

Farm & Rural Communities



Jack Harrison

Farming's Role in the Rural Economy

The U.S. rural economy remains strong, despite low commodity prices that have besieged the farm sector in recent years. In most rural communities, problems in the farm sector have not spilled over to cause a general rural downturn. In fact, the unemployment rate in nonmetropolitan counties decreased as crop prices were falling, dropping to 4.25 percent in 1999. In general, the strength of the overall economy has sustained the rural economy.

While many view “rural” and “agriculture” as virtually synonymous, the ability of the rural economy to shake off severe problems in the agricultural sector is a reminder that agriculture is no longer the primary economic engine of rural America. Growth in other rural industries combined with structural changes in the farm sector have reduced farming’s relative importance and altered traditional perceptions of farms.

This article, based on a forthcoming Economic Research Service (ERS) report, examines the changing role of agriculture in the rural economy and highlights two changes. First, the nonagricultural economy in rural America has grown steadily, outpacing growth in agriculture, so that

agriculture’s relative importance as a source of jobs and income has declined. Second, the growing service orientation of the U.S. economy suggests that the key to survival and growth for rural communities is to develop and attract service-sector businesses.

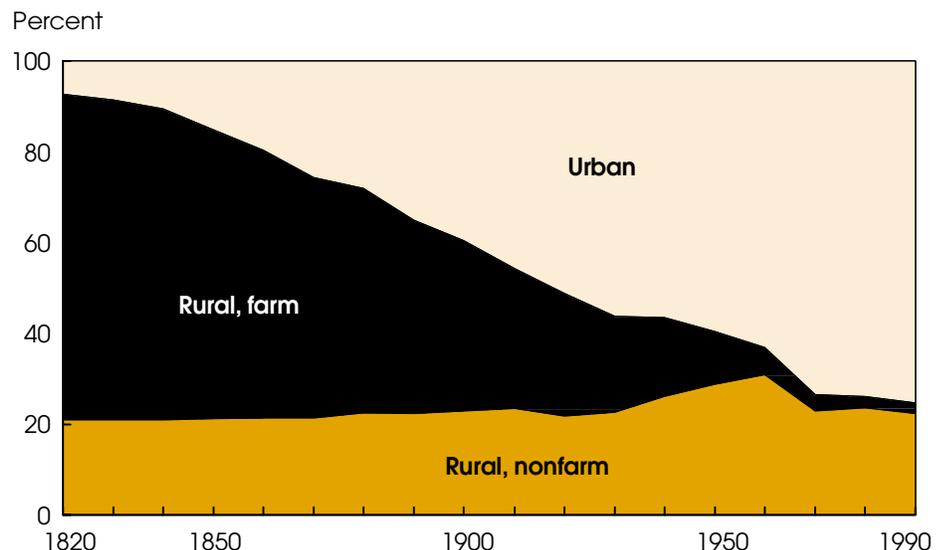
Agriculture’s Share of the Economy Shrinks

Over the past two centuries, the U.S. has evolved from a rural society, with most of the population engaged in farming, to a predominantly urban society. The urban share of U.S. population, less than 10 percent in 1820, rose to about 75 percent in 1990, while the farm share of population fell from about 70 to 2 percent over the same period. The loss in farm population pulled down the overall share of the rural (nonmetropolitan) population until the late 1960’s, when rural nonfarm job growth exceeded the decline in farm employment.

While growth in population and income created new demand for food and fiber as the nation expanded, agriculture’s growth was limited because, as incomes rise, demand for food advances more slowly than demand for other goods and services. Consequently, other sectors expanded much more rapidly than agriculture. Furthermore, farm productivity (output per unit of input) outpaced the demand for food and fiber, releasing labor and capital to be put to work in other industries.

Thus, the farm population did not have to grow as rapidly as the population it was

Rural Nonfarm Share of U.S. Population Has Remained Fairly Stable



Source: Census of Population data compiled by Woods and Poole Economics. Economic Research Service, USDA

