

Rural Subsidies

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Overview

Rural Business-Cooperative Service

Rural Utilities Service

Rural Housing Service

Overview

The Department of Agriculture operates a wide range of rural subsidy programs out of more than 800 offices across the country.¹ These programs are just a portion of the entire gamut of federal programs that subsidize rural communities. A study by the Federal Home Loan Bank of Des Moines found an astounding 1,399 federal programs that served rural America.²

The USDA's rural programs are grouped in three areas:

- The Rural Business-Cooperative Service (RBS) provides grants and loans to rural businesses, and it funds organizations such as the National Sheep Industry Improvement Center.³
- The Rural Utilities Service (RUS) provides grants, loans, and loan guarantees to electricity, telecommunications, and water utilities in rural areas.
- The Rural Housing Service (RHS) provides rental assistance to tenants, subsidizes housing developers, facilitates home ownership, and promotes community development through a variety of grant and loan programs.

Net outlays for these activities in fiscal 2009 are \$3.1 billion. However, *gross* outlays for rural activities are larger because some of these programs collect offsetting receipts, such as fees, which are subtracted from gross spending to arrive at the bottom line net outlay amounts.

The USDA's rural programs provide goods and services that the private marketplace normally provides. Whether it is the financing of multifamily housing, the funding of broadband Internet access, or the provision of loans to electricity plants—USDA's rural activities duplicate functions that the private sector usually performs elsewhere in the economy.

It is often claimed that federal subsidies promote economic development in rural areas, but there is little evidence of that. Consider the effects of farm subsidies on the rural economy. A study by the Federal Reserve Bank of Kansas found that, far from being a spur to rural economies, farm subsidies are a drag on growth:

Job gains are weak and population growth is actually negative in most of the counties where farm payments are the biggest share of income.

Job growth is decidedly weak in the counties most dependent on farm payments. The vast majority of such counties (483) had job gains below the 19 percent national average from 1992 to 2002. A considerable number (167) had outright job losses over the period.

In short, farm payments are not yielding robust economic and population gains in the counties where they should have the greatest impact. If anything, the payments appear to be linked with sub par economic and population growth. To be sure, this quick comparison cannot answer whether growth would have been even weaker in the absence of the payments. Still, farm payments appear to create dependency on even more payments, not new engines of growth.⁴

If federal subsidies to rural areas don't spur growth, why do they persist? Rural programs are sustained not by economic logic, but by the intense lobbying of interest groups. The RUS, for instance, is supported by a lobbying group called the National Rural Electric Cooperative Association headed by a savvy former congressman.⁵ It gives more than \$1 million annually in political contributions split evenly between Democrats and Republicans.⁶ The association's more than 30,000 members are scattered in congressional districts across the nation, but they are efficiently mobilized to lobby Congress in letter-writing campaigns and visits to Washington.⁷

Many studies have found that USDA rural subsidy programs are inefficient and mismanaged.⁸ More importantly, rural subsidies are unjust redistributions of wealth, especially given that rural dwellers are better off than other Americans in many ways. Americans who live in rural areas should not be a privileged class deemed more important than other Americans. All USDA rural subsidies should be ended.

Rural Business-Cooperative Service

The RBS was created in 1994 to consolidate USDA programs that provide loans, grants, and other subsidies to rural businesses. Those programs include the Rural Business Investment program, which invests in new business ventures, and the Rural Cooperative Development Grants program, which aids rural cooperatives.⁹ The RBS also funds training and technical assistance centers.

The presumption is that RBS programs encourage economic competitiveness in rural areas where access to capital is supposedly lacking. However, according to the USDA's Economic Research Service, rural areas do not exhibit restricted access to capital today, as might have been the case in prior decades.¹⁰ For example, comparisons of rural and urban manufacturers show little difference in access to capital, according to the ERS. Indeed, ERS surveys find that rural manufacturers are more likely than urban manufacturers to have undertaken recent expansions or modernizations of their plants.

