after community in southern Indiana, in county after county, if you ask yourself who is the largest employer in the county, it will often be the county hospital or the school system.

DR. MARCUS. And in many Indiana communities, the nursing home is the one.

REPRESENTATIVE HAMILTON. Nursing home industry.

DR. MARCUS. It is becoming a very large employer, sometimes rivaling the schools, because as we consolidate and get rid of community schools, which is another issue where we've made serious mistakes in destroying small communities, we find that the nursing home becomes the employer in town.

REPRESENTATIVE HAMILTON. How do you answer the question that I posed, I think it was to Mr. Keehn, a little earlier, about one community being very vibrant and the other community not so vibrant, same part of the country, same climate, same geography? What's the difference?

DR. MARCUS. Same problem we have with the families.

REPRESENTATIVE HAMILTON. What's the difference?

DR. MARCUS. One child seems to be successful and active and vigorous and the other child doesn't seem to be. There are individual differences that are largely made up of the personalities who are involved, and I don't believe the statistical analysis will ever show us why some communities are doing well and others aren't. It depends a great deal on the question of leadership and energy and an ability to overcome the inertia that exists in so many places.

REPRESENTATIVE HAMILTON. In the end, it comes down to people?

DR. MARCUS. Very much so, sir.

REPRESENTATIVE HAMILTON. What about the role of government here, local, state, and the Federal Government? Now, infrastructure is obviously connected, but how do you see the role of government in economic development in communities? What can government do, or what should it not do?

DR. MARCUS. Well, I think one of the things that has been mentioned today, which is extremely important, we need better local government administration. And I would argue that, and this may be very unpopular in many areas, we need much better county governments, that if the counties were doing their jobs, many of the communities would not have to bear some of the burdens that they have.

REPRESENTATIVE HAMILTON. What do you mean by better county government?

DR. MARCUS. Well, I think we need much better zoning activities. We need much better administration of highway departments. I think we need much more activity on the part of county government providing services into localities. Now, that can be done on a contractual basis if necessary, but we were talking about the fact that we don't have much in the way of local administration. We do have that administration capability because the county very often is a large enough unit to provide that, but we don't have counties and communities developing the kind of cooperative relationship that would provide those services to those communities.

DR. RICE. The new buzz word in economic development is clustering of communities together. They can work together networking and gathering, and I'm intrigued by my observation in the banking industry and in the bankholding corporations. It seems to me that some of those bankholding corporations have been very good at networking together banks and still permitting the local community bank to have an identity and be an integral part of that. We want to call upon the banking industry to see if we couldn't network some of the rural counties of southern Indiana together, using that same concept. You still keep that local base of leadership.

REPRESENTATIVE HAMILTON. I was going to ask Mr. Keehn about that, but one of the clear economic trends in our part of the state is the consolidation of banks. You're getting away from the idea of the so-called community bank that just operated in the one county. Now, you have regional banking.

DR. RICE. But some of these bankholding corporations have been, I think, very good at sustaining the local initiatives and the best of both worlds, and that we need to do. We can approach it like we have the township trustee situation. The state will still be fighting in every session of the legislature, but I think there are ways of win-win situations that would make a lot of sense.

REPRESENTATIVE HAMILTON. One of the areas that I hope you and your group will give a lot of attention to is this question of governance, how you structure rural government to be effective. Our county government structure today goes back to the last century, so many people don't really know where to go in county government to deal with the problems they have.

DR. MARCUS. So often there's no place to go at all.

REPRESENTATIVE HAMILTON. Yes. What do you think about tax incentives? Dr. Marcus, have you made any review of that?

DR. MARCUS. Well, it depends on which forms of tax incentives. We have, as I indicated, many different kinds of subsidies——

REPRESENTATIVE HAMILTON. No, but I mean this idea——

DR. MARCUS. Industrial——

REPRESENTATIVE HAMILTON. Yes, industrial—giving Toyota a plant in, where is it, Georgetown, Kentucky, all kinds of breaks and so forth. Has that gotten out of hand, do you think? Have you made any analysis of that?

DR. MARCUS. I haven't made any study of that that would indicate that it's gotten out of hand. I think that this idea of communities competing against each other is very counterproductive, and particularly when it comes to competing for federal facilities, which I think is absolutely wrong.

REPRESENTATIVE HAMILTON. Well, I want to make it very clear here this morning that it was you and not me advocating the changes in the school bus system here.

DR. MARCUS. And I've been looking for where the exits are.

DR. RICE. I agree with Dr. Marcus, that the smaller school systems have a quality of life that is important to leadership development, and a lot of the academic support aspects, that we need to take advantage of some of the technology in bringing into those schools curricular opportunities, languages, a lot of things.

REPRESENTATIVE HAMILTON. You're a university president. Do you have any sense of how big, or maybe how small, it has to be—I'm not sure how to ask the question—in order to be most beneficial for students?

DR. RICE. I come from a bias. I graduated in a class that had 24, and I think 12 of us——

REPRESENTATIVE HAMILTON. Twenty-four in high school?

DR. RICE. Twenty-four graduated.

REPRESENTATIVE HAMILTON. In high school?

DR. RICE. Yes.

REPRESENTATIVE HAMILTON. Where was that?

DR. RICE. That was New Market, Indiana. And I think there were 12 of us that ended up in college.

REPRESENTATIVE HAMILTON. So it worked okay there?

DR. RICE. It worked okay there. But we really had dedicated leadership in the teachers who developed curricula to ... I think there are ways of capitalizing on——

REPRESENTATIVE HAMILTON. What is your academic discipline, is it a science or——?

DR. RICE. I started out as a vocational teacher in vocational agriculture.

REPRESENTATIVE HAMILTON. Vocational ag.

DR. RICE. Graduate of Purdue.

DR. MARCUS. No comment.

DR. RICE. Agriculture and science, really.

REPRESENTATIVE HAMILTON. Okay.

Anything else for the good of the order here? I want to say, Dr. Marcus, that the kind of economic statistical analysis and data that you've given us here is very valuable, and I would think it would be very valuable to Dr. Rice and his colleagues as well, because absolutely the beginning point is to understood what you have and where you are before you can decide where you have to go. So I'm very, very pleased to have this kind of information, and I don't have any doubt at all that they're going to be calling on you a lot in the days ahead and your colleagues there at Indiana University. Anything else?

[No response.]

REPRESENTATIVE HAMILTON. Thank you very much. We stand adjourned.

[Additional statement subsequently supplied for the record starts on p.102 of Submissions for the Record:]

[Whereupon, the Committee adjourned, subject to the call of the Chair.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF SILAS KEEHN

Congressman Hamilton and Members of the Joint Economic Committee:

I am pleased to have this opportunity to be with you today. You have asked that I comment on the status of the Midwestern economy with some emphasis on the rural challenges facing the region.

Condition of the Midwest Economy

For purposes of geographic definition, I define the Midwestern region to consist of all of the States of Indiana, Illinois, Iowa, Michigan and Wisconsin which, for the most part, comprise the Seventh Federal Reserve District.

These five states account for about 14 percent of the nation's GDP and 18 percent of U.S. manufacturing employment. This region produces some 45 percent of the nation's automobiles, 30 percent of the trucks, 38 percent of the nation's steel and more than 40 percent of the country's farm machinery. Farmers in this region account for nearly a fifth of the nation's annual sales of farm commodities and half of the corn, soybeans and pork produced nationwide. Some of the largest manufacturing, retailing and financial service firms in the United States are headquartered in the region.

With the exception of defense activity and certain computer-related production, given the size and diversity of the Midwest economy, it is not surprising that it mirrors the economic challenges and opportunities in the U.S. economy as a whole. As in the nation, recent Midwestern performance has improved, but the pace of improvement continues to be impeded by further financial and industrial restructuring. Restructuring problems are not a recent development in the Midwest. The recession of 1981-82 was devastating to Midwestern industry. The Midwest lost nearly 1.5 million jobs during the back-to-back recessions of the early 1980s, accounting for a sizable portion of the nation's job loss of some 2.5 million workers over this period. Somewhat like our recent experience, expectations that the cyclical downturn would be followed by the usual rapid recovery in Midwestern employment were disappointed. A vigorous recovery followed the 1981-82 recession and some of the cyclically sensitive jobs returned, but many jobs were lost forever as a result of structural change. Intense competition and changing markets, both domestic and international, have forced firms, particularly those involved in the manufacture of durable goods, to put heavy emphasis on productivity as a way of reducing manufacturing costs.

Midwest manufacturing firms have invested an average of 5 to 10 percent more in equipment per production worker annually than firms in the rest of the nation. Estimates of the relative improvement in Midwestern manufacturing suggest that efficiency in the Midwest improved about 20 percent more than in the rest of the nation. These improvements, brought about by the very painful process of restructuring, have put these firms in a better position to compete in the domestic and international markets.

Today, I am reasonably optimistic about the current outlook for the Midwest economy. The level of economic activity in the Midwest has improved and the outlook is positive. Auto and light truck production in the first quarter of this year was about 21 percent higher than last year and second quarter production schedules, while somewhat reduced from initial levels, have been set about 10 percent ahead of last year. This translates into a domestic automobile production level of about 6.2 million cars and 4.6 million light trucks at an annual rate. We currently forecast that sales of cars and light trucks this year will total about 13.5 million units, an increase of almost 4 percent from last year. The steel industry, very important to the Midwest and most particularly Indiana, has shown improvement and mills in the Midwest are currently operating at about 85 percent of capacity; industry forecasts suggest that some 85 to 86 million tons of steel on a nationwide basis will be shipped this year. The machine tool and equipment industries, also important to the Midwest, have shown signs of improvement with industry sources forecasting 8 percent growth for this year with a 5 percent increase in exports and a 7 percent decline in imports.

Employment in the Midwest has increased from the low levels reached at the bottom of the last recession and unemployment levels in Midwestern states, except Illinois (as of March, the latest month for which data are available), were running under the national average. The latest data available for Indiana (February 1993) shows that its unemployment rate (6.1%, saar) was almost 1 percent below the national average (7.0%).

But significantly, the employment increases in the District have been more modest than the overall increase in economic activity. This dichotomy results from the enormous productivity efforts on the part of Midwestern companies to retain the competitive positions obtained at such great cost. While this has very beneficial effects in an overall economic context, it raises in my mind the question of the sustainability of this expansion; personal expenditures have been moving ahead at rates higher than the increases in disposable income. Unless there is a commensurate increase in employment and a resulting increase in disposable income, it will be very hard to maintain this higher level of personal consumption that has been so fundamental to the growth in the economy over the last few quarters.

My remarks about the restructuring of the Midwest industrial sector also apply to the region's agricultural sector. While the financial condition of the farm sector today is vastly improved from that of the mid-1980s, it exhibits a cautious approach to spending and continues to go through considerable restructuring to achieve greater production efficiencies.

The agricultural sector in the Midwest still operates with a vivid awareness of the devastating setbacks suffered by farmers and agri-business firms as the "agricultural credit crises" of the 1980s washed out the excesses that developed during the "boom" of the 1970s. The subsequent improvement in farm earnings and the level and quality of farm debt has been substantial, placing the industry on much more solid footing for the 1990s. Yet the actions of farmers and agri-business firms reveal a mood of uncertainty and caution. This mood is tied in part to the painful memories of the 1980s. It also reflects the continuing focus on trimming the federal budget deficit and the implications for the safety net provided in farm income and price support programs. The cautious mood of farmers is also related to concerns about the longer run prospects of export markets which are vital to U.S. agriculture.

Banking and Credit Conditions and the Midwest

Midwestern banks in general and Indiana banks in particular continue to show improving earnings and capital. In 1992, the average return on equity for commercial banks in the Midwest was up slightly from the level in 1991 but slightly below the national averages. The average return on assets last year was also higher but, again, slightly below the national average. But in a longer context, Indiana banks, on average, over the last five years have consistently exceeded the national averages with respect to returns on assets.

The improving health of Midwest banks is further attested to by the fact that there has been a 70 percent decline in the number of lower rated banks in the Midwest since the end of 1986. A key factor in the improving condition of banks in the Midwest has been the gradual winding down of their asset quality problems. Nonperforming loans first stabilized and then declined, reflecting the improving economic conditions and further chargeoffs of the worst loans. Indiana banks have done even better than those in other states of the Midwest. Over the past five years, nonperforming loans for commercial banks in Indiana never exceeded 2 percent of total loans and as of the end of 1992 stood at only 1.4 percent of loans. I would note further that banks in the southern part of the state as of year-end 1992 had an even better record with only about one-half of one percent of their loan portfolio nonperforming.

The somewhat better condition of Midwestern banks led to relatively better credit availability during the past three years. This health not only meant that fewer banks were forced to reduce their lending, it also eased the adjustment for borrowers at banks that were facing capital and asset quality problems.

At a recent meeting of our Small Business and Agriculture Advisory Councils, I again carefully reviewed the question of the adequate availability of credit for these very important economic sectors with the Council members. The view continues to be that banks have become much more careful in the loan extension process; that credit standards have been raised, documentation requirements have been made more demanding, and spreads and fees have risen. But, most importantly, our Council members almost universally felt that adequate credit was generally available for borrowers with good credit qualifications. Indeed, some members reported that banks in their areas are aggressively seeking loans.

On the other hand, many Council members were concerned that environmental regulations are making certain types of transactions unbankable. Leery of the potential liability, some banks have shied away from a credit whenever an environmental issue is even a remote possibility. Those banks that are willing to proceed are very demanding in their requirements for complete and costly environmental studies. Both our Agriculture and Small Business Advisory Councils feel strongly that environmental regulations are and will continue to impede the extension of credit to these key sectors.

From the perspective of the Midwest's banks, the restructuring of credit markets is now largely complete. Credit terms have ceased to tighten, asset quality is on the rebound, and most District banking organizations have now built up their capital positions to a level that they can now focus more of their attention on the business of lending.

<u>Rural Development in the Midwest</u>

One of the key themes of your hearing today is that of rural development. The research program at the Federal Reserve Bank of Chicago has made a special effort to recognize the key importance of agricultural and rural issues in the Midwest economy. For example, we publish an Agricultural Newsletter and a recent article in our *Economic Perspectives* publication examined the issue of trends and prospects for rural manufacturing.

As I see it, one of the primary challenges for rural areas during the post-World War II era has been to replace jobs lost by the declining labor force needs of natural resource intensive industries. As productivity has increased in farming and mining, or as natural resources are exhausted in forests and fisheries, the movement of labor into other activities or the outright loss of jobs has been the result.

Our research has found that manufacturing has become the primary economic base for many rural counties in both the Midwest and in the rest of the nation. At the same time, service firms, retailers, and other industries are abandoning remote counties and are centralizing their operations in urban areas. While, as I have noted, the farm sector's economic condition has stabilized following the correction of the 1980s, farm jobs—especially those as a full-time occupation—continue to disappear as smaller farms consolidate into larger units. In sum, as one writer has put it, "many small rural towns. . . have been transformed from farm service centers into minor cogs in the national manufacturing system."

I think that rural communities can benefit from this trend toward enhanced manufacturing employment. First, we have passed through the 1980s when both agricultural and natural resource-based industries fell on hard times. Second, the process of decentralization of manufacturing has enabled rural areas to replace part of their lost job base. One statistic I feel illustrates this point rather strikingly—that is, that over the last twenty years, rural counties in the Midwest have had a rate of manufacturing job growth greater than that of the metropolitan counties and that manufacturing has become the element of stability of the employment composition in several rural counties. Over this twenty-year period, metropolitan manufacturing jobs have declined by 20 percent, while rural counties have seen their manufacturing employment rise by about 15 percent. Currently, it is estimated that about one-fourth of all manufacturing jobs in the Midwest are located in rural counties. This compares with just under 20 percent in the late 1960s.

This is not to imply that all rural counties have fared well in the 1980s with regard to manufacturing job growth. There are still a significant number of rural counties that have not been able to benefit from this relocation of industrial activity.

Southern Indiana provides an example of this diversity in rural performance. For example, the three counties of Dubois, Jackson and Jennings all experienced rates of personal income growth over the decade of the 1980s in excess of the Indiana average growth rate. In contrast, Jefferson and Union counties experienced more difficult times and benefited less from the decentralization of manufacturing.

It is likely that the trend in the movement in manufacturing activity toward rural areas established over the latter part of the 1980s will continue into the 1990s as export markets grow and in a relative sense, the region suffers less from the reduction in the nation's defense industries. The experience of the 1980s shows widely divergent shifts in the Midwest in terms of the shift of manufacturing activity toward rural counties. Questions remain regarding the reasons why some counties have prospered and others not. Answers to many of these questions are limited by the lack of sufficient information on the relative cost and productivity of individual industries in urban versus rural locations.

The dilemma for the rural policymaker is to establish policies and programs that will be of benefit to those rural areas that have been unable to attract and benefit from the industrial development. This program delivery will be constrained by the ever scarce resources at the state and federal level. But the trends that I have reviewed indicate that there are opportunities to enhance the prospects of these areas.

I thank you for your time and attention and will be pleased to respond to questions from the panel.

PREPARED STATEMENT OF THE HONORABLE EVAN BAYH

Mr. Chairman, Congressman Hamilton, members of the Committee, distinguished guests, thank you for the invitation to share my thoughts with you on rural development in Indiana.

The state of Indiana was cut, plowed, and built out of the wilderness that once covered our state. Today, many of those frontier communities have become thriving urban areas. The soil of Indiana has become among the most productive agricultural land in the world. The diversity of our industry has enabled many of our citizens to pursue and achieve the "American Dream".

As our state has grown, the youth of our smaller communities have been attracted to the vitality of our cities and the opportunities they offer. Our mission as a state is to insure that a diversity of educational opportunities, a wealth of economic opportunities, and quality health care systems are available in the rural areas of our state.

The assurance of a world-class educational system for our students has been and will continue to be one of the cornerstones of this administration. Our children today must compete not only with their counterparts in Rising Sun and Indianapolis, but with those in Los Angeles, Hong Kong, Tokyo, and Berlin. In Indiana we have linked our statewide standards to international standards to measure appropriately how our students are competing. The "Gateway Exam" and "Gateway Certificate", which all students will be required to pass and achieve before they graduate from high school, will ensure for students and their employers that the skills of Hoosier students are of international caliber.

Further, we are implementing new, more stringent standards in math and English and are developing standards for science and history. These statewide educational initiatives do not differentiate between urban and rural, just as the international economy in which we are now involved does not discriminate between Indiana and Indonesia.

Many students in the rural, southeastern regions of our state may wish to further their education beyond the high school level. Our proposed "Distance Education Initiative" will help those students realize their dreams. This initiative will bring college courses, by satellite or video tape, or thru innovative uses of computer technology, to the rural areas of southeastern Indiana. The high skilled jobs of tomorrow will require life long education and training. The "Distance Education Initiative" will provide Hoosiers of all ages with access to the scientific and general education courses they will need to compete for the high skilled, high wage jobs of tomorrow.

Additionally, in many of the rural southern border counties of Indiana, we have entered into agreements allowing Indiana students to attend Kentucky universities at the same rate of tuition as Kentucky students. Similar arrangements with universities in Ohio are currently being negotiated and will provide our students with a lower cost, close to home avenue with which to take advantage of the excellent higher educational opportunities those states offer.