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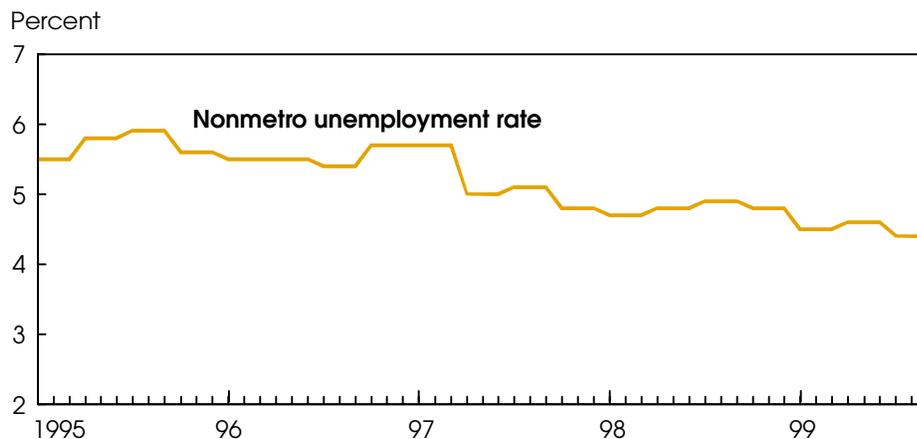
supplying with food. While growth in farm productivity accelerated in the 20th century, the farm population actually declined in absolute numbers after the 1930's. ERS research has found that farm productivity rose an average of 1.9 percent annually from 1948 to 1996 (AO May 1998). Productivity of all farm inputs rose, but increase in labor productivity was particularly rapid as farms mechanized and more efficient practices were adopted. While farm labor use fell over 70 percent between 1948 and 1996, the farm sector's output more than doubled, making it one of the fastest-growing sectors.

Jobs in farming are expected to continue declining during the coming decade. The Bureau of Labor Statistics (BLS) projects a 13-percent decline in farmers and farm managers between 1998 and 2008, the largest projected decline of any occupational category in the U.S. economy. Employment of hired farm workers is projected to decline 6.6 percent. By comparison, nonfarm employment is projected to grow 14 percent between 1998 and 2008. Agricultural output is expected to grow, but at a slower rate than that of most other industries.

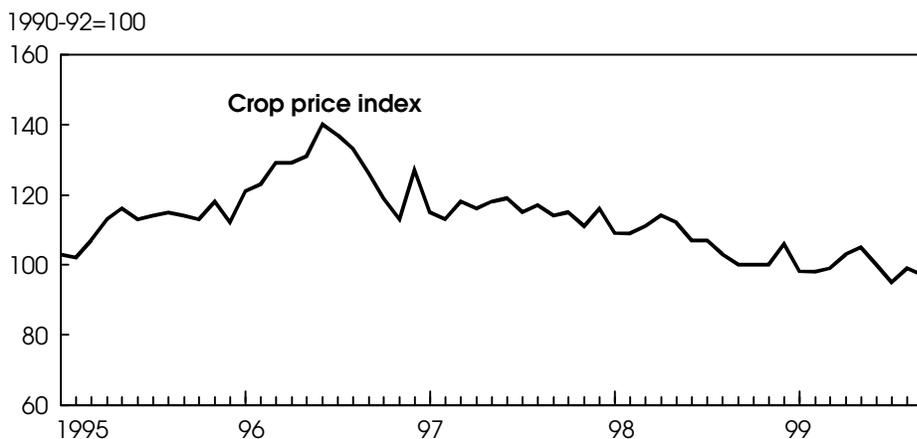
Increased farm productivity brings benefits to the economy as a whole. Consumers benefit from high farm productivity, which ensures an abundant supply of food at low prices. Other sectors (and ultimately consumers) benefit from farming's efficient use of resources, which frees up labor and capital for other industries (initially for manufacturing in the 1940's to 1960's and more recently for service industries). Agricultural exports also make a positive contribution to the balance of trade. While agriculture's *share* of the economy and the *number of people* that depend on it for income and jobs is shrinking, both nationally and in rural areas, its role in the economy is important.

Movement of farm labor into other sectors is reflected in the declining farm population. What is less well known is that the rural *nonfarm* share of the nation's population has remained remarkably stable at around 20 percent since the early 1800's. While farming is perhaps the most visible rural activity, it is clearly not the major economic activity in rural America. There

Rural Unemployment Rate Unaffected by Fall in Crop Prices



Source: Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor.



Source: National Agricultural Statistics Service, USDA.

Economic Research Service, USDA

is enough activity in rural America to employ and provide economic support for over one-fifth of the nation's population, but farming supports only about 2-3 percent.