Even a cursory analysis of the RBS's programs suggests that its activities are not cost effective. According to a USDA report on rural development programs, the Business and Industry Guaranteed Loan Program committed \$766 million in 2006 to "create" or "save" 14,837 jobs.¹¹ Even accepting those job claims, that is a huge cost of \$51,648 for each job created or saved. Similarly, the USDA's Renewable Energy Loan Program provided \$24.2 million to generate 170 jobs, which works out to a cost of \$142,000 per job.

Most businesses that receive RBS subsidies can and should fund their activities privately. Most Americans would expect movie theaters, shopping centers, and grocery stores to be funded privately, but the RBS funds those sorts of activities in some communities.

- The RBS loaned \$4.5 million to the city of Meadville, Pennsylvania, to build a 10-screen movie theater in 2006.
- The RBS gave grants of \$91,595 (2006) and \$165,000 (2001) to construct the Duck Valley Shopping Center in Idaho.
- The RBS provided a \$1.4 million loan guarantee to build the Middlebury Natural Foods Cooperative in Vermont, which the USDA describes as "a thriving market for Vermont farmers, artisan cheese makers, bakers and specialty-food producers."¹²

The health of rural American economies does not require taxpayer subsidies for such commercial activities. If such projects make economic sense, then private developers will invest in them and try to earn profits. Congress should repeal this sort of corporate welfare spending for rural communities.

Rural Utilities Service

Congress passed legislation in 1936 to fund the Rural Electrification Administration, designed to bring electricity to rural farming communities. In the early 1930s, few rural families had access to electrical power. But by the mid-1950s, the number of rural households with electricity matched that of suburban households, and by 1975 more than 99 percent of all farms had electricity.¹³

With rural America wired up to the electrical grid, one would expect that Congress would disband the REA. Instead, Congress has continually expanded the agency and broadened its mandate. One new goal of the agency was to help bring telephone service to the countryside. Telephone service penetration in rural areas topped 90 percent by the mid-1970s and 95 percent by the 1980s.

The REA was renamed the Rural Utilities Service in 1994. The RUS continues to subsidize the electricity industry through low-rate loans to the nation's more than 800 rural electric cooperatives. The *Washington Post* noted, for example, that the RUS "is using taxpayer money to provide billions of dollars in low-interest loans to build coal plants even as Congress seeks ways to limit greenhouse gas emissions."¹⁴

The RUS also subsidizes urban areas through a number of its programs. Close to 200 of the counties in which RUS subsidizes loans to electric co-ops have populations of more than 1 million.¹⁵ For example, three borrowers that received more than \$400 million in loans between 1999 and 2003 distribute electricity near Atlanta, Georgia. Only 24 percent of the counties served by RUS borrowers are completely rural.¹⁶

Some of the electricity co-ops that are subsidized by the RUS have gone beyond their original role of rural electrification. Some compete with for-profit private companies in commercial ventures outside their core businesses. The *Washington Post* reported, for example, that one co-op operates a gas station and another operates a Dairy Queen.¹⁷

Some of the new missions of the RUS include providing distance learning, telemedicine, and broadband Internet access to rural America through grant and loan programs. Broadband initiatives have proven to be very expensive. The USDA boasted that it had spent \$3 billion in taxpayer money to assist 1.3 million subscribers in accessing broadband.¹⁸ That works out to a cost of more than \$2,300 each—enough to have bought each beneficiary a long-term subscription to a satellite broadband service.¹⁹

Electricity, telephone, and Internet services are the last things we need the government to be involved with in today's advanced economy. The RUS should be eliminated as one of many unneeded relics of the New Deal era.

Rural Housing Service

The RHS provides rental subsidies to tenants, subsidizes loans to homeowners and apartment developers, and promotes community development. The RHS has its origins in the Housing Act of 1949.

The types of problems that the RHS was established to tackle—such as lack of suitable housing for some rural residents—have been largely solved by decades of U.S. economic growth. Today, the home ownership rate in rural America is actually 10 percent higher than the national average.²⁰

Many studies have found that the RHS is inefficient and mismanaged. The USDA inspector general discovered that the agency pays out millions of dollars in subsidies to recipients who are not legally eligible.²¹ In addition, the agency has had trouble recovering losses on its guaranteed loan program.²²

Much of RHS loan activity is in communities that are integrated with nearby urban areas and have ready access to financial services. A Government Accountability Office study discovered 1,300 examples of RHS subsidies going to areas that fit the RHS definition of "rural" but were closely integrated with nearby urban areas.²³ Thus, RHS loans often go to areas that are "rural" as most people understand the word.

