Moving the Needle in Rural Communities
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Thank you for inviting me to join you today. It's an honor to be here, and I appreciate the opportunity to discuss such an important sector of our state's economy.

I came to Richmond a little more than a year ago, after a 30-year career at McKinsey where in addition to consulting I held many line roles, including leading our Southern offices and serving as CFO. I've enjoyed the opportunity to dig into economics, policy and the Fed's Fifth District, which spans from Maryland to the Carolinas. In my talk today, I could say a lot about the $91 billion agriculture and forestry contributes to Virginia's economy; about the fact that exports account for about 10 percent of these industries;[1] or about how little economists generally like restricting trade.[2] But you're experts, as are the speakers lined up for today.

Instead, I would like to talk about the communities that depend on trade. There are about 150 counties in the United States that depend on exports for more than one-quarter of their GDP. Nearly all of them have fewer than 100,000 residents—and about half have fewer than 25,000 residents.[3] (To put that in perspective, Chesterfield County has almost 350,000 residents.) As I've traveled around our District, I've seen small towns that represent the best of what our country has to offer. But I've also seen many communities that have lost ground relative to bigger cities. They deserve our attention, especially to the extent trade issues affect them further.

Before I say more, I have to note that the views I express are my own and not necessarily those of my colleagues on the Federal Open Market Committee or in the Federal Reserve System.

How Are Smaller Markets Different?

Smaller towns are different from bigger cities. Part is demographic: Small-town populations tend to be older and have less formal education. Part is geographic: Smaller towns often are more remote and don't have the population density to support large institutions. In addition, small towns have what we call "thinner" markets, ones with fewer employers. So if dislocation hits even one sizable employer, the whole town feels it.

These differences lead to different labor market outcomes. Across the United States, the employment/population ratio for people between 16 and 64 is about 10 percentage points higher in urban areas than in smaller towns. In the Fifth District, the gap is almost 11 percentage points.[4] The Fed's mandate includes maximum employment, so we care about gaps in labor market outcomes.

The solutions will vary from place to place. A coal-mining town in West Virginia doesn't necessarily face the same challenges as a community on the Eastern Shore of Maryland or a farm town in central Virginia. But broadly speaking, research suggests four core themes to move the needle in these communities: education, connection, de-isolation and participation.

Theme 1: Education

Let's start with the first and arguably the most important -- education or, more broadly, preparing people to enter the workforce. On average, people with bachelor's degrees earn more money, are more likely to be employed and even have better health outcomes. But rural residents are less likely to have a bachelor's degree. In the United States, 35 percent of urban residents between the ages of 25 and 64 have a four-year degree, compared with 22 percent of people in smaller towns. The gap is even bigger in the Fifth District: 17 percentage points. All else equal, the Richmond Fed has estimated that if educational attainment in rural areas equaled that of urban areas, the employment/population gap in the District would shrink by 40 percent.

But the answer isn't just to send more kids to college, because a large share of students who enroll don't graduate. We also have to focus on preparing people for college, and an important place to start is early childhood education. That's because there's a tremendous amount of evidence that "skills beget skills." Early childhood education lays the foundation for later learning, both cognitive and noncognitive (or "soft") skills. Many studies have found that children who attend a high-quality preschool are likely to have higher test scores, higher educational attainment, higher adult earnings and lower rates of incarceration and teen pregnancy.[5] One study suggests attending pre-K boosts high school graduation rates by 11 percentage points.[6]

The availability of early childhood education also matters for parents. Greater access to high-quality child care, including full-day preschool, has been shown to increase women's labor force participation.[7] Yet nearly 60 percent of rural communities are so-called "child care deserts," with few or no options for licensed child care.[8] That contributes to a gap in early childhood enrollment between bigger cities and smaller towns. In the Fifth District, 20 percent fewer small-town 3- and 4-year-olds are enrolled in pre-K. There are school districts in our region where fewer than 30 percent of third-graders can read at grade level and barely 60 percent of students graduate from high school—imagine the possibilities if we could increase these communities' access to high-quality early childhood education.

Of course, there are serious obstacles to scaling up pre-K, particularly in small towns where children and families are more dispersed and it might be harder to recruit teachers. But it's not impossible. Oklahoma and Georgia, for example, have offered nearly universal pre-K for roughly two decades, raising preschool enrollment in rural areas 24 percent.[9] West Virginia has been working to expand its program since the early 2000s, and pre-K is now offered in all of the state's 55 counties. I'm also interested in the results of programs like KidsReadyNC,[10] which is providing four rural counties in the state with assistance in program design and data monitoring to achieve a measure of success on one of the pathways the state has established. The Richmond Fed has supported this program by providing the staffing and technical assistance for the community asset mapping and financing sessions.

Let me stress, however, that while the return on investment for preschool is quite large, it's not a silver bullet. Early childhood education is a vital *first* step. The academic gains of pre-K can fade if children subsequently attend lower-quality schools, so we must continue to invest in improving K-12 education.