Although we encourage every student, we realize that not all will graduate from high school. Therefore, the Department of Workforce Development through adult learning centers, businesses, universities, and area vocational schools will offer anyone the opportunity to obtain their "Gateway Certificate". Further, regional Workforce Development Centers will provide Hoosiers, urban and rural, uniform assessments and information on training, retraining, employment, and career opportunities, as well as programs designed to battle the scourge of adult illiteracy.

The state of Indiana has worked aggressively, under the able leadership of Lt. Governor Frank O'Bannon and the Department of Commerce, to promote the growth and attraction of business enterprises to rural Indiana. A recent Indiana Economic Development Council study indicates that manufacturing is the largest contributor to rural personal income. Franklin Roosevelt was correct that a good paying job is the most important social program a country, or in this instance, a state, can have. The Department of Commerce will continue to assist and attract to Indiana those businesses that offer Hoosiers the good paying jobs of tomorrow.

With a growing world market and ever-increasing national and international competition, Indiana must strive to ensure that it is in the strongest position possible to compete for world-class jobs. Our Economic Development for a Growing Economy Initiative, or E.D.G.E. Initiative, will provide the Department of Commerce with an aggressive, but fair job creation incentive to encourage businesses to locate or expand in Indiana.

The state believes that local organizations are best able to market their community to potential new business ventures. Therefore, we provide millions of dollars annually to local economic development organizations. Many of these local development organizations have realized that their problems and solutions are regional in scope and have begun to form, and the state has funded, regional economic development organizations.

It is true that some of our small communities need help developing their infrastructure to attract the companies that offer the jobs of tomorrow. To target those small cities and rural areas that need our help, the state of Indiana administers three community development programs. The Community Focus Fund program provides capital improvement grants to local governments in rural areas to complete projects such as environmental infrastructure, human service centers (i.e. Head Start Centers and Senior Centers), and downtown revitalization projects. To date, the state of Indiana has awarded nearly $77 million in Community Focus Funds, statewide.

Not all rural communities are able to undertake the complex and often costly environmental and engineering studies often required to complete the projects that are funded by the Community Focus Fund program. In those few instances, the state provides financial assistance for environmental and engineering studies through its Planning Grant program.

The state's Neighborhood Assistance program provides tax credits for small cities and rural communities that wish to preserve historic districts or buildings, undertake community beautification programs, revitalize neighborhoods, or build housing for the poor.

Clearly, the additional monies President Clinton has proposed for the Community Development Block Grant program will be of tremendous benefit to rural communities and small cities in Indiana.

Many of Indiana's rural communities have unique health care needs. Rural communities contain a higher proportion of older adults, experience higher mortality from unintentional injury, and often have gaps in the delivery of medical services. To address these medical concerns and others, we have created the Center for Rural Health Initiatives. This unprecedented cooperative effort between state health officials, doctors, universities, and businesses and professional organizations is housed at the State Department of Health and is charged with assuring that there are coordinated community-based prevention and primary health care services available to rural communities.

In another effort to insure access to quality health care for all Hoosiers, Indiana's unique "Step Ahead" program coordinates state and federal maternal health services, infant nutrition programs, childcare services, and vaccination programs for families in each of Indiana's ninety-two counties.

The state of Indiana has been cognizant of the prominent role agriculture has played in our development and its continued importance to our way of life and economic prosperity. In recognition of this unique bond, the Bayh-O'Bannon administration created, with the unanimous approval of the Indiana General Assembly, the Indiana Commission for Agriculture and Rural Development in 1989. At the direction of Lt. Governor O'Bannon, the Commission completed a strategic plan for Indiana agriculture and rural development on June 28, 1991.

The Bayh-O'Bannon administration has striven to meet the core objectives the Commission members developed in conjunction with private citizens, who served on the committees assisting the Commission, and, who testified in over 60 commission and committee hearings held around the state.

Indiana's commitment to rural development is evidenced by its status as one of the few states in the nation which have a Rural Development Council and a Rural Economic Development Review Panel. These two organizations bring together federal, state, and local governments with private for-profit and not-for-profit organizations to create new dynamics in addressing the concerns of rural, and agricultural, Indiana. Never before have partnerships of this magnitude and diversity, uniting public and private organizations, been created to address the whole spectrum of problems with which rural communities must deal.

The idyllic vision of the prosperous small town with bountiful fields and generation after generation farming the same land is, today, one picture of rural Indiana. However, the economic base and problems of many of today's rural communities have expanded beyond those of an agricultural community.

Our world is changing. Our educational system must prepare students for the rapidly changing technology of the 21st Century. Indiana businesses and farmers must compete with their neighbors to the west in Illinois and Japan and to the east in Ohio and Europe. The reform of our health care system, rural and urban, must be acceptable to and sustainable by all Hoosiers, including those who receive, those who provide, and those who pay.

The challenges and obstacles we face regarding rural development, education, economic development, and health care, will not be solved by the dogmas and slogans of yesterday. We, in Indiana, are not daunted by these challenges and through numerous initiatives, unprecedented in scope and collaboration between federal, state and local governments and private citizens and businesses from every facet of rural life, are facing the challenges of today and implementing the solutions for tomorrow.

PREPARED STATEMENT OF KEITH COLLINS

On behalf of Secretary Espy, I want to thank you for the invitation to appear here today to discuss the economic status and prospects of rural America. I would like to begin with a discussion of the general economic conditions in rural America, then identify major trends that influence how we should think about rural problems. Finally, I would like to offer some general views concerning rural development policy and highlight the President's economic plan, especially the rural development initiative of the Department of Agriculture.

State of the Rural Economy

In many ways the 1980's and early 1990's have been unkind to rural people and their communities:

- The rural unemployment rate rose above the urban rate during the 1980-82 recessions and remained relatively high throughout the 1980's. Because the recession in the early 1990's was more severe in urban areas, in 1992 the urban rate caught up to the rural unemployment rate. As of the first quarter 1993, seasonally adjusted unemployment stood at 6.6 percent in rural areas and 7.1 percent in urban. However, if the number of people working part-time involuntarily and those not looking for jobs because they see no prospect of finding one are factored in, rural unemployment is slightly higher than urban.
- The income of rural people barely grew and declined relative to urban people in the 1980's. In 1979, rural per capita income was 77 percent of urban income ($13,094 vs. $16,973, in 1990 dollars). By 1990, rural per capita income had fallen to 73 percent of urban income ($14,559 vs. $19,885). Part of the reason for the widening income gap is the widening gap in earnings per job. Rural earnings per job fell from 80 percent to 74 percent of urban earnings over the same period. Controlling for inflation, real rural earnings declined over the decade ($20,750 in 1979 to $19,253 in 1990, a decline of 7.2 percent). Real urban earnings held their own over the decade, at about $25,900.
- Rural poverty was 16.1 percent in 1991, significantly higher than the urban poverty rate of 13.7 percent. The rural poverty rate has been higher than the urban rate since 1959, the first year for which poverty data are available using the official government definition. The gap between rural and urban rates narrowed substantially in the 1960's and 1970's, but has not narrowed appreciably since 1980. Rural poverty rates match those of our central cities.
- The traditional mainstays of the rural economy-agriculture, mining, and manufacturing—did not fare well in terms of employment during the 1980's. Agricultural employment, in areas such as farming, forestry, fishing, and agricultural services, fell nearly 15 percent during the decade (1979-90). A mining bust followed the energy boom at the beginning of the decade, with a loss in rural employment of nearly 25 percent.
- Although, rural areas were still gaining manufacturing jobs during the 1980's, the rate of growth was small compared to the previous decade. From 1969 to 1979, rural manufacturing added about 700,000 jobs (17.8 percent increase). From 1979 to 1990, rural manufacturing added less than 11,000 jobs (0.2 percent increase). And, although urban areas were losing manufacturing jobs over the decade, they were increasing their share of the higher paid, more skilled management, research, and

professional workers while rural manufacturing workers were increasingly in low-skill production activities.

These symptoms of poor economic performance in rural economies are the same today as they were a decade ago, as they were 20 or 30 years ago. But, the underlying causes that lead to rural economies performing poorly and generating indicators of distress today are starkly different than they were just a generation ago.

Major Trends Affecting Rural America

There are at least four major trends that will influence rural economic conditions throughout the rest of the 1990's. Understanding these fundamentals is the first step in developing effective public policies for rural America.

Declining relative importance of natural resource based industries. Part of the reason for current economic problems is an old one: the decline in traditional resource based industries—agriculture, forestry, fishing, and mining—over the past decade. But these declines, although devastating in some areas, were actually relatively small compared to earlier decades. Moreover, in previous periods these losses were combined with rising rural incomes as people left marginal farms or supplemented their incomes with off-farm jobs.

In 1950, the defining characteristic of rural America was agriculture. About 2,000 counties had economies that depended largely of farming. By and large, if you understood the agricultural sector you understood the rural economy. Today, there are only about 500 "farm dependent counties" concentrated mainly in the Plains and Western Corn Belt. These relatively sparsely settled places contain only 10 percent of the rural population. In contrast, almost 40 percent of the rural population live in the 600 counties dependent on manufacturing.

Since USDA operates large programs affecting the farm sector, it is easy to fall into the trap of thinking that there is a major connection between farming and rural development. In fact, the overall connection is fairly weak. A rural development policy that is only about farming will leave out most rural places and rural people. Even in rural communities where farming is the principal economic base, employment in farming and farm-related businesses is continuing to decline. With few exceptions, rural development efforts based mainly on natural resource production will do little to help rural America.

Beginning in the 1970's, a different rural development paradigm has emerged that involves natural resources, but it involves their amenity value, not their value for production of food, fiber, or lumber. Vacationers and retirees are increasingly drawn to rural places that are high in natural amenities—they have a pleasant climate, are near water or mountains, and there is plenty of fresh air. Researchers in the Department's Economic Research Service have developed an index to identify counties that are high in natural amenities. The rural areas that were highest in amenities experienced substantial population growth over the last 20 years. These are the rural areas in which new firms are being formed and to which people are migrating because they are nice places to be. The rural places that are high in natural amenities are not necessarily located in the same areas where natural resources have historically been used to produce food and fiber, minerals, or forest products. When you look at the geographic distribution of amenity counties, there aren't many amenity counties in the middle of the United States.

Globalization of product markets and industrial production systems. Dependence on relatively low-wage, low skill, routine manufacturing did not serve rural areas well over the past decade. Rural competition on the basis of low wages meant competition with less-developed nations that resulted in lower earnings for rural workers and no job growth in manufacturing. Almost as many rural manufacturing jobs were lost between 1980 and 1990 as were gained. Adding to the stress on rural manufacturing from foreign competition is the process of technological innovation in high-skilled, high-wage manufacturing, which is proceeding very rapidly. Fewer high- wage, high-skilled jobs are being generated than the number of low-skilled jobs that are being lost. This leaves us with a major challenge to develop strategies to productively employ low- skill workers displaced from manufacturing.

Rural wages and incomes will lag further and further behind those in urban areas unless rural manufacturing is able to restructure along with urban manufacturing toward more complex production. There may also be significant new rural employment opportunities in high-wage, high-skill producer services if rural areas can be more competitive for such activities.

The single largest employer in rural manufacturing in the Untied States is the textile and apparel industry. The United States is now quite competitive in terms of textiles in the world, largely because we used the 1980's to introduce new technologies which replaced much labor in that industry. The United States is well-positioned and is likely to have minimal dislocations in the textile component of the industry as the result of the North American Free Trade Agreement (NAFTA). Future adjustments in the apparel sector may be much more significant. Even in the textile component, there are fewer and fewer jobs as the new technologies replace more people, and the people who remain employed in those areas are facing declining real wages.

<u>Most job growth is going to be in service industries</u>. In fact, most job growth has been in services for the last 20 to 25 years. Thus far, rural areas have been unable to participate very effectively in the new high-tech, information-rich economy that was developing in the 1980's. In particular, rural areas have not captured their share of the growth in producer services, and the related growth of lawyers, accountants, engineers, and computer specialists who sell their expertise to those businesses. While anecdotes abound about people moving to the countryside to conduct business with fax machines and modems, statistics suggest that research and professional jobs increasingly tend to concentrate in urban areas. Opportunities in the new economy have been urban opportunities and there has been a very high rate of net outmigration from rural areas of college-educated young adults. According to one estimate, without this outmigration, there would be a third more young college graduates in nonmetro areas than there are today and a higher unemployment rate.

It appears that the economies of scale and the agglomeration economies that are essential to make producer services industries viable have not yet been achieved in rural areas. While it is worth testing strategies to get those kinds of services to rural areas, the more challenging question is how do you make sure those services are available to rural people and rural firms whose competitiveness may depend on having access, as do urban firms, to those very special kinds of services.

<u>Increasing public concerns about the environment and related issues are changing the way rural businesses and governments operate</u>. We no longer tolerate, for example, factories that dump raw industrial waste into streams and rivers thereby destroying the environment including sources of drinking water. Environmental problems are complex, multi-dimensional, international in scope, and, until now, have generally been dealt with through

public sector regulation at all levels of government, Federal, State, and local. These regulations have increased the complexity of local governance, particularly in rural areas. They have also altered the relative competitiveness of rural areas to attract industries in ways that we are still attempting to discern.

Because many rural towns are so small they have very limited institutional capacity. Many small town mayors are part-time and have a very small professional staff. For example, when reviewing development plans in concert with environmental regulations, they often can't turn to the town engineer to clarify technical issues because they don't have a town engineer. Thus, the institutional capacity to deal with change is much thinner in rural than in urban places.

In several parts of the country, rural communities are joining forces to deal with these issues as well as those of economic development and efficient delivery of basic services. But the disadvantage of small scale and limited institutional support are very significant.

An Agenda for Rural Development

Developing policies which facilitate economic development in rural America is a very difficult problem. There is enormous diversity in rural opportunities across the country. Effective rural development policy requires being able to disaggregate the way we think about rural and to consider a range of policies that are sensitive to the different challenges that rural places have in the face of some very broad changes affecting the economy as a whole. Since problems facing many rural communities are multidimensional, a mix of policy tools may be needed—one or two approaches applied in isolation may be largely ineffective. This diversity of options and opportunities suggests that public policy not be driven top down by a kind of uniform Federal policy. Rather, coordination among rural development practitioners at the Federal, State, and local levels might maximize the impact of any set of policy initiatives.

In policy development, it is useful to think about four key defining characteristics of places that make them rural—small scale, economic specialization, distance or remoteness, and limited institutional capacity. The world today is being driven by what's happening in big cities and the ability to connect with large urban centers is often critical. But many rural places are remote from these economic nodes. This distance hampers effective communication which in turn hampers economic development. In addition to physical distance, some rural areas may be isolated by cultural, social or other patterns that separate a rural community from the national economic system. Small size means that local production processes are usually small in scale and can't always support the rich array of producer services that increase productivity across all economic sectors. Small size also leads to economic specialization, leaving the area's economy susceptible to boom/bust swings of a single industry. Small size often translates into limited institutional capacity to deal with change—part-time government officials, few or no staff resources, and few nonprofit and private institutions with a development focus. The challenge is to develop public policies that work given the character of rural places.

President Clinton's economic program, Vision of Change for America, contains many proposals that would benefit rural America. The President's proposed program includes three components: (1) a short-term stimulus package that will affect FY 1993, (2) a longer term investment program that will affect FY 1994-97, and (3) a serious deficit reduction plan. Rural America will benefit from the overall economic growth generated by this program as well as from the specific proposals targeted at rural areas to improve quality of life and spur rural economies.

The stimulus package provides an additional $468 million in loans and $282 million in grants for rural water and waste disposal systems in FY 1993. Secretary Espy has been particularly compelling in his call to install running water in every house in America that now lacks it. Additional loans and grants are included for housing repair for very low income applicants. The proposal increases Business and Industrial loan guarantees by $305 million. An additional $235 million is included for single family housing guaranteed loans.

The President's longer term investment package for the Department includes an additional $2 billion for rural development in FY 1994 and $11.3 billion for FY 1994-97. There are subsidized loans for single housing construction and rental assistance for tenants in multifamily housing. The program envisions 108,000 new residential units in FY 1994, up 27 percent from 1993. The longer term program also includes an added $1.9 billion to support rural water and waste disposal systems. There are also substantial increases proposed for community facility and business and industrial loans. The appendix to this testimony includes tables summarizing the Department's budget proposals for FY 1992-94.

While natural resource based industries are a small and shrinking part of rural America, the Nation's farmers and the associated agricultural industries are extremely important in farm-dependent counties. The President has proposed very modest reductions in farm price and income support programs over the next couple of years and postponed larger reductions until FY 1996, after debate on the 1995 Farm Bill. Although, the economic package for agriculture reflects the persistent budgetary pressures on farm programs, the additional resources provided to stimulate rural economies will help farm families, 80 percent of which report off-farm income.

With limits on budget resources, U.S. farmers must rely more on market returns. The Administration is acting to increase market opportunities both home and abroad. USDA research is aimed at the development of new food and industrial uses that will expand the demand for agricultural commodities. For example, research is exploring new technologies for the manufacture of biofuels, including ethanol and biodiesel substitutes, and improved processes to convert agricultural commodities into high-value products. Under the National Research Initiative (NRI), the Department provides competitive grants for research on new products and processes. An additional $480 million is proposed for the NRI during FY 1994-97.

Expanding trade is an important priority to U.S. agriculture, which exports nearly 20 percent of its annual output. The Department will continue its aggressive export promotion programs. The North American Free Trade Agreement (NAFTA) will create export opportunities in Mexico for U.S. producers. After full implementation, NAFTA is estimated to add $2 billion annually to U.S. agricultural exports. A Uruguay Round agreement based on the Dunkel Text and the United States-European Community agreement of November 1992, is projected to increase U.S. exports by about $4 billion after full implementation.

While no approach inevitably leads to economic development, we know that the general approaches suggested by the President are effective in reducing barriers to rural economic development. For example, the President's plan includes infrastructure programs for transportation and telecommunications that can reduce the isolation experienced by many rural communities. The

81-667 O - 94 - 3

plan's investments in highways, air transportation facilities, and other modes of transportation would allow businesses in rural communities to quickly acquire needed inputs and deliver products to markets. Proposed spending on high-quality telecommunications infrastructure can provide rural businesses and other residents access to information and services that cannot economically be provided face-to-face.

Investments in some infrastructure, such as water and waste disposal systems, health facilities, or fire stations help rural jurisdictions meet their constitutionally mandated "health, welfare, and safety" responsibilities or mandated environmental standards. To the extent that these investments improve the quality of life in rural areas, they make rural communities more attractive places in which to live and work. And, through provision of needed production inputs, such as waste disposal or clean water, they may encourage business development.

Credit programs, such as guarantees for private business loans can reduce the problems new businesses often face as they attempt to start and expand their operations. Such programs can also help established small businesses quickly take advantage of opportunities presented by technological developments and an expanding global marketplace. If designed to complement the operations of existing financial institutions, government programs can help ease the flow of credit to business in rural communities whose financial markets are typically much smaller and less diverse than those serving urban businesses.

But credit programs cannot bring about development unless the community has creditworthy business ventures waiting to be financed. Finding and developing such ventures often requires concerted joint efforts on the part of government and rural entrepreneurs. It can also entail establishing support services such as technical assistance, business management training, and information networks. It may be time to seriously consider developing an industrial extension service to service the technical assistance needs of rural nonfarm businesses.