Regardless of who receives the loans, the USDA's rural loan programs make less sense than ever because of the increasing sophistication of U.S. financial markets. People and businesses that are good credit risks can generally get private loans, no matter where they are located. USDA rural loan programs should be closed down, and rural homeowners, developers, and businesses should borrow in private markets as other Americans do.

¹ See the department's rural development site at www.rurdev.usda.gov.

SRI International for the Federal Home Loan Bank of Des Moines, "Crafting a Competitive Future," April 2005, p. 45, www.fhlbdm.com/docs/about_us/pf/srireport_final.pdf.

³ See www.rurdev.usda.gov/rbs/coops/cssheep.htm.

⁴ Mark Drabenstott, Federal Reserve Bank of Kansas City, "Do Farm Payments Promote Rural Economic Growth?," March 2005, p. 3.

⁵ John J. Fialka, "Lobbying Works for Rural Co-ops," *Wall Street Journal*, December 27, 2004.

⁶ John J. Fialka, "Lobbying Works for Rural Co-ops," *Wall Street Journal*, December 27, 2004.

Stephen Mufson, "Federal Loans for Coal Plants Clash with Carbon Cuts," *Washington Post*, May 14, 2007, p. A1.

⁸ For example, see Government Accountability Office, "Rural Housing Service: Opportunities to Improve Management," GAO-03-911T, June 19, 2003, p. 7.

⁹ For an outline of RBS operations, see Tadlock Cowen, "An Overview of USDA Rural Development Programs," Congressional Research Service, January 18, 2007.

¹⁰ U.S. Department of Agriculture, Economic Research Service, "Rural Industry: Questions and Answers," June 7, 2001, www.ers.usda.gov/Briefing/Industry/Questions/riqa-competitive.htm.

¹¹ U.S. Department of Agriculture, Rural Development, *2005–2006 Progress Report*, December 2006, p. 14, www.rurdev.usda.gov/progress/2005-6-ar-v10-final3.pdf.

¹² U.S. Department of Agriculture, Rural Development, *2005–2006 Progress Report*, December 2006, pp. 18–20.

¹³ Tadlock Cowen, "An Overview of USDA Rural Development Programs," Congressional Research Service, January 18, 2007, p. 3.

¹⁴ Stephen Mufson, "Federal Loans for Coal Plants Clash with Carbon Cuts," *Washington Post*, May 14, 2007, A1.

¹⁵ Government Accountability Office, "Rural Utilities Service: Opportunities to Better Target Assistance to Rural Areas and Avoid Unnecessary Financial Risk," GAO-04-647, June 2004.

¹⁶ Government Accountability Office, "Rural Utilities Service: Opportunities to Better Target Assistance to Rural Areas and Avoid Unnecessary Financial Risk," GAO-04-647, June 2004.

¹⁷ Stephen Mufson, "Federal Loans for Coals Plants Clash With Carbon Cuts," *Washington Post*, May 14, 2007.

¹⁸ U.S. Department of Agriculture, Rural Development, *2005-2006 Progress Report*, December 2006, p.21.

¹⁹ Scott Wallsten, "Broadband Penetration: An Empirical Analysis of State and Federal Policies," AEI-Brookings Joint Center for Regulatory Studies, Working Paper 05-12, June 2005.

²⁰ Government Accountability Office, "Rural Housing Service: Opportunities to Improve Management," GAO-03-911T, June 19, 2003, p. 2.

²¹ U.S. Department of Agriculture, Office of Inspector General, "Audit Report: Improper Payments: Monitoring the Progress of Corrective Actions for High-Risk Programs in Rural Housing Service," March 2007.

²² U.S. Department of Agriculture, Office of Inspector General, "Audit Report: Improper Payments: Monitoring the Progress of Corrective Actions for High-Risk Programs in Rural Housing Service," March 2007, p. ii.

²³ Government Accountability Office, "Rural Housing Service: Overview of Program Issues," GAO-05-382T, March 10, 2005, p. 7.

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