Theme 2: Connection

Next, I'd like to talk about connection: facilitating workers' access to good jobs. I've talked about the benefits of obtaining a bachelor's degree. But attending a four-year college isn't necessarily the right path for everyone, and there are well-paying jobs that don't require a four-year degree. Career and technical education in high school and community colleges also are important pieces of the puzzle. They're relatively low-cost ways for students to focus their efforts, learn about themselves and get additional preparation.[11]

We're seeing more and more productive collaborations between schools and employers to provide small-town residents with in-demand skills. For example, there is a looming shortage of power line workers as many current workers near retirement age. So in 2015, Virginia's electric cooperatives partnered with Southside Virginia Community College to develop a training program that provides students with hands-on experience and sought-after credentials. Also in Virginia, Patrick Henry Community College is partnering with the Harvest Foundation and local employers to train students in three fast-growing local sectors—health care, welding and advanced manufacturing. And I was recently in Greenville, North Carolina, where Pitt Community College is developing training programs specific to the needs of the many pharmaceutical companies locating in the area. These partnerships are good for employers, who need skilled workers, and they're good for the students, who get a direct entrée to a quality job. The school plays a critical connector role.

The keys to scaling these programs are funding and one-to-one student intervention. Programs like these aren't cheap, and many community colleges, particularly in small towns, are struggling with declining enrollment and slowing revenue growth. Southside Virginia, Patrick Henry and Pitt are benefiting from private-sector foundation grants, state grants and industry investment. But, increasingly, businesses are finding that these investments pay off.

Many community college students also face obstacles to completion such as inadequate academic preparation or the need for child care or transportation. Successful initiatives help students address these challenges. That's the goal of programs like Tennessee Promise and Tennessee Reconnect, which provide students with mentors and "navigators" to help them stay on track. Here in Virginia, the Rural Virginia Horseshoe Initiative places community college employees in high schools to serve as "career coaches" for students. And a growing number of community colleges participate in SingleStop, a program that consolidates access to social services. After SingleStop expanded to North Carolina in 2015, researchers found that students who participated attempted and earned more credits than students who didn't.[12]

Theme 3: De-Isolation

Third, let me discuss isolation. While it's almost definitional, any effort to help those outside our largest cities needs to address a core challenge: social and geographic remoteness.

With respect to social remoteness, I don't mean to imply that there aren't strong social networks in place. On the contrary. Rural residents often report feeling stronger ties to their community and their neighbors than people in other areas. That's why it's not helpful for a policymaker like me to say, "Everyone should just move to the big cities where the jobs are." Instead, we have to talk about improving the opportunities in these small towns.

That requires addressing the informational and institutional gaps that often exist. For example, family, friends, neighbors and coworkers play a fundamental role in people's aspirations and decisions about education and work.[13] So if you live in an area where fewer adults have attended college, you might be less likely to view college as an option for yourself. Or, if you live in a more remote area, college reps might not come visit your high school. This is borne out by the data. Even controlling for academic preparation and income, some research has found that rural students are less likely to apply to high-resource colleges.[14]

The disappearance of anchor institutions such as banks, hospitals and colleges is part of the challenge. The number of rural "banking deserts" (counties with fewer than two bank branches per 10,000 residents) in the Fifth District roughly doubled between 2012 and 2017, from 18 to 37. Twelve rural hospitals in our District have closed since 2010. Another 21 hospitals—nearly 20 percent of those in our District—are at high financial risk of closing. Many rural colleges also face serious financial struggles. Ten in our District have closed their doors since 2000.[15] The loss of these institutions creates direct costs in terms of residents' access to financial services, health care and education. But there are also large indirect costs. Anchor institutions provide civic leaders and high-skilled workers who can raise the aspirations of those around them. They invest in their communities and educate residents about health, careers or finances. They supply amenities that attract talent. They create incentives for other businesses and signal a community's vibrancy.

I'm intrigued by initiatives that work to "thicken" these "thin" markets. Some states work to place state and federal government institutions (such as state agencies or military bases) into smaller towns, and greater investments in rural hospitals might be a benefit of Virginia's recent Medicaid expansion. Some colleges have successfully revamped their focus. Emory and Henry College, in Southwest Virginia, recently launched new professional training programs in occupational and physical therapy—which will also help to meet the community's growing need for medical care. In addition, many people are interested in the effects of increasing broadband access. In my view, the effects are likely to be greatest when that access facilitates workforce development. In 2006, for example, Wilson, North Carolina, a small city about 50 miles east of Raleigh, decided to build its own broadband network. Since then, "Project Greenlight" has connected the city's business development center to new firms, created new distance-learning programs in the city's schools and even helped train firefighters.

I'm also interested in investments to bring the community to struggling families, in ways that broaden their perspectives and improve their fortunes. While I was in Greenville, for example, I learned about the Conetoe Family Life Center, which provides children and families with access to education and health services, supported by a community garden and beekeeping program. They work to break down isolation.

