

Overview of Midwest Agriculture and Rural Development Issues

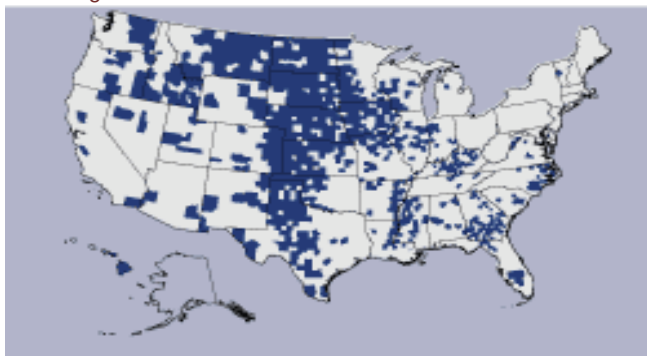
David Oppedahl - Business Economist, Federal Reserve Bank of Chicago

The Future of Economic Development in Rural America

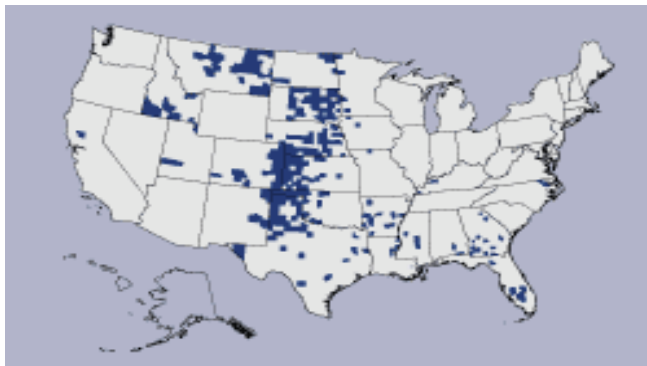
David Oppedahl highlighted several factors changing the face of rural America. First, he said farming has diminished as the primary occupation in many rural areas, especially outside the Corn Belt. However, agricultural production in the Midwest continues to provide about 85 percent of U.S. corn for grain and soybean output. In addition, almost 70 percent of U.S. production of hogs and pigs occurs in the Midwest.

Figure O1: The Decline of Rural Agriculture

In 1969, farming accounted for 20 percent or more of earnings in 935 nonmetro counties...



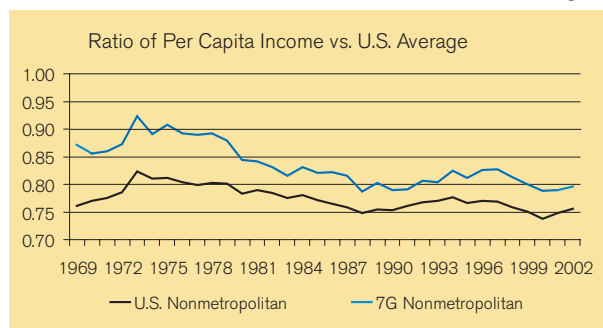
...versus just 262 nonmetro counties in 1999



Source: Federal Reserve Bank of Chicago

Even with tremendous productivity, Oppedahl noted, there has been a decline in the role of agriculture in rural America. As Figure O1 illustrates, farm earnings are becoming less important to rural economies. The map indicates that the number of counties that depend on agriculture for at least 20 percent of earnings decreased significantly over the past three decades. As a percentage of gross state product, production agriculture in the Seventh District fell under one percent by 2000 from over four percent in the 1970s. Though net farm income has been high the last few years, a substantial portion comes from direct government payments. "These facts lead one to wonder if farming is the 'last welfare culture' and how agricultural interests will approach the discussion about future farm policy," Oppedahl noted.

Figure O2: Nonmetro Incomes in Decline in Seventh Federal Reserve District and Nationally



Source: Federal Reserve Bank of Chicago

These agricultural trends have a large impact on rural development, particularly as rural areas experience population decline. Oppedahl pointed out that counties without recreational or retirement appeal, or links to metropolitan areas by proximity and interstate highways, are losing population. Further, as the graph in Figure O2 shows, nonmetropolitan per capita income continues to fall further behind the U.S. average. Manufacturing

has partially compensated for agricultural decline, and industries (such as food processing) that draw on agricultural feedstocks continue to be a cornerstone of rural manufacturing. However, many rural places are looking to advances in biotechnology to ignite new industries that draw on production agriculture and whose economics dictate a rural location and create local jobs.

At one time, all agriculture was organic. A resurgence of organic production has brought farmers higher prices for their output. Direct sales of production have boosted returns even further, drawing comparisons to an earlier era of local markets. Biofuel production, especially ethanol, has expanded rapidly in the Midwest, and there is great potential for the growth of bioproducts and pharmaceuticals in rural areas. These new products may foster higher household incomes as well, given that hourly wages in the ethanol industry compare favorably with the U.S. manufacturing average. Moreover, the concept of biorefineries dotting the rural landscape brings visions of a revitalized rural Midwest. "Entrepreneurs remain vital to rural revival, since they are agents of change and expand the boundaries of economic activity," explained Oppedahl. "Building on the agricultural tradition of entrepreneurship by forming regional partnerships and promoting business formation remains the key to the future of the rural Midwest."