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Written Statement for the Record

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The Rural Policy Research Institute provides objective analysis and facilitates public dialogue concerning the impacts of public policy on rural people and places.

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Chairman Harkin, Ranking Member Chambliss, and members of the committee, it is an honor to appear before you again, as we begin a new Farm Bill debate. I applaud your leadership in assuring that rural development concerns receive greater attention in this Farm Bill discussion and decision making.

I am Charles W. Fluharty, President of the Rural Policy Research Institute, and Associate Director and Research Professor in the Harry S Truman School of Public Affairs at the University of Missouri-Columbia. RUPRI is a multi-state, interdisciplinary policy research consortium jointly sponsored by Iowa State University, the University of Missouri, and the University of Nebraska.

RUPRI conducts research and facilitates dialogue designed to assist policy makers in understanding the rural impacts of public policies. Continual service is currently provided to Congressional Members and staff, Executive Branch agencies, state legislators and executive agencies, county and municipal officials, community and farm groups, and rural researchers. Collaborative research relationships also exist with numerous institutions, organizations and individual scientists worldwide. To date, over 250 scholars representing 16 different disciplines

in 100 universities, all U.S. states and 25 other nations have participated in RUPRI projects.

Mr. Chairman, in testimony before the House and Senate Agriculture Committees in 2001 I offered seven recommendations to build a more relevant rural policy framework in the 2002 Farm Bill:

1. Develop a comprehensive national rural policy, driven by specific federal policy goals and outcomes measures
2. Sustain existing categorical program and funding support.
3. Build rural community capacity, collaboration, and leadership.
4. Develop a more integrative, cross-sectoral, place-based policy approach.
5. Address the lack of rural venture and equity capital.
6. Support approaches which exploit the interdependency of agriculture and the broader rural economy.
7. Support rural entrepreneurship, in both the public and private sector.

Six years later, I'm pleased that real progress is being made on several of these issues. However, much remains undone, and I continue to support these suggestions. Nonetheless, contexts and circumstances have altered, as with all things. So this morning I would like to share several important new developments which should inform your decision making regarding the rural development framework for this new Farm Bill.

But first, it is important to prioritize the most critical components which should frame a 21st century U.S. rural policy framework:

#### Guiding 21st Century Rural Policy Principles

1. Three critical components must be addressed:

? The importance of increasing the current level of federal rural investment in essential public services, including infrastructure, broadband and community capacity.

? To do this, the federal government must overcome a significant and ongoing rural federal funding disadvantage.

? The federal government must also reverse recent disinvestments in rural programs.

2. A new rural policy framework must be created:

? It should build upon rural innovation, entrepreneurship collaboration and strategic investments.

? This must incent public, private and philanthropic investment cooperation, build regional frameworks for action, and focus upon innovation and entrepreneurship.

? Special attention must be given to diversity, gender, poverty and immigration concerns.

3. Several "North Star" principles must drive program design, including:

? Asset-based development.

? Flexibility and local input.

? Investment in new intermediaries.

? Attention to the importance of working landscapes and natural resources; arts, heritage and culture; and renewable fuels, energy and entrepreneurial agriculture.

4. The federal government must create a framework which acknowledges and builds upon the growing interdependence of urban, suburban and rural areas and constituencies.

### The Context for Rural Policy Change

Policies and budgets are ultimately about visions and values. While much of what follows is not new, these critical contexts should frame and focus federal investments in the important developmental context which follows.

Current ag policy has many goals, but we must acknowledge it has failed to adequately assure broad-based rural economic growth. This Committee must, finally, address this structural challenge within your jurisdiction.

? Rural counties most dependent on commodity payments have consistently posted weaker growth than the rest of rural America.

? Approximately 160 counties are the most dependent on farm commodity payments, having collected \$141 billion in farm payments over the past quarter-century - more than half of all federal payments within that period. During those 25 years, jobs grew in those counties at a one-half percent per year (.05%) rate. Throughout the rest of U.S. rural counties, jobs grew at a rate two and a half times that (1.3% a year). This comparison begs the question regarding whether there are better ways to boost rural economic growth.

? Half of all nonmetro counties lost population from 2000 to 2005, but 73 percent of farming dependent and 59 percent of mining dependent counties lost population.

? Farming accounts for only 1.7% of total employment, and 6.2% of nonmetro employment in the U.S.

? The manufacturing, local government, retail trade, health care, and accommodations and food services sectors all contribute more to the rural economy than agriculture.

There is no one rural America. It is a diverse, dynamic and ever-changing landscape, and public policy must address these new realities.

? 51% of all rural residents (30 million Americans) live in the open areas of metropolitan counties.

? Another 10 million citizens live in small cities and towns in metropolitan counties.

? Hispanics accounted for over 25 percent of nonmetro population growth during the 1990s.

? By 2000 half of all nonmetro Hispanics lived outside the Southwest, increasingly in areas of the Midwest and Southeast.

? Nearly two-thirds of the nonmetro population now live in counties adjacent to metro areas.

For several decades, these counties have consistently shown a higher rate of population growth than those that are not metro adjacent.

