Improving the Rural 5th: A Researcher’s Perspective

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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

Source: Bureau of Labor Statistics/Haver Analytics
The Big Picture Doesn’t Tell the Whole Story
Employment Growth in Our District Varies

Source: Bureau of Labor Statistics/Haver Analytics
Population Growth Slower in Rural Areas

Source: U.S Census Bureau/Haver Analytics
Employment Rates Lower in Rural Areas (16+)

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
But Let’s Take a Look at a Different Slice (16-54)
And Still Another Slice: Prime Age (25-54)

Employment to Population Ratio by County
(Of Population Aged 25 to 54)

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
Unemployment Rates Higher in Rural Areas, Too

Source: Bureau of Labor Statistics/Haver Analytics
Rural Areas Draw/Retain Fewer College Grads (25-64)

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
And This is True Even Among the Young (25-34)

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
Urban-Rural Employment Gap Remains

Source: Bureau of Labor Statistics
There’s More to Consider
A Lot of Us Are Still Rural!

Snapshot from Census publication, Measuring America, December 2016
But There Is No One Rural

**Rurality of US Counties**

- Completely Rural Counties: 22%
- Mostly Rural Counties: 38%
- Mostly Urban Counties: 40%

**Rural Population by County Type**

- Completely Rural: 5.3 million
- Mostly Rural: 24.6 million
- Mostly Urban: 30.1 million

*Based on calculations from U.S. Census Blogs, Rurality Matters, December 2016*
And, Things Change

Natural Population Trend Heading Down Steadily

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

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
And Also for Labor Market Attachment

![Unemployment Rate and Labor Force Participation Rate](image)

- **Unemployment Rate (Percent)**
  - Bachelor's Degree or Higher: Virginia - 2.2%, United States - 2.6%
  - Some College or Associate's Degree: Virginia - 3.8%, United States - 4.3%
  - High School Graduate or Equivalent: Virginia - 5.0%, United States - 5.7%
  - Less than High School Graduate: Virginia - 8.0%, United States - 6.8%

- **Labor Force Participation Rate (Percent)**
  - Bachelor's Degree or Higher: Virginia - 87.8%, United States - 86.6%
  - Some College or Associate's Degree: Virginia - 80.1%, United States - 79.2%
  - High School Graduate or Equivalent: Virginia - 73.2%, United States - 72.2%
  - Less than High School Graduate: Virginia - 60.8%, United States - 60.2%

Source: U.S. Census Bureau, 2017 ACS 5-Year Estimates
Education Inoculates Against Unemployment?

Source: Bureau of Labor Statistics/FRED
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

investinwhatsnext.org
Percent of Households with No Internet Subscription by County, 2017

Source: 5th District Footprint, May 2019
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, 5th 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 21st Century**, Felipe Schwartzman, Economic Quarterly, Q4 2017
More of Our Work


• **Residential Internet Connectivity Limitations in the Fifth District**, Community Development, 5th District Footprint, May 2019

• **Responding to Urban Decline**, Santiago Pinto and Tim Sablik, Economic Brief, July 2017

• **Rural Hospital Closures and the Fifth District**, Emily Corcoran and Sonya Waddell, Econ Focus Q1, 2019
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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.


Rural areas are defined here using nonmetropolitan (non-metro) counties.
The "Rural" Landscape
USDA
Urban/Rural
Continuum

- Metro - Urban pop 1 mill or more
- Metro - Urban pop 250K - 1 mill
- Metro - Urban pop <250K
- NonMetro - Urban pop <20K or more, adjacent to metro area
- NonMetro - Urban pop <20K or more, not adjacent to metro area
- NonMetro - Urban pop 2.5K - 20K, adjacent to metro area
- NonMetro - Urban pop 2.5K - 20K, not adjacent to metro area
- NonMetro - Completely Rural, Urban pop <2.5K, adjacent to metro area
- NonMetro - Completely Rural, Urban pop <2.5K, not adjacent to metro area

Snapshot from Econ Focus, 3rd Quarter 2018