

# Improving the Rural 5<sup>th</sup>: A Researcher's Perspective

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The views expressed in this presentation are those of the presenter and do not necessarily represent the Federal Reserve Bank of Richmond or the Federal Reserve System.

# Motivation

- Classic question in economics relates to “efficiency”
  - Can we make the whole pie bigger, so that *everyone* can have a bigger slice?
- We can ask this question with respect to “spatial” distribution of economic activity.
  - This, after all, is what we usually mean when we think of the “Rural-Urban Divide” ...

# Motivation Cont'd

- Some evidence from recent research indicates that the convergence of per capita income across regions, states, and cities is stalling and that there is less geographic mobility than in the past
  - Tech boom caused concentrations of highly skilled people in a few places which led to increased clumping-together (“agglomeration”) of activity
  - Housing price increases in some of these areas “priced out” many
- Some will not have an opportunity to realize the gains afforded by economic growth and development
  - We may be missing opportunities to make the pie bigger. Not good.

# Outline

 The Big Picture

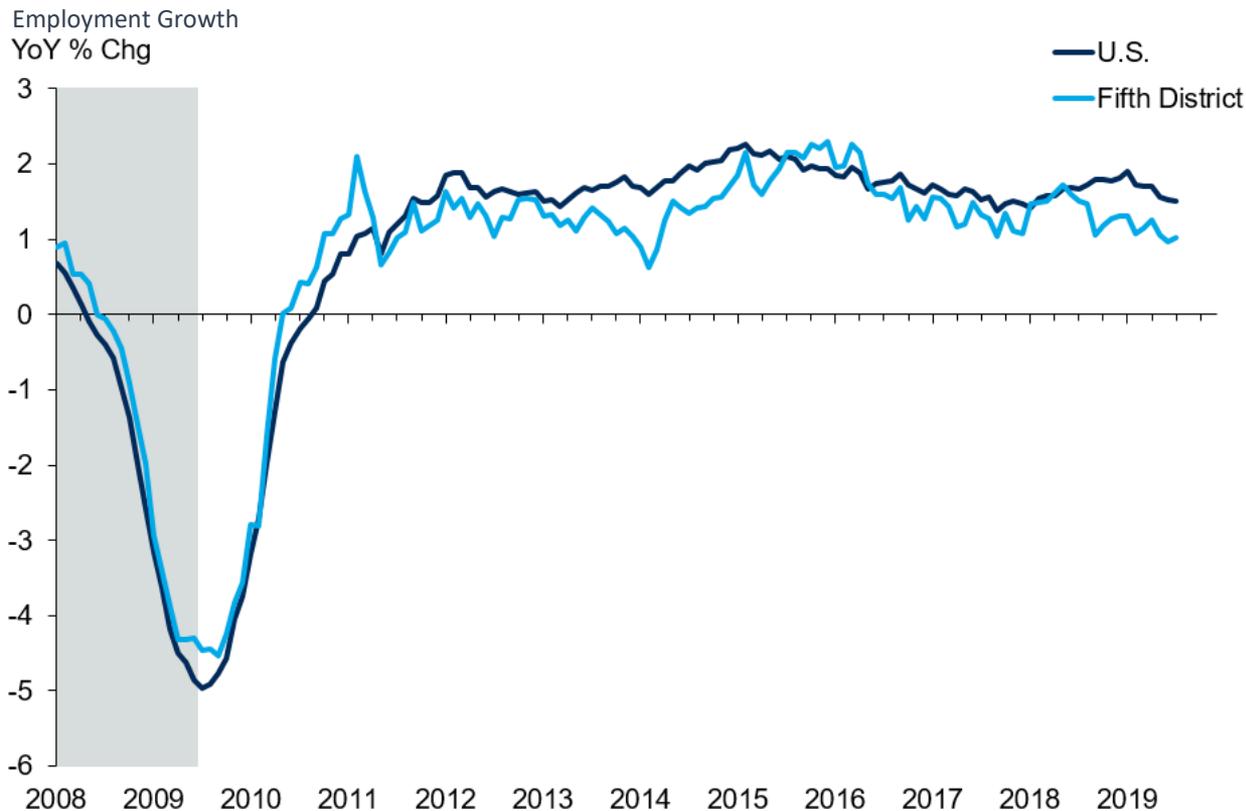
 The Rural Landscape

 Some Challenges and Opportunities

# The Big Picture Looks Good Enough...

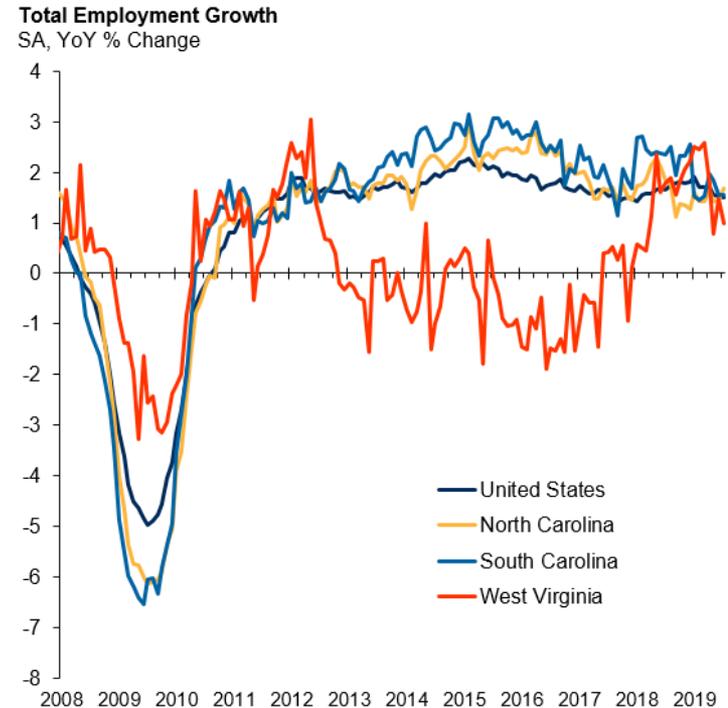
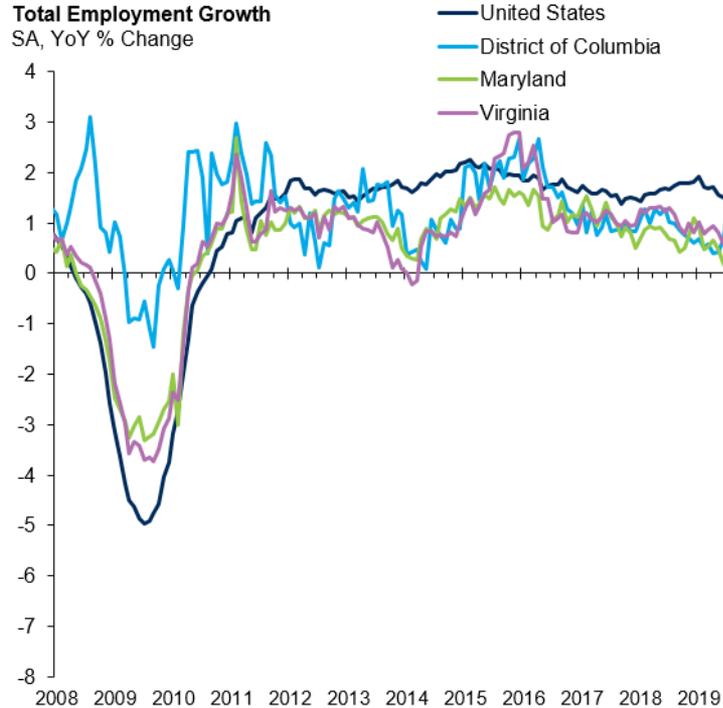
- August Jobs Report from BLS
  - Unemployment rate continues to be low at 3.7% for third month in a row
  - Labor force participation rate edged up to 63.2%, largely unchanged for this year
  - Payroll growth of 130,000 with average of 158,000 per month this year, below average of 223,000 per month for 2018
- Real Gross Domestic Product (GDP) from BEA
  - Q1 increased 3.1%, Q2 “third” estimate 2.0% growth

