GLOBALIZATION AND RURAL DEVELOPMENT*

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The purpose of my remarks this morning is to provide some perspective on how we are thinking about globalization and its consequences for rural development in our Fund for Rural America project. Those remarks are divided into three parts. First, I want to review briefly the general effects of globalization on the location of policy making and implementation. Second, I want to review some of the unique features that condition how the process of globalization affects local rural communities. And finally, I want to review some of the policy issues for rural communities. At the end I will have some final comments.

We are well into the effort to collect some empirical evidence on the issues cited above. However, at this point we prefer to concentrate on some of the ideas driving the research rather than on specific sets of data.

The basic motivation for our study is that globalization exerts some powerful forces that shift the location of some decision making and policy implementation from its original location at the national level to state and local level, and that that shift if not fully recognized. The result is that there is a failure to understand where policy making and implementation is taking place in today’s world, and also an associated failure to recognize the importance to strengthen state and local policy institutions.

Globalization and Its Effect on the Location of Policy Making and Implementation

The first point I would like to make is that globalization is driven basically by three technological revolutions: one in the transportation sector, one in the communication sector, and one in the information technology sector. These three technological revolutions have significantly reduced the costs of economic transactions and significantly increased the scope for markets. Moreover, the decline in transportation costs significantly increases the benefits from international grade.

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Although much of the recent debate about globalization implies that we could shut it off or turn it back if we only wanted to, the truth of the matter is that society seldom if ever gives up the benefits from such technological breakthroughs. Moreover, the benefits from the three technological breakthroughs have for the most part been limited to the developed countries. The developing countries, which account for over 80 percent of the world’s population, and the previously centrally-planned economies, have not shared much of the benefits. That means that if anything, the scale and scope of globalization is far from coming to an end. To the contrary, the complexity of the process should increase as we move into the future and the technological revolutions extend to other countries.

In the sense that interests us, globalization essentially refers to the expansion of international trade relative to the growth of global GDP, and to the expansion of international financial markets. The history of the last 30 to 40 years is that the expansion of the financial markets is far beyond the expansion of international trade. In other words, the international financial markets have become much more important as links among countries than international trade.

The significance of this growth in international trade and financial markets is that national economies become more open. Being more open means that they are more susceptible to influences from the international economy. In the same way, some of the developments in their own economy and policies have larger effects on other countries.

But there is another feature of a more open economy. As it becomes more open, it becomes increasingly beyond the reach of national economic power. This is the loss of sovereignty that has become such a polemical issue in recent discussions of globalization. Moreover, it is a real phenomenon.

Two things occur when national economies become beyond the reach of national economic policy. At one level, some dimensions of economic policy making and implementation shift up to the international level and become imbedded in international institutions and arrangements such as the World Trade Organization, forms of regional integration such as the European Union, and NAFTA, and so on. The kinds of policies that shift to this level are primarily those associated with commodity markets.

At another level, some dimensions of economic policy making and implementation shift downward to the state and local level. The kinds of policies that shift in that direction is what we call incomes policy and resource or environmental policies.

One of the ironies of the contemporary debate is that much attention gets directed to the loss of sovereignty associated with the shift upward to the international level, and to the problems associated with policy institutions at that time. However, on the other side are the issues associated with the shift downward to the state and local level. Note that in this case the policy making and implementation get closer to the people, and hopefully to democratic processes. Moreover, the policies shifted in that direction
involve incomes policy and resource policies, two pressing sets of issues in today’s world.

Recall that one of the motivations driving our research is that this shift downward has for the most part been largely ignored by the critics of globalization. That is surprising, for there should be substantial benefits from having the decision making and implementation at levels closer to the population. Similarly, as the policy making and implementation load grows at the local level, there is a need to strengthen the capacity at the state and local level. The institutional governance structure is becoming increasingly burdened with an ever larger range of activities to take care of. Third, there is a need for creative institutional design of new state and local government arrangements to service local communities.

The Special Circumstances of Rural Communities

Rural communities face a number of special circumstances that create problems for them. The first is that the structural demand and supply conditions of agriculture create circumstances in which labor needs to flow from agriculture. The reasons for this are well known and will not be repeated here. However, this is what can best be termed a secular flow of labor out of the agricultural sector. It started in the case of the United States after World War I, with an upsurge in employment in the 1930s due to the economic recession, and then a virtual uninterrupted outflow that continues to this time.

Second, to obtain gainful employment in sectors other than agriculture, the labor has to relocate geographically. There usually is not enough alternative employment close to the original employment in the agricultural sector.

Third, geographic migration is a highly selective process. The record of this process is well documented and shows that outmigration from a region tends to drain the human capital out of rural regions. Ironically, in many cases it is true that an important part of the human capital for this nation is paid for and produced by the poorer sector of the economy, and then given to the more well-to-do sectors essentially as a gift.

The gift is not a freebie, however. That population tends to accumulate in large urban centers, where it imposes negative externalities in the form of congestion, pollution, and rising costs for public services such as water and sewage disposal.

It is difficult to imagine a more counter-productive component of a development process. Negative externalities are imposed on both ends of the development process. Moreover, the drain of human capital from rural areas weakens the basis for further economic development of that sector.

I note in passing that on one occasion when I developed this argument a director of an extension service was insulted by my remarks, for he thought they implied that the rural population was below average in intelligence. That of course is not an inherent feature of such populations, but rather a consequence of prolonged outmigration.
The point of this section is that policy makers face a set of conundrums when they address the rural development problem. On the one hand, globalization is driving policy-making and implementation down towards the local level of government. At the same time, the drain of population from the communities raises questions about whether they should be doing anything for these communities.

**Policy Issues Faced by Rural Communities**

Let me suggest two ways to improve the institutional structure for rural areas:

1. Make the investments needed to build the capacity of local governments and rural infrastructure. This includes the usual things: invest in the education and training of the staff of these organizations, and invest in the new technology they use, and especially information technology.

2. Invest more in the design of new institutional arrangements. There is some institutional experimenting going on in many areas:

   One such experiment is in community integration, in which case neighboring communities agree to integrate their existing institutions, thus making more efficient use of the resources and reducing costs.

   Another is in developing new institutional arrangements to serve multiple towns and cities from the ground up. This approach is probably simpler from a political standpoint, although I know no evidence to that effect.

   In any case, we in the land grant universities need to strengthen our capacity to provide technical assistance for these local institutions and governments.

**Concluding Comments**

The objective, of course, is not to have economic development spread uniformly all over the landscape. The point is that we are wasting a lot of our resources with the configuration of development we now have. We are especially wasting our precious human resources.

If we were to address some of the problems we reviewed above we would have a higher rate of economic growth, with the growth rate that resulted...