

Agricultural Outlook Forum

Presented: February 16, 2006

BUILDING ON RURAL AMERICA'S COMPETITIVENESS IN A GLOBAL
MARKETPLACE

Thomas Dorr
Under Secretary for Rural Development, USDA

**AG Outlook Forum/Rural Development Track
Washington, D.C.
February 16, 2006**

**Thomas C. Dorr
Under Secretary for Rural Development**

[Plenary Panel: Rural America's New Economic Frontier: Entrepreneurship, Innovation, and Collaboration. Three speakers: Gerald Tumbleson, NCGA; Robert Lane, Deere & Co.; TCD.]

Thank you. It is a very great pleasure to be here. And it's a real challenge to follow Jerry and Bob on this important topic.

No one understands the changing dynamics of the international market better than a company like John Deere, which has successfully diversified while remaining a world leader in its core business areas.

Just stop to think about that -- it's remarkable.

And of the major commodity groups, the National Corn Growers Association has been an unquestioned leader in identifying new opportunities and new models for rural development.

If we can be as successful as a government agency in reorienting ourselves and our mission to new realities, we will be successful indeed.

The changes sweeping across rural America are not difficult to identify. Quite the reverse, in fact -- they're all around us and if we're not paying attention, they'll smack us right between the eyes.

For rural and farm policy, frankly, this is a challenge. And it's a challenge we are addressing. It's a privilege for me to serve as a member of the President's team -- and from that vantage point, I can tell you that President Bush "gets it."

The President makes his home in Crawford, Texas, population 700. He gets his electricity from a rural coop and his water from a Rural Development financed utility. He's committed to the future of rural communities, to an inclusive, ownership society based on opportunity and entrepreneurship for every part of America, rural as well as urban. Creating those opportunities is the mission he's given us.

Secretary Johanns gets it. The Secretary was raised on a farm and has spent his life in public service in a rural State. He understands that this is about making small towns work, getting the water lines laid,

providing quality health care and schools, and working to ensure that young families in rural communities have jobs and opportunities. As Secretary of Agriculture, he has 101 things on his plate -- but I can tell you that, on a day to day basis, the Secretary is personally engaged and fully committed to the mission of Rural Development.

So from President Bush and Secretary Johanns on down, the commitment is clear. The support is rock-solid. And the challenge for us at Rural Development is to seize this opportunity -- and reorient ourselves to new challenges and opportunities in rural America.

For roughly 70 years, we have operated in a basic policy matrix created during the Depression era and oriented largely toward agricultural stabilization.

That model hasn't been entirely static but it has tended to institutionalize a perspective in which rural policy was dominated by farm policy ...

... And farm policy was often inward and backward looking -- as I've often put it, the "American Gothic" idea of rural America.

As you probably know, that sturdy farm couple in the painting was actually Grant Woods' dentist and his sister, but put that aside. The scene is Eldon, Iowa, about 300 miles from my home town of Marcus – and only about 30 miles from my wife's hometown.

Marcus is in Northwest Iowa, over by South Dakota; Eldon is cater-corner across the state, in the southeast. The man in the picture could have been my grandfather (though I'm pretty sure he wasn't.)

In his day, an Iowa farmer probably plowed behind a horse or a mule. He went to bed when the sun went down because the electric grid stopped at the edge of town.

He may or may not have had a car to get into town. His wife cooked over a coal or wood stove and did laundry by hand. Recreation was fishing or the local high school basketball team, and baseball was king.

It's a bit different today. In a single lifetime, we've gone from walking behind a mule to gene splicing and GPS mapping. Farming has gone from a craft to an education, technology, and capital intensive business.

Nor does rural isolation mean what it did. The farm family today shops at a regional mall and is wired into the internet -- while the local schools, frankly, are probably better than many of their urban counterparts.

A lot else has changed as well.

When American Gothic was painted, there were over 6 million farms in the United States. Today, two thirds of them are gone.

Of the 2 ¼ million farms that remain, 150,000 family farms produce most of our food and fiber. Most of America's farmers work in town and farm part-time. Approximately 90% of farm family income is from non-farm sources.

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.

This growth is driven primarily by markets, not government programs. And markets today are increasingly global in nature. That means the competition -- on price, quality, and service alike -- is more intense than ever.

That's where USDA Rural Development comes in. We administer over 40 programs ranging from housing to infrastructure to business.

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.