# More Big Picture Good News: Steady Job Growth

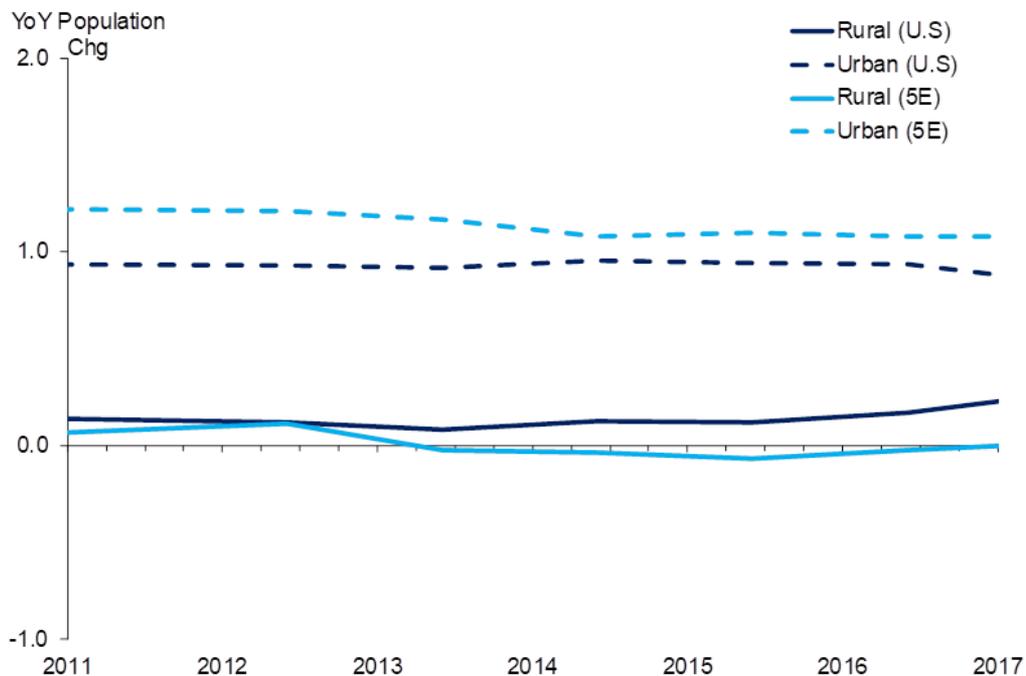


The Big Picture Doesn't Tell the  
Whole Story

# Employment Growth in Our District Varies

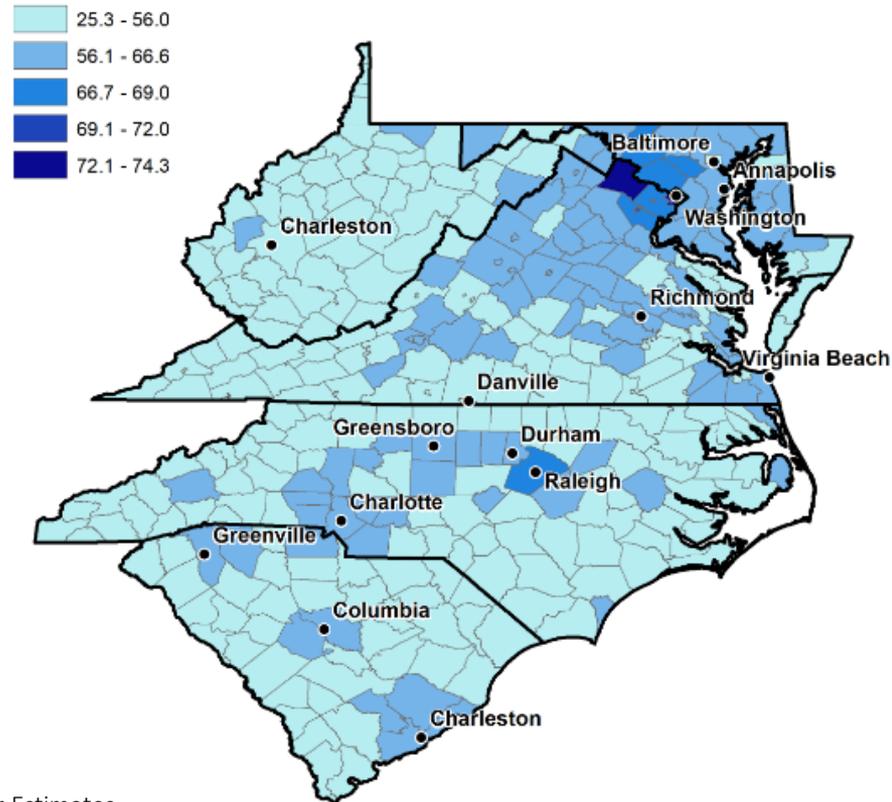


# Population Growth Slower in Rural Areas

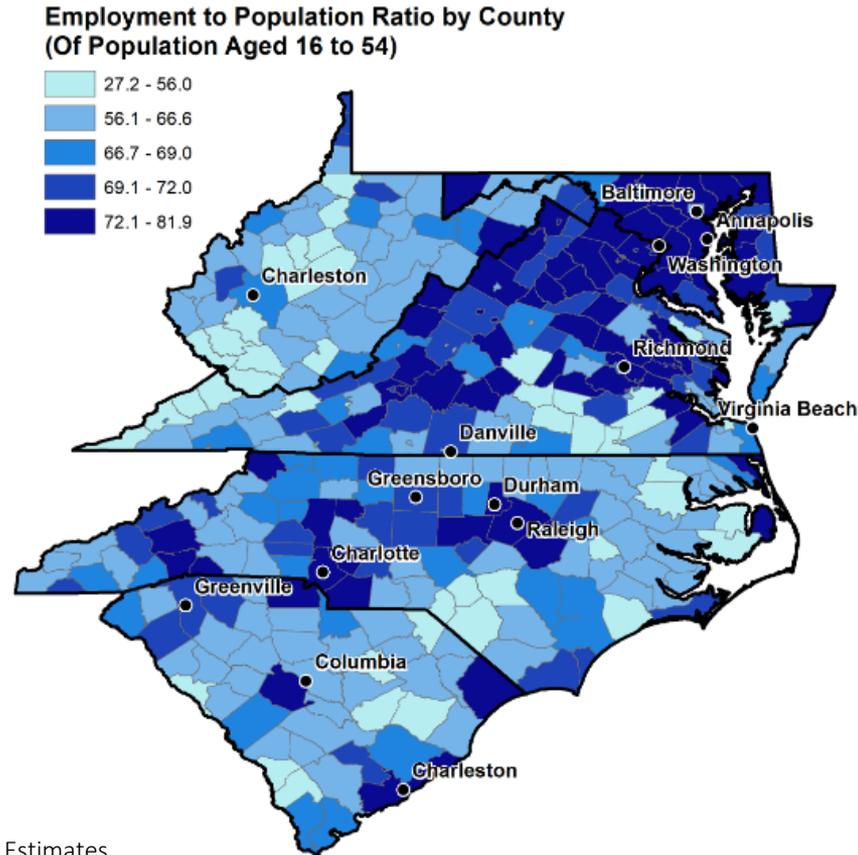


# Employment Rates Lower in Rural Areas (16+)

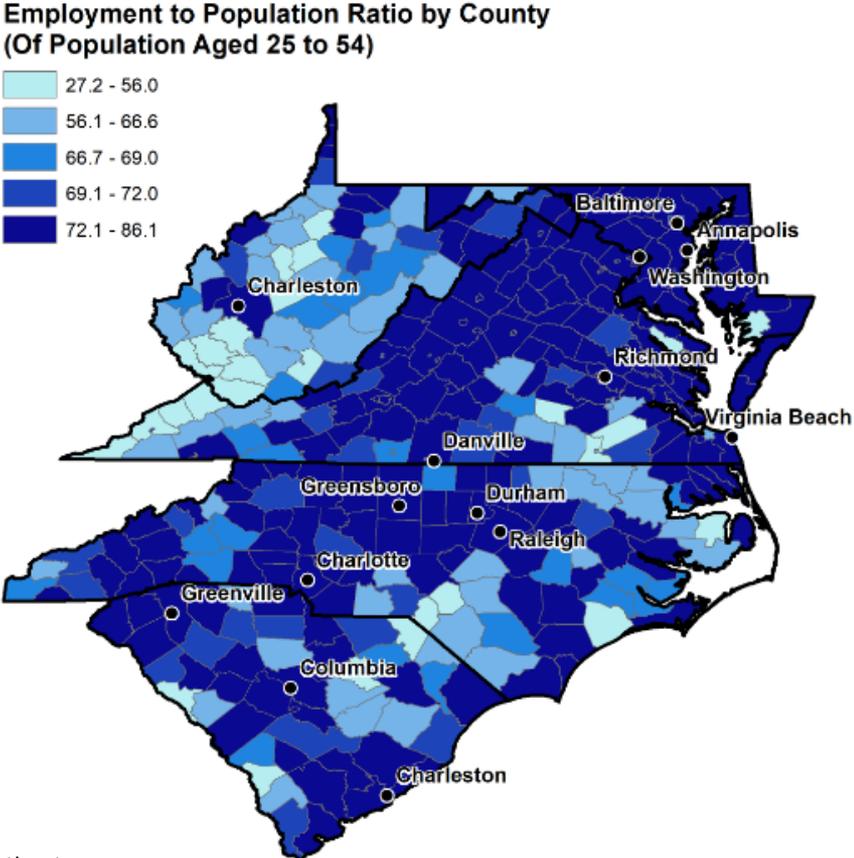
Employment to Population Ratio by County  
(Of Population Aged 16 and Over)



