

Choices of Rural Business

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Affected by government policies and programs designed neither for nor by him, the rural businessman sees himself bearing a disproportionate share of the cost while reaping little of the benefits. The lack of solid information that will help him became obvious during the colloquium days. Its lack led to many of the highlights of the session being in the form of questions.

For instance, should government have particular policies and programs for businesses and businessmen of the rural community? A defensible case can be made for special assistance in adjusting to changes that, at least in large part, can be attributed to government policies and programs of past and present.

Some rural businessmen, of course, have read the future well. They adjusted the scale or design of their business in keeping with the needs of customers or moved on to some other income stream. But some were trapped by faulty vision, age, or any of a host of other reasons in one of the contractions of economic growth.

Suppose we set out to build policies and programs for more equitable sharing of costs and benefits in the entire rural segment of our economy. How much do policy makers, social scientists, or editors know about the problems of rural business?

The right questions may not even be asked as we begin a search for answers. But the following are questions and comments from the rural business session which may serve as launching pads for serious thinking and/or research.

- A. What is the function of rural business?
 - a. to supply goods and services
 - b. to provide an income stream for the entrepreneur
- B. Several classifications of rural business were suggested:
 - I.
 - a. input suppliers
 - b. output handlers
 - c. suppliers of consumer goods and services
 - II.
 - a. those depending on volume of farm inputs and outputs
 - b. those depending on number of people as consumers
 - III.
 - a. those associated with large corporations of some sort
 - b. small independents
 - IV.
 - a. cooperative
 - b. dealer selling products of corporation
 - c. suppliers of miscellaneous goods and services
 - d. farmer-dealer

The mix of purchased inputs for the farm is quite complex. Some farm inputs (such as chemicals) are purchased in increasing amounts. Some (such as tractors) are purchased in decreasing numbers but are larger in size and complexity so that dollar volume does not decline with number of units. Some are used for only short periods during the year. Some are needed close to the farm while others are not. How much will such factors affect structure of the rural retail distribution?

The farmer often demands increased quality, service, technical information, management help, and financial assistance along with the purchase of inputs. Some firms, in an effort to differentiate their product from others essentially like it, compete in supplying such services—especially those which make the purchased input perform better than it

might otherwise. Where is this leading farmers and rural businessmen?

- Farmers buy some products in large quantities. The larger farmers often bypass local retailers and go directly to the manufacturer. Loyalty to the small town dealer is largely a thing of the past. Same for loyalty to co-ops. Quality, price, service, convenience, and similar factors determine where purchases are made. Just what factors are involved and what is their relative importance?

- Rural businessmen are not effectively organized for political action.

- Number of farms and farmers continues to decline. Conversely, farm size increases. Capital in the form of purchased technology substitutes for both land and labor. Government programs have aimed largely at land adjustment (removing acres from crop production). The labor adjustment has been made mainly by (1) not entering farming, (2) leaving farming, or (3) accepting lower income.

Much the same sort of thing has been happening to rural businessmen, though there are fewer programs intended to provide assistance. When a government program reduces the resources devoted to farming, the same program also reduces the need for resources devoted to rural business. Unfortunately, those who leave rural business after spending part of their working life there often find themselves ill-equipped to compete elsewhere.

- So what is needed? Improved information sources on employment opportunities? Training opportunities? Some sort of subsidy for changing location and occupation?

Economic Organization of Rural Business

- What is the most effective economic organization for firms serving agriculture and the rural community? What structure will be needed for the future?

- Will economic organization need to vary with different sections of the country? Rural, nonfarm residents may be an important market for firms in some areas. Other areas may have only farmers or ranchers for customers—and few of them.

- Small supply and marketing firms are increasingly being merged into large regional or national corporations. How does this affect the local community? How much “community conscience” can be expected of the small local subsidiary of a large corporation?

- Some large corporations are placing closely supervised outlets in rural areas. These outlets may have the financial backing to drive independent competitors out of business. Through advertising and extra services, they may create special demand or product differentiation. What is the impact of this on rural business structure? On the community? Should corporations be forced to bear at least part of the external (pollution, for example) costs of their profit-making decisions?

- What is the future of one-stop shopping centers? What is their impact on rural businesses already in operation? On the communities in which the center locates? On surrounding communities? Is not the present small town nearly a one-stop shopping center in itself?

- Will there always be a place for the small independent operation which caters to local preferences and supplies special services?

- How large should rural businesses be for efficiency and profit? How large should they plan to become to fit the future?