? Between 2000 and 2005 metropolitan counties grew by 6%, micropolitan counties by 2.9% and noncore counties by 1.2%. However, in the same period, 16.6% of metropolitan counties

lost population, 37.5% of micropolitan counties lost population, and 56.1% of noncore counties lost population.

Rural poverty remains a searing and silent national tragedy.

? The nonmetro poverty rate is nearly 2 ½ points higher than the metropolitan rate.

? Poverty rates are highest in our nation's most remote rural areas, and high poverty and persistent poverty are disproportionately rural. 340 of our nation's 386 persistent poverty counties are in rural America.

? High and persistent poverty counties are geographically concentrated, and reflect historic race, gender and cultural disadvantage.

Rural development investments must move beyond categorical programs and grants. A new vision must be sought, and systemic commitments to change the rural landscape must be funded.

? Unfortunately, we trail most developed nations in creating this framework. In fact, in 2006 the European Union budget for promoting adaptation and development of rural areas and for their LEADER+ program is over \$1.1 billion Euros, with an additional \$2.2 billion Euros committed to programs in the agri-environment area.

? Likewise, the EU has recently announced multi-billion Euro commitments to both universal rural broadband deployment, and regional innovation programs, which link research universities to regional rural strategies.

New governance models must be lifted up, and successful new public and social entrepreneurship efforts replicated. While many emerging successes are worthy of consideration, the Indiana story is particularly promising.

? Please see accompanying written testimony from Indiana Lieutenant Governor Becky Skillman.

Rural entrepreneurship and innovation systems are essential, if we are to optimize new federal commitments to assist rural regions in capturing their competitive advantage in a global economy. These approaches must be framed in systemic ways, to link with other public, private, NGO and philanthropic resources.

? ½ of all jobs created in the U.S. are in firms less than five years old

? Over the past ten years, every month nearly three people in a thousand create their own job - (in 2005 this represented 464,000 people per month -0.29 percent). The highest activity is in the Mountain states and Mid-South, lowest in the Heartland, Appalachian, and Mid-Atlantic states.

? In the 1980s and 1990s the number of net jobs created by businesses less than five year olds grew at more than 20 percent per year (equating to millions of jobs), while jobs created by more mature businesses remained essentially flat.

? In any three-year period, five percent of non-employer businesses become employer businesses, equating to 750,000 firms, and the fastest growing in the economy.

? Recent SBA research found that net growth in small firm establishment has a large positive

impact on gross state product, state personal income, and total state employment. It concluded that state efforts to promote small business formation will be more fruitful in terms of generating economic growth than virtually any other policy option.

#### New Developments Which Should Inform Congressional Decision Making Regarding the Rural Development Title

As we begin discussion of the federal government's framework for commitments to rural people and places through the new Farm Bill, several important developments should be taken into account. These are detailed below.

? The new rural development perspective within the United States Department of Agriculture / Rural Development, and its impact upon this Farm Bill process.

? New economic, demographic and institutional changes are shaping new perspectives about, and practices within, our nation's rural regions.

? The growing consensus around a new rural vision: Regional Rural Innovation, Collaboration and Strategic Investment.

The new rural development perspective within the United States Department of Agriculture / Rural Development, and its impact upon this Farm Bill process.

On February 16-17, 2006, the United States Department of Agriculture held its annual Agricultural Outlook Forum. This annual event has a distinguished, storied history. The USDA began laying the groundwork for its first Outlook Forum in 1913. Shortly thereafter, the number of farms in America would reach its zenith, at 6 ½ million. Today two-thirds of these are gone, and most of the producers on the remaining 1 ¼ million farms are working in towns and farming part-time. Approximately 90% of total farm income now comes from off-farm sources, while 150,000 very large farms produce the majority of our food and fiber.

That first Outlook Forum, hosted in 1923, brought together our nation's most eminent leaders in agriculture, a tradition which remains strongly in force today. Over the last 85 years, however, the Forum has broadened its focus to include discussions of the latest scientific research and new products, global aspects of trade, health issues, and the changing dynamics and economy of rural America. Today, it brings together our nation's leading producers, scientists, economists, consultants, industry leaders, analysts and public policy makers. It is, without question, the preeminent U.S. agricultural policy forum each year.

The 2006 event, however, was a watershed moment in USDA history, and a landmark event for U.S. rural policy. The Forum title, "Prospering in Rural America," created a thematic backdrop for the gathering's central framework -ensuring the future prosperity of all of rural America, through and beyond agriculture.

This became evident to the over 1,700 participants shortly into the keynote address by Secretary of Agriculture Mike Johanns. The full import of this moment was fully grasped as he

reached the midpoint of his address, which contained one of his central points :

"This forum is an opportunity to learn and to gauge the changes in agriculture and to get our bearings if you will, not only for the next year but for our future.

I found the same to be true over the past months as we traveled across this great country doing our Farm Bill Forums. Those forums were the place to gain some perspective on the future of agriculture and farm policy and to hear directly from farmers and ranchers. . .