# But Let's Take a Look at a Different Slice (16-54)

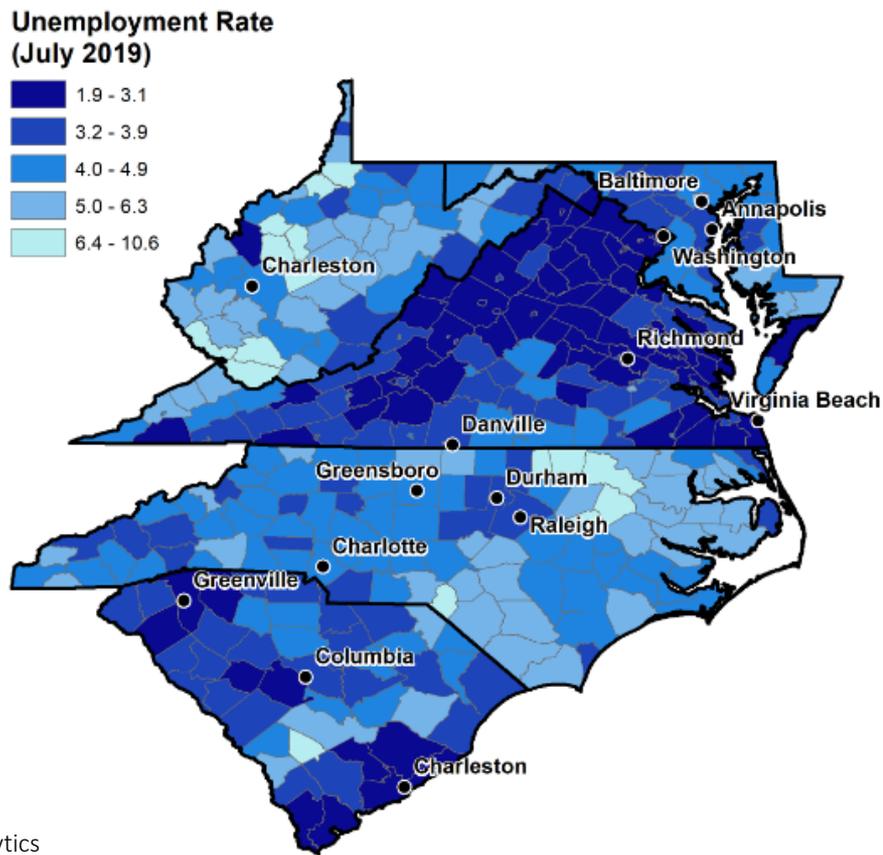


# And Still Another Slice: Prime Age (25-54)



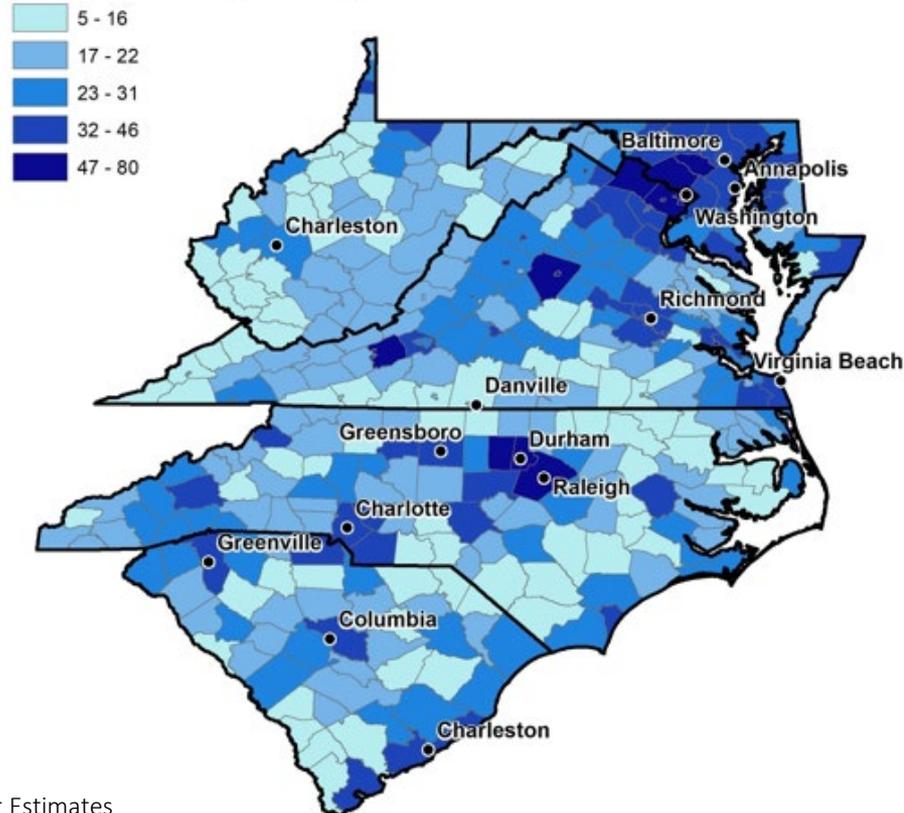
Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates

# Unemployment Rates Higher in Rural Areas, Too



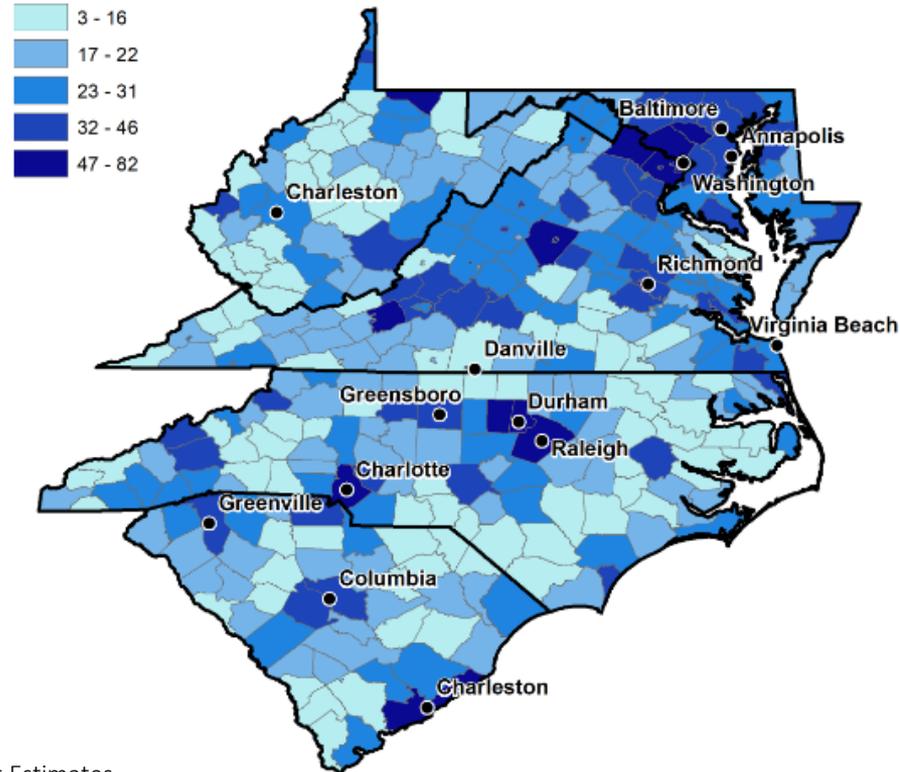
# Rural Areas Draw/Retain Fewer College Grads (25-64)

Percent with Bachelor's by County  
(Of Population Ages 25-64)