Finally, to ensure a place for rural America in our country's future, we will have to change the way those of us in government do business. The President has recognized the need to increase collaborative government across Federal, State and local levels. Our recently established State Rural Development Councils will help increase the capacity of rural areas to develop. The Councils—a collaborative partnership of Federal, State, local, and tribal government, and the private sector—seek to foster and facilitate cooperation and to undertake a comprehensive strategic approach to rural development within each State. They are, in a very real sense, one important way we are reinventing government in rural America.

Mr. Chairman, that completes my statement; I would be pleased to respond to questions.

ATTACHMENT TO MR. COLLINS' PREPARED STATEMENT

1 9 9 4

BUDGET SUMMARY

U.S. DEPARTMENT OF AGRICULTURE

FARM SERVICE AGENCY

RURAL HOUSING PROGRAMS

Program Level (P.L.) and Budget Authority (B.A.)
(Dollars in Millions)

Program	1992 Actual P.L.	1992 Actual B.A.	1993 Cur. Est. P.L.	1993 Cur. Est. B.A.	1994 Budget P.L.	1994 Budget B.A.
Rural Housing Loans:						
Single-Family						
Direct	$1,254	$284	$1,295	$271	$1,874	$375
Investment (incl. above)					(300)	(60)
Unsubsidized Guarantees	214	2	565	10	682	11
Stimulus/Investment (incl. above)			(235)	(4)	(300)	(5)
Rural Rental Housing	574	248	574	303	547	314
Very Low-Income Repair	11	5	29	12	42	17
1992 Dire Supplemental (incl. above)			(16)	(6)		
Stimulus/Investment (incl. above)			(3)	(1)	(30)	(12)
Farm Labor Housing	16	9	16	8	16	8
Self-Help Housing	1	0	1	0	1	0
Housing Site Development	a/	0	1	0	1	0
Credit Sales	184	27	185	25	169	26
Total, Housing Loans	2,254	575	2,666	629	3,332	751
Housing Grants and Payments:						
Very Low-Income Repair	13	13	28	28	31	31
1992 Dire Supplemental (incl. above)			(10)	(10)		
Stimulus/Investment (incl. above)			(6)	(6)	(18)	(18)
Farm Labor Housing	14	14	21	21	11	11
1992 Dire Supplemental (incl. above)			(10)	(10)		
Mutual & Self-Help	8	8	13	13	13	13
Supervisory & Technical Asst.	0	0	2	2	3	3
Compensation for Const. Defects	a/	a/	1	1	1	1
Rural Housing Preservation	23	23	23	23	23	23
Rural Housing Vouchers	0	0	0	0	75	75
Investment (incl. above)					(75)	(75)
Rental Assistance Payments	320	320	338	338	422	422
Investment (incl. above)					(75)	(75)
Total, Housing Grants	378	378	426	426	579	579
Total, Rural Housing Programs	$2,632	$953	$3,092	$1,055	$3,911	$1,330

a/ Less than $0.5 million.

SMALL COMMUNITY AND RURAL DEVELOPMENT

RURAL DEVELOPMENT ADMINISTRATION (RDA)

Program Level (P.L.) and Budget Authority (B.A.)
(Dollars in Millions)

Program	1992 Actual P.L.	1992 Actual B.A.	1993 Cur. Est. P.L.	1993 Cur. Est. B.A.	1994 Budget P.L.	1994 Budget B.A.
Water and Waste Disposal Loans:						
Direct	$600	$85	$1,103	$157	$876	$121
1992 Dire Supplemental (incl. above)			(35)	(5)		
Stimulus/Investment (incl. above)			(468)	(67)	(230)	(32)
Guaranteed	5	0	35	0	36	0
Community Facility Loans:						
Direct	100	10	94	9	389	38
Investment (incl. above)					(300)	(29)
Guaranteed	25	0	100	0	75	4
Investment (incl. above)					(75)	(4)
Business and Industry Guaranteed	100	6	405	22	300	3
1992 Dire Supplemental (incl. above)			(305)	(16)		
Investment (incl. above)					(200)	(2)
Intermediary Relending Program	32	16	47	27	175	98
1992 Dire Supplemental (incl. above)			(14)	(8)		
Investment (incl. above)					(140)	(79)
Subtotal, Loans	862	117	1,784	215	1,851	264
Alcohol Fuel Credit Guarantees	0	0	9 a/	4	10 a/	5
Watershed and Flood Prevention	1	0	4	0	4	0
Resource Conser. and Development	0	0	1	0	1	0
Grants:						
Water and Waste Disposal	354	354	698	698	541	541
1992 Dire Supplemental (incl. above)			(26)	(26)		
Stimulus/Investment (incl. above)			(282)	(282)	(140)	(140)
Rural Development	21	21	21	21	51	51
Investment (incl. above)					(30)	(30)
Rural Community Fire Protection	3	3	3	3	4	4
Solid Waste Management	3	3	3	3	3	3
Emergency Community Water Asst.	10	10	25	25	10	10
1992 Dire Supplemental (incl. above)			(15)	(15)		
Subtotal, Grants	391	391	750	750	609	609
Total, RDA Programs	$1,254	$508	$2,548	$969	$2,475	$878
Administrative Expenses	$20	$20	$38	$38	$39	$39

a/ $18.7 million in loa[illegible]ere appropriated in 1993 and are available until expended. All of these loans are not [illegible]cted to be used; therefore, $9.7 million of the $18.7 million is estimated to be used [illegible]994.

SMALL COMMUNITY AND RURAL DEVELOPMENT

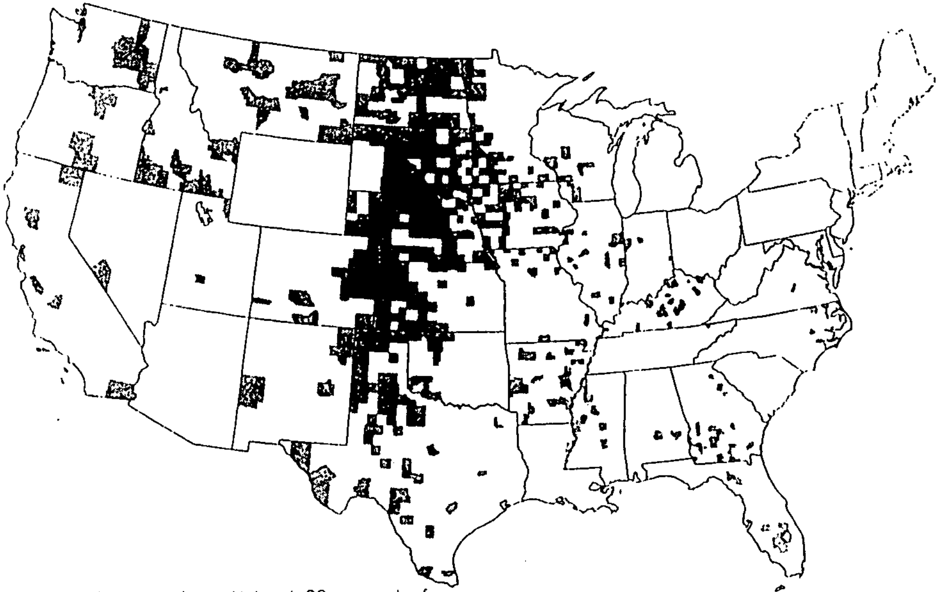
RURAL ELECTRIFICATION ADMINISTRATION (REA)

Program Level (P.L.) and Budget Authority (B.A.)
(Dollars in Millions)

Program	1992 Actual P.L.	1992 Actual B.A.	1993 Cur. Est. P.L.	1993 Cur. Est. B.A.	1994 Budget P.L.	1994 Budget B.A.
Rural Electrification and Telephone Revolving Fund:						
Electric:						
Direct, REA 5%	$622	$117	$625	$117	$25	$4
Direct, Treasury Rate	0	0	0	0	600	1
Direct, FFB	785	14	813	35	813	0
Subtotal, Electric	1,407	131	1,438	152	1,438	5
Telephone:						
Direct, REA 5%	205	34	239	44	25	3
Investment (incl. above)					(25)	(3)
Direct, Treasury Rate	0	0	0	0	239	a/
Direct, FFB	35	0	120	a/	120	0
Subtotal, Telephone	240	34	359	44	384	3
Total, RETL	1,647	165	1,797	196	1,822	8
Rural Telephone Bank (RTB):						
Direct Loans	177	4	177	a/	0	0
Direct , Treasury Rate	0	0	0	0	202	a/
Investment (incl. above)					(25)	a/
Subtotal, RTB	177	4	177	0	202	0
Rural Economic Dev. Loans	8	3	12	3	13	3
Grants:						
Rural Economic Development	0	0	14	14	5	5
Distance Learning/Medical Link	0	0	10 b/	10	5	5
Total, Grants	0	0	24	24	10	10
Total, REA	$1,832	$172	$2,010	$223	$2,047	$21
Administrative Expenses	$35	$35	$38	$38	$39	$39

a/ Less than $0.5 million.
b/ $5 million was appropriated in 1992 and in 1993. The 1992 funds were not expended, and were carried over into 1993, making $10 million available for 1993.

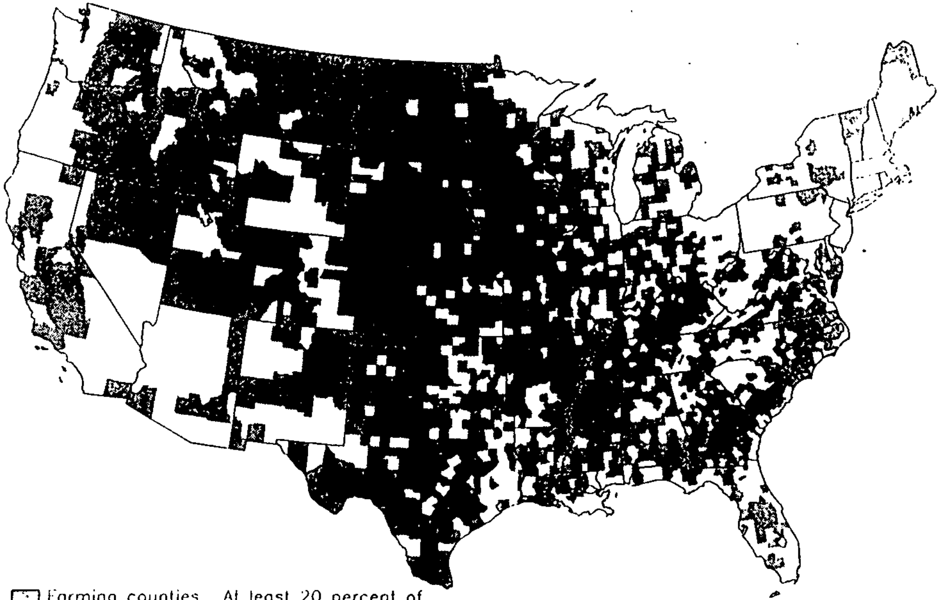
FARMING-DEPENDENT COUNTIES, 1986



Farming counties. At least 20 percent of labor and proprietors' income from farming

Prepared by Economic Research Service, USDA

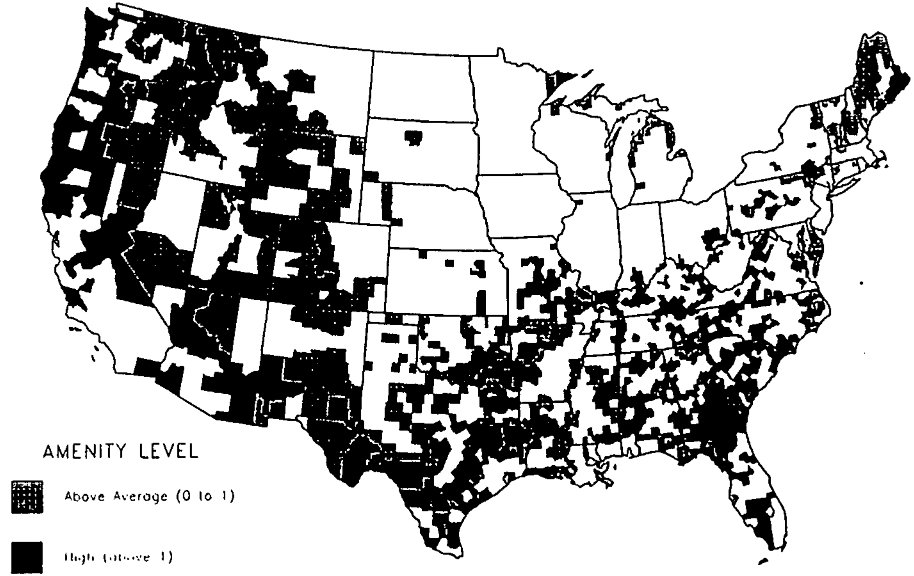
FARMING-DEPENDENT COUNTIES, 1950



Farming counties. At least 20 percent of labor and proprietors' income from farming

[illegible] by Economic Research Service, USDA

NONMETRO COUNTIES WITH ABOVE AVERAGE NATURAL AMENITIES



Natural amenities include terrain, water and climate.

Prepared by Economic Research Service, USDA

MATERIAL SUBSEQUENTLY SUPPLIED FOR THE RECORD

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

April 30, 1993

Honorable Lee H. Hamilton
U.S. House of Representatives
Joint Economic Committee
G01 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Congressman Hamilton:

Thank you for the opportunity to appear in your April 23 Hearing in New Albany, Indiana. I enjoyed the chance to see Indiana and learn more about its rural economy. During the hearing you asked if I could identify the numbers and names of farm-dependent counties in Indiana and America. Attached is a listing that provides such information along with some additional details on economic activity in Indiana's counties.

Again, thank you for the opportunity.