But we heard ideas and concerns that differ from one crop to the next, and as you might expect, from one region of the country to the next. But interestingly enough - and I started talking about this about halfway through the forums because I found it so interesting -- interestingly enough we heard unanimous support for our Rural Development efforts. . .

After hearing such compelling stories about the importance of Rural Development, I came back to Washington eager to examine the state of our rural economy. . .

Reality is that 92 percent of producers, those who manage about two-thirds of ag land, rely heavily on off-farm income. They choose to carry on the great tradition of American agriculture, but they do not depend on it as their sole source of income or in many cases even as their primary source as income.

I am here today to assure all those who stood in line at the forums, I was listening. Now today I'm not prepared to present a detailed piece of legislation but I can tell you that I believe future policy must acknowledge what I have just laid out in terms of the changing face of our rural economy. . .

If most agricultural producers are dependent on off-farm income, then we must pay special attention to our support of rural economies and beyond agriculture. To quote from a report recently released by the American Farm Bureau Federation: 'Farmers are more dependent on rural communities than rural communities are dependent on farmers.' . . .

We have an opportunity to develop farm policy that recognizes that this farm economy has changed. With fewer producers overall and the majority of farm production accounted for by a small percentage of producers, we must thoughtfully consider how we deliver support to rural America. . ."

Secretary Johann's framework was echoed and enhanced by USDA Under Secretary for Rural Development Thomas C. Dorr. In his comments, Under Secretary Dorr reinforced this emergent emphasis upon broader rural economic dynamics:

"Keeping family farms in business thus means that farmers need good jobs in town every bit as much as good farm policy out of Washington, D.C. In that respect, they're no different from their neighbors.

Bottom line: 65 million people live in rural America. 63 million of them don't farm. 96% of the total income in rural areas - and virtually all the job growth -- is from non-farm sources. . .

We are by statutory authority the leading advocate for rural America. Our mission is to increase economic opportunity and improve the quality of life in rural communities. And we recognize that the future of rural America depends on entrepreneurship and technology. . . .

Today, however, USDA Rural Development is a regional economic and community development organization:

? We recognize that sustainable development must be market driven, not program dependent.

? We want to be an investment banker for rural America, not a central planner or a lender of last resort.

? Our role is to support and empower local initiative, both public and private. We are an enabler, not a central planner.

? We also understand that money is part -- but only part -- of that role. We can't pay for everything -- and we don't want to. Rural America doesn't need Potemkin Villages that wither and die the moment the subsidy plug is pulled.

? What it does need is viable businesses, self-sustaining communities, and young families eager to build a future.

The issue is simple to state, but much more difficult to address:

Given the challenges of an intensely competitive, highly networked global economy, what can we do to create sustainable opportunities for growth in rural America?

These comments by the Secretary and Under Secretary set the tone for one of the most energizing rural policy moments in USDA's recent history. As the ensuing Forum sessions unfolded, it became clear that a new departmental perspective and commitment was finally taking hold and being incorporated within the growing consensus across other federal departments and agencies - namely, that a new rural policy framework must become a more central component of the public policy dynamic of our nation. With this recognition, USDA leadership has joined the culminating apex of a decade-long dynamic, in which enlightened rural public decision makers, business and community leaders, and public policy scholars have coalesced around commitments to a set of principles for a new rural policy framework in the United States: "Regional Rural Innovation, Collaboration and Strategic Investment."

Over the past year, a tremendous groundswell has been building within the rural development constituencies, based upon this new awareness, as well as a growing sense that other advocacy communities with an interest in this legislation also realize that an enlightened rural development policy will advantage their interests. With the recent release of the Administration's Farm Bill proposal, as well as other legislative proposals currently being introduced, which address Farm Bill issues, the possibility of a landscape-changing Farm Bill becomes more real.

Today, under your the leadership, Mr. Chairman, this Committee begins the process of engaging USDA in a common commitment to this new vision, and the rural people and places of our nation look forward to this heightened attention and policy consideration.

New economic, demographic and institutional changes are shaping new perspectives about, and

practices within, our nation's rural regions

Rural policy considerations have remained a "back-water" concern for U.S. public policy over the last four decades, usually rising only with a new Farm Bill tide, and then receding, after sufficient lip-service, with only minimal impact. However, over the past decade a number of developments are driving significant new attention to these opportunities and challenges. These key drivers are outlined below:

A growing understanding of the true nature of the rural economy, and of rural poverty, offers the potential for renewed policy attention and innovation.

As the rural economy in the U.S. continues to consolidate, and as commodity producers, whether in agriculture or manufacturing, are forced to respond to the dynamics of globalization, it is becoming increasingly clear that innovation and technology must drive new rural economic engines, and that this is not only possible, but a necessity. This has helped to support a new commitment to building regional competitiveness strategies that seek to identify and exploit a region's unique assets, and build integrative approaches to optimize this potential. Furthermore, understanding of the limited value of reliance on business attraction strategies and the importance of greater support for asset-based innovation and entrepreneurial approaches are now widespread.

There is also no question now that rural is not synonymous with agriculture, and that rural economies must become more diverse, as rural incomes continue to lag urban, with the greatest lags most often occurring in commodity-dependent counties.