Theme 4: Participation

Finally, I want to discuss two impediments to labor force participation: disability and addiction. In the Fifth District's smaller towns, 6.7 percent of the residents between the ages of 16 and 64 receive disability insurance, compared with 3.8 percent of residents in larger cities. This insurance is a vital safety net for many of our citizens, but there is also some evidence that the state of the overall economy influences disability rolls. I'm hopeful the gap will narrow if job prospects improve, and in fact there's some evidence this is happening in the United States more broadly as the labor market tightens.

Opioid addiction is a tragedy that knows no geographic or social boundaries, but it may be more concentrated in rural areas. In the Fifth District, average opioid prescription rates are almost 30 percent higher in smaller towns versus bigger cities, and overdose death rates are higher as well. With respect to the effects on the labor market, it's very hard to disentangle cause and effect, but some preliminary research suggests that the increase in opioid prescription rates between 1999 and 2015 could account for 43 percent of the decline in prime-age men's labor force participation.[16] There's no easy solution, but there are promising addiction-to-work programs, such as CARITAS Works in Virginia, which could help mitigate the effects of addiction.

Conclusion

The Richmond Fed has a real opportunity—and responsibility—to improve our understanding of the challenges people face and to search for opportunities to help them meet those challenges. We, along with our colleagues throughout the Federal Reserve System, can bring our research to bear to help make a difference. We are also actively working to make a difference through a variety of community development initiatives[17] and programs such as Invest in What's Next, which helps high school students weigh the costs and benefits of various postsecondary options and choose the path that's best for them.

I've encountered arguments that the challenges of distressed rural communities are too difficult to solve. They're not. I'm old enough to remember when there was a similar pessimism about our major cities, which appeared during the 1970s and 1980s to be doomed to perpetual decline. They weren't.

From my perspective, the first step in thinking about the problems of these areas is to approach them as solvable—by good policymaking, by markets, by local leaders and by rural residents themselves.[18] Thank you, and I look forward to your reactions and questions.

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[1] Terance J. Rephann, "The Economic Impact of Virginia's Agriculture and Forest Industries," Weldon Cooper Center for Public Service, May 2017.

[2] Thomas I. Barkin, "Trade and Trepidation," Federal Reserve Bank of Richmond *Econ Focus*, Second Quarter 2018.

[3] Drew Desilver, "The Most Export-Dependent places in the U.S. Are Small Counties," Pew Research Center, October 20, 2017.

[4] For this analysis, urban areas are defined as counties in a metro areas with 1 million or more residents (USDA Rural Urban Continuum Code 1) or any county in a metro area with 250,000 to 1 million residents (RUCC 2). Rural/smaller towns are those in RUCC categories 3-9.

[5] Visit https://heckmanequation.org/ for an overview of research on early childhood education.

[6] Dana Charles McCoy et al., "Impacts of Early Childhood Education on Medium- and Long-Term Educational Outcomes," *Educational Researcher*, November 2017, vol. 46, no. 8, pp. 474-487.

[7] See Table 1 in Rasheed Malik, "The Effects of Universal Preschool in Washington, D.C.," Center for American Progress, September 26, 2018.

[8] The Center for American Progress defines a child care desert as a ZIP code with at least 30 children younger than 5 and either no child care centers or more than three times as many children as available spaces.

[9] Maria Donovan Fitzpatrick, "Preschoolers Enrolled and Mothers at Work? The Effects of Universal Prekindergarten," *Journal of Labor Economics*, January 2010, vol. 28, no. 1, pp. 51-85.

[10] KidsReadyNC is a partnership between North Carolina State University's Institute for Emerging Issues, the Belk Foundation, the Duke Endowment, the Frank Porter Graham Child Development Institute at UNC-Chapel Hill and the Federal Reserve Bank of Richmond Community Development.

[11] Nicholas Trachter, "Stepping Stone and Option Value in a Model of Postsecondary Education," *Quantitative Economics*, March 2015, vol. 6, pp. 223-256.

[12] Lindsay Daugherty and Tiffany Tsai, "A One-Stop Approach to Supporting the Nonacademic Needs of Community College Students," RAND Corporation Research Report, 2018.

[13] Santiago M. Pinto, "Social Interactions and the Effectiveness of Urban Policies," *Review of Regional Studies*, June 2016, vol. 46, no. 2, pp. pp. 117-126.
[14] Emily E. Cook, Jessie Romero, and Sarah Turner, "Transitioning from High School to College: Differences across Virginia," Federal Reserve Bank of Richmond *Economic Brief* no. 17-12 December 2017.
[15] Helen Fessenden, "Too Small to Succeed?" Federal Reserve Bank of Richmond *Econ Focus*, First Quarter 2017.
[16] Alan B. Krueger, "Where Have All the Workers Gone? An Inquiry into the Decline of the U.S. Labor Force Participation Rate," *Brookings Papers on Economic Activity*, Fall 2017.
[17] To learn more, visit https://www.richmondfed.org/community_development.
[18] Thomas I. Barkin, "The Supply Side of Rural Economic Development," Federal Reserve Bank of Richmond *Econ Focus*, Third Quarter 2018.