Sincerely,

Keith J. Collins

Keith J. Collins
Acting Assistant Secretary
for Economics

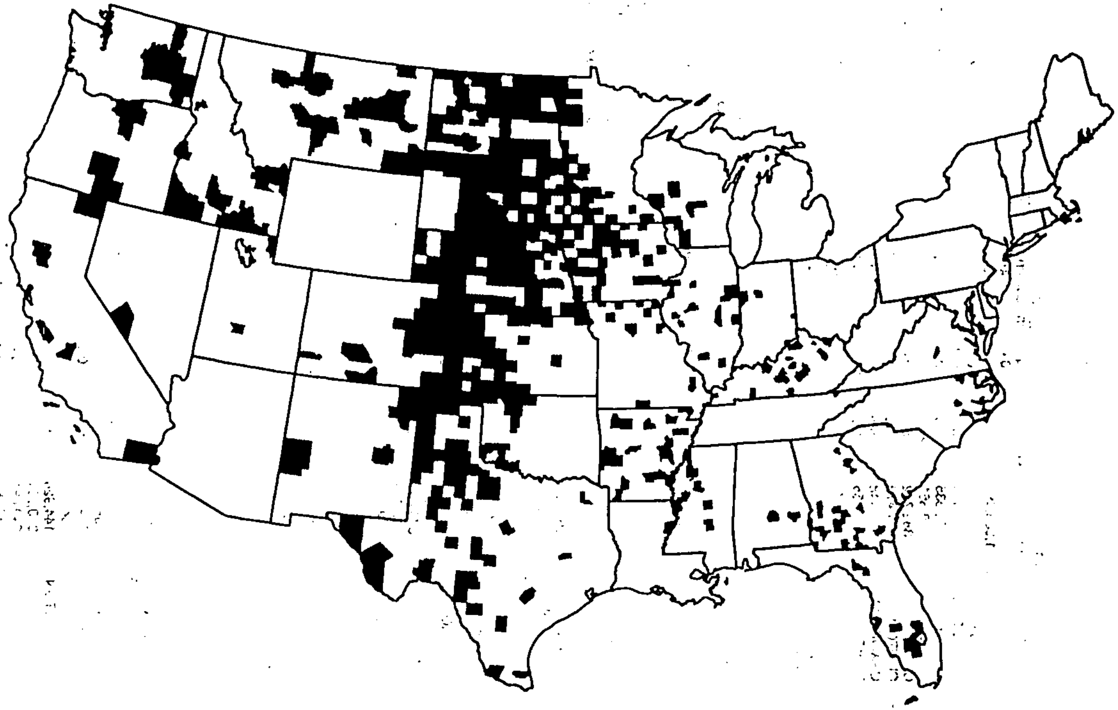
Attachment

Brief 1990 Economic Profile of Nonmetro Indiana Counties with County Type

FIPS Code	County	1990 Total Income ($1,000)	% Share of 1990 Total Labor and Proprietors' Income* Farming	Mining	Manufacturing	Government	Services	Other+	Nonmetro County Type#
18001	ADAMS	314,274	6.5	0.4	50.0	9.6	23.4	0.5	MFG
18005	BARTHOLOMEW	1,038,990	1.6	1.1	48.6	9.6	34.3	4.9	MFG
18007	BENTON	75,642	32.0	0.1	11.1	16.2	15.8	3.1	FARM
18009	BLACKFORD	110,495	5.7	0.2	49.8	13.7	28.7	2.0	MFG
18013	BROWN	52,335	1.5	0.3	3.2	22.9	59.1	13.1	RET
18015	CARROLL	128,351	24.7	0.8	20.8	11.7	35.0	7.0	FARM
18017	CASS	382,752	5.1	0.4	35.4	17.2	36.1	5.9	MFG
18023	CLINTON	271,479	10.8	0.2	36.6	12.6	31.9	8.0	MFG
18025	CRAWFORD	35,448	6.6	10.9	5.4	25.0	46.4	5.8	
18027	DAVIESS	232,055	8.6	11.6	14.1	13.8	42.0	10.0	
18031	DECATUR	238,523	3.8	0.4	48.2	10.0	33.6	4.0	MFG
18037	DUBOIS	566,359	3.8	0.8	46.2	6.9	35.9	6.4	MFG
18041	FAYETTE	337,776	3.0	0.1	61.5	8.7	24.4	2.4	MFG
18045	FOUNTAIN	118,377	14.6	0.4	32.8	14.3	34.0	3.8	MFG
18047	FRANKLIN	93,467	13.3	0.5	16.2	16.2	39.7	14.2	
18049	FULTON	173,262	8.6	0.2	40.3	11.5	31.1	8.4	MFG
18051	GIBSON	273,137	4.9	3.6	25.5	10.5	49.8	5.8	
18053	GRANT	940,435	1.6	0.4	50.5	12.2	31.8	3.6	MFG
18055	GREENE	175,622	3.9	15.4	14.9	18.3	40.0	7.4	
18065	HENRY	365,319	4.2	0.2	34.3	18.7	36.3	6.3	MFG
18069	HUNTINGTON	341,834	5.5	0.8	43.8	12.0	33.3	4.6	MFG
18071	JACKSON	398,293	4.6	0.3	37.0	11.1	41.7	5.3	MFG
18073	JASPER	233,126	13.6	0.3	12.4	12.5	52.3	9.0	RET
18075	JAY	178,988	9.7	0.6	42.8	13.0	30.6	3.3	MFG
18077	JEFFERSON	306,722	2.3	0.1	32.9	19.5	12.9	4.1	
18079	JENNINGS	143,711	6.9	0.0	26.0	29.8	28.6	0.4	GOVT
18083	KNOX	357,156	3.7	1.3	11.7	26.9	51.6	4.8	
18085	KOSCIUSKO	856,055	3.4	0.1	53.7	6.5	31.4	4.9	MFG
18087	LAGRANGE	247,981	12.1	0.1	42.7	10.1	30.4	4.7	MFG
18091	LA PORTE	1,124,405	2.1	0.2	34.0	13.8	43.7	6.2	MFG
18093	LAWRENCE	367,887	1.1	1.0	44.2	12.9	35.7	5.1	MFG
18099	MARSHALL	412,210	3.4	0.1	42.1	9.6	38.8	5.9	MFG
18101	MARTIN	249,646	1.4	0.0	5.7	78.3	12.3	1.3	GOVT
18103	MIAMI	322,227	5.1	0.5	22.8	39.5	28.6	3.5	GOVT
18107	MONTGOMERY	439,850	5.3	0.2	50.2	8.7	32.3	3.3	MFG
18111	NEWTON	103,429	15.6	1.1	27.1	13.4	34.3	8.5	
18113	NOBLE	370,443	2.9	0.4	55.2	10.4	25.2	6.0	MFG
18115	OHIO	13,925	8.4	0.0	2.0	29.6	49.3	10.6	GOVT, RET
18117	ORANGE	142,383	4.8	0.0	33.0	13.9	29.0	10.2	MFG
18119	OWEN	66,382	5.1	0.5	24.1	20.3	42.7	7.4	RET
18121	PARKE	82,925	14.6	0.2	10.8	21.6	41.9	10.9	
18123	PERRY	124,434	1.9	0.0	32.0	21.7	34.9	5.5	MFG
18125	PIKE	114,863	4.2	34.6	2.9	10.6	43.2	4.6	MINE
18131	PULASKI	124,170	16.2	1.1	34.5	14.2	30.3	3.7	MFG
18133	PUTNAM	226,344	6.4	1.3	20.1	20.8	45.0	6.4	
18135	RANDOLPH	225,154	4.4	0.2	49.6	12.6	28.7	4.6	MFG
18137	RIPLEY	284,757	2.1	0.4	53.0	8.3	31.7	4.5	MFG
18139	RUSH	126,663	12.1	0.5	25.6	18.5	38.1	5.3	
18143	SCOTT	115,339	2.4	0.0	33.1	19.5	38.3	5.5	MFG
18147	SPENCER	163,892	6.8	5.3	22.7	10.5	51.1	3.6	
18149	STARKE	104,440	11.0	0.1	18.8	20.9	43.5	5.7	
18151	STEUBEN	336,847	2.8	0.2	46.0	7.3	38.7	5.0	MFG, RET
18153	SULLIVAN	127,268	7.3	12.8	7.2	17.9	50.4	4.4	
18155	SWITZERLAND	33,413	14.7	0.0	28.4	20.1	21.7	5.8	MFG
18161	UNION	34,422	21.1	0.5	3.3	19.8	49.5	5.9	FARM
18165	VERMILLION	168,811	4.5	7.1	43.9	11.6	26.0	6.9	MFG
18169	WABASH	364,032	7.1	0.1	45.4	10.9	32.4	4.0	MFG
18171	WARREN	64,742	33.3	0.7	24.7	11.1	27.1	3.2	FARM, MFG
18175	WASHINGTON	144,928	6.2	0.4	38.9	16.4	32.9	5.2	MFG
18177	WAYNE	810,764	2.3	0.2	34.2	11.9	46.2	5.1	MFG
18179	WELLS	240,691	4.8	0.4	32.8	11.7	44.8	5.6	MFG
18181	WHITE	236,296	13.5	0.2	34.0	10.9	37.3	4.1	MFG

*Value of 0.0 in Mining may indicate disclosure problems. Numbers in Services and Other may be lower than actual values due to disclosure problems. Consequently, shares may not sum to 100.
+"Other" includes Agriculture Services, Forestry, Fishing, and Construction.
#County types – manufacturing (MFG), mining (MINE), government (GOVT), retirement (RET), and farming (FARM).

Nonmetro Farming Dependent Counties, 1986



512 counties

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
1011	ALABAMA	BULLOCK
1085	ALABAMA	LOWNDES
5021	ARKANSAS	CLAY
5025	ARKANSAS	CLEVELAND
5041	ARKANSAS	DESHA
5073	ARKANSAS	LAFAYETTE
5075	ARKANSAS	LAWRENCE
5079	ARKANSAS	LINCOLN
5087	ARKANSAS	MADISON
5095	ARKANSAS	MONROE
5097	ARKANSAS	MONTGOMERY
5099	ARKANSAS	NEVADA
5101	ARKANSAS	NEWTON
5105	ARKANSAS	PERRY
5111	ARKANSAS	POINSETT
5113	ARKANSAS	POLK
5117	ARKANSAS	PRAIRIE
5127	ARKANSAS	SCOTT
5137	ARKANSAS	STONE
5147	ARKANSAS	WOODRUFF
6011	CALIFORNIA	COLUSA
6021	CALIFORNIA	GLENN
6025	CALIFORNIA	IMPERIAL
6049	CALIFORNIA	MODOC
6069	CALIFORNIA	SAN BENITO
8009	COLORADO	BACA
8017	COLORADO	CHEYENNE
8021	COLORADO	CONEJOS
8023	COLORADO	COSTILLA
8025	COLORADO	CROWLEY
8033	COLORADO	DOLORES
8039	COLORADO	ELBERT
8061	COLORADO	KIOWA
8063	COLORADO	KIT CARSON
8073	COLORADO	LINCOLN
8095	COLORADO	PHILLIPS
8109	COLORADO	SAGUACHE
8115	COLORADO	SEDGWICK
8121	COLORADO	WASHINGTON
8125	COLORADO	YUMA
12041	FLORIDA	GILCHRIST
12043	FLORIDA	GLADES
12049	FLORIDA	HARDEE
12051	FLORIDA	HENDRY
12067	FLORIDA	LAFAYETTE
12093	FLORIDA	OKEECHOBEE
13003	GEORGIA	ATKINSON
13007	GEORGIA	BAKER
13011	GEORGIA	BANKS
13025	GEORGIA	BRANTLEY
13027	GEORGIA	BROOKS
13037	GEORGIA	CALHOUN
13061	GEORGIA	CLAY
13093	GEORGIA	DOOLY
13101	GEORGIA	ECHOLS
13173	GEORGIA	LANIER
13197	GEORGIA	MARION

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
13221	GEORGIA	OGLETHORPE
13239	GEORGIA	QUITMAN
13253	GEORGIA	SEMINOLE
13265	GEORGIA	TALIAFERRO
13287	GEORGIA	TURNER
13307	GEORGIA	WEBSTER
13309	GEORGIA	WHEELER
13315	GEORGIA	WILCOX
13321	GEORGIA	WORTH
16025	IDAHO	CAMAS
16031	IDAHO	CASSIA
16033	IDAHO	CLARK
16041	IDAHO	FRANKLIN
16043	IDAHO	FREMONT(INCL. YELLOWSTONE PARK)
16047	IDAHO	GOODING
16051	IDAHO	JEFFERSON
16053	IDAHO	JEROME
16061	IDAHO	LEWIS
16063	IDAHO	LINCOLN
16071	IDAHO	ONEIDA
16073	IDAHO	OWYHEE
16077	IDAHO	POWER
16081	IDAHO	TETON
16087	IDAHO	WASHINGTON
17009	ILLINOIS	BROWN
17045	ILLINOIS	EDGAR
17053	ILLINOIS	FORD
17065	ILLINOIS	HAMILTON
17071	ILLINOIS	HENDERSON
17075	ILLINOIS	IROQUOIS
17125	ILLINOIS	MASON
17131	ILLINOIS	MERCER
17139	ILLINOIS	MOULTRIE
17147	ILLINOIS	PIATT
17171	ILLINOIS	SCOTT
17175	ILLINOIS	STARK
17189	ILLINOIS	WASHINGTON
18007	INDIANA	BENTON
18015	INDIANA	CARROLL
18161	INDIANA	UNION
18171	INDIANA	WARREN
19001	IOWA	ADAIR
19003	IOWA	ADAMS
19009	IOWA	AUDUBON
19011	IOWA	BENTON
19023	IOWA	BUTLER
19025	IOWA	CALHOUN
19055	IOWA	DELAWARE
19063	IOWA	EMMET
19069	IOWA	FRANKLIN
19071	IOWA	FREMONT
19073	IOWA	GREENE
19075	IOWA	GRUNDY
19077	IOWA	GUTHRIE
19079	IOWA	HAMILTON
19081	IOWA	HANCOCK
19085	IOWA	HARRISON

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
19089	IOWA	HOWARD
19091	IOWA	HUMBOLDT
19093	IOWA	IDA
19107	IOWA	KEOKUK
19109	IOWA	KOSSUTH
19115	IOWA	LOUISA
19119	IOWA	LYON
19123	IOWA	MAHASKA
19129	IOWA	MILLS
19133	IOWA	MONONA
19141	IOWA	O BRIEN
19143	IOWA	OSCEOLA
19147	IOWA	PALO ALTO
19149	IOWA	PLYMOUTH
19151	IOWA	POCAHONTAS
19161	IOWA	SAC
19165	IOWA	SHELBY
19173	IOWA	TAYLOR
19183	IOWA	WASHINGTON
19195	IOWA	WORTH
19197	IOWA	WRIGHT
20007	KANSAS	BARBER
20013	KANSAS	BROWN
20017	KANSAS	CHASE
20023	KANSAS	CHEYENNE
20025	KANSAS	CLARK
20033	KANSAS	COMANCHE
20039	KANSAS	DECATUR
20043	KANSAS	DONIPHAN
20047	KANSAS	EDWARDS
20063	KANSAS	GOVE
20067	KANSAS	GRANT
20069	KANSAS	GRAY
20071	KANSAS	GREELEY
20075	KANSAS	HAMILTON
20077	KANSAS	HARPER
20081	KANSAS	HASKELL
20083	KANSAS	HODGEMAN
20089	KANSAS	JEWELL
20093	KANSAS	KEARNY
20097	KANSAS	KIOWA
20101	KANSAS	LANE
20105	KANSAS	LINCOLN
20109	KANSAS	LOGAN
20119	KANSAS	MEADE
20129	KANSAS	MORTON
20135	KANSAS	NESS
20145	KANSAS	PAWNEE
20153	KANSAS	RAWLINS
20157	KANSAS	REPUBLIC
20165	KANSAS	RUSH
20171	KANSAS	SCOTT
20179	KANSAS	SHERIDAN
20181	KANSAS	SHERMAN
20183	KANSAS	SMITH
20185	KANSAS	STAFFORD
20187	KANSAS	STANTON

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
20189	KANSAS	STEVENS
20193	KANSAS	THOMAS
20195	KANSAS	TREGO
20199	KANSAS	WALLACE
20201	KANSAS	WASHINGTON
20203	KANSAS	WICHITA
21011	KENTUCKY	BATH
21027	KENTUCKY	BRECKINRIDGE
21039	KENTUCKY	CARLISLE
21045	KENTUCKY	CASEY
21057	KENTUCKY	CUMBERLAND
21079	KENTUCKY	GARRARD
21087	KENTUCKY	GREEN
21099	KENTUCKY	HART
21103	KENTUCKY	HENRY
21123	KENTUCKY	LARUE
21135	KENTUCKY	LEWIS
21137	KENTUCKY	LINCOLN
21165	KENTUCKY	MENIFEE
21187	KENTUCKY	OWEN
21201	KENTUCKY	ROBERTSON
21215	KENTUCKY	SPENCER
21219	KENTUCKY	TODD
21223	KENTUCKY	TRIMBLE
21229	KENTUCKY	WASHINGTON
22107	LOUISIANA	TENSAS
27011	MINNESOTA	BIG STONE
27033	MINNESOTA	COTTONWOOD
27039	MINNESOTA	DODGE
27043	MINNESOTA	FARIBAULT
27045	MINNESOTA	FILLMORE
27051	MINNESOTA	GRANT
27063	MINNESOTA	JACKSON
27069	MINNESOTA	KITTSON
27073	MINNESOTA	LAC QUI PARLE
27081	MINNESOTA	LINCOLN
27087	MINNESOTA	MAHNOMEN
27089	MINNESOTA	MARSHALL
27101	MINNESOTA	MURRAY
27107	MINNESOTA	NORMAN
27119	MINNESOTA	POLK
27121	MINNESOTA	POPE
27125	MINNESOTA	RED LAKE
27127	MINNESOTA	REDWOOD
27129	MINNESOTA	RENVILLE
27133	MINNESOTA	ROCK
27143	MINNESOTA	SIBLEY
27151	MINNESOTA	SWIFT
27155	MINNESOTA	TRAVERSE
27165	MINNESOTA	WATONWAN
27167	MINNESOTA	WILKIN
27173	MINNESOTA	YELLOW MEDICINE
28015	MISSISSIPPI	CARROLL
28053	MISSISSIPPI	HUMPHREYS
28055	MISSISSIPPI	ISSAQUENA
28079	MISSISSIPPI	LEAKE
28119	MISSISSIPPI	QUITMAN

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
28125	MISSISSIPPI	SHARKEY
28129	MISSISSIPPI	SMITH
28135	MISSISSIPPI	TALLAHATCHIE
28143	MISSISSIPPI	TUNICA
29005	MISSOURI	ATCHISON
29017	MISSOURI	BOLLINGER
29041	MISSOURI	CHARITON
29045	MISSOURI	CLARK
29061	MISSOURI	DAVIESS
29087	MISSOURI	HOLT
29103	MISSOURI	KNOX
29129	MISSOURI	MERCER
29153	MISSOURI	OZARK
29173	MISSOURI	RALLS
29197	MISSOURI	SCHUYLER
29227	MISSOURI	WORTH
30011	MONTANA	CARTER
30015	MONTANA	CHOUTEAU
30019	MONTANA	DANIELS
30033	MONTANA	GARFIELD
30037	MONTANA	GOLDEN VALLEY
30051	MONTANA	LIBERTY
30055	MONTANA	MC CONE
30059	MONTANA	MEAGHER
30069	MONTANA	PETROLEUM
30075	MONTANA	POWDER RIVER
30079	MONTANA	PRAIRIE
30097	MONTANA	SWEET GRASS
30099	MONTANA	TETON
30103	MONTANA	TREASURE
30107	MONTANA	WHEATLAND
31003	NEBRASKA	ANTELOPE
31005	NEBRASKA	ARTHUR
31007	NEBRASKA	BANNER
31009	NEBRASKA	BLAINE
31011	NEBRASKA	BOONE
31015	NEBRASKA	BOYD
31017	NEBRASKA	BROWN
31021	NEBRASKA	BURT
31023	NEBRASKA	BUTLER
31027	NEBRASKA	CEDAR
31029	NEBRASKA	CHASE
31031	NEBRASKA	CHERRY
31033	NEBRASKA	CHEYENNE
31035	NEBRASKA	CLAY
31041	NEBRASKA	CUSTER
31049	NEBRASKA	DEUEL
31051	NEBRASKA	DIXON
31057	NEBRASKA	DUNDY
31059	NEBRASKA	FILLMORE
31061	NEBRASKA	FRANKLIN
31063	NEBRASKA	FRONTIER
31065	NEBRASKA	FURNAS
31069	NEBRASKA	GARDEN
31071	NEBRASKA	GARFIELD
31073	NEBRASKA	GOSPER
31075	NEBRASKA	GRANT

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
31077	NEBRASKA	GREELEY
31081	NEBRASKA	HAMILTON
31083	NEBRASKA	HARLAN
31085	NEBRASKA	HAYES
31087	NEBRASKA	HITCHCOCK
31089	NEBRASKA	HOLT
31091	NEBRASKA	HOOKER
31093	NEBRASKA	HOWARD
31095	NEBRASKA	JEFFERSON
31097	NEBRASKA	JOHNSON
31099	NEBRASKA	KEARNEY
31101	NEBRASKA	KEITH
31103	NEBRASKA	KEYA PAHA
31105	NEBRASKA	KIMBALL
31113	NEBRASKA	LOGAN
31115	NEBRASKA	LOUP
31117	NEBRASKA	MCPHERSON
31121	NEBRASKA	MERRICK
31123	NEBRASKA	MORRILL
31125	NEBRASKA	NANCE
31127	NEBRASKA	NEMAHA
31129	NEBRASKA	NUCKOLLS
31133	NEBRASKA	PAWNEE
31135	NEBRASKA	PERKINS
31137	NEBRASKA	PHELPS
31139	NEBRASKA	PIERCE
31143	NEBRASKA	POLK
31147	NEBRASKA	RICHARDSON
31149	NEBRASKA	ROCK
31155	NEBRASKA	SAUNDERS
31161	NEBRASKA	SHERIDAN
31163	NEBRASKA	SHERMAN
31165	NEBRASKA	SIOUX
31167	NEBRASKA	STANTON
31169	NEBRASKA	THAYER
31175	NEBRASKA	VALLEY
31181	NEBRASKA	WEBSTER
31183	NEBRASKA	WHEELER
31185	NEBRASKA	YORK
32009	NEVADA	ESMERALDA
35003	NEW MEXICO	CATRON
35011	NEW MEXICO	DE BACA
35021	NEW MEXICO	HARDING
35059	NEW MEXICO	UNION
37073	NORTH CAROLINA	GATES
37079	NORTH CAROLINA	GREENE
37103	NORTH CAROLINA	JONES
37131	NORTH CAROLINA	NORTHAMPTON
38005	NORTH DAKOTA	BENSON
38007	NORTH DAKOTA	BILLINGS
38009	NORTH DAKOTA	BOTTINEAU
38013	NORTH DAKOTA	BURKE
38019	NORTH DAKOTA	CAVALIER
38021	NORTH DAKOTA	DICKEY
38023	NORTH DAKOTA	DIVIDE
38025	NORTH DAKOTA	DUNN
38027	NORTH DAKOTA	EDDY

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
38029	NORTH DAKOTA	EMMONS
38031	NORTH DAKOTA	FOSTER
38033	NORTH DAKOTA	GOLDEN VALLEY
38037	NORTH DAKOTA	GRANT
38039	NORTH DAKOTA	GRIGGS
38041	NORTH DAKOTA	HETTINGER
38043	NORTH DAKOTA	KIDDER
38045	NORTH DAKOTA	LA MOURE
38047	NORTH DAKOTA	LOGAN
38049	NORTH DAKOTA	MCHENRY
38051	NORTH DAKOTA	MCINTOSH
38055	NORTH DAKOTA	MCLEAN
38061	NORTH DAKOTA	MOUNTRAIL
38063	NORTH DAKOTA	NELSON
38065	NORTH DAKOTA	OLIVER
38067	NORTH DAKOTA	PEMBINA
38069	NORTH DAKOTA	PIERCE
38071	NORTH DAKOTA	RAMSEY
38073	NORTH DAKOTA	RANSOM
38075	NORTH DAKOTA	RENVILLE
38081	NORTH DAKOTA	SARGENT
38083	NORTH DAKOTA	SHERIDAN
38087	NORTH DAKOTA	SLOPE
38091	NORTH DAKOTA	STEELE
38095	NORTH DAKOTA	TOWNER
38097	NORTH DAKOTA	TRAILL
38099	NORTH DAKOTA	WALSH
38103	NORTH DAKOTA	WELLS
40003	OKLAHOMA	ALFALFA
40007	OKLAHOMA	BEAVER
40011	OKLAHOMA	BLAINE
40025	OKLAHOMA	CIMARRON
40033	OKLAHOMA	COTTON
40053	OKLAHOMA	GRANT
40055	OKLAHOMA	GREER
40057	OKLAHOMA	HARMON
40059	OKLAHOMA	HARPER
40075	OKLAHOMA	KIOWA
40093	OKLAHOMA	MAJOR
40139	OKLAHOMA	TEXAS
40141	OKLAHOMA	TILLMAN
40151	OKLAHOMA	WOODS
41021	OREGON	GILLIAM
41037	OREGON	LAKE
41049	OREGON	MORROW
41055	OREGON	SHERMAN
41069	OREGON	WHEELER
46003	SOUTH DAKOTA	AURORA
46007	SOUTH DAKOTA	BENNETT
46009	SOUTH DAKOTA	BON HOMME
46017	SOUTH DAKOTA	BUFFALO
46021	SOUTH DAKOTA	CAMPBELL
46023	SOUTH DAKOTA	CHARLES MIX
46025	SOUTH DAKOTA	CLARK
46031	SOUTH DAKOTA	CORSON
46037	SOUTH DAKOTA	DAY
46039	SOUTH DAKOTA	DEUEL