A shift to rural policy focused on regional innovation is well under way in many other countries around the globe. While many developed countries continue to spend freely on farm subsidies, there is an encouraging shift to place-based investments in new rural economic engines. This shift is based on a broadly based recognition that farm subsidies do not create competitive rural economies. A recent OECD publication puts it this way: "financial redistribution and agriculture-based policies are not able to harness the potential of new rural economic engines." Recognizing this policy dilemma, many countries are now implementing new rural policies that emphasize place, innovation, and entrepreneurship. (The same OECD report identifies innovative rural policies in six different countries, along with the EU's LEADER initiative.)

Similarly, attention to rural poverty has increased over the last decade. While many organizations, institutions and individuals deserve credit for increasing awareness of these concerns, much of this enhanced attention is a direct result of an ongoing effort within U.S. philanthropy. Recently, the tragedy wrought by federal and state inability to more effectively address the plight of the poor during Hurricane Katrina has highlighted this awareness. However, in our nation today, persistent poverty remains a rural challenge, with 340 of our nation's 386 persistently poor counties being rural. Rural median family income is 25% lower, and rural poverty rates 28% higher than metro. And this differential disadvantage is increasingly being viewed by decision-makers as a lag on broader regional economies.

These U.S. rural development challenges are heightened by a significant structural disadvantage

in federal funding, and uneven, episodic and unscaled philanthropic commitments to rural people and places.

Because the federal government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

One of the largest challenges for rural development in the U.S. remains the inherent structural disadvantage which rural areas face in federal funding commitments. Current federal funding policy inadvertently, but significantly, disadvantages rural areas. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned \$6,131 on a per capita basis to urban areas, while returning only \$6,020 to rural areas . This amounts to a nearly \$6 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds.

While currently available federal data is somewhat dated, in Fiscal Year 2001, direct payments as a percent of all federal funds per capita were 50.5% in metropolitan areas and 63.9% in nonmetropolitan America . This 13% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

While not an official federal data release, the Southern Rural Development Initiative has analyzed the FY2003 Consolidated Federal Funds data, and found even greater nonmetropolitan disadvantage. Nonmetropolitan areas receive \$548 less per capita than metropolitan areas (\$7,242 versus \$6,694). Further examination of the functional funding categories within the SRDI analysis substantiates the continuing community resource disadvantage for nonmetropolitan areas. In metro areas, 14.5 percent of funds are allocated to community resources, in nonmetropolitan it is 8.9 percent, a 5.6 percent difference. Conversely, nonmetropolitan areas have 67% of total funding as income security compared to 52.9 percent for metro areas.

These stark community capacity disadvantages are additive. Each year from 1994-2001, the federal government spent two to five times more, per capita, on urban than rural community development, and one third as much on community resources in rural areas . Per capita spending on community resources in 2001 was \$286 per person less in nonmetro areas than in urban America, a \$14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population) .

These rural implications are exacerbated by an ongoing federal "push down" of funding and statutory responsibility to states and localities, which further challenges rural resources and community capacity. Federal block granting has become a more common framework for these shifts, with increasing use of loan and loan guarantees, and fewer direct granting possibilities, which is forcing new interjurisdictional cooperation - a good thing, with reduced federal commitments - a huge challenge. However, while the U.S. has a somewhat incomplete and incremental regional development framework, these challenges have increased interest in new collaboration, and have renewed interest in new regional approaches.

These rural community capacity challenges in federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation's foundations and corporate grantmakers. In a May 2004 report, the National Committee for Responsive Philanthropy noted that of the \$30 billion distributed annually in by our nation's foundations, only \$100.5 million was committed to rural development. Of 65,000 or so active grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations engaged in rural development grantmaking accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grantmaking foundations in the U.S. have not seriously addressed the developmental needs of rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grantmaking in the U.S. amounts to \$12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial / ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants. New rural governance and investment models emerging across rural America are creating an entirely new rural policy framework.

Despite, or perhaps as a result of these economic challenges, a new "Rural Governance" is expressing itself across the U.S. rural landscape. Changes are underway in the processes by which decisions are made regarding the distribution of public and private resources and responsibilities across multiple stakeholders, including the public, private and non-governmental sectors. The dynamics in U.S. federalism outlined above are forcing ever greater interdependence of rural governmental and nongovernmental organizations, as the central government's role continues to reduce over time and circumstance. This requires greater coordination, facilitation and negotiation, through multiple policy networks which are often diverse and overlapping. While this offers a possible new set of strategies to confront the community capacity challenge outlined above, it also creates the necessity for new intermediaries to be formed and functioning.

These intermediaries provide the "glue" that enables new rural governance to express itself, and these new actors are now playing critical roles across multiple institutional settings. As an example, over 20 states now have a rural policy center, either located in the office of the governor, within state government, serving the state legislative process, or operating through

the private efforts of universities or non-governmental organizations. Intermediaries such as these are becoming much more relevant to state and local governmental decision making, and will play a more important role in the future of rural policy, as these processes evolve.