- How far will farmers go for goods and services of the quality and variety desired? The traditional one hour of travel time concept has expanded over the years with developments in transportation technology. It started with 2 or 3 miles when everyone walked. Through horses, early automobiles, improved roads, and now modern automobiles, the

one hour distance enlarged to its present 40 to 60 miles. For some products this already seems to be the pattern. A considerable delivery cost may figure out to be cheaper than the alternative of extra handling and storage near the farm.

- What are the losses when firms become large? At what point do these offset the gains? How important are variables other than dollars—for example, employee attitude toward customers, lack of personal attention, guarantees, return policy on merchandise, standardization of product, etc.?

- What is the good and the bad of scale in rural businesses? Is there a difference between those supplying goods and services to rural people and those supplying inputs to the farm operation?

- Who decides where new rural business locates and what kinds of services it will offer?

- a. Independent dealers and competition
- b. Corporate manufacturer or distributor of product
- c. Demand—projected market
- d. Government programs—especially land diversion or retirement programs

Or put another way:

- a. Opportunity perceived
- b. Competition
- c. Public policy
- d. Market response

- Large corporations may gain advantage through better information on (a) from special studies or surveys, and on (b) from use of advertising.

Basic Policy Questions

- When the combined effects of changing technology and government programs cause inequitable distribution of benefits and costs, should government attempt to bring about more equitable distribution?

- When technology occupationally displaces people by removing the need for their economic existence, should not the public through government bear most of the cost of creating new income streams for those people?

- What is the economic and social cost of creating new income streams for such people? Of *not* creating new income streams for them? Without answers to these two questions, the necessary decisions are difficult.

- Is it possible to predict the rate at which new technology will be infused into agriculture? Is it possible, and desirable, to control the rate to fit specified criteria—perhaps as in a rural labor policy?

- Government programs for one industry do not operate in isolation, but tend to have varying impact on other industries. For farm programs this grows increasingly true as farming becomes more interdependent with other industries. Can we examine policy for one industry to determine its consequences on other industries in advance of actual policy adoption?

- Land retirement programs may leave many farmers as well off while decreasing demand for products of some rural businesses. When land retirement is concentrated in local areas, the rural businesses of those areas bear a heavy share of the agricultural adjustment cost. How much of this cost should rural business be expected to bear?

- Should government have policy and programs directly affecting rural business? Is there a policy question with regard to the form (economic organization) of rural business firms?

•Rural people may not be able to determine the direction and magnitude of many factors affecting farming, community, and rural business. As a poorly organized minority of the nation's population, they find many of the big decisions being made by urban majorities and by large corporations. There are, however, ranges of choice—places and times when choice is possible. If there is a truly desired direction, enormous opportunities exist over the long run for directing change.

Some Policy Needs and Areas for Study

- Anticipate consequences of policy and programs.
- Rural settlement policy consistent with a national settlement goal—resettlement, creation of new cities, increased mobility, or combinations of these.
- Human resource policy rather than land resource policy for problems of rural America.
- Policy for agriculture and rural America which encourages adjustment and which, at the same time, eases the uneven distribution of costs and benefits. Past policy has too often been one of slowing adjustment to a pace which permitted a larger percentage of people involved to handle their disproportionate share of costs. (For example, FHA loans for sewage systems to small, obsolete towns may be just slowing the out-migration to a pace which permits merchants to live off their depreciation.)
- Train people with appropriate skills to predetermine, or at least to study, the consequences of technological change. People need information about change and about what to expect if specified change is permitted to occur.
- Extension-type programs for rural businesses emphasizing management, accounting, and forecasting on the basis of demographics, etc.
- Research to estimate costs and benefits of specific change which can be controlled. The cost-benefit analysis must include both economic and social dimensions. Only then can people make choices with reasonable anticipation of the full range of consequences.
- Focus attention on disturbances and costs arising in the entire community as a result of economic growth and new technology. For example, as a large distributor moves into a community, local businesses need to understand the impact on the community economy and on the local business opportunity. The community needs to know the impact on the community economy and the external costs, such as pollution, of the distributor's profit-making decisions.
- Understanding of tools available for regulation of change and rate of change.
- Understanding of large agribusiness corporations as potent lobby force trying to change some rules to their own advantage and the resulting effects on the entire rural community. For example, the recent "feed the world" campaign was highly advertised by agribusiness at a time when government programs were restricting output. This and other programs sometimes work to offset policies and programs for farming and rural areas.