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
46041	SOUTH DAKOTA	DEWEY
46043	SOUTH DAKOTA	DOUGLAS
46045	SOUTH DAKOTA	EDMUNDS
46049	SOUTH DAKOTA	FAULK
46053	SOUTH DAKOTA	GREGORY
46055	SOUTH DAKOTA	HAAKON
46057	SOUTH DAKOTA	HAMLIN
46059	SOUTH DAKOTA	HAND
46061	SOUTH DAKOTA	HANSON
46063	SOUTH DAKOTA	HARDING
46067	SOUTH DAKOTA	HUTCHINSON
46069	SOUTH DAKOTA	HYDE
46071	SOUTH DAKOTA	JACKSON
46073	SOUTH DAKOTA	JERAULD
46075	SOUTH DAKOTA	JONES
46077	SOUTH DAKOTA	KINGSBURY
46083	SOUTH DAKOTA	LINCOLN
46085	SOUTH DAKOTA	LYMAN
46087	SOUTH DAKOTA	MCCOOK
46089	SOUTH DAKOTA	MCPHERSON
46091	SOUTH DAKOTA	MARSHALL
46095	SOUTH DAKOTA	MELLETTE
46097	SOUTH DAKOTA	MINER
46101	SOUTH DAKOTA	MOODY
46105	SOUTH DAKOTA	PERKINS
46107	SOUTH DAKOTA	POTTER
46109	SOUTH DAKOTA	ROBERTS
46111	SOUTH DAKOTA	SANBORN
46115	SOUTH DAKOTA	SPINK
46117	SOUTH DAKOTA	STANLEY
46119	SOUTH DAKOTA	SULLY
46121	SOUTH DAKOTA	TODD
46123	SOUTH DAKOTA	TRIPP
46125	SOUTH DAKOTA	TURNER
46127	SOUTH DAKOTA	UNION
46129	SOUTH DAKOTA	WALWORTH
46137	SOUTH DAKOTA	ZIEBACH
47067	TENNESSEE	HANCOCK
48011	TEXAS	ARMSTRONG
48017	TEXAS	BAILEY
48023	TEXAS	BAYLOR
48033	TEXAS	BORDEN
48045	TEXAS	BRISCOE
48063	TEXAS	CAMP
48069	TEXAS	CASTRO
48079	TEXAS	COCHRAN
48093	TEXAS	COMANCHE
48095	TEXAS	CONCHO
48101	TEXAS	COTTLE
48107	TEXAS	CROSBY
48111	TEXAS	DALLAM
48115	TEXAS	DAWSON
48117	TEXAS	DEAF SMITH
48125	TEXAS	DICKENS
48129	TEXAS	DONLEY
48137	TEXAS	EDWARDS
48151	TEXAS	FISHER

U.S. Nonmetropolitan Farming-dependent Counties, 1986

FIPS Code	State	County
48153	TEXAS	FLOYD
48155	TEXAS	FOARD
48159	TEXAS	FRANKLIN
48173	TEXAS	GLASSCOCK
48177	TEXAS	GONZALES
48191	TEXAS	HALL
48195	TEXAS	HANSFORD
48205	TEXAS	HARTLEY
48207	TEXAS	HASKELL
48229	TEXAS	HUDSPETH
48235	TEXAS	IRION
48243	TEXAS	JEFF DAVIS
48263	TEXAS	KENT
48271	TEXAS	KINNEY
48275	TEXAS	KNOX
48279	TEXAS	LAMB
48305	TEXAS	LYNN
48311	TEXAS	MCMULLEN
48313	TEXAS	MADISON
48317	TEXAS	MARTIN
48319	TEXAS	MASON
48327	TEXAS	MENARD
48345	TEXAS	MOTLEY
48359	TEXAS	OLDHAM
48369	TEXAS	PARMER
48377	TEXAS	PRESIDIO
48385	TEXAS	REAL
48393	TEXAS	ROBERTS
48421	TEXAS	SHERMAN
48427	TEXAS	STARR
48437	TEXAS	SWISHER
48443	TEXAS	TERRELL
48447	TEXAS	THROCKMORTON
48489	TEXAS	WILLACY
48507	TEXAS	ZAVALA
49031	UTAH	PIUTE
49033	UTAH	RICH
51049	VIRGINIA	CUMBERLAND
53001	WASHINGTON	ADAMS
53013	WASHINGTON	COLUMBIA
53017	WASHINGTON	DOUGLAS
53019	WASHINGTON	FERRY
53023	WASHINGTON	GARFIELD
53025	WASHINGTON	GRANT
53043	WASHINGTON	LINCOLN
53075	WASHINGTON	WHITMAN
55001	WISCONSIN	ADAMS
55011	WISCONSIN	BUFFALO
55019	WISCONSIN	CLARK
55049	WISCONSIN	IOWA
55065	WISCONSIN	LAFAYETTE
55103	WISCONSIN	RICHLAND
55121	WISCONSIN	TREMPEALEAU
55123	WISCONSIN	VERNON

81-667 O - 94 - 4

Definitions of Nonmetro County Types:

Farming dependent(FARM) - Counties with a weighted annual average farm income of 20 percent or more of total labor and proprietor income in 1981 through 1986, except 1983 when farm income was unusually low.

Manufacturing dependent(MFG) - Counties with manufacturing income 30 percent or more of total labor and proprietor income in 1986.

Mining dependent(MINE) - Counties with mining income 20 percent or more of total labor and proprietor income in 1986.

Government dependent(GOVT) - Counties in which local, state and Federal government payrolls contributed 25 percent or more to total labor and proprietor income in 1979.

Retirement dependent(RET) - Counties with 15 percent or more net inmigration of people 60 or older from 1970 to 1980.

Data sources:

Farm, manufacturing, mining, and government dependent counties are based on Bureau of Economic Analysis(BEA) data. The retirement dependent counties are derived from 1980 Census of Population data.

Economic profiles of nonmetro Indiana counties are based on BEA data.

PREPARED STATEMENT OF DAVID L. RICE

The Southern Indiana Rural Development Project focuses upon the predominantly rural counties of Southern Indiana located in the eighth and ninth congressional districts. The project was conceived in an effort to provide action-oriented economic development initiatives by networking and connecting Southern Indiana rural communities coping with a downward economic spiral. The 29 predominantly rural counties of southern Indiana have serious problems relating to loss of population, loss of jobs, decreased earning power and low income, community deterioration, and limited capital development resources. Eight of the state's ten counties with lowest per capita income are in the project area. Ninety-three percent of the counties in the area have less than 12.4 percent of the adult population with a bachelor's or higher degree, whereas the national average is 20.3 percent.

With the encouragement of Representative Lee Hamilton, approximately 30 individuals from southern Indiana, who have been actively engaged in various community economic development efforts have volunteered to organize, to seek fluids, and to serve as a steering committee and board for a southern Indiana rural development program. The group has organized, and is seeking funding for the initial three years, and will seek continuing fluids thereafter.

The mission for the economic development project is to develop and implement strategic approaches for long-term economic growth and development of rural southern Indiana. The long range goals of Southern Indiana Rural Development Project, Inc. are to:

<u>Aggregate analytical data on the rural southern Indiana economy (including non-traditional components)</u>

<u>Develop regional programs that will result in</u>:
- Greater employment
- Higher incomes
- Better education
- More stable populations in rural areas
- Improved infrastructure capacity

<u>Collect case studies of rural economic success stories</u>

<u>Develop better-trained leaders</u>
- Local elected officials
- School superintendents
- Multi-county cooperation

<u>Create realistic models for economic development that help overcome significant rural barriers</u>
- Infrastructure
- Capital
- Training
- Information

<u>Develop meaningful implementation efforts</u>
- Hiring staff for technical assistance
- Identifying volunteer, long-term mentors

The first three years of the project will be initiated to focus upon three basic phases— 1) establishing project priorities of specific program activities, 2) developing strategic plans of action to address the specific program activities, and 3) working the plans through implementation. In skeletal form, the three phases include:

<u>"Think Tank" Phase</u> to establish visions and priorities

- Consider positive/negative features of rural communities, counties, and related entities
- Analyze and assess range of needs and opportunities to combat rural community deterioration
- Identify range of available resources to stimulate economic development in southern Indiana rural communities
- Identify and establish visions and understanding and set priorities for program activities offering the greatest potential benefits for rural southern Indiana communities

<u>Strategic Approach Phase</u> to shape plans of action

- Develop strategic plans of actions relevant to each vision/priority
- Assess existing and needed resources for successfully carrying out plan(s) of action
- Develop problem changes, possibilities, and strategies
- Suggest processes, responsibilities, and change agents

<u>Implementation Phase</u> to carry out plans of action

- Shape action groups and action plan assignments
- Monitor and support action groups
- Continuously assess, adapt, and modify implementation plans
- Evaluate successes and failures, reshape strategies, and regroup for continued efforts

It is anticipated that a rich base of traditional and non-traditional initiatives will be identified, analyzed, and prioritized during the "Think Tank" phase. The program activities will be prioritized to devote the efforts of the project to those judged most valuable to stimulate economic development and to combat community deterioration in the rural counties of southern Indiana. Examples from the literature of successful community stories would be shaped to present in meetings to be held throughout the study area during the early stages of the strategy and implementation phases. For example, case reports of communities in which churches have reshaped or restructured to provide a viable long-term community institution; of communities which have networked to form a critical mass for effective and efficient services, of opportunities for revitalization of services or resources to establish community endowments, formulate investment resources, or increase effectiveness or efficiency; of actual or pro forma networking or restructuring of governmental units to increase effectiveness and efficiency; and of other examples of successful, or potentially successful initiatives for implementation.

The following initiatives are examples of activities discussed to date for study and implementation:

A. Follow-up of Hudson Institute Southern Indiana Study suggesting the need for:

   1. Strengthening contributions to rural community life by civic, social, educational, and religious institutions and entities to combat community deterioration and to improve economic condition and opportunities
   2. Enhancing fiber-optic network for rural communities to provide opportunities for work base employment in order to enhance work-

force and quality of employment, and for improving educational quality of the curriculum available in the schools

3. Enhancing highway infrastructure (I-69)

B. Economic development networking clustered around:

1. Transportation corridors

a. Highways

- Highways 37, 41, 30, I-65, I-74, I-69, etc. (Independent of Southern Indiana Rural Development Project, Inc., five major communities along the 120-mile Highway 41 corridor in southern Indiana recently held an organizational meeting to stimulate economic development and to combat community deterioration along the route)

b. Water

- Ohio River Valley. (more freight passes on the Ohio River at Southwind Port than is carried on the combined Suez and Panama Canals)
- Wabash River Valley

c. Railways

d. Air

2. Infrastructure Improvements - networking for effective and efficient critical masses for capital resource developments; consideration of privatization to raise endowment, investment, or development capital for economically depressed areas; or to improve effectiveness and efficiency of services in order to generate resources to fill community needs and offer greater community benefits (other services or functions will be added for consideration).

a. Communications

b. Gas

c. Electric

d. Sanitation

e. Water (ten-community Patoka Reservoir project)

f. Waste disposal

3. Initiating, growing, and nurturing businesses, jobs, wealth, and quality of life in the rural communities through stimulating:

a. Manufacturing

b. Mercantile establishments

c. Natural resources - Reforestation

d. Retirement and health care services

e. Small businesses

f. Tourism and recreation opportunities

g. Cultural and historical resources

h. Other

4. Develop support initiatives to stimulate rural economic development in the rural counties inhibited by low income including, but not limited to:

a. Community foundations

b. Entrepreneur and economic venture efforts

c. Finance

d. Incubator

C. Governmental efficiency and effectiveness

1. Networking small community and county resources (similar to networking of financial institutions through bank holding companies)
2. Continuity - commissioners/council - reaction time frames

D. Nurturing and enhancing leadership

1. Churches
2. Volunteer Fire Departments
3. Schools
4. Civic and social organizations
5. Retention of people

Rural Southern Indiana has many strengths and assets including, among others:

- Friendly, caring people with strong work ethics
- A rich historical background, numerous historic sites, and quality of life
- Beautiful rolling terrain, a low population density, available land at reasonable cost
- Livable climate with four seasons
- Abundant natural resources of forests, limestone, gravel, water, coal, oil and gas, and energy generating capabilities
- Favorable location to markets and transportation networks of rivers, highways, rail, and air
- Access to urban mercantile, business, medical, health care, financial, and cultural centers

Implementation of the Southern Indiana Rural Development Project will enhance these assets and will make a substantial and continuing contribution to the long-term growth and development of southern Indiana. The visions, plans and strategic implementation examples will also serve as models for other rural areas.

SOUTHERN INDIANA RURAL DEVELOPMENT PROJECT

Mr. Clyde Allen, Jr.
Ripley County Extension Agent
Versailles, IN

Dr. Darrel E. Bigham, Director
Historic Southern Indiana
University of Southern Indiana

Mr. Lynn Blinzinger, Superintendent
Crawford County School Corporation
Marengo, IN

Mr. Gary Conant
Historic Hoosier Hills
Versailles, IN

Mr. David Cox, Executive Director
Daviess County Growth Council
Washington, IN

Ms. Ellen K. Davis, Administrative Director
SE Indiana Regional Planning Commission
Versailles, IN

Mr. Eric Dewes, Executive Director
Vincennes Area Community Development Corp.

Mr. Donald H. Etienne
Leopold, IN

Ms. Elaine M. Fisher, Associate Director
Indiana Economic Development Academy
Ball State University
Muncie, IN

Mr. Warren G. Falk, Superintendent
Southwest School Corporation
Sullivan, IN

The Honorable Bill Graham, Mayor
City of Scottsburg

Dr. Fay E. Greckel, Dean
Division of Business & Economics
Indiana University Southeast
New Albany, IN

Mr. Dan Knudsen
Institute, Development Strategies
Indiana University
Bloomington, IN

Mr. Sherrell Marginet, Principal
Owensville Public School

Mr. Ted Montgomery, President
Union County National Bank
Liberty, IN

Mr. William M. Montsier, Exec. Director
Vevay-Switzerland County Foundation
Vevay, IN

Mr. Charles I. Overbey, Manager
University of Southern Indiana
Evansville, IN

Dr. David L. Rice, President
University of Southern Indiana
Evansville, IN

Mr. Gary L. Shelley
PSI Energy
Bloomington, IN

Mr. Steve Smith, Associate General Mgr.
Hoosier Energy Rural Electric Coop.
Bloomington, IN

Mr. Alan L. Walker
Bedford, IN

Mr. Brent Woolwine
Business & Industry Development
Vincennes University

Mr. Kent Yeager
Macukport, IN

Mr. Ed. Zellers
Indiana Department of Commerce
Clarksville, IN

Mr. Chris Hizer, Deputy Director
Indiana Department of Agriculture
Indianapolis, IN

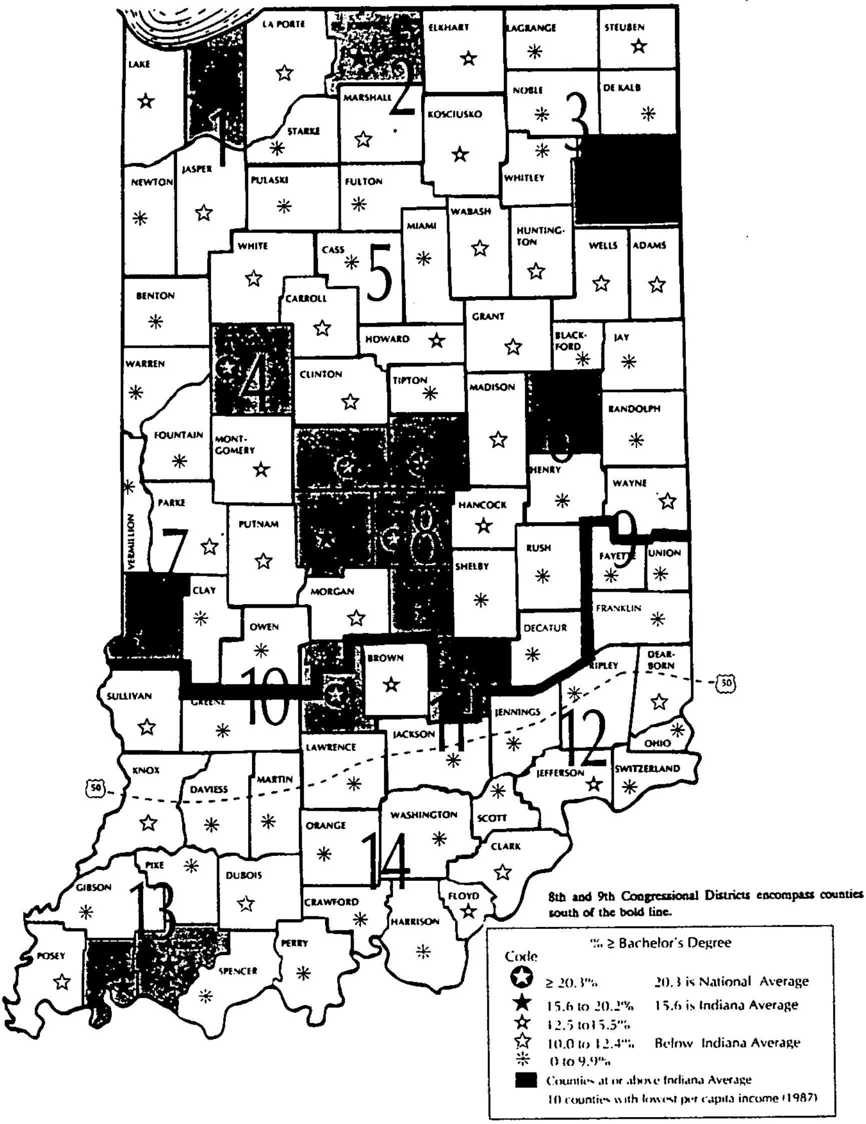
Mr. Ron Keeping
Area Economic Development
Southern Indiana Gas & Electric Co.
Evansville, IN

Mr. Brian Hasler, Staff Member
Congressman Frank McCloskey's Office
Washington, D.C.