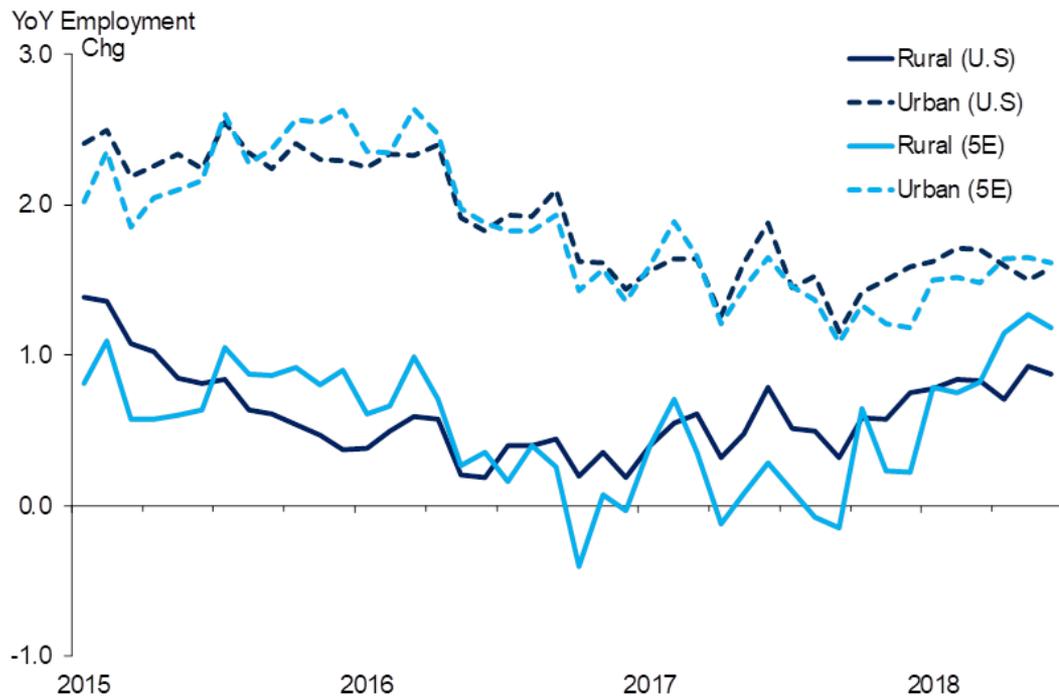


# And This is True Even Among the Young (25-34)

Percent with Bachelor's by County  
(Of Population Ages 25-34)

