BY ANNA KOVNER

Researching Rural Economies

Nearly one in five Americans live in rural areas. In the Richmond Fed's Fifth District, that share is even higher — about one in four. These places are defined by the Census Bureau as being sparsely populated, having low housing density, and being long distances from urban centers. Understanding these economic differences that arise from location and population density is important to achieving the Fed's mandate to promote maximum employment, which may be affected by place-based characteristics. At the Richmond Fed, we've made it a core focus of our research team to study the economies of small towns and rural places.

Key barriers to employment in rural places include a lack of training and access to transportation. Educational attainment tends to be lower in rural places. Rural residents may have fewer opportunities to learn about and prepare for higher education. Fewer local opportunities for work can also diminish the incentives to invest in human capital. Getting to a job can also be costlier for rural residents. A 2023 New York Fed study found that transportation expenses account for a greater share of rural household expenses compared to urban households. This means that high gas prices hit rural residents particularly hard.

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Not all economic problems of rural communities are unique to rural places. While one might expect housing to be more affordable outside of cities, affordable housing presents a barrier to economic growth in rural settings as well. We have found that around a quarter of rural households in the Fifth District spend more than 30 percent of their gross income on housing. Rural housing is also older on average. Vacancy rates tend to be higher than in cities, but rather than offering more places to live, this greater presence of abandoned and dilapidated properties can complicate efforts to refresh and expand the housing supply. Connecting new homes to existing infrastructure can also be more difficult in rural places than in cities.

Finding affordable early care and education is another example of a widespread challenge that is often more acutely felt in rural communities. The gap between the supply and demand for child care is larger in rural areas than in urban ones. The cost of providing child care is higher for younger children, and the low population density of rural places increases the challenge of getting the right mix of children to make a child care facility financially viable. Families living in rural communities without a child care center may need to rely more heavily on home-based care, or one parent may need to withdraw from the workforce to take on the role of a full-time caregiver.

The Richmond Fed has been learning about these and other challenges and helping to identify potential solutions through our original research and ongoing dialogue with rural leaders in the communities we serve. As my colleague Santiago Pinto has written, there are compelling reasons to invest in specific places. Regionally targeted investments may spur self-sustaining growth through agglomeration economies, generate positive spillovers for the surrounding region, and enhance local human capital through social networks. In my own research, I've examined the impact of programs to encourage investment, looking closely at community development venture capital (CDVC). Venture capital is highly concentrated in a few large cities, with more than half of U.S. venture capital offices located in San Francisco, Boston, and New York. We found that a benefit of CDVC may be to bring traditional venture capital to underserved regions.

In May, I saw the search for solutions at work at the Richmond Fed's sixth annual Investing Rural America Conference in Roanoke, Va. Community leaders from across our district shared strategies for building new affordable housing, expanding access to child care, and creating microtransit solutions to enable rural residents without a car to access jobs and appointments. One theme that emerged from the conference was the importance of community engagement: Solutions that work engage stakeholders across the community.

Place-based economics centers economic development opportunities on the unique collection of needs and opportunities found in different locations. This can be a challenge for economists to study with linear models and macroeconomic data because it's the interaction of stakeholders, natural amenities, local government, access to finance, and anchor institutions that can drive economic opportunity. The path to economic growth looks different for each community. Some have found success in their proximity to growing metropolitan areas, while others have attracted residents and businesses with natural amenities. Continuing to gather information about these regional differences is crucial to ensuring that we are fulfilling our mandate for the whole economy. **EF**

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