Mr. Ken Nelson, Staff Member
Congressman Lee Hamilton's Office
Washington, D.C.

Mr. Wayne Vance, Staff Member
Congressman Lee Hamilton's Office
Jeffersonville, IN

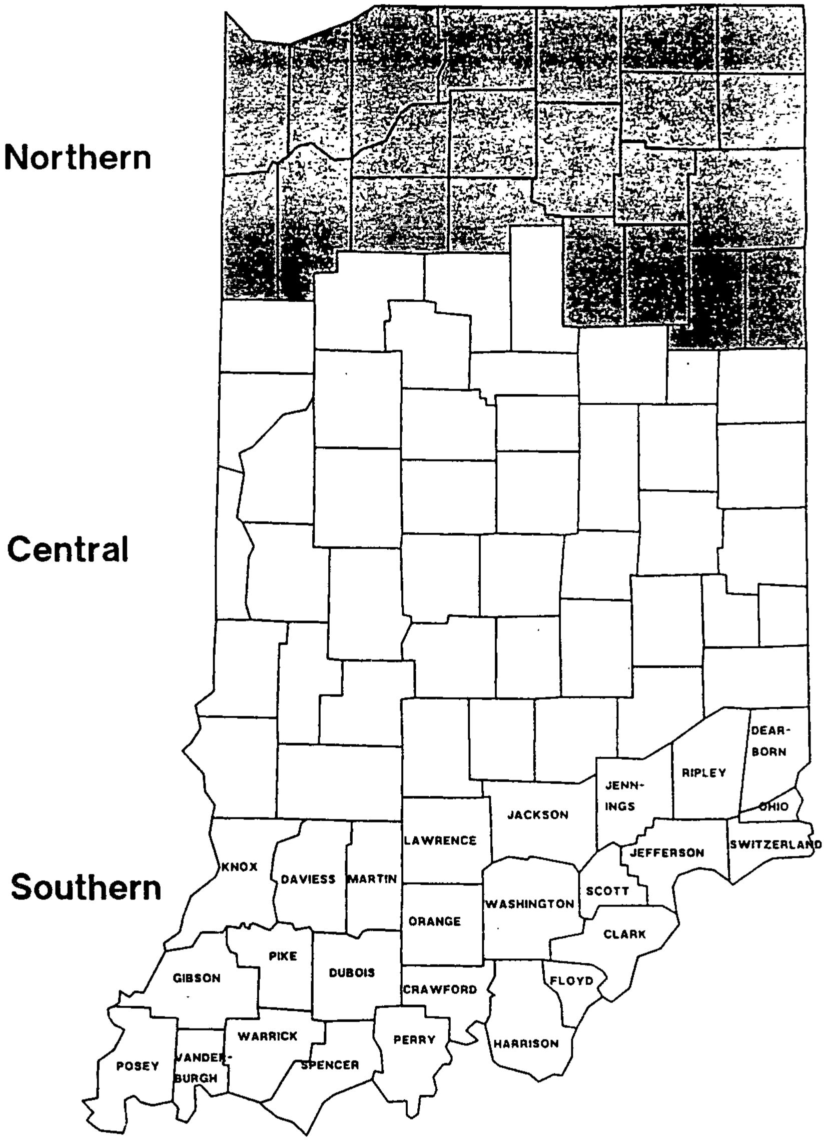
PERCENTAGE OF ADULTS IN INDIANA WHO HAVE A BACHELOR'S OR HIGHER DEGREE.
SOURCE: 1990 CENSUS. INDIANA PLANNING AND DEVELOPMENT REGIONS



PREPARED STATEMENT OF MORTON J. MARCUS

[A STATISTICAL PROFILE]

State of Indiana

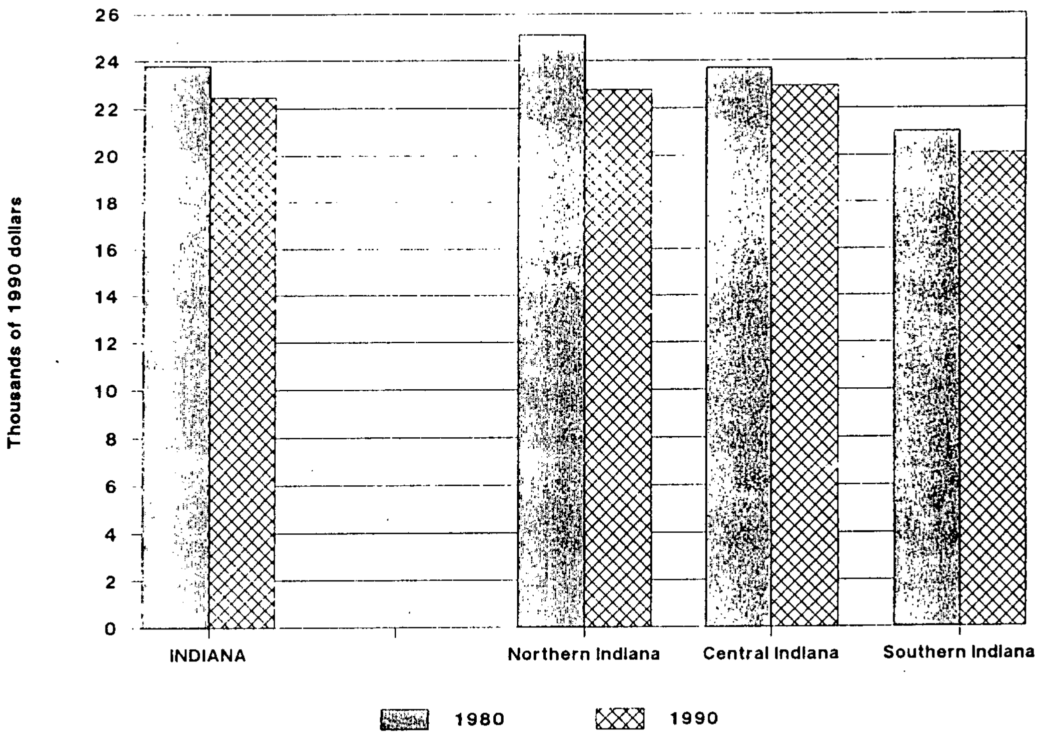


General Summary

Percent change 1980 to 1990 in

	Population	Rank	Employment	Rank	Real Earnings	Rank	Real Earnings per job	Rank	Real Total Personal Income	Rank	Real Per capita Personal Income	Rank
INDIANA	1.0		17.7		11.1		-5.6		14.9		13.7	
Northern Indiana	0.5		16.6		5.7		-9.4		11.7		11.1	
Central Indiana	1.2		18.8		15.0		-3.2		17.4		16.0	
Southern Indiana	1.4		16.2		11.1		-4.4		14.4		12.9	
Southern Indiana counties												
CLARK	-1.2	50	17.9	41	11.7	49	-5.2	65	10.6	55	11.9	58
CRAWFORD	1.0	40	18.1	39	13.0	47	-4.3	62	11.8	50	10.7	64
DAVIESS	-1.1	49	22.4	31	34.1	17	9.6	10	16.2	36	17.7	21
DEARBORN	13.3	6	6.7	68	-2.6	80	-8.7	81	25.0	15	10.3	66
DUBOIS	6.9	20	29.7	16	35.7	16	4.7	22	35.9	6	26.8	5
FLOYD	5.3	23	28.1	18	26.1	28	-1.5	50	23.3	19	17.2	22
GIBSON	-3.7	62	7.3	64	1.5	67	-5.4	67	4.5	76	8.9	70
HARRISON	9.6	10	24.1	24	42.0	7	14.3	3	25.7	12	14.9	39
JACKSON	3.3	33	22.1	32	31.5	19	7.7	14	19.3	28	15.6	34
JEFFERSON	-2.0	57	10.6	58	3.0	64	-6.9	70	6.4	68	8.6	74
JENNINGS	3.5	31	21.4	33	21.0	33	-0.3	40	25.3	13	20.7	11
KNOX	-4.7	68	7.1	66	0.0	75	-6.6	69	2.1	84	7.6	77
LAWRENCE	0.9	42	13.0	49	3.8	62	-8.2	77	12.8	44	11.3	60
MARTIN	-5.7	71	17.6	43	22.5	31	4.2	24	15.7	39	22.8	10
OHIO	3.9	29	-2.5	81	0.9	73	3.5	27	11.4	52	7.2	80
ORANGE	-1.4	52	10.0	59	13.8	46	3.4	28	11.9	48	13.8	47
PERRY	-1.2	51	-5.4	85	-8.4	87	-3.2	60	1.0	87	2.2	90
PIKE	-7.1	78	-6.7	89	-15.9	89	-9.9	86	-0.1	89	7.5	78
POSEY	-1.7	55	12.2	50	9.1	55	-2.8	56	2.3	82	3.8	87
RIPLEY	0.9	41	31.9	14	40.4	8	6.4	18	25.1	14	24.1	7
SCOTT	2.8	34	23.1	28	10.4	51	-10.3	87	9.3	59	6.0	84
SPENCER	0.7	43	32.2	13	37.2	14	3.7	26	15.2	41	14.8	41
SWITZERLAND	8.2	14	1.6	78	11.8	48	10.0	8	15.0	42	6.1	83
VANDERBURGH	-1.5	54	13.4	48	4.9	60	-7.5	75	11.0	53	12.6	54
WARRICK	8.3	13	15.6	45	-6.1	85	-18.8	90	21.3	23	12.2	55
WASHINGTON	8.1	15	24.7	23	31.3	21	5.3	20	18.9	29	9.7	67

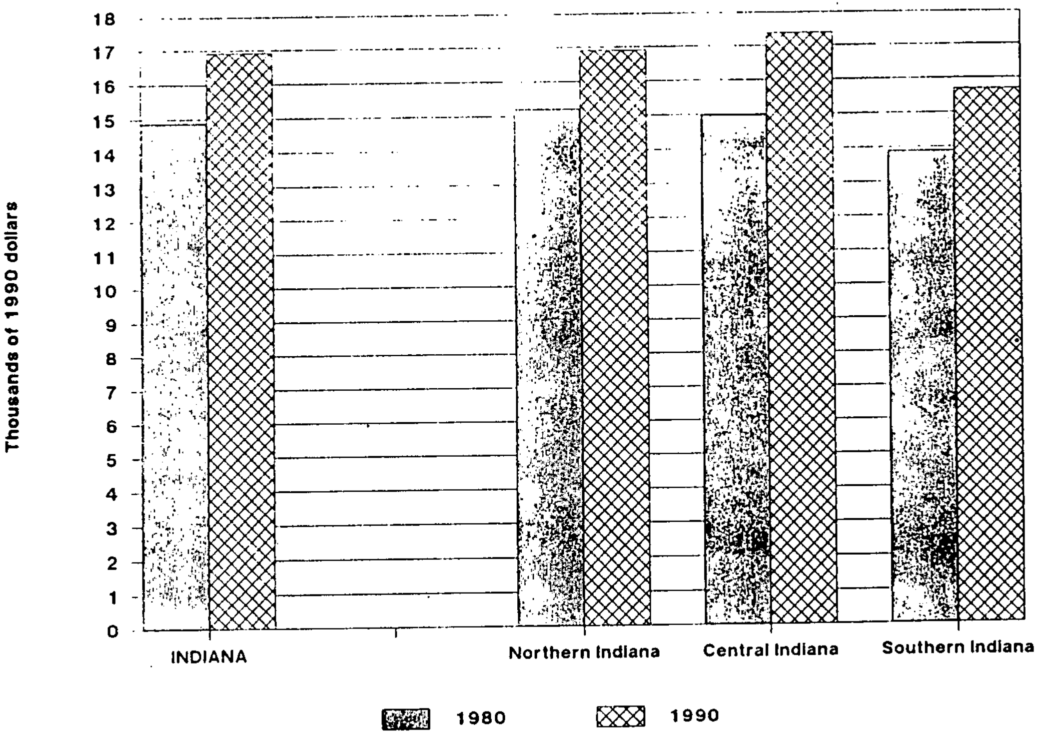
Real Earnings per Job



Summary #1

	Population		Total Employment		Total Earnings (~~millions~~ 000 of 1990 $)		Earnings per Job (1990 $)	
	1980	1990	1980	1990	1980	1990	1980	1990
INDIANA	5,490,224	5,544,159	2,602,952	3,062,539	61,922,944	68,800,791	23,790	22,465
Northern Indiana	1,891,741	1,901,209	896,386	1,045,580	22,525,649	23,815,876	25,129	22,778
Central Indiana	2,711,481	2,743,953	1,315,061	1,561,934	31,168,029	35,842,770	23,701	22,948
Southern Indiana	887,002	898,997	391,505	455,025	8,229,266	9,142,145	21,020	20,092
Southern Indiana counties								
CLARK	88,838	87,777	38,678	45,591	807,323	901,749	20,873	19,779
CRAWFORD	9,820	9,914	2,537	2,996	31,360	35,448	12,361	11,832
DAVIESS	27,836	27,533	10,697	13,095	172,990	232,055	16,172	17,721
DEARBORN	34,291	38,835	12,620	13,480	272,781	265,804	21,600	19,718
DUBOIS	34,238	36,616	21,344	27,679	417,217	566,359	19,547	20,462
FLOYD	61,169	64,404	21,095	27,020	408,663	515,376	19,372	19,074
GIBSON	33,156	31,913	13,314	14,290	269,099	273,137	20,212	19,114
HARRISON	27,276	29,890	8,643	10,730	113,817	161,574	13,169	15,058
JACKSON	36,523	37,730	16,822	20,539	302,866	398,293	18,004	19,392
JEFFERSON	30,419	29,797	14,312	15,834	297,717	306,722	20,802	19,371
JENNINGS	22,854	23,661	7,203	8,742	118,766	143,711	16,488	16,439
KNOX	41,838	39,884	19,374	20,740	357,235	357,156	18,439	17,221
LAWRENCE	42,472	42,836	16,114	18,216	354,433	367,887	21,995	20,196
MARTIN	11,001	10,369	7,831	9,208	203,777	249,646	26,022	27,112
OHIO	5,114	5,315	1,172	1,143	13,802	13,925	11,776	12,183
ORANGE	18,677	18,409	7,877	8,662	125,168	142,383	15,890	16,438
PERRY	19,346	19,107	7,709	7,294	135,900	124,434	17,629	17,060
PIKE	13,465	12,509	4,909	4,578	136,635	114,863	27,834	25,090
POSEY	26,414	25,968	9,924	11,136	244,739	266,994	24,661	23,976
RIPLEY	24,398	24,616	10,927	14,418	202,867	284,757	18,566	19,750
SCOTT	20,422	20,991	5,963	7,339	104,504	115,339	17,525	15,716
SPENCER	19,361	19,490	6,704	8,864	119,482	163,892	17,823	18,490
SWITZERLAND	7,153	7,738	2,552	2,594	29,877	33,413	11,707	12,881
VANDERBURGH	167,515	165,058	100,361	113,786	2,364,173	2,479,884	23,557	21,794
WARRICK	41,474	44,920	15,340	17,732	513,720	482,416	33,489	27,206
WASHINGTON	21,932	23,717	7,474	9,319	110,357	144,928	14,765	15,552

Per Capita Personal Income

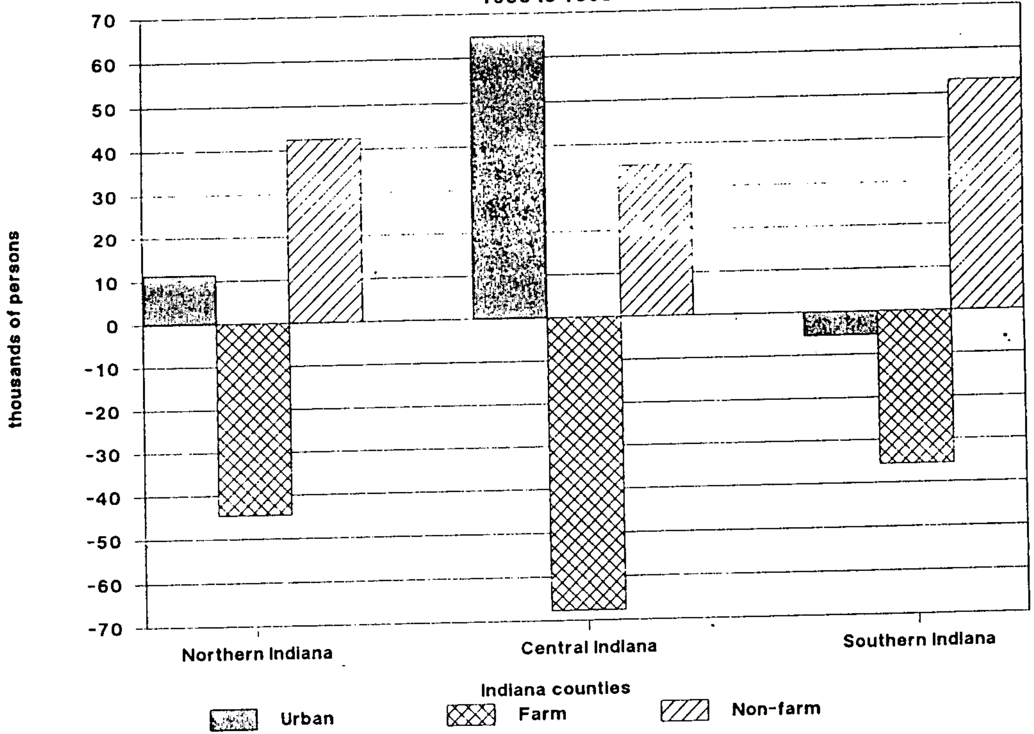


Summary #2

	Total Personal Income (~~millions~~ of 1990 $)		Per Capita Personal Income (1990 dollars)	
	1980	1990	1980	1990
INDIANA	81,756,140	93,977,726	14,885	16,921
Northern Indiana	28,784,642	32,151,581	15,216	16,911
Central Indiana	40,643,158	47,719,187	14,989	17,391
Southern Indiana	12,328,340	14,106,958	13,899	15,692
Southern Indiana counties				
CLARK	1,240,295	1,371,265	13,953	15,607
CRAWFORD	102,358	114,385	10,419	11,533
DAVIESS	335,476	389,858	12,026	14,150
DEARBORN	475,553	594,340	13,816	15,242
DUBOIS	506,069	687,827	14,768	18,732
FLOYD	899,077	1,108,520	[illegible]	17,161
GIBSON	494,829	516,981	14,879	16,209
HARRISON	338,556	425,688	12,354	14,199
JACKSON	489,432	584,061	13,370	15,452
JEFFERSON	368,610	392,249	12,105	13,141
JENNINGS	250,483	313,859	10,957	13,228
KNOX	564,538	576,608	13,454	14,473
LAWRENCE	556,032	626,935	13,124	14,609
MARTIN	117,385	135,771	10,657	13,086
OHIO	64,640	72,034	12,605	13,510
ORANGE	212,382	237,632	11,345	12,905
PERRY	249,004	251,454	12,865	13,149
PIKE	189,040	188,908	14,062	15,124
POSEY	396,350	405,429	15,014	15,587
RIPLEY	308,119	385,461	12,609	15,648
SCOTT	233,487	255,313	11,443	12,129
SPENCER	246,975	284,531	12,704	14,590
SWITZERLAND	72,182	82,994	10,074	10,692
VANDERBURGH	2,691,596	2,987,821	16,062	18,093
WARRICK	675,120	818,829	16,197	18,179
WASHINGTON	250,751	298,205	11,415	12,523