Some of the most promising new rural intermediary institutions assuming increased community and economic development significance in the U.S. are our nation's rural community colleges. These institutions, often the key human and social capital aggregators in our most isolated rural landscapes, have long fulfilled multiple, unfunded roles in building regional collaboration. With major changes in our nation's workforce investment policy and program design, these rural institutions have taken on added responsibilities and significance. It could indeed be said that these institutions are building the "Extension Service of the Next Century," grounded in place, working from an asset-based value set, sensitive to local culture and heritage, and focused upon building the human capital of some of our nation's most disadvantaged rural citizens.

These new rural intermediaries are as diverse as rural America itself, yet community foundations are playing a very significant role in many of these dynamics. As but one example, RUPRI is honored to be collaborating with the Nebraska Community Foundation, the Heartland Center for Leadership Development and the Center for Rural Affairs in a promising new initiative, Hometown Competitiveness. Yet these new intermediaries exist in all sectors, governments and NGO organizations, and are changing the face of policy decision-making across the rural landscape.

Despite this potential, three critical questions will determine whether these forces are passing fads or sustainable platforms for new policy innovation:

? Will public sector champion(s) step up, take on the New Governance mantle, and support public and private entrepreneurship?

? Will institutional innovator(s) accept the challenge of building these new intermediary structures, and the burdens of institutional innovation?

? Where are the constituencies to support these innovative leaders and institutions?

These are not moot questions, and the Rural Development Title offers a wonderful opportunity to create innovative support mechanisms for rural leadership in these dynamics.

A new rural entrepreneurial culture and climate has emerged, but must be nurtured and scaled. Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions, often with unintended but very deleterious consequences. Remoteness from global markets and poor infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and the challenges of building rural entrepreneurial cultures have limited rural participation in the new global economy. However, across the nation today, a new rural entrepreneurial culture and climate is flourishing.

Philanthropy is playing a significant role in these developments, but more must be done, and systemic change will only be achieved if integrative, long-term investments and programs,

across multiple foundations, can be coordinated and sustained. Four principles should drive these efforts:

? Focus on the entrepreneur. Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs ensures that all these programs are aligned in a coherent system, that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.

? Focus on the region. Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.

? Focus on the community. Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades, in spite of the changes that are going on around them.

? Focus on continuous learning. Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Secondly, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and encouragement to both "opportunity" and "necessity" entrepreneurs, and avoid "picking winners." We must also acknowledge that failures will occur.

In summary, a systems approach must have three critical dimensions to be totally efficacious:

? Regional framings - embracing both urban and rural, tailored to economic, geographic, cultural and demographic diversity.

? Integrative dynamics - cross-sectoral (entrepreneurship opportunities in agriculture, energy, amenities, education, health etc.), cross-jurisdictional (collaboration across public-private-nonprofit organizations and all levels of government) and cross-functional (entrepreneurship education, training & technical assistance, access to debt and equity capital, networking, infrastructure)

? Cultural contexts - building capacity and support for private and public entrepreneurship, focus on entrepreneurs as converters of rural assets into rural competitiveness.

All this hinges upon the emergence and support of a strong cadre of rural public entrepreneurs. This reality is clearly recognized, and leadership support for this dynamic is being supported in multiple settings across the rural U.S., by major foundations such as the W.K. Kellogg

Foundation, regional and community foundations, and corporate grantmakers.

Finally, one huge challenge before us remains the development of rigorous, quantitative evaluative tools to assess the return on investment for public sector commitments to these systems. Absent such, we will still have too few risk management tools for public entrepreneurs willing to risk such commitments. However, serious attention is currently being paid to this deficiency, and many in the field are discussing approaches to address this challenge.

Several final observations should be made regarding regional approaches, new governance, and entrepreneurship:

1. This new framework should be designed to enable an integration of rural initiatives with farm programs, to advantage rural producers, their rural communities and regions, and their children's opportunities to thrive in their rural community in the 21st Century.
2. The sector considerations which have historically been titles in the Farm Bill, i.e., energy, conservation, rural development, etc., should become key components in an integrative new rural vision, and should be considered more holistically in future discussions of this Farm Bill.
3. Finally, we must better link the research title of this Bill, which frames priorities for our Land Grant University research community, with the new rural vision we seek to support through the Rural Development Title. The unparalleled potential which resides in our Land Grant University research community must be mobilized to enhance the decision support infrastructure for wiser public policy choice in rural America.

New rural policy and program targeting must be designed, to take advantage of these developments, to address the emerging interdependence of rural and urban people and places, and to build new alliances across these constituencies.

County level designations of metropolitan, micropolitan and noncore areas, collectively referred to as core based statistical areas, are often used in federal program targeting. Metropolitan areas are defined by the presence of a principal city of at least 50,000 population, plus surrounding counties that are linked to it through commuting ties. Micropolitan areas contain a principal city of 10,000 to 49,999 plus surrounding counties that are linked to it through commuting ties. All other counties not included in metropolitan or micropolitan areas are defined as noncore counties. The most recent listing of Core Based Statistical Areas for the United States and Puerto Rico (December 2005) by the Office of Management and Budget includes 369 Metropolitan Statistical Areas (361 in the U.S. and 8 in Puerto Rico), and 582 Micropolitan Statistical Areas (577 in the U.S. and 5 in Puerto Rico). Metropolitan and micropolitan areas may contain one or many counties, and many cross state lines.