In other words, rural areas have created enough new economic opportunities to maintain a constant rural nonfarm share of population. Until the late 1960's, rural nonfarm jobs were not created fast enough to absorb most of the labor released from the farm sector, and consequently the overall rural share of population fell. But the rural share of population stabilized during the last part of the 20th century, as the loss of farm population slowed and rural areas continued to create new nonfarm jobs. Today, manufacturing and services, rather than farming, charac-

terize the economic landscape of rural America.

Fewer Communities Rely on Farming

U.S. economic expansion during the 1990's appears to have reduced the number of farming-dependent counties (those that derive at least 20 percent of their income from farming) by adding jobs in manufacturing and services. But farming is still a primary source of income and jobs in some areas, notably the sparsely populated areas of the nation's heartland. Counties that remained in the farming-dependent category shared in the nation's economic growth during the 1990's, although to a lesser extent than other rural counties.

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Of course, agriculture's economic influence extends well beyond the farm gate. To gauge this, ERS produces two measures of employment in the more broadly defined agriculture sector that includes businesses that manufacture, transport, and market food and fiber products: Food and Fiber System and Farm and Farm-Related Employment. Both data series tell a similar story about agricultural jobs over the last two decades. While jobs in farming have declined steadily, jobs in food retail and wholesale sectors have grown.

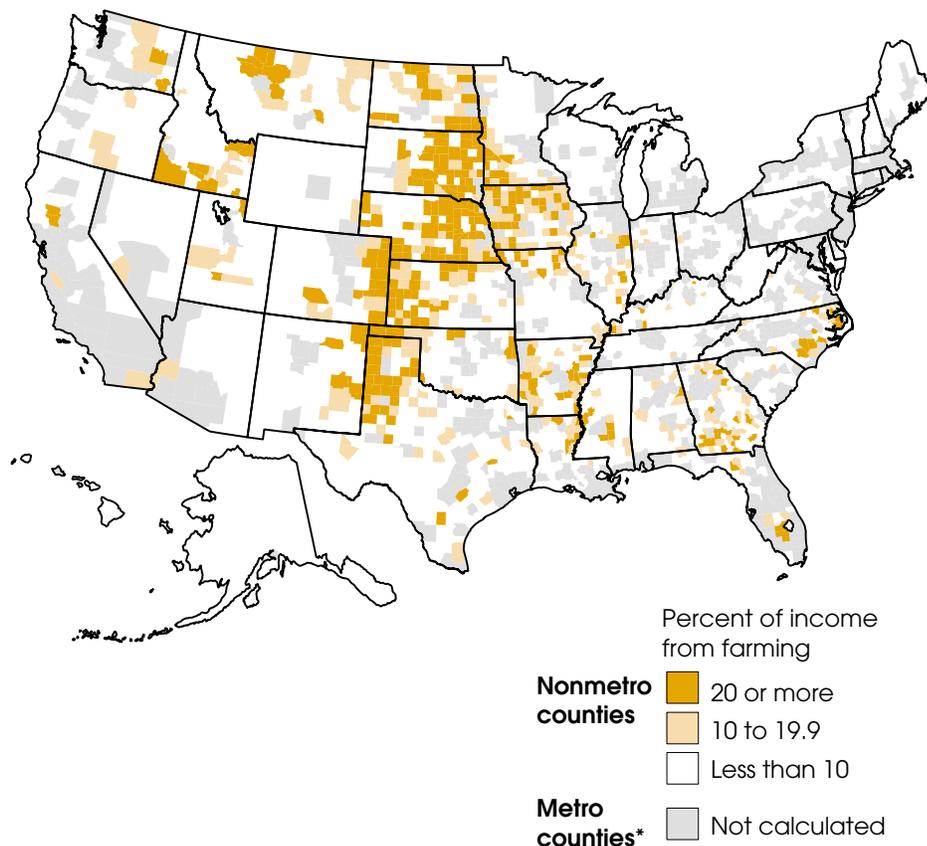
But food retail and wholesale activities tend to locate close to consumers, so that much of the growth in agriculture-related employment has occurred in more urbanized areas. Sparsely populated states, including those heavily represented in the farming-dependent category, have gained relatively few retail and wholesale jobs to offset their loss of farm jobs.

Faced with continuous loss of farm jobs, many rural areas have pursued value-added development strategies that encourage agriculture-related businesses (e.g., food processing and marketing) to choose rural locations. This strategy may be successful for some communities, but food processing does not appear to be a universal engine for rural job growth. Many types of food processors do not use raw farm commodities, and they choose urban locations to gain access to suppliers of other inputs and distribution networks.

