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Strengthening the Rural Economy - Investing in the Education and Health of Rural Economies

VI. INVESTING IN THE EDUCATION AND HEALTH OF RURAL COMMUNITIES

A centerpiece of the Administration's policies for rural America is its effort to strengthen the rural workforce and improve the quality of life for rural Americans. As described in Section II, there are significant gaps in educational attainment and in the quality and availability of health care between rural and urban communities. These gaps arise in part because rural areas face several unique challenges in achieving high-quality education and health care. First, the recruitment of high-quality teachers and health care professionals may be more challenging; for example, rural professionals often face lower pay and difficult working conditions. Second, because of lower population densities, it is harder for rural areas to support specialized classes in their schools, such as vocational and advanced classes, and specialized health care providers, such as experts in the treatment of relatively unusual conditions. And third, the fact that rural students are often far from institutions of higher education makes it more costly for them to attend school beyond high school (Card 1995), and the fact that rural residents are often far from hospitals makes it more difficult for them to obtain timely, high-quality medical care.

The Administration is working to help rural communities overcome these challenges, and in doing so, to close the gaps with urban areas. These efforts are being conducted through the Recovery Act, which is funding a range of programs strengthening rural education and health care; through health care reform, which may prove particularly beneficial to rural America; and other measures.

A. Education

Much of the Administration's support for rural education comes from the Recovery Act. Given the greater educational challenges of rural areas, the education funding in the Act is likely to be particularly important in these communities. The Recovery Act's State Fiscal Stabilization Fund is already directly providing approximately $7 billion for education in rural communities as a down payment on the President's broader goal of creating a more educated rural workforce.[26] This spending is likely to have short- and long-run benefits. For example, direct reporting to the Department of Education indicates that education spending from the Recovery Act has already helped save or create hundreds of thousands of teacher and other education positions, reducing the damage of this recession to the human capital of rural communities and the rest of the country. Economic research suggests that the increases in class size that would have resulted from laying off teachers would have harmed student achievement (Card and Krueger 1992; Angrist and Lavy 1999; Krueger 1999).

Several other provisions of the Recovery Act hold the promise of improving educational quality in rural communities and around the country. The $9.45 billion provided by the Recovery Act to the whole country for the Race to the Top Fund, the Investing in Innovation Fund, Teacher Incentive Fund, State Educational Technology Grants, Statewide Longitudinal Data Systems, and Title I School Improvement Grants offer the promise of substantially improving the quality of education in both urban and rural areas.

Another component of the Recovery Act is investing in workers' skills. The CEA estimates that, because of the Recovery Act, the Department of Labor is spending an additional $650 million in rural areas on Workforce Investment Act programs, which provide job training and related services.[27] Additionally, the Bureau of Indian Affairs received $19 million for workforce training, including on-the-job training in construction in American Indian Areas.

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A final important component of the Recovery Act is its investment in education through the Bureau of Indian Affairs. The Recovery Act provides nearly $280 million in funds for school construction on Bureau of Indian Affairs lands. A recent study suggested that households in California value schools at 150 percent the cost of building them, offering suggestive evidence of a high benefit-cost ratio for this type of investment (Cellini, Ferreira, and Rothstein 2010).

Rural communities will also benefit from the President's proposed American Graduation Initiative. This initiative funds a new online skills laboratory, which will provide free high-quality courses online, especially benefiting rural areas. Teams of experts in subject areas as well as in pedagogy and technology will develop courses, which can then be modified, adapted, and shared, and then made available for free online. Funding from the Recovery Act to develop rural broadband will be important in extending access to these courses to rural communities.

B. Health

1. Funding for Health Care during the Recession

The high unemployment during the recession has reinforced the importance of access to coverage for those who have lost their jobs, and thus cannot obtain employer-sponsored health insurance. Indeed, the fraction of Americans without health insurance climbed during the recession as individuals lost employer-sponsored health insurance coverage. Rural areas were no exception to this trend. While the overall rate of uninsurance in rural areas is similar to that in metropolitan areas, as described above, rural residents are more dependent on public coverage -- through Medicare, Medicaid, and other programs such as the Indian Health Service -- compared with urban areas.

The Recovery Act contains measures that address the immediate needs of rural families affected by the recession and invests in its health care infrastructure and workforce to meet its longer term needs. Between 2009 and 2019, the Recovery Act will add nearly $90 billion in Federal support for Medicaid through higher matching rates for states. The Recovery Act has been critical to bolstering the Medicaid program as enrollment nationwide rose by nearly 6 million during the recession and its aftermath. This support is especially important for rural areas, which have a higher fraction of their population enrolled in Medicaid. The Recovery Act also provided subsidized COBRA continuation coverage – paying for 65 percent of premium costs – to allow workers who lost jobs during the recession to extend health insurance coverage for themselves, their spouses, and their dependents. Through the Supplemental Nutrition Assistance Program (SNAP, previously known as the Food Stamp Program) administered by the Department of Agriculture, the Recovery Act provided about $20 billion in support for better nutrition and food security, benefiting both rural and urban regions.