In 2006, we will invest over \$17 billion in rural communities. Since 2001, the total is \$63 billion invested and over 1.1 million jobs created or saved.

Our mission has changed significantly over the years. In the beginning, during the Depression era, my predecessors at the “Resettlement Administration” and the “Farm Security Agency,” as I mentioned before, were concerned with emergency relief and farm stabilization.

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 a 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?

I truly believe that this is an era of extraordinary opportunity for rural America. But to realize that potential, we have work to do.

The job begins with identifying opportunities -- and looking at rural America today, there are three factors that stand out as potentially very transformative: Place, Connectivity or Broadband, and Energy. These opportunities guide our investment strategy. I'd like to address each of them in turn.

PLACE

“Place” is my own term -- you may think of a better one -- for the quality of life considerations that attract so many of us to rural areas to live, work, and raise our families.

“Place” is peace and quiet, green fields, and fishable streams. It’s lower taxes and a lower cost of doing business. It’s affordable housing and a big yard for the kids. It’s the pace of life, low crime, and good schools.

It’s actually the basis of a good book entitled Life 2.0 by Rich Karlsgaard, of Forbes Magazine. Mr. Karlsgaard who points out many examples of people empowered by modern technology, especially telecommunications and broadband, who have found ways to combine professional and business success with a rural or small town lifestyle.

These things are significant rural comparative advantages. Conversely, I’ve been on temporary assignment for five years in Washington, D.C., and I’ve never seen a real estate ad in D.C. or any other city boasting about a bigger mortgage for a smaller house, high taxes, more noise, crime waves, and a three hour commute.

Rural communities that can provide good jobs, quality healthcare, and good schools are great places to live. Let me make clear that we're not trying to run folks out of urban areas -- but given the chance, people will vote with their feet. Our job is to help empower that choice by investing in the infrastructure and business development that makes it possible.

Frankly, nothing hits closer to home than this. For decades, rural communities have had difficulty offering opportunities to young people. A majority of kids left after finishing school. Very few of the college graduates came back. In my class, for example, I may have been the only one who returned home to Marcus to a family farm -- I'm not really sure, but I was certainly one of very few, if not the only one.

Our goal, therefore, begins right at home ... to create communities where our kids have a future ... communities where the next generations have more and better choices than we did.

If our kids' hopes, dreams, ambitions, and talents take them around the world, that's great – and we want them to have that opportunity -- but they shouldn't be forced to leave simply because there is nothing at home.

And if we can build communities that retain our own young people, we will find that they become destinations for others as well.

Sometimes people ask me if I really want rural America to become a magnet for more people, businesses, and jobs. My answer is that if we want a rural economy where our own kids can find good jobs, growth will come -- and we'd better start planning on how to make it work.

Granted: not everyone will make the same choices -- not everyone will choose Manhattan, Kansas, over that other Manhattan on the East Coast -- but we can level the playing field so that rural America is again competitive in terms of economic opportunity. That's the goal.

[CONNECTIVITY/BROADBAND]

A second opportunity arises from the communications revolution, especially broadband. IT is producing the most radical decentralization of information in human history -- and it's happening at a critical moment in history.

Since the fall of the Berlin Wall, between 2 and 3 BILLION people have joined the world market system. Many of them are formidable competitors. They will also be great customers if we can win their business.

In sheer numerical terms, this is the greatest expansion of economic freedom and opportunity in human history. Of course it poses challenges. Competition always does.

But this is, in fact, what we fought the Cold War to achieve. We have turned enemies into competitors and customers. This is what victory looks like.

Put this together with the broadband revolution, and it means we on the leading edge of a new world in which every person is going to be connected -- more-or-less instantaneously -- with everyone else.

Whether we want to or not, we will be competing with everyone in the world with similar skill sets and a modem. The upside is that our potential customer base will be just as broad.

Ready or not, the changes are coming. The old saying was, “you can run but you can’t hide.” Today, with information flowing across the internet at the speed of light, you can’t even run anymore.

And you certainly can’t hide in rural America, because globalization and connectivity are just as real in my hometown of Marcus, Iowa, as they are in New York or Chicago or Phoenix. Brazil grows soybeans, China makes widgets, India writes software, and markets price competitively. We can’t hide. Neither can anyone else.

Today, data can be shared easily across great distances. We no longer need everyone in the same building so they can talk, or shuffle paper

from desk to desk. Administrative structures, manufacturing, and distribution networks can be decentralized.