Participation in the Service Economy a Key

Farming, food processing, and other manufacturing industries face competitive pressures to cut unit production costs by raising worker productivity (output per worker). This means employment will be stagnant or declining in all but the most rapidly growing industries. Thus, even though the BLS projects annual growth of 1.2 percent in food manufacturing output between 1998 and 2008, it projects only 0.2 percent growth in food manufacturing employment. BLS projects a 1-percent decline in overall employment in agriculture (including ag-related industries such as input suppliers and food retailing), with the decline in farm jobs pulling down the total. Projected output growth exceeds

Many Local Areas in Nation's Midsection Rely on Farming



*Metro counties are located in Metropolitan Statistical Areas. An MSA is a contiguous grouping of counties and contains a city of at least 50,000 and a total area population of at least 100,000. Source: ERS analysis of data from Bureau of Economic Analysis, Department of Commerce.

Economic Research Service, USDA

projected job growth for nearly all goods-producing industries.

The growing service orientation of the U.S. economy suggests that the key to survival and growth for rural communities is to develop and attract service-sector businesses. During the coming decade, jobs are projected to grow fastest in service-producing industries: transportation, communications, public utilities; wholesale and retail trade; finance, insurance, and real estate; and personal, business, and health services. Between 1991 and 1996, service-producing sectors created about 70 percent of new nonmetro jobs, and BLS expects these industries to account for nearly all of U.S. job growth between 1998 and 2008. Nearly all growth in agriculture-related employment

from 1975 to 1996 was in service-oriented food retail and wholesale activities.

Rural communities that can attract service jobs will be the best positioned to grow. Many rural areas are participating in the service economy, especially those enjoying the spillover effects of prosperity in urban communities and amenity-rich areas that attract retirees, telecommuters, vacationers, and others. However, for many rural communities, prospects for participating in the service economy seem less promising because service and trade industries have a greater tendency than other activities to concentrate in cities where there is access to large numbers of consumers, transportation nodes, related industries, and business service firms.

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The increasing service orientation of the economy holds lessons for planners and policymakers. For example, contracting and supply-chain arrangements in agriculture have become more prevalent in recent years, partly because consumers are demanding food products with specific attributes.

Businesses and communities have taken advantage of these emerging consumer preferences to create brands associated with their particular region, production practice, or some other attribute that can command a premium price. This can give

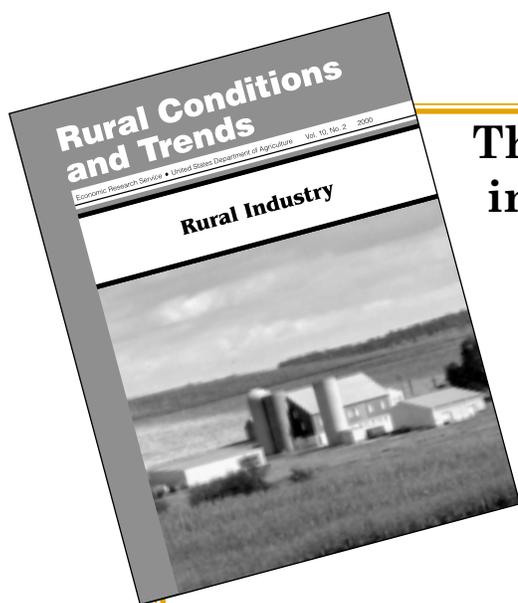
local farming industries a competitive edge in the marketplace and can create opportunities to “add value” to their products by processing and packaging distinctive products for niche markets, selling directly to consumers, or attracting people to farm or vineyard tours or festivals. In recent years, many farms have broadened the scope of their business to offer entertainment and recreation in the form of agricultural tourism, theme-oriented farm visits, fee-based fishing and hunting access, and other services. Advances in information technology also make it possible for businesses in remote areas to

communicate with consumers and sell directly to them.

In today’s service-oriented economy, it is this type of consumer-savvy search for new market niches that is likely to lead to development. This will be a particularly challenging task for rural communities that are highly dependent on agriculture and other goods-producing industries.

AO

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The changing role of agriculture in rural economies

In a forthcoming issue of
Rural Conditions and Trends

- * *Employment in farming and farm-related industries*
 - * *Service-sector expansion*
 - * *How today’s farms do business*
 - * *The impact of urbanization on farmland*
 - * *Where agriculture is important*
- ...and more

Watch for it in the Rural Development briefing room on the Economic Research Service website

www.ers.usda.gov/briefing/rural