Nonmetropolitan counties, which include both micropolitan and noncore counties, are often equated with rural. However, official definitions of rural and urban involve sub-county geography. Urban areas are defined by the U.S. Census Bureau as "core census block groups or blocks that have a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile." All territory not defined as urban is considered rural. Urban areas are divided into two categories: urbanized areas have populations of 50,000 or more, and urban clusters have

populations from 2,500 to 49,999.

Both metropolitan and nonmetropolitan counties contain both urban and rural territory. The following table shows population by both county designation and urban and rural geography, and illustrates that county level geography does not accurately reflect urban and rural population distributions. Over half of all rural people actually reside in metropolitan counties. And, over 40 million metropolitan residents reside outside of large urbanized areas. It is important, then, to look beyond county level designations when targeting rural populations in public policy and program design.

#### Distribution of Population

Urbanized

Areas Small Cities

and Towns Rural Total

Metropolitan 192,064,228 10,338,988 30,176,724 232,579,940

Micropolitan 255,305 14,976,437 14,299,972 29,531,714

Noncore 18,588 4,704,763 14,586,901 19,310,252

Total 192,338,121 30,020,188 59,063,597 281,421,906

48.8 million people live in nonmetropolitan counties

40.5 million people live outside urbanized areas in metropolitan counties

Urban and rural population figures from Census 2000; CBSA status from the December 2005 classifications

Clearly, nonmetropolitan residents should be included when targeting rural populations. While nonmetropolitan counties do include some urban residents, with few exceptions nonmetropolitan urban residents live in small cities and towns, which are not targeted in urban programs. Though unintentional, urban targeting tends to usually advantage larger urbanized areas, while many smaller cities and towns, as well as rural populations within metropolitan counties, often fail to receive significant advantage from urban programs; and likewise are excluded from rural programs which target only nonmetropolitan residents. Given these dynamics, and the level of rural population in metropolitan areas, policymakers should consider new alternatives for precise rural targeting.

#### Targeting Regions for Rural Innovation Strategies

Map 1 shows U.S. micropolitan areas, which are ideal geographies for rural regional innovation strategies. In most cases, the principal city in the micropolitan area provides the central locale for regional economic activity and service delivery.

Map 2 illustrates the U.S. urbanized area and small town geography. The green areas represent urbanized areas - cities with populations of 50,000 or more in metropolitan counties. (In a few cases, boundaries of urbanized areas fall into nonmetropolitan counties, but usually don't account for a significant portion of total population.) The dark brown areas represent small cities and towns (populations from 2,500 to 49,999) in metropolitan counties. The dark orange areas illustrate rural territory in metropolitan counties, and the light orange areas represent nonmetropolitan counties. These urban clusters also exist in nonmetropolitan counties, but are

not shown on the map.

Maps 3 through 8 show the urbanized and non-urbanized areas in Iowa, Georgia, Minnesota, Virginia, Indiana and Arkansas, reflecting the same level of small town and rural population in the metropolitan areas of these states.

Maps 9 through 14 illustrate this dynamic in 6 metropolitan areas of these states, and illustrate the geography and populations that reside in small towns and rural areas in metropolitan areas. Each metropolitan area represents the continuum of urban to rural places and several of the metro areas have counties with no urban populations at all.

### Creating 21st Century USDA/RD Programs Which Support These New Realities

If one is to alter federal rural development policy to advantage new regional framings, serious attention must be given to new federal incentives which promote regional cooperation among local communities, governments, and institutions. Currently, no serious systemic RD incentives for such approaches exist.

A common trait in most successful urban renewal and development is a true partnership between the public, private and philanthropic sectors. Since rural areas typically lack this same level of private sector development, and suffer from an overall lack of critical mass, forging partnerships among these key actors and potential investors will demand new federal commitments. Building upon an RSIP-type model, these federal incentives and core funding vehicles should support new partnership models, with equal ownership and control across local officials, private sector leaders (including health care, agriculture, utilities, emerging industries, etc.), universities, community colleges and the nonprofit sectors, among others. A key sine qua non will be the provision of federal seed capital to support both the regional organization and strategic planning as well as the implementation of these regional visions.

If USDA Rural Development is to implement such an approach, four challenges must be met:

1. A Congressional mandate must be designed, which rewards RD for reconfiguring programs toward a regional approach.
2. Incentives must be developed to assure these regional approaches drive program performance assessments.
3. An organizational capacity which can support regional innovation and deliver these new programs must be built, within a framework which engages appropriate institutional partners.
4. Sufficient funding must be committed, to build regional scale and presence.

For example, small city CDBG programs have no hard and fast priorities or guidelines. By contrast, current USDA investments are largely very specific program or project grants or loans, with very detailed criteria and delivery dynamics. Addressing this challenge, and creating the framework for all that follows could be one of the most significant innovations in U.S. rural

policy over the last fifty years.