To a degree unprecedented in history, people are going to have real choices about where to live and how to work. From a rural development perspective, this leverages “Place.”

Bottom line is you can live locally and compete globally:

- **TOM PFOTZER EXAMPLE**
- **PLAINS, MONTANA EXAMPLE**

Broadband makes rural communities more competitive than they have been in generations. It opens the door to everything else. These things don't change overnight -- but the spatial organization of America is being reengineered ...

... And I am convinced, if we do our jobs right, that smaller cities, small towns, and rural areas indeed have a very bright future in store.

[ENERGY]

Finally, rural America has a major new cash crop – energy. President Bush spoke to this in his State of the Union address last month, and he’s backed up the speech with major new funding proposals for research on wind, cellulosic ethanol, clean coal, and new generation nuclear power.

It’s important to know that the President didn’t come to this issue yesterday. I’ve known President George Bush for several years, well before he ran for office. America’s dependence on imported oil is something he’s been thinking and talking about for many years.

That’s why he made a comprehensive energy bill -- and it is comprehensive -- a first priority in 2001. That’s why he fought for four years to get it passed. And that’s why he returned to the subject again last month. The commitment is there ... And frankly, thanks to \$60 barrel oil, so is the opportunity:

- U.S. ethanol production in 2005 exceeded 4 billion gallons. The 7.5 billion gallon renewable fuels standard in the Energy Bill will be met well ahead of schedule.**

- **Biodiesel usage has soared from about 5 million gallons in 2001 to 25 million gallons in 2004 to 75 million gallons last year.**
- **U.S. wind power capacity by the end of last year reached 6,740 Megawatts. Another 5,000 MW are currently under construction or in negotiation. The Department of Energy estimates that wind can generate at least 6% of U.S. electricity by 2020.**
- **And we don't stop there. We are also investing in other biomass technologies such as direct combustion and methane gas recovery, as well as solar, geothermal, and hydrogen applications.**
- **Adding it up, since 2001 USDA Rural Development has invested almost \$290 million in new energy sources – and we're making energy a top priority for 2007.**

LEADERSHIP/INVESTMENT CHALLENGE

Energy from agriculture, in fact, offers the rural economy its biggest new market in history. But it's not automatic. We're talking about the emergence of a distributed energy system. That's something different. It's new. It will take some creative work to make it happen.

And this is where I want to issue a challenge – and a warning. A new energy economy is emerging. It won't happen overnight. But it will happen. The key issues then will be ownership and wealth creation -- and our goal must be to bring the benefits of this extraordinary new opportunity back home to rural America.

You know, the new energy sources coming online – ethanol, biodiesel, wind, solar – are inherently distributed in nature. They are also predominately rural and agricultural based.

Farmers and other rural landowners are on the ground floor. And it's fine for ethanol to net farmers another 5 or 10¢ on a bushel of corn. I'm an old corn farmer, and I understand the value of a nickel or a dime.

But the real return is downstream, in the value added as a premium fuel. And in the long run, the question is whether farmers and rural landowners participate as vendors, or as owners and investors.

EXAMPLE: ENERGY FINANCE FORUM IN NEW YORK

Bottom line: we need to develop new business and investment models, including new tax and regulatory regimes, to bring the benefits of new energy sources back home to rural communities.

This doesn't require more government expenditures on subsidies. But it does requires a strategy -- new investment models and supportive regulatory and tax regimes -- that permits distributed energy opportunities to be capitalized by the existing wealth already distributed within rural communities.

This will happen when not just farmers -- but also the local dentist and the school bus driver, the shopkeepers and school teachers, the mechanics and the retirees -- all have a chance to participate in this extraordinary new opportunity to generate wealth in rural America.

[CONCLUSION]

To sum up -- if you couldn't tell by now -- I am an incurable optimist about the future of rural America. I am an optimist about energy from agriculture. I am an optimist about the decentralizing implications and the resulting empowerment of IT. I am an optimist about the attractions of the rural quality of life.

With leadership, determination, and hard work, it's a full house – a winning hand for rural America in the next generation.

Yes, we face challenges. Standing still isn't an option, not in an era of globalization and connectivity-driven competitiveness. But if we have the vision and the will to pursue them, our opportunities are even greater than our challenges.

I am confident that we will, and I look forward to working with you to get the job done. Thank you.