Change in population

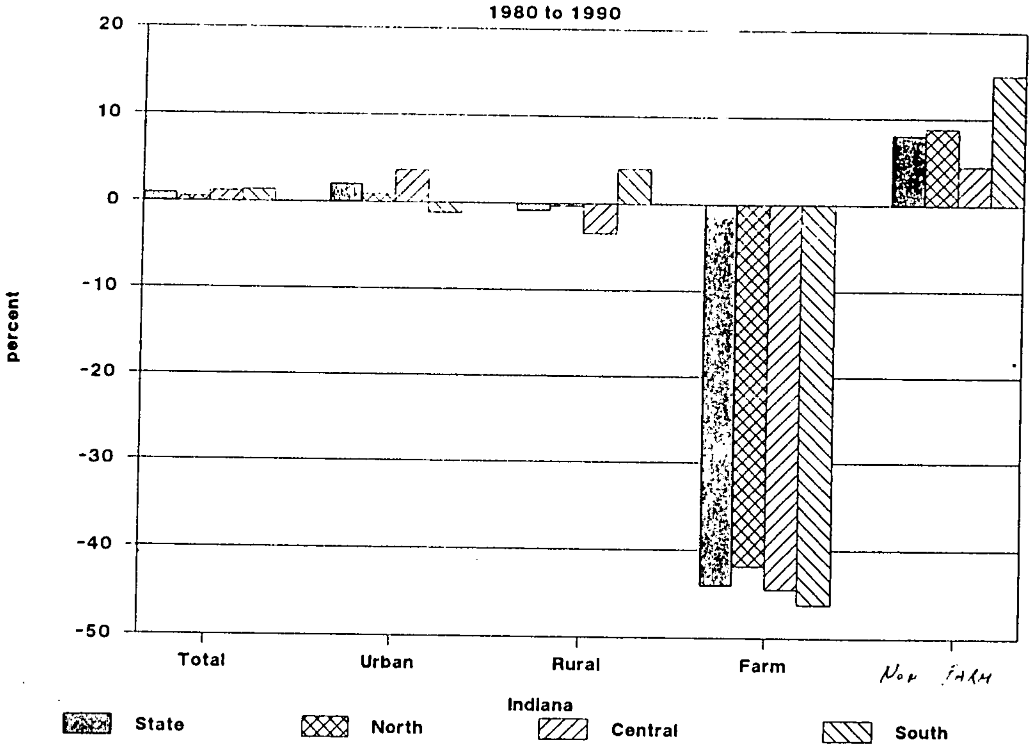
1980 to 1990



Changes in place of residence, 1980 to 1990

	Number				Percent			
	Total	Urban	Farm	Non-Farm	Total	Urban	Farm	Non-Farm
INDIANA	53,935	70,946	(147,703)	130,692	1.0	2.0	-44.0	8.0
Northern Indiana	9,468	11,501	(44,537)	42,504	0.5	0.9	-41.8	8.8
Central Indiana	32,472	64,865	(67,602)	35,209	1.2	3.7	-44.4	4.4
Southern Indiana	11,995	(5,420)	(35,564)	52,979	1.4	-1.2	-46.1	14.9
Southern Indiana counties								
CLARK	(1,061)	973	(2,028)	(6)	-1.2	1.5	-60.8	0.0
CRAWFORD	94	0	(878)	972	1.0	0.0	-62.7	11.5
DAVIESS	(303)	(487)	(2,004)	2,188	-1.1	-4.3	-35.5	20.1
DEARBORN	4,544	4,053	(1,100)	1,591	13.3	33.7	-39.8	8.2
DUBOIS	2,378	799	(1,746)	3,325	6.9	5.5	-44.8	21.0
FLOYD	3,235	1,700	(930)	2,465	5.3	4.3	-58.1	12.1
GIBSON	(1,243)	(3,872)	(1,248)	3,877	-3.7	-26.2	-35.7	26.1
HARRISON	2,614	103	(3,415)	5,926	9.6	3.8	-60.9	31.3
JACKSON	1,207	694	(2,021)	2,534	3.3	3.9	-50.1	17.2
JEFFERSON	(622)	(910)	(1,558)	1,846	-2.0	-5.5	-41.7	18.2
JENNINGS	807	(457)	(1,201)	2,465	3.5	-7.9	-37.8	17.7
KNOX	(1,954)	(2,354)	(1,802)	2,202	-4.7	-9.2	-48.4	17.6
LAWRENCE	364	(565)	(1,502)	2,431	0.9	-3.0	-53.1	11.8
MARTIN	(632)	(174)	(766)	308	-5.7	-5.7	-52.4	4.8
OHIO	201	0	(253)	454	3.9	0.0	-27.5	10.8
ORANGE	(268)	(95)	(1,094)	921	-1.4	-2.6	-47.0	7.2
PERRY	(239)	(616)	(1,079)	1,456	-1.2	-7.1	-54.9	16.8
PIKE	(956)	(2,987)	(763)	2,794	-7.1	-100.0	-45.5	31.7
POSEY	(446)	(439)	(1,734)	1,727	-1.7	-5.7	-56.2	11.0
RIPLEY	218	400	(1,841)	1,659	0.9	11.5	-40.0	10.2
SCOTT	569	(281)	(797)	1,647	2.8	-2.8	-44.9	18.9
SPENCER	129	(2,590)	(1,272)	3,991	0.7	-100.0	-36.1	30.1
SWITZERLAND	585	0	(876)	1,461	8.2	0.0	-34.0	31.9
VANDERBURGH	(2,457)	(2,401)	(632)	576	-1.5	-1.7	-38.7	2.6
WARRICK	3,446	3,757	(830)	[illegible]19	8.3	17.5	-41.9	2.9
WASHINGTON	1,785	329	(2,194)	3,[illegible]50	8.1	6.2	-50.9	29.6

Percent change in population



Population by place of residence

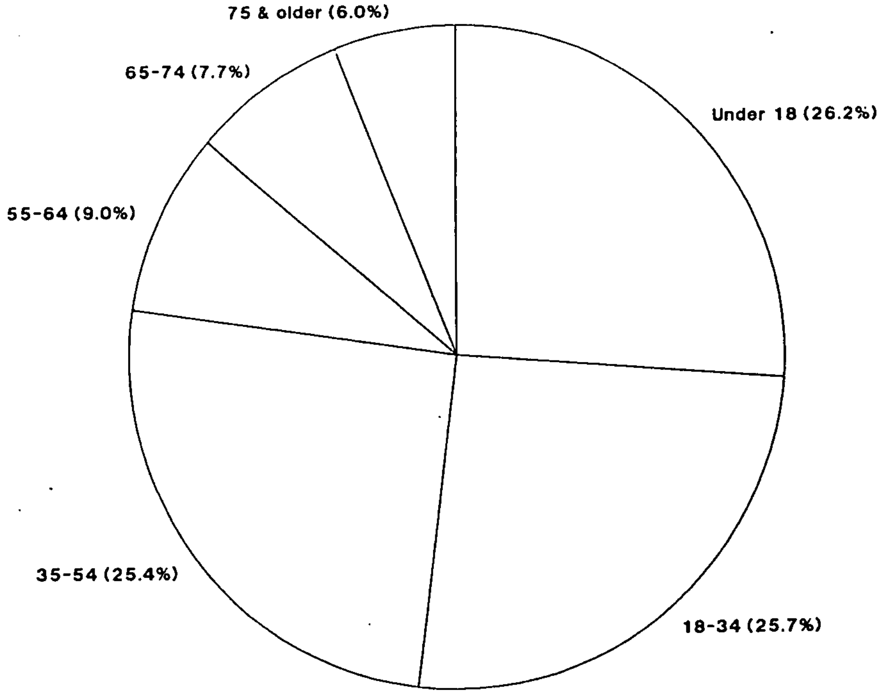
	1980				1990			
	Total	Urban	Farm	Non-Farm	Total	Urban	Farm	Non-Farm
INDIANA	5,490,224	3,525,071	335,836	1,629,317	5,544,159	3,596,017	188,133	1,760,009
Northern Indiana	1,891,741	1,302,082	106,521	483,138	1,901,209	1,313,583	61,984	525,642
Central Indiana	2,711,481	1,767,453	152,232	791,796	2,743,953	1,832,318	84,630	827,005
Southern Indiana	887,002	455,536	77,083	354,383	898,997	450,116	41,519	407,362
Southern Indiana counties								
CLARK	88,838	64,129	3,338	21,371	87,777	65,102	1,310	21,365
CRAWFORD	9,820	0	1,400	8,420	9,914	0	522	9,392
DAVIESS	27,836	11,325	5,643	10,868	27,533	10,838	3,639	13,056
DEARBORN	34,291	12,014	2,762	19,515	38,835	16,067	1,662	21,106
DUBOIS	34,238	14,473	3,895	15,870	36,616	15,272	2,149	19,195
FLOYD	61,169	39,230	1,600	20,339	64,404	40,930	670	22,804
GIBSON	33,156	14,781	3,495	14,880	31,913	10,909	2,247	18,757
HARRISON	27,276	2,724	5,604	18,948	29,890	2,827	2,189	24,874
JACKSON	36,523	17,754	4,030	14,739	37,730	18,448	2,009	17,273
JEFFERSON	30,419	16,526	3,734	10,159	29,797	15,616	2,176	12,005
JENNINGS	22,854	5,768	3,180	13,906	23,661	5,311	1,979	16,371
KNOX	41,838	25,570	3,722	12,546	39,884	23,216	1,920	14,748
LAWRENCE	42,472	19,051	2,830	20,591	42,836	18,486	1,328	23,022
MARTIN	11,001	3,064	1,461	6,476	10,369	2,890	695	6,784
OHIO	5,114	0	921	4,193	5,315	0	668	4,647
ORANGE	18,677	3,637	2,330	12,710	18,409	3,542	1,236	13,631
PERRY	19,346	8,704	1,966	8,676	19,107	8,088	887	10,132
PIKE	13,465	2,987	1,676	8,802	12,509	0	913	11,596
POSEY	26,414	7,656	3,086	15,672	25,968	7,217	1,352	17,399
RIPLEY	24,398	3,469	4,603	16,326	24,616	3,869	2,762	17,985
SCOTT	20,422	9,925	1,777	8,720	20,991	9,644	980	10,367
SPENCER	19,361	2,590	3,526	13,245	19,490	0	2,254	17,236
SWITZERLAND	7,153	0	2,576	4,577	7,738	0	1,700	6,038
VANDERBURGH	167,515	143,429	1,635	22,451	165,058	141,028	1,003	23,027
WARRICK	41,474	21,440	1,980	18,054	44,920	25,197	1,150	18,573
WASHINGTON	21,932	5,290	4,313	12,329	23,717	5,619	2,119	15,979

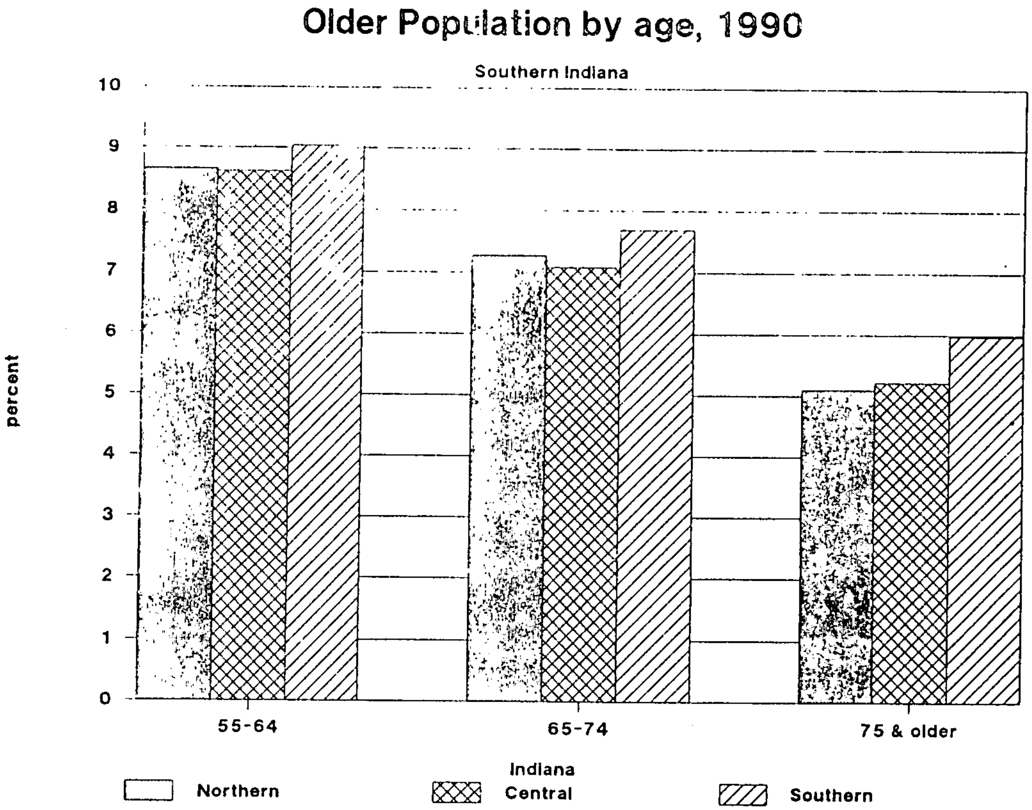
Rural (Farm and Non-Farm) population as a percent of total

	1980	1990
INDIANA	35.8	35.1
Northern Indiana	31.2	30.9
Central Indiana	34.8	33.2
Southern Indiana	48.6	49.9
Southern Indiana counties		
CLARK	27.8	25.8
CRAWFORD	100.0	100.0
DAVIESS	59.3	60.6
DEARBORN	65.0	58.6
DUBOIS	57.7	58.3
FLOYD	35.9	36.4
GIBSON	55.4	65.8
HARRISON	90.0	90.5
JACKSON	51.4	51.1
JEFFERSON	45.7	47.6
JENNINGS	74.8	77.6
KNOX	38.9	41.8
LAWRENCE	55.1	56.8
MARTIN	72.1	72.1
OHIO	100.0	100.0
ORANGE	80.5	80.8
PERRY	55.0	57.7
PIKE	77.8	100.0
POSEY	71.0	72.2
RIPLEY	85.8	84.3
SCOTT	51.4	54.1
SPENCER	86.6	100.0
SWITZERLAND	100.0	100.0
VANDERBURGH	14.4	14.6
WARRICK	48.3	43.9
WASHINGTON	75.9	76.3

Population by age, 1990

Southern Indiana



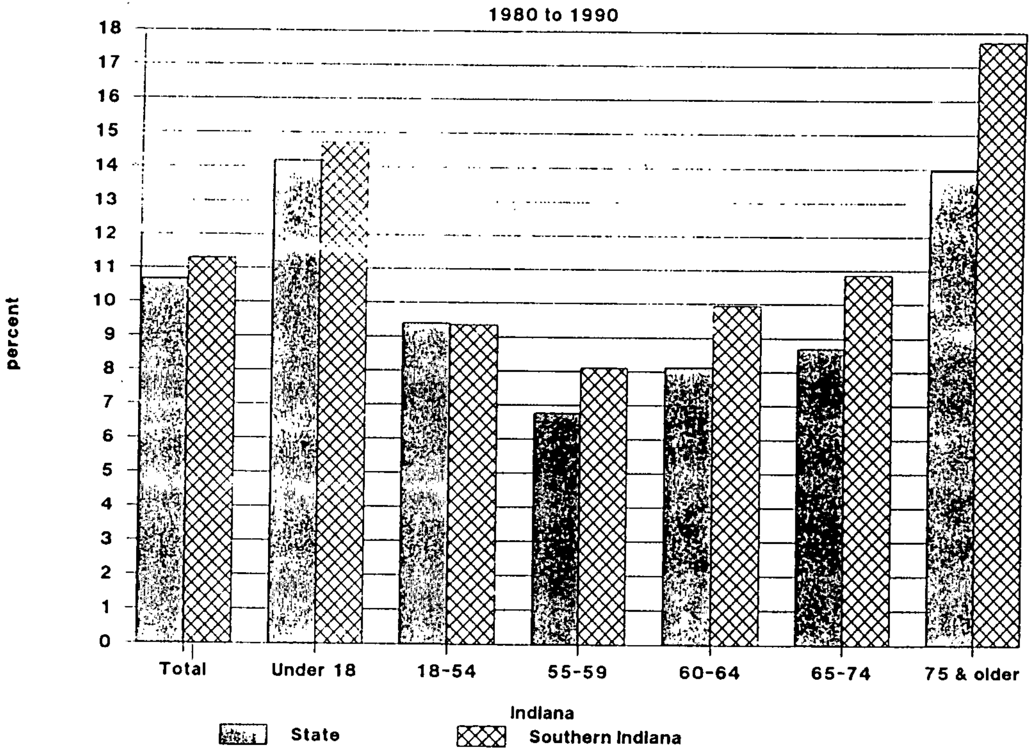

Older Population by age, 1990
Southern Indiana
percent
10
9
8
7
6
5
4
3
2
1
0
55-64
65-74
75 & older
Indiana
Northern
Central
Southern

Percent distribution of population by age, 1990

Age of persons	Under 18	18-34	35-54	55-64	65-74	75 & older	Dependency ratio*
INDIANA	26.3	27.4	25.1	8.7	7.3	5.3	63.4
Northern Indiana	27.7	26.3	25.0	8.7	7.3	5.1	66.8
Central Indiana	25.3	26.8	25.0	8.6	7.1	5.2	60.3
Southern Indiana	26.2	25.7	25.4	9.0	7.7	6.0	66.4
Southern Indiana counties							
CLARK	25.7	26.4	26.7	9.1	7.1	5.0	60.7
CRAWFORD	27.5	24.0	25.0	9.2	7.6	6.6	71.8
DAVIESS	28.9	23.2	23.0	8.9	8.9	7.1	81.5
DEARBORN	28.6	24.5	26.4	8.6	7.0	4.9	68.0
DUBOIS	28.1	27.1	24.2	8.3	6.6	5.7	67.9
FLOYD	26.5	25.2	26.8	8.8	7.4	5.4	64.5
GIBSON	25.7	24.2	24.6	9.8	8.5	7.2	70.7
HARRISON	28.3	24.8	26.9	8.7	6.5	4.9	65.7
JACKSON	27.0	25.5	25.0	9.0	7.4	6.2	68.2
JEFFERSON	25.0	27.0	25.5	9.0	7.8	5.7	62.7
JENNINGS	27.0	26.1	26.6	8.8	6.8	4.7	62.7
KNOX	23.2	29.0	22.6	9.3	8.4	7.5	64.3
LAWRENCE	25.5	24.1	26.2	9.7	8.1	6.4	66.7
MARTIN	27.0	24.3	25.3	9.5	8.6	5.3	69.1
OHIO	26.2	25.4	24.9	9.5	7.6	6.4	67.2
ORANGE	26.7	23.8	24.7	9.5	8.8	6.4	72.2
PERRY	25.9	26.6	23.7	9.1	8.4	6.2	68.1
PIKE	24.5	23.6	25.9	10.2	8.6	7.1	67.3
POSEY	28.0	25.0	26.4	8.6	6.8	5.2	66.7
RIPLEY	28.5	24.5	24.2	8.6	7.6	6.6	74.4
SCOTT	27.8	25.9	25.9	8.5	6.5	5.3	65.7
SPENCER	27.3	24.9	25.7	9.1	7.2	5.8	67.6
SWITZERLAND	27.0	22.6	25.5	9.8	8.2	6.9	72.8
VANDERBURGH	23.9	27.0	24.0	9.4	8.8	6.9	65.6
WARRICK	28.3	24.6	29.1	7.7	6.0	4.3	62.9
WASHINGTON	27.4	25.4	25.0	8.7	7.7	5.8	69.2