In this regard, it is important to note that USDA Rural Development investments are not driven by any regional investment plan. While state R.D. Directors must have a state R.D. plan, their investments in local communities and regions are not determined by any regional process or assessed against any regional strategy. In contrast, all Economic Development Districts that receive EDA funding from Commerce must have a Comprehensive Economic Development Strategy (CEDS). Additionally, new EDA guidelines demand that all Economic Development District Boards are made up of 50%+ local government, 30%+ other sector entities including non-profits, chambers of commerce, higher education, etc. Additionally, a CEDS committee must be established by the EDD Board, with a majority private sector representation, which must include workforce, chambers of commerce, higher education, labor, minority, local government, and nonprofit representation. The new EDA guidelines demand that each district must also catalog 1) current investments in the region, 2) current funding sources, and 3) a catalog of all prior investments. As is evident, an opportunity exists to recommend that USDA investments be framed within such a regional strategic plan, and interface more closely with existing comprehensive economic development strategies for regions, such as the EDA CEDS process.

Given these comments, here are a number of specific ideas for new federal incentives to promote regional cooperation:

1. In the past, EDA has had a 10% federal bonus for local communities that participate in an Economic Development District. For example, if you were awarded a \$1 million public works grant, the federal share in the project was increased 10%, if you were working in an EDD framework.

Such a federal bonus could become part of all loan and grant programs currently operated through USDA/RD, as well as other programs within USDA. While the bonus level and/or local match would be two key variables, the policy principle would be to encourage regional cooperation through this incentive, while not precluding alternative grant proposals from securing federal support.

2. A variant of this approach would advantage R.D. proposals for grant and/or loan funding to the extent they were submitted with the support of, and coordination through, other programs which are working in a regional framework within the proposal area. These could include:

- ? Commerce -Existing regional economic development plans, through Planning and Development Districts, or Councils of Government.

- ? Labor - Participation in one of the federal WIRED grants; linkages to the Regional Workforce Investment Boards, etc.

- ? Health -The programs operated through the Federal Office of Rural Health Policy, including Network and Flex grants, regional plans developed by State Offices of Rural Health, etc.

- ? USDA - In addition to the incenting vehicle mentioned above, all USDA grant and loan programs could be advantaged if legislative language either provided incentives or requirements for the State Rural Development Director to work with other federal and/or state level agencies in a regional framework. A number of states are developing such an approach, and specific

language could be developed to incent additional R.D. Directors to take such an approach.

3. Creation of a state block grant and/or regional block grant to promote regional innovation around a hub Micropolitan Statistical Area, through a USDA "CDBG" type program. Any number of approaches could be developed to take advantage of the federal "micropolitan" designation. For example, one could create a program called RMAP - Regional Micropolitan Advancement Program. This could be a flexible strategic investment program, along an RSIP model, which would be run through the USDA State R.D. Director's office, to advantage regional partnerships.

The state director could make funding decisions based on recommendations from Regional Strategic Councils, comprised of representation from state and local foundations, workforce investment boards, community colleges and regional universities, chambers of commerce, local and regional governments, agricultural groups, regional councils and nonprofit representatives. The program focus would need to be diverse enough to cover the diverse asset-based development needs of unique regions, including youth development / retention, entrepreneurship, export assistance for small businesses, infrastructure development and business development, as well as attention to heritage and the arts, and other uniquely designed, asset-based development programs.

The federal match rate could be on a sliding scale, based upon the amount of non-federal investment pooled or leveraged within the region, with a special carve-out for regions which are specifically disadvantaged by lack of internal capacity.

4. A grant approach which leverages existing state "small city" CDBG funds that are grouped to create regional approaches. A number of states are currently creating vehicles which leverage small city CDBG dollars to support regional frameworks. There are any number of ways in which federal programs could advantage grant or loan applications which are thus matched, or which leverage such state approaches. This could be administered through the state R.D. office, working with the governors, who control the CDBG formulae / program allocations.

5. If the micropolitan regional approach is unworkable, an alternative would be the creation and promotion of a concept such as a Regional Economic Workshed, similar to the watershed models currently being utilized in USDA to address environmental and natural resource concerns. This approach would use the same type of framework, but addresses the reality that the current rural workforce dynamics cross jurisdictional boundaries, as many rural people often commute 30 to 50 miles to work.

6. One final program idea, while structurally difficult, would truly be unique, and could be very innovative. It would create a vehicle to enable rural areas working in a regional framework to reinvest the wealth and/or financial returns earned in the region through USDA investments. With this type of revolving loan program, one could enable investments which have been repaid to be revolved into these innovation regions, rather than returned to the federal treasury, as is currently the practice. Clearly, criteria and accountability around this would be challenging, but such an approach would reward those regions that are working diligently to leverage their innovation opportunities, while reducing further federal funding demands.

While much of this is new, many encouraging examples are emerging across rural America. The Kerr-Tarr Hub in North Carolina is one such example. In this region, a local council of government is working with a number of county jurisdictions to identify and certify one industrial development location in each of the collaborating counties, all of which have agreed to share local tax revenue with partnering counties, in an effort to attract and grow business in a regional framework, rather than a competitive one. In many other regions, counties are seeking new avenues for cooperation and joint investments. The suggestions above seek to enhance the potential for federal support of these dynamics.