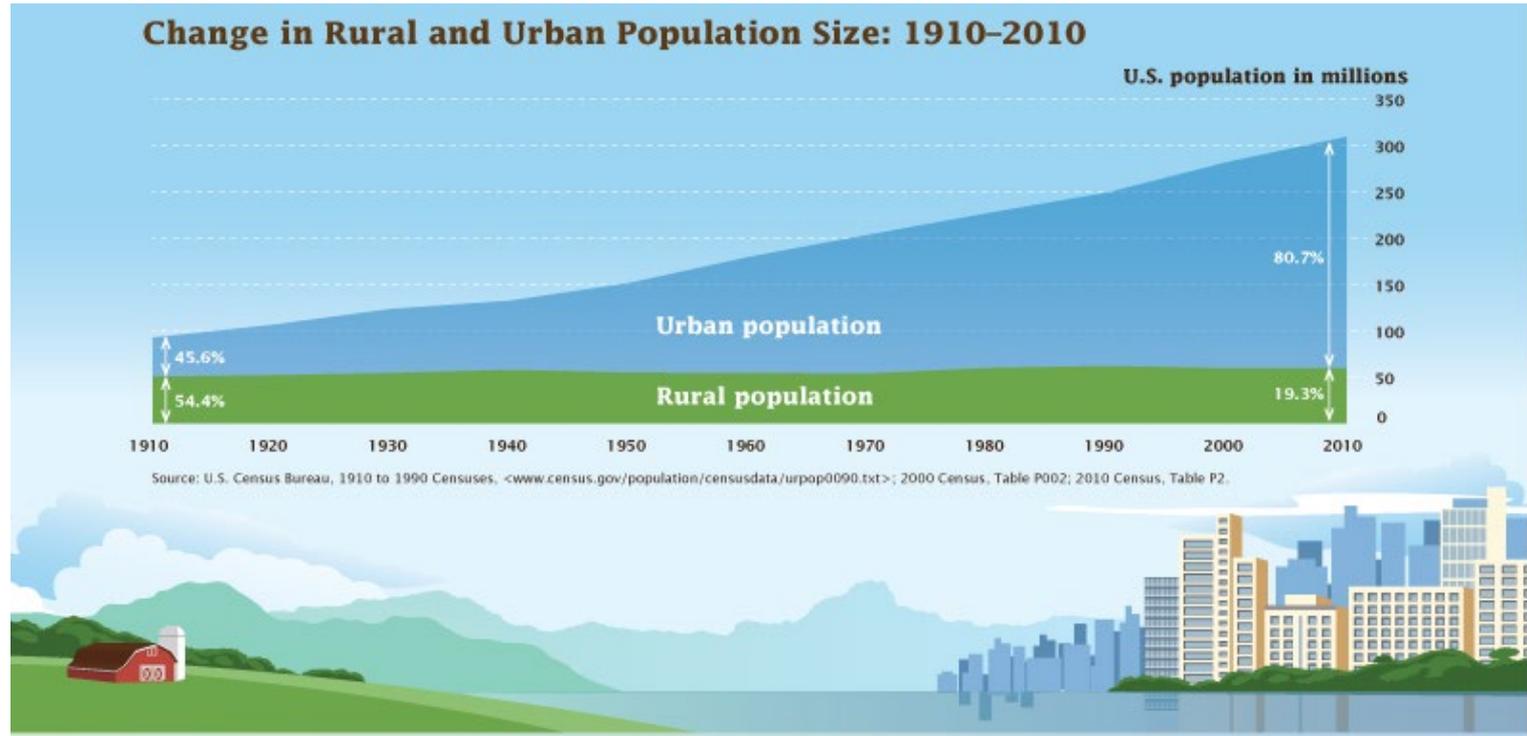


# Urban-Rural Employment Gap Remains



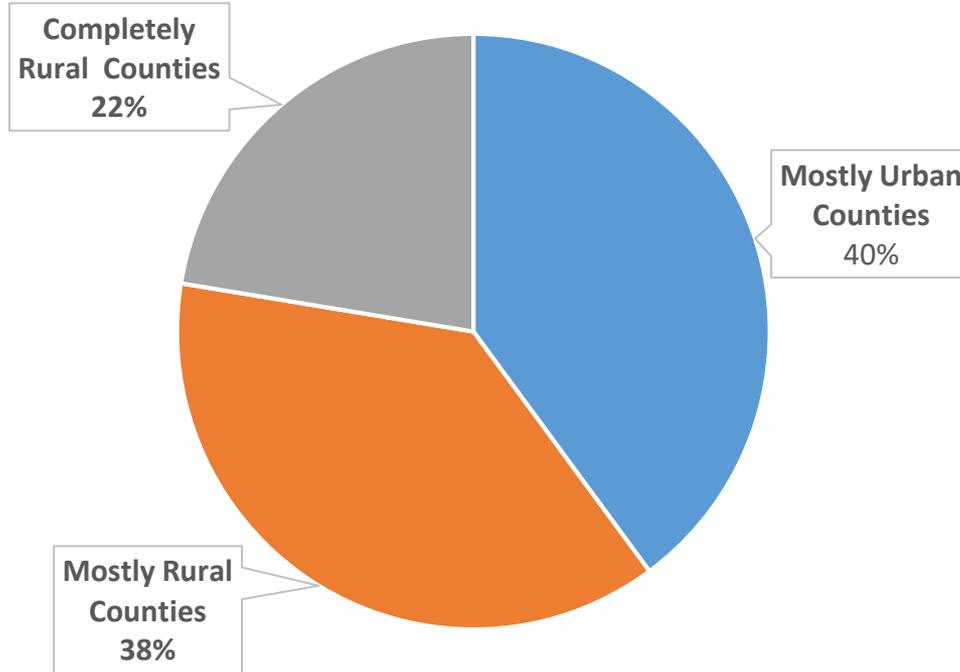
There's More to Consider

# A Lot of Us Are Still Rural!

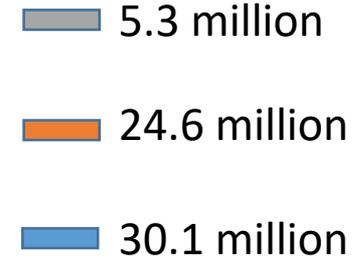


# But There Is No *One* Rural

## Rurality of US Counties



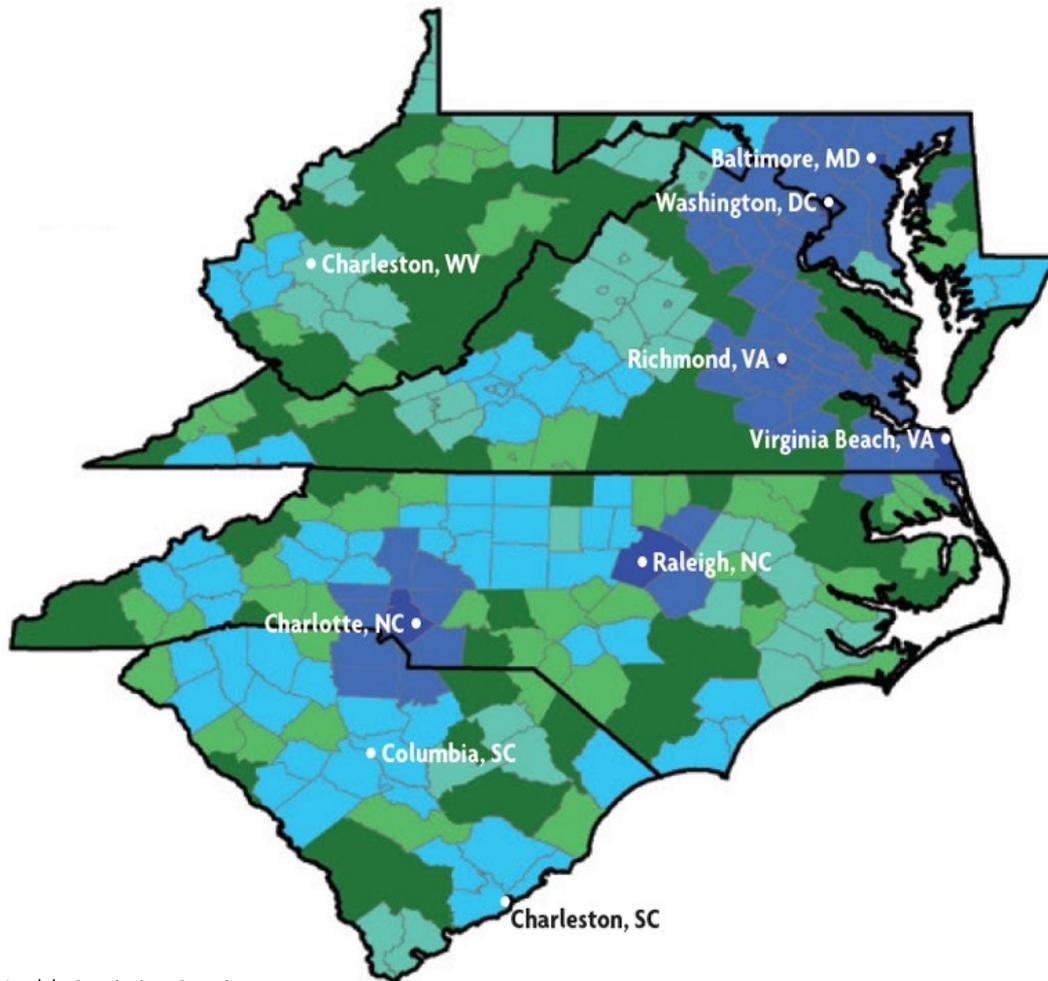
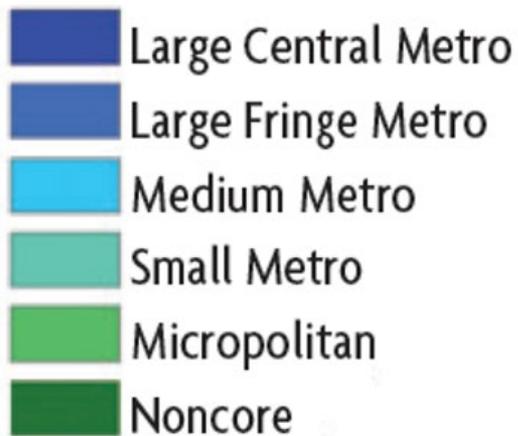
## Rural Population by County Type



### County Designation Definitions

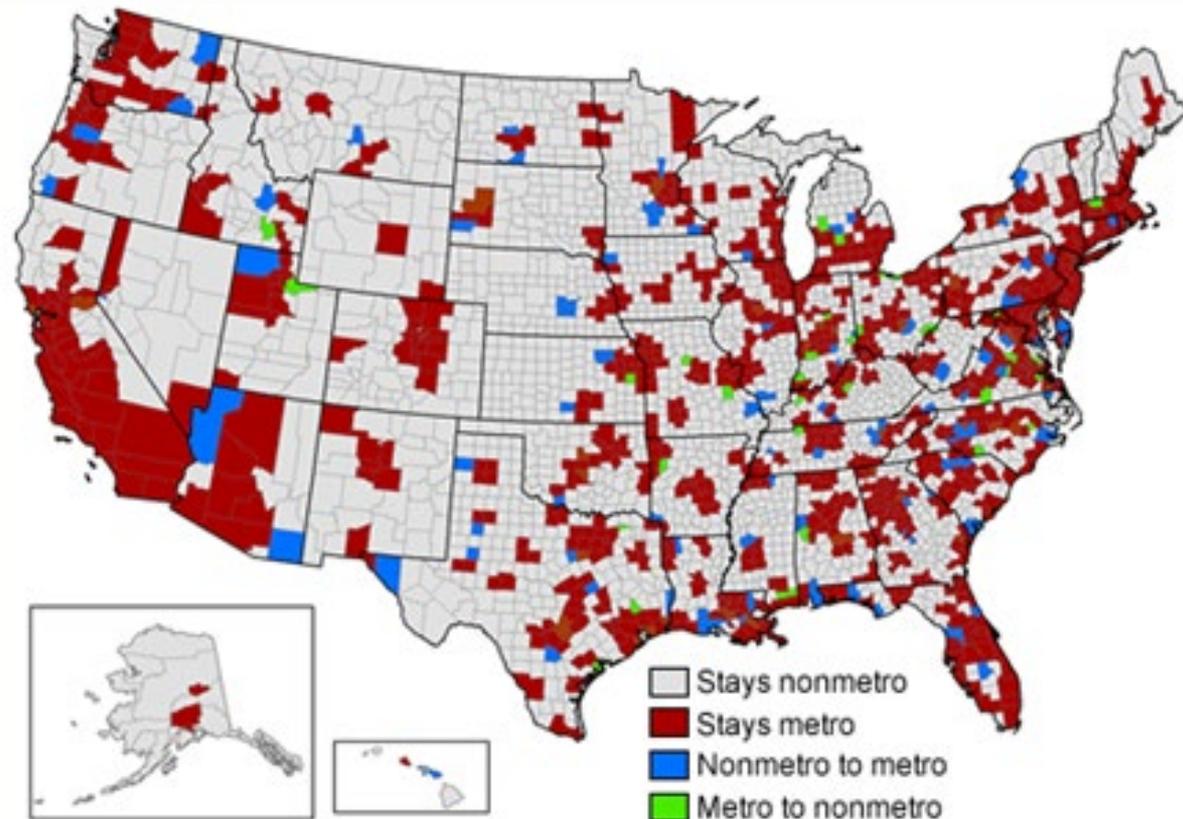
- Completely Rural: 100% of county pop in rural area
- Mostly Rural: btwn 50% and 99.9% of county pop in rural area
- Mostly Urban: < 50% of county pop in rural area

# NCHS Urban/Rural Continuum



## Counties changing metro status, 2003-2013

And, Things  
Change

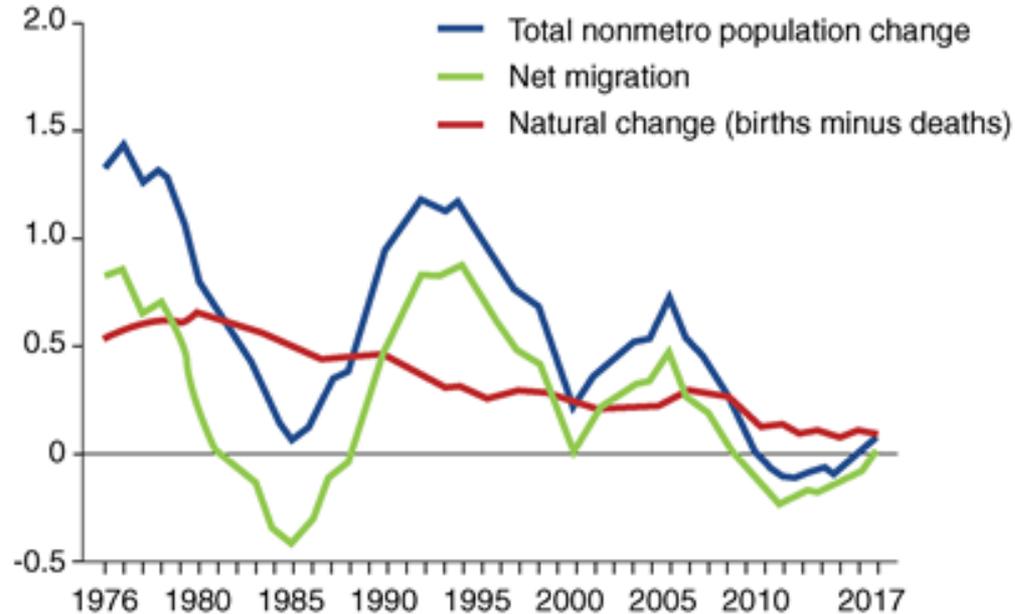


Source: USDA, Economic Research Service using data from the U.S. Census Bureau.