* Persons under age 18 plus persons 65 & older per 100 persons 18-64

Incidence of poverty by age



Incidence of poverty by age, 1990

	Total	Under 18	18-54	55-59	60-64	65-74	75 & older
INDIANA	10.68	14.20	9.41	6.79	8.13	8.71	13.98
Northern Indiana	9.60	13.66	8.06	6.18	6.72	7.34	11.84
Central Indiana	11.23	14.43	10.33	6.75	8.50	8.93	14.06
Southern Indiana	11.30	14.72	9.36	8.11	9.94	10.86	17.72
Southern Indiana counties							
CLARK	10.06	13.75	8.30	6.85	6.53	11.22	15.39
CRAWFORD	18.47	22.92	14.51	13.37	21.41	17.66	34.64
DAVIESS	15.54	20.78	12.47	11.44	11.58	15.21	20.39
DEARBORN	8.48	10.78	7.12	7.48	9.12	7.62	10.94
DUBOIS	6.14	5.51	4.29	5.91	11.23	12.43	16.87
FLOYD	11.01	16.06	8.33	6.48	11.71	10.29	17.37
GIBSON	9.64	11.13	8.32	4.25	10.92	10.03	16.45
HARRISON	9.83	12.58	7.60	6.62	8.54	11.53	20.45
JACKSON	10.49	13.54	8.64	8.67	9.70	9.42	16.18
JEFFERSON	11.63	15.62	9.89	6.66	8.03	10.26	18.70
JENNINGS	12.80	16.95	10.06	12.67	14.94	12.29	18.35
KNOX	15.70	19.88	14.93	9.63	9.86	12.54	18.92
LAWRENCE	9.72	12.59	7.93	7.17	8.06	8.35	18.62
MARTIN	13.85	17.94	11.47	9.94	11.69	15.51	19.11
OHIO	9.88	8.63	7.47	19.08	13.12	8.89	27.80
ORANGE	15.35	19.42	12.85	12.18	7.48	14.06	28.97
PERRY	11.62	14.17	9.01	12.39	11.64	11.60	21.29
PIKE	13.26	19.88	10.77	9.02	8.58	8.29	21.05
POSEY	7.62	8.95	5.78	7.73	10.16	9.94	14.55
RIPLEY	10.55	12.96	8.16	9.19	11.08	8.96	21.70
SCOTT	18.98	26.88	16.17	12.57	12.69	13.88	22.41
SPENCER	9.86	10.74	8.16	7.35	7.09	11.62	24.81
SWITZERLAND	15.22	20.35	11.48	10.22	5.36	13.19	36.48
VANDERBURGH	12.48	17.10	11.14	7.66	10.75	10.41	13.52
WARRICK	6.58	8.66	5.12	6.37	6.25	6.86	12.93
WASHINGTON	14.30	18.06	11.97	7.26	14.93	14.30	23.08

MATERIAL SUBMITTED FOR THE RECORD

Protect Our Woods

11663 E 475 N
Dubois IN 47527-9644
812-678-4303

3 May 1993

Congressman Lee Hamilton
Room 2187 Rayburn House Office Building
Washington DC 20515

Testimony presented before the Joint Economic Committee of the United States Congress, meeting in New Albany, Indiana, on April 23, 1 993, by Bob Klawitter, Executive Director of Protect Our Woods and Vice President of the Hoosier Environmental Council.

Thank you, Congressman, for this opportunity to present testimony on rural economic development from an environmental point of view. The day is past when the environment could be considered as something almost incidentally impacted by economic development decisions. I today it is increasingly clear that what we develop economically is the environment. Economic development is purposeful environmental change. Presumably, we want to change the environment for the better. Therefore, it is no longer appropriate to think of the environment only in terms of negative impacts to be regulated and mitigated. Instead, we must recognize that good economic development planning is planning for a better environment.

With the new administration in Washington emphasizing the importance of environmental quality, it is time for economic planners to recognize that their mission is to improve the quality of life for people in America rather than simply to increase the profitability of local business enterprises and the intensity of local land use. Most rural economic development planning today still assumes that the more jobs and dollars generated per acre, the better. This attitude may have been appropriate when the land seemed underpopulated and its resources inexhaustible. Today, however, such an attitude in public planners can only be based on inexcusable ignorance.

The State of Indiana today is a far cry from the Indiana Territory. 200 years ago, Indiana was a lush jungle teeming with wildlife and sparsely inhabited by subsistence farmers and hunter-gatherers. With 35,936 square miles of land and 5,61 million people, Indiana now has 156 people and 119 motor vehicles per square mile. That means that there are only about 4 acres for every man, woman, and child in the state, compared ton 8.4 acres of land per person worldwide. On your four acres you have to have room for your share of Indiana's mines, mills, factories, power plants, oil refineries, sewage and water treatment plants, offices, roads, parking lots, airports, and landfills. 87% of

Indiana's wetlands and 78% of its forests have been destroyed and fish from our largest waters are unsafe to eat.

The environmental condition of Indiana is son bad that the Institute for Southern Studies ranked it 49th among the states in 1991. Indiana's air is the most polluted of any state—we release more than 3,000 pounds of toxic chemicals into the air every year for every square mile of the state, 539 pounds of sulfur dioxide and 1 60 pounds of nitrogen oxides from electric utilities every year for every Hoosier, 214 million tons of carbon dioxide, 5,300 tons of gases that deplete stratospheric ozone. 46% of us live in cities that violate ground level ozone standards. Our water is more polluted than any other state except Florida, by 53 million pounds per year of toxic chemicals, by the 32% of our sewage systems in noncompliance, and by pesticides that may contaminate as much as 95% of our ground and surface water. We release the most toxic chemical waste of any state—276 million pounds per year, even though only 1.6% of our personal income comes from the chemical industry. We rank 28th in community health and 36th in workplace health. Indiana ranks 50th among the states in indicators of fun and quality of life, primarily outdoor recreation opportunities. Such environmental degradation has serious economic implications. Is this the sort of place you would visit or come to live and work if you had any choice, or would you just send your garbage?

Indiana's desperate environmental condition is the result of 200 years of economic development guided by the principle that the most intensive land use, generating the most jobs an dollars per acre, is the best land use. Clearly, we can not stand another 200 years of this kind of economic development. he economic development that Indiana needs will look a lot like rehabilitation. Economic development that is not environmental rehabilitation can produce, at best, short-lived, unsustainable prosperity for some and increasing poverty for others. The rest of my testimony considers this proposition in the case of rural southern Indiana.

After growing up in northwestern Indiana, I have lived for more than thirty adult years now in Indiana's 8th and 9th Congressional Districts in south central Indiana. I came here because this seemed to be the wildest, most rural, least populated, and least polluted part of the State. I have taken a serious interest in the geology, topography, hydrology, biology, sociology, and history of southern Indiana, and I am worried about its future.

Rural poverty in southern Indiana today can be traced directly to past economic development and resulting environmental degradation. European colonists in the Indiana territory replaced a sustainable economy based on the natural abundance of the land's forest and wetlands. Settlers cut and burned the ancient forest to farm thin soils and, in the central uplands, steep slopes. Land clearing, population, and soil erosion peaked around the turn of the century. Then, because the impoverished land would no longer support so many people, they began to leave. Increasing agricultural productivity further depopulated the land as mechanization and lower profit margins for commodities increased the size needed for economically viable farms and reduced the demand for farm labor. The rural population became a labor pool for the industrializing cities. The surplus workforce that stayed on in the country without enough land and capital to be viable farmers became today's rural poor. Because commodities remain cheap, farm and forest related jobs do not pay well—workers in wood make much less than workers in steel. Mining has produced relatively high paying jobs for a few in southwestern Indiana. But coal is not a sustainable resource: mining is petering out today in Pike County, leaving behind a devastated landscape and increasing poverty.

By 1970, the mass exodus from the country had slowed. The 1980 and 1990 censuses show that population has roughly stabilized in Indiana's rural counties south of Indianapolis. 22 counties have lost and 8 have gained fewer than 1,000 people since 1980. The 11 counties that have gained 1,000 ton 10,000 people are primarily extensions of the metropolitan areas of Indianapolis, Cincinnati, Louisville, and Evansville. (Data from *Population Trends for Indiana Counties, Cities, and Towns 7970-1990*, Purdue University School of Engineering, 1991.) State and federal rural economic development planning today depends almost entirely on subsidies to encourage this suburban sprawl. More and better highways, sewer and water lines, tax abatements and development grants, health and education services all encourage the relocation of manufacturing industries and residential populations from metropolitan areas into nearby farmlands, forests, and wetlands.

Of those testifying before the Joint Economic Committee meeting in New Albany, only Dr. Morton Marcus has sufficient intellectual distance from the traditional development community to question whether this, "rural sprawl," as he calls it, is a good idea. Though it may be subsidized under the guise of relieving rural poverty, there is in fact a large and not so poor constituency of builders and bureaucrats who promote rural economic development because they expect in some way to profit from it personally. These boosters are very visible and articulate and their voice must be discounted if rural development is to benefit rural America rather than simply convert it ton suburban America.

There are several reasons why continuing to subsidize urban sprawl is a bad idea. Many of them can be summarized under the concept that wild and rural America, the country, is in danger of disappearing, especially in the heavily populated Eastern United States. The difference between city and country can be defined in terms of land use intensity, or jobs per acre. The suburbanization of Indiana's remaining farm, forest, karst, and wetland counties will have serious economic impacts an is unlikely to prove sustainable.

There is alarm in the conservation community and even in the halls of Congress today because the great forests of Maine and New England, New York and the Southern Appalachians are threatened by suburban development by tens of millions of people fleeing the crowded, polluted, and crime-ridden cities of the east, no more than an hour's drive away. Indiana's Senator Lugar is one of those who has passed Forest Legacy legislation to help protect eastern forests from development. Southern Indiana, where almost all of Indiana's remaining forests are located, is under a similar threat. Already people live in Orange County and commute ton work in Louisville, Evansville, and Indianapolis.

Preservation of the forests of the eastern United States from development is an important component of preserving biological diversity worldwide. These forests are an important part of the hemispheric ecosystem that includes the tropical forests of Central and South America. The neotropical migrant birds that breed in our eastern temperate forests and overwinter in the tropics are a notable example. Forest fragmentation reduces the breeding success of many of these birds, contributing to population declines that are alarming American biologists. 44% of these species are declining in Indiana. An international neotropical migrant bird conservation organization, Partners in Flight: Aves de las Americas, including the landowning agencies of the US government, has formed to try to protect these birds.

Constituting 2/3 of the birds of our eastern forests, the neotropical migrants prevent the defoliation and death of our forests by consuming vast quantities of leaf-eating insects each summer. Thus they protect our timber supplies and the forest cover that protects water quality in our watersheds. But they are also important species of the endangered tropical forests. Political leaders in the forested tropical nations argue quite rationally that we cannot expect them to protect their forests while we degrade and destroy our part of the forest ecosystem of the western hemisphere. Protecting planetary biological diversity is an economic issue preventing the depletion of genetic material for food, fiber, and medicine as well as preventing potentially disastrous climate change and maintaining the web of life in which we humans evolved.

The importance of Farm and forest contributions to Indiana's rural economy should not be underestimated. According to *The Indiana Factbook 1992*, prepared by the Indiana Business Research Center, cash receipts on Indiana farms in 1989 were $5,158,023,000. Farm, forest, and fishery employment generated an annual payroll of $112 million in 1988. Of particular concern to southern counties, more than 27,000 Hoosiers were employed by the lumber and wood industry in 1990, and more than 23,000 by the related furniture industry. Dr. William Hoover, Professor of Forest Economics at Purdue University, estimates that each dollar of timber sold on the stump in Indiana generates $8 of additional economic activity (draft report of the Indiana Economic Development Council's on Indiana's wood industry). According to the US Department of Commerce's *1989 Census of Manufacturers*, shipments from Indiana's primary and secondary wood industries total over $3.5 billion, producing a payroll of nearly $466 million. Wood industry employment in southern counties was as high as 33% in Dubois, 23% in Orange, 19% in Crawford and Perry, 16% in Harrison, 14% in Spencer (*County Business Patterns: Indiana*, US Department of Commerce, 1989).

Protect Our Woods has long argued that public timber sales help keep low the prices private landowners get for logs, reducing the profitability of timberland and encouraging conversion of forest to more profitable uses, further encouraging suburban sprawl.

Though farm and forest related jobs may not grow in the next decade, economic development that will further damage these important rural industries should not be encouraged by public policies and subsidies. Infrastructure like highways and rural water and sewer lines damage these industries by fragmenting forests and farms, converting them to residential land use, raising tax burdens, and decreasing community tolerance of farming and forestry activities. The prosperity of Indiana's wood products industry today is based on the recovery of forests after rural populations began to decline. Efforts to increase rural populations today are contrary to the interests of Indiana's wood industry.

No actual rural residents were invited to testify before the Joint Economic Committee meeting. It would be a good idea to talk to some actual residents who are not professional boosters of development. Dr. Marcus is no doubt correct when he says that economic development in rural southern Indiana depends on Hoosiers giving up their resistance ton change. But Hoosiers do not resist all change. The change they resist is land use change that threatens ton destroy their occupations and lifestyles, displace them on the land, and replace them with invaders who will use the land more intensively. They have watched while public policy and public money devalued rural products and rural occupations ton provide cheap materials and labor for the industrial economy. They see the refugees pouring out of the urban blight created by the manufacturing economy. They are not stupid. They are rightly suspicious when developers and refugees from development offer to save them. Even the poorest often understand that it is easier ton be poor in the country, living closer ton the land, than in the encroaching cities.

But the cities and city people also suffer from the urban sprawl that threatens ton overwhelm rural southern Indiana. When commercial enterprises and residential populations relocate outside of urban areas, they help create urban blight, capital flight, poverty, and abandonment.

The most avid proponents of rural economic development in Indiana agree that rural investment and employment encouraged by public infrastructure projects will probably come at the expense of other areas. The *Mid-Continent Highway (1-69)* was commissioned by the Southwest Indiana Regional Highway Commission and written by David Reed, who also wrote the Hudson Institute's study of economic development for rural southern Indiana: "While construction of a new highway does create conditions for new enterprise and new employment, a good portion of the economic impact involves firms relocating to a new better location—overall demand and output for the nation is only marginally affected." Again, "When such an area [along a new supply route] is chronically depressed, the redistribution of employment that can result from the construction of a new transportation system may be desirable, even if it comes at some expense to areas where those jobs might otherwise be located."

A rational economic development plan for southern Indiana must consider the overall picture, not just focus on possible benefits to individual localities. Public subsidies ton encourage economic growth in one place function like the tax, loan, and cash incentives offered to attract businesses ton one place or another. Structural unemployment caused by increasing industrial productivity is expected to persist for the long term, even if the world economy eventually recovers from a long period of slow economic growth. As a result, new jobs will be created very slowly, offering little hope that economic expansion rather than simply relocation can reduce rural poverty.

What would public policy beneficial ton rural areas as a part of overall economic developmet look like? I believe it would accept rather than attempt to counter long-term demographic trends toward concentration of human populations around urban centers. It would also be fiscally responsible. Public money is better spent on urban renewal rather than on suburban sprawl. Commercial and residential concentration increases efficiency and profitability as transportation costs are reduced. The energy efficiency of such concentration would contribute significantly to a more effective public energy policy. Rising energy costs encourage such efficiency. Transportation energy taxes could help pay for urban renewal while discouraging sprawl. Large savings in public spending would result from spending less money on rural infrastructure and rural economic development bureaucracies. And traditional rural economic enterprises, like forestry and farming, based on renewable natural resources, would not be threatened.

Discouraging rather than promoting sprawl will also encourage the recovery of the natural support systems on which economic development and the quality of human life depends. Construction in rural watersheds is a growing threat to water supplies. Monroe and Patoka reservoirs are providing an increasingly larger percentage of the water on which human populations in water-short south central Indiana depend. These irreplaceable reservoirs are threatened by siltation, over-nutrification, and toxification by development in their watersheds. Lake Monroe's normal pool level has already been raised two feet by the Army Corps of Engineers to compensate for siltation. Bloomington and Monroe County have developed a plan to seriously limit growth of development in the watershed in order ton prolong the lifespan of the lake as a usable water supply, now less than 100 years. And the US EPA has recognized Monroe as degraded enough to justify a long and expensive feasibility study to design a rehabilitation and protection program. Patoka is in much better shape because it is twenty years younger. But Patoka's watershed is much more open to development than Monroe's, which includes the largest forested area in public ownership in Indiana. Led by Protect Our Woods, opposition to the State of Indiana's development plans for the Patoka watershed has so far frustrated attempts to build an 1,800 acre theme park in the middle of this invaluable water supply. The state of Indiana continues to attempt to develop this rural watershed by new highway construction, by extending sewer and water lines, by grants and technical assistance provided by rural economic development agencies, by keeping open the option of a major theme park on Patoka Lake, and by the threat of legislation franchising a gambling boom in French Lick.

Important recreational opportunities available in rural areas are important to the quality of life in Indiana, and will continue to provide economic opportunities for residents of rural areas. These opportunities depend on forest and water resources that must be protected. Recreational developments that require intensive land use are counterproductive to the goal of providing dispersed rural recreation. The government's role should be to encourage the preservation of wild and rural Indiana and expect rural entrepreneurs to find ways to benefit from the demand for related recreational experiences such as hunting, fishing, boating, hiking, camping, photography, nature study, and viewing scenery. Government should not compete, as it often does, with potential private providers of these opportunities and associated food, lodging, and other services. Public land should remain undeveloped, leaving opportunities for more intensive development on nearby private lands to service dispersed recreation users of public lands.

What about assistance to the rural poor? It won't help to increase local populations and make living more expensive. Rural populations suffer to the extent that the landscape no longer supports them economically. A sustainable rural population includes only people that do not need public assistance to live in the country. Those who cannot make a living from rural occupations must be encouraged to solve their employment, health, education, and transportation problems by relocating to more populated areas where these services are more available. Rural subsistence strategies would still be available to those who prefer

Beneficial rural economic development should produce a higher per capita income rather than larger populations. Reversing public policies that have reduced renewable commodity prices and for owners on timberland and farmland to pay for suburbanization with property taxes is the best rural economic development policy as well as responsible public fiscal policy. On the other hand, following current conventional thinking in rural economic development will lead only to ineffective porkbarrel spending and degradation of the quality of life in Indiana.

Thank you again for this opportunity ton comment. I look forward to discussing these matters further with you in the future.

Yours in the Woods

Bob Klawitter

ISBN 0-16-044713-5

90000

9 780160 447136