#### A New Rural Vision for the Rural Development Title: Regional Rural Innovation, Collaboration and Strategic Investment

With this Committee's leadership in advocating for enhanced rural development emphasis in the Farm Security and Rural Investment Act of 2002, major new program attention and mandatory funding for rural development was obtained. While rural advocates were most appreciative, much of this funding never materialized, and many of the new programs were not implemented or suffered drastically curtailed funding.

As a new Farm Bill approaches, with tremendous federal budget challenges as a result of our continuing deficit, increased WTO trade pressure, and no lessening of competing demands from the very diverse constituencies affected by this omnibus title, are new framings to address the issues and opportunities raised above possible. I believe they are, and I would argue that models already exist. Several examples are briefly highlighted below.

#### A Regional Rural Innovation, Collaboration and Strategic Investment System

Obviously, until the structural resource disadvantages outlined above are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must craft a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an asset-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new regional collaboration and investment system outlined below will remain a significant challenge. Nevertheless, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

Given these challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development? First, we must acknowledge that what has worked in the past will no longer suffice. Once that is evident, regional collaboration and investment systems can be considered. When this happens, we will move from attraction strategies to entrepreneurship; identify and encourage "functional economic regions" to build on existing assets, broadly defined; and move from sector to place-based approaches. This regional framework will be appropriately configured, and will engage our institutions of higher education in a new regional compact, where public and private entrepreneurship will be central, a new rural governance between the public, private and philanthropic sectors will be evident,

and new regional leadership, through innovative institutional renaissance, will be expressed.

While this may seem a bridge too far, it is already emerging all across rural America. Purdue University has designed and developed a new Discovery Park, Research Park, and the Center for Regional Development, outstanding new intermediaries, creating traction and scale for new regional collaboration and investment systems. Dr. Sam Cordes, Director of the Center, has worked with the Administration of Indiana Governor Mitch Daniels and Lieutenant Governor Becky Skillman over the past year to create the Rural Indiana Strategy for Excellence 2020 (RISE 2020). This effort has engaged over 150 Indiana organizations and institutions, and has become a national model for new rural governance and regional innovation. This process resulted in a foundation framework and seven pillars for collective work and voice by those who care about rural Indiana. Each of these elements is critical in the framework. They include civic leadership and engagement; asset-based community development; regional frameworks; rural innovation; diversity access and inclusiveness; youth engagement; and wealth creation and retention. A new state agency, the Office of Rural and Community Affairs, was created to provide greater rural focus within Indiana's executive branch. The seven pillars developed in the RISE 2020 process were used to target the state's "Small Cities" CDBG funding investments, along with additional general revenue funds committed to this effort, to achieve these outcomes. The first round of grants have now been made, and the philanthropic communities of Indiana have matched these public investments nearly one to one.

Northeastern Ohio institutions created an exciting new regional competitiveness strategy, linking higher education, the private sector and governments across the region and generating significant innovation and collaboration success. Multiple counties across the United States are beginning to forge collaborative "functional" compacts, and across the rural landscape federal, state, regional and local agencies and governments are rethinking and defining their appropriate roles and responsibilities.

The growing number of these innovations should result in the federal government creating incentives for regional partnering, expanding investments in basic research and regional community and leadership capacity, and funding the development of new public goods for regional decision making, all key elements in a national rural entrepreneurship framework. Should this occur, the federal government will become an enabler rather than a driver of such dynamics, as regional, state and local actors work together to build effective new frameworks for regional governance, public and private collaboration, and identification of unique regional assets. Then, a true rural entrepreneurial development system can emerge, to enable innovation to leverage these assets, across space.

Globalization has had profound and lasting effects. It also has created two unmistakable rural challenges: uneven growth across space, and new drivers of sustainable growth, primarily innovation and entrepreneurship. Building a Regional Rural Innovation, Collaboration and Strategic Investment System, which acknowledges these necessities and seeks to address them, has the potential to emerge within the new Farm Bill debate as the organizing framework for the Rural Development Title.

The promise of such a Regional Rural Innovation Policy is premised upon the following realities:

1. National competitiveness is increasingly determined by the summative impact of diverse regional actions, capturing asset-based competitive advantage.
2. Support for such an approach will require a substantive rethinking of core missions across federal departments, state agencies, and regional and local governments, and a commitment to leadership renaissance within these institutions and organizations.
3. Funding support for these place-based policies are WTO green-box compliant, non-trade distorting funding opportunities for the federal government.
4. Finally, such a commitment improves the potential for Congressional Agriculture Committees to retain existing funding baselines, and for these Committees to retain statutory responsibility for rural development policy.

Thank you, again, Mr. Chairman and members of the committee for the opportunity to testify before you today. Your continuing leadership in crafting a 21st Century rural policy is critical, and I look forward to working with you over the course of these Farm Bill discussions. I'll be pleased to answer any questions you have.