# Natural Population Trend Heading Down Steadily

## Net migration has driven growth in the rural (nonmetro) population since 2011-12

Percent change from previous year



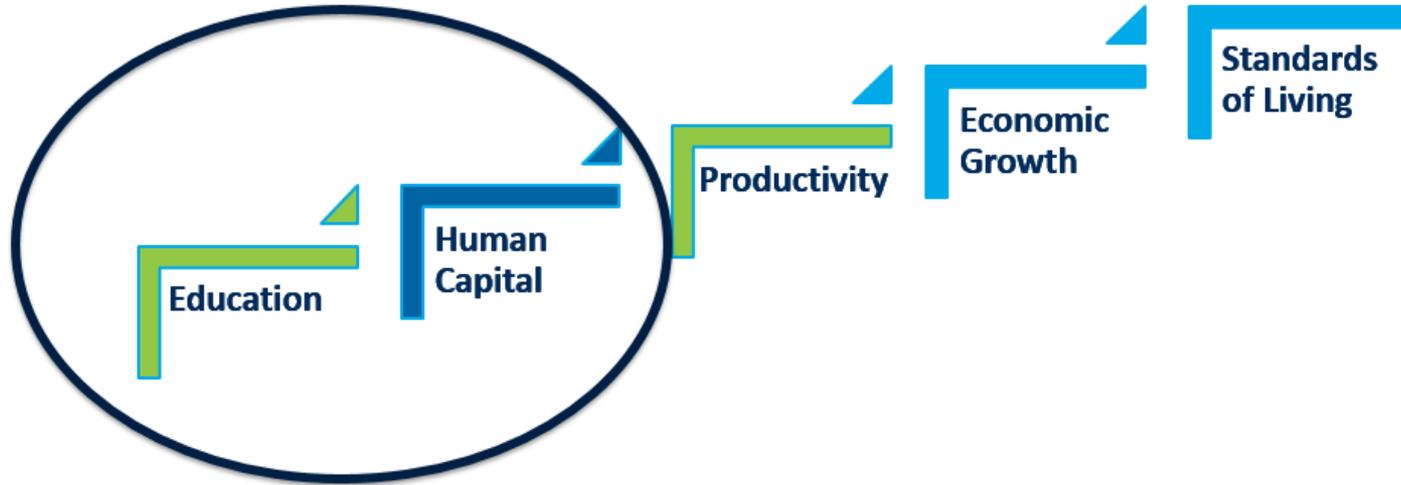
# Understanding the Differences: Challenges and Opportunities

# A Reminder About Why the Fed Cares

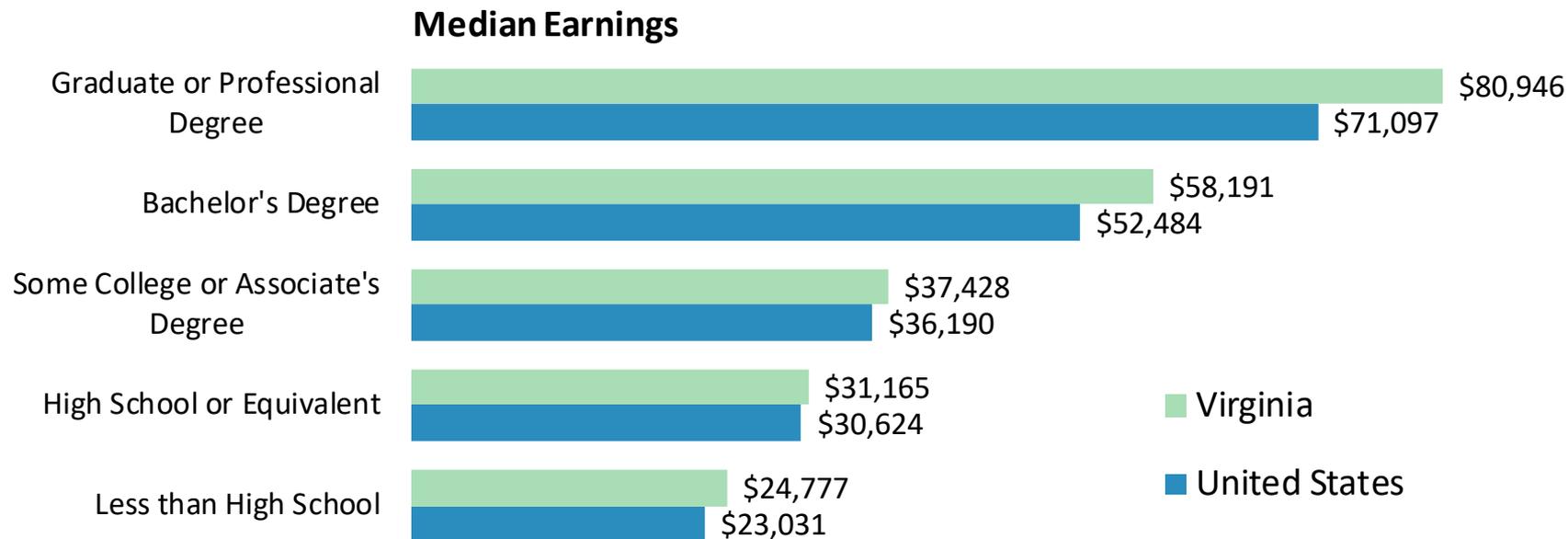
- Understanding differences in economic opportunities helps the Fed understand whether the economy is achieving its macroeconomic potential or leaving untapped opportunities for making all of us better off via
  - higher average living standards for all
  - better “risk-sharing” in our society—esp in the face of tech change
- The Fed’s Community Development mandate requires that we work to understand issues *facing low and moderate income communities* and that we identify promising practices to address them.

Education—Gaps or Not?

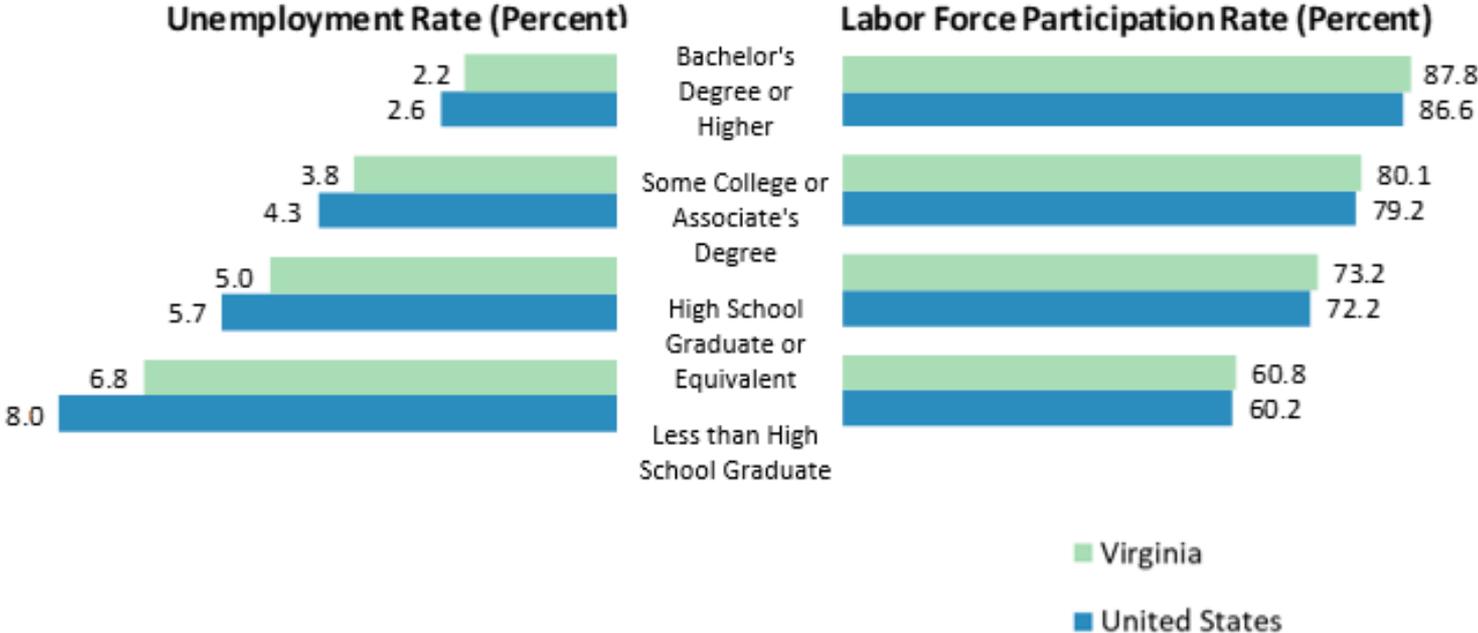
# Let's Think About Long-Term



# Education Matters for Earnings

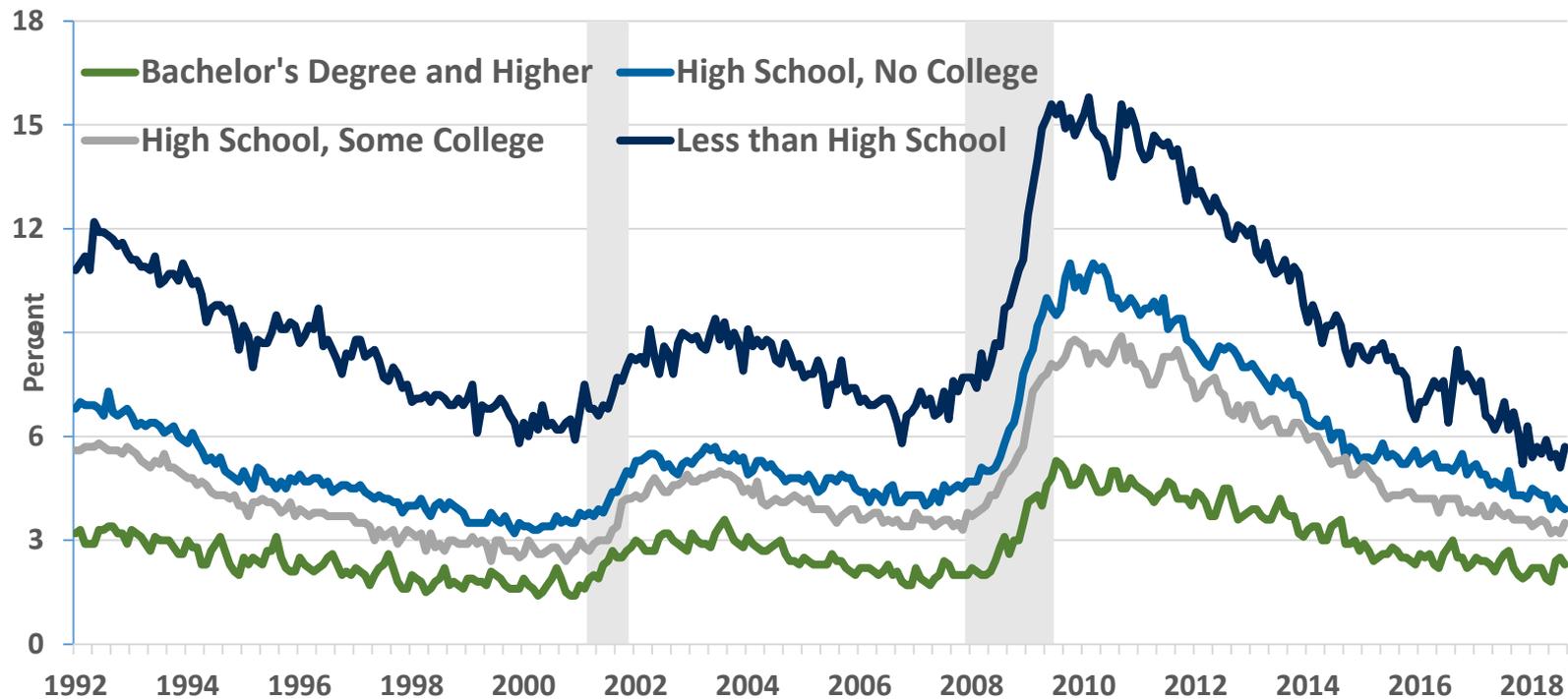


# And Also for Labor Market Attachment



Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates

# Education Inoculates Against Unemployment?



# But: the Problem of the (Right) Path *Not* Taken

- **College not always the answer:** many don't graduate
  - Bachelor's degree completion rates of enrollees: 50%
  - First generation enrollees complete at about half that rate
- Some students may also be worried about the difficulty of paying for college, taking on student loans, and the uncertainty of their earnings after college and therefore forgo college
- **Community college** is a low-cost way for students to learn how prepared they are for a 4-year college and improve that preparation
- **Information** on college-readiness, college-costs, college-demands, etc. all badly dispersed!

**And, there are other paths for students to consider!**

# A “No Judgment” Tool for Understanding Pathways

**INVEST IN WHAT'S NEXT**  
*LIFE AFTER HIGH SCHOOL*

Username:  Password:  [Sign In](#)  
[Forgot Username or Password?](#) [New User?](#)

### A Course for Your Future

There are many possibilities for your life after high school and lots of questions to consider along the way. What path is right for me? What do I stand to gain? What are my funding options for school? This interactive mini-course provides information and tools to help you answer these questions and more! Through three lessons you'll explore your options, budget for your future, and evaluate the plan that's right for you. Get started on your way to investing in what's next!

[Get Started!](#)

### Lesson 1 Exploring My Options

### Lesson 2 Budgeting for My Future

### Lesson 3 Evaluating My Plan

Category	Amount
Living Expenses	\$3,275
Food	\$1,275
Transportation	\$815
Entertainment	\$175
Clothing	\$1,935
Care	\$135
Other	\$165
<b>Total</b>	<b>\$4,500</b>

Budget for your desired lifestyle

Food: Eat out frequently (\$815) vs. Cook at home (\$465)

Clothing: Buy discount and name brands (\$175) vs. Buy name brands (\$200)

Transportation: Drive luxury (\$1,935) vs. Drive economy (\$1,215)

[investinwhatsnext.org](https://investinwhatsnext.org)



# Education Could Spark Gains in Rural Areas

- Increasing productivity and innovation across industries
- Making the region more attractive to other companies looking for talent
- Agglomeration economies: Evidence suggests ALL benefit from having more skilled workers around

**Opportunity: CAREFULLY close information gaps about education and human capital attainment.**

# Labor Force Participation

# Labor Force Participation: Some Considerations

- Earned Income Tax Credit
  - In general, research suggests that EITC expansion led to increases in employment rates, *particularly for single mothers*
  - Labor force participation benefits of EITC are uncertain in the EITC plateau and phase-out stages
- Child Tax Credit

# Labor Force Participation: Some Considerations

- Benefits Cliffs
  - Incentives matter
  - Reduction in benefits can lead to a reasonable disincentive to work more hours

**Opportunity: Use research to understand trade-offs of policies and design policies to target goals.**

# Applying What We Know: The Economic Development of Cities

# Cities Are Important, but Experiences Vary

- In the U.S., cities are major drivers of regional economic growth
  - Larger cities (150,000 or more inhabitants) generate approximately 85% of the country's GDP (2010)
- 5th District: BUT: while many cities have experienced rapid economic growth; other cities have experienced *persistent* decline and high poverty levels

# A Couple of Points on Cities

- Cities arise because there are advantages to concentrating economic activity in one place (“agglomeration economies”).
- Social and economic interactions generate a “multiplier” or “reinforcement” effect
  - Inflow of businesses into an area...more businesses
  - Nicer amenities...more people...more amenities
  - Innovative workers/companies...attract more innovative workers/companies

# A Couple of Points on Cities

- Cities undergo long cycles of development and decay and ultimately revert to the mean



Hiroshima, Japan

# Rural Low Cost of Living: Good News, Not Bad

- Micropolitan and rural areas have a distinct advantage over the biggest cities
  - They can expand more easily into surrounding areas.
  - They can take advantage of the benefits of low cost of living for a much longer time—SF, NY, etc. are difficult places to live and work and get by!
  - The current low cost of small-town/rural living doesn't tell you that it's an unviable place, *but rather that it's a place with room to grow.*

# Where Does This Lead Us?

## Place-Based Policies

- Incentives to encourage companies to relocate, spur investment in public goods, jumpstart agglomeration, encourage knowledge sharing and spillovers, etc.
- Why? Important new research indicates moving can be very costly, *communities are more than just population*
- Potential Pitfalls: may cause further financial distress from race to the bottom from competing cities, may increase congestion, may cause dependency on single or small number of employers, benefits may accrue to unintended, lift and shift solutions may not work

# Approaching Place-Based Policies

- Know thyself and leverage strengths
  - Requires acute understanding of strengths/limitations of areas.
- Cooperation is key
  - Regional cooperative leadership with private, public, and nonprofit sector cooperation
- Use targeted approaches to leverage support
- Realism is important
  - Most probable growth candidates are not very remotely located
  - If you build it, they may not come. But if you don't build it, they won't!

# Some of Our Work

- **Connecting Rural Households to Broadband: Barriers and Models for Public Intervention**, Community Development, 5<sup>th</sup> District Spotlight, Issue 1, 2019
- **Definitions Matter: The Rural-Urban Dichotomy**, Joseph Mengedoth, Econ Focus, Q3, 2018
- **Distance and Decline: The Case of Petersburg, Virginia**, Raymond E. Owens III and Santiago Pinto, FRBR Working Paper Series, October 2018
- **Inequality Across and within U.S. Cities, Around the Turn of the 21<sup>st</sup> Century**, Felipe Schwartzman, Economic Quarterly, Q4 2017

# More of Our Work

- **Rethinking Detroit**, Raymond E. Owens III, Esteban Rossi-Hansberg and Pierre-Daniel G. Sarte, *American Economic Journal: Economic Policy*
- **Residential Internet Connectivity Limitations in the Fifth District**, Community Development, 5<sup>th</sup> District Footprint, May 2019
- **Responding to Urban Decline**, Sanitago Pinto and Tim Sablik, *Economic Brief*, July 2017
- **Rural Hospital Closures and the Fifth District**, Emily Corcoran and Sonya Waddell, *Econ Focus* Q1, 2019



# Questions

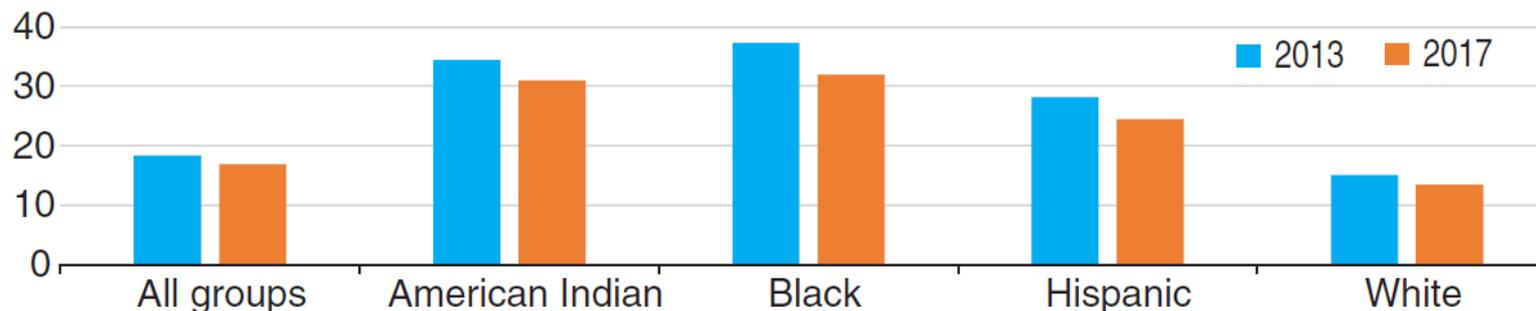


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# But Rural Poverty Rates Are Down

## Poverty rates dropped for all nonmetro race/ethnicity groups from 2013 to 2017

Percent of nonmetro population in poverty

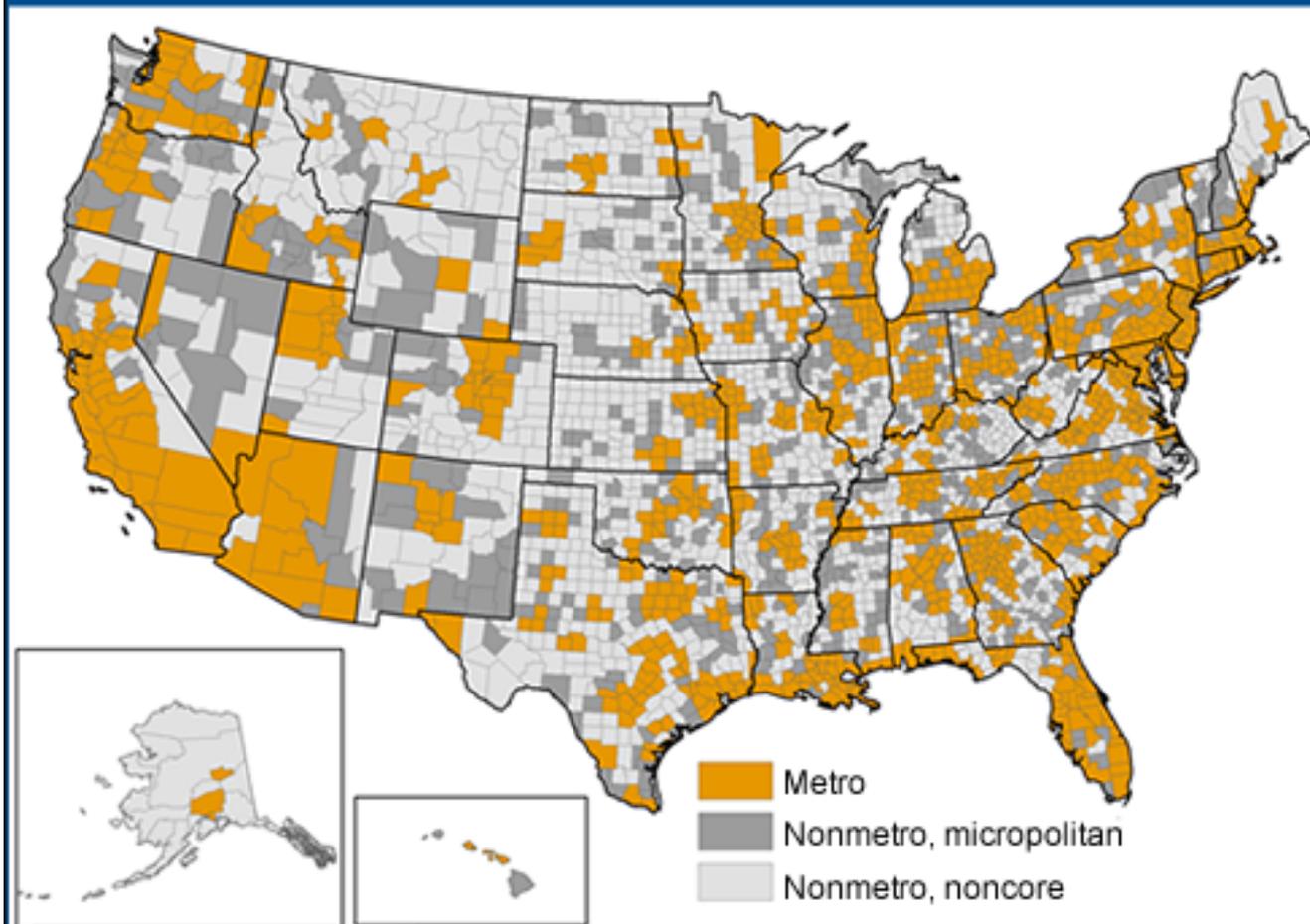


Note: Statistics reported for Blacks and American Indians include Hispanics, whereas those for Whites exclude Hispanics. Groups with relatively few rural residents (Asians, Pacific Islanders, and those reporting multiple races) are not reported here.

Source: USDA, Economic Research Service using data from the U.S. Census, American Community Survey, 1-year data.

Rural areas are defined here using nonmetropolitan (non-metro) counties.

# The “Rural” Landscape



# USDA Urban/Rural Continuum