Beyond strengthening the safety net, the Recovery Act makes investments in the rural health care workforce and infrastructure to address difficulties in accessing primary care, doctors, and hospitals. The Recovery Act devotes funds to help nurses repay their loans, and encourages recent health profession graduates to enter primary care. The Act also makes an enormous investment – nearly $26 billion – to accelerate the adoption of health information technology that will, among other things, fund grant programs to help rural areas cope with the unique difficulty that their residents face in accessing doctors and hospitals. For example, this includes funding for telehealth and network infrastructure to help patients interact with providers without being subject to the constraints of geography and distance (see Box 5).

The President's budget proposal for fiscal year 2011 builds on the Recovery Act's support for strengthening public coverage critical to rural areas by investing in programs that address the unique concerns of these regions. For instance, the budget continues the Recovery Act's support for American Indians and Alaska Natives, with $4.4 billion to support the Indian Health Service. It also includes an initiative to improve the performance and financial stability of rural hospitals as well as to increase the number of health care providers in rural counties and strengthen regional and local partnerships among them. The budget provides $2.5 billion for health centers in underserved areas, which will help to improve primary and preventive care in rural regions. Finally, it expands support for physicians and other health care professionals entering primary care by helping providers who work in a medically underserved community repay their student loans.

2. Health Insurance Reform

The Patient Protection and Affordable Care Act signed into law by the President in March builds on the Recovery Act by expanding coverage, containing health care costs, and regulating health insurance markets. The new law contains important specific provisions that address the challenges of affordability and difficulty accessing care in rural regions.

As described earlier, a significantly higher percentage of rural families pay more than 10 percent of their income on health insurance compared with urban families; these families will benefit from the expansion in coverage. In the bill signed by the President, families with incomes up to 400 percent of the Federal poverty level ($88,200 for a family of four in 2009 and 2010) who are uninsured or without access to affordable employer-sponsored health insurance coverage will be eligible for subsidies to purchase coverage through an exchange that caps premiums and out-of-pocket spending at a fixed percentage of income. A Kaiser Family Foundation analysis found that a family of four with an annual income of $38,600 (175 percent of poverty) in 2009 would receive assistance in purchasing coverage totaling around $7,450 and pay a maximum of only about 5 percent of its income on health insurance premiums.

These subsidies will substantially increase health insurance coverage among individuals and families in rural areas (Kaiser Family Foundation 2010).

As private insurance coverage has eroded, many rural families have turned to the essential safety net of public coverage to guarantee access to needed medical care. Reform legislation also strengthens this critical safety net. The law will expand Medicaid coverage to all non-elderly individuals at or below 133 percent of the poverty line. Similarly, it will strengthen Medicare by enacting delivery system reforms that ensure quality and efficiency, and will eliminate unnecessary overpayments to private insurers. An additional benefit of this latter set of reforms is that it will lower the growth rate of Part B premiums for Medicare recipients, which more than doubled from 2000 to 2010.

The new health insurance reform law also contains several specific provisions to meet critical health care workforce needs and improve the health care infrastructure of rural areas. Confronting the more than twofold difference in the concentration of doctors between rural and urban areas, the legislation contains loan repayment and other incentive programs to encourage medical providers to enter primary care and work in areas with professional health shortages or that are medically underserved. The law also builds on the Recovery Act's support for the rural medical workforce by expanding graduate medical education positions in rural teaching hospitals and by supporting training for doctors and nurses in rural health care. It also requires the Medicare Payment Advisory Commission to review payment adequacy for rural health care providers serving the Medicare program. In the area of infrastructure support, the law contains specific protections for rural areas that maintain payments for hospitals that are the sole sources of coverage in their community, extends demonstration programs that analyze reimbursement practices at rural hospitals, and builds on the Recovery Act by directing the newly created Center for Medicare and Medicaid Innovation to consider rural telehealth expansions.

The escalation of health care costs threatens rural families by making health care even less affordable over time. Independent analysts and business groups agree on the potential of reform to rein in health care cost inflation over time. An analysis by the CEA found that health insurance reform has the potential to reduce the growth rate of health care costs by 1 percentage point across the private sector and in Medicare and Medicaid (Council of Economic Advisers 2009).[28] Reducing the annual growth rate of health care spending by this amount would yield large gains in affordability for American families. For a typical family of four, slowing premium growth by this rate implies that income in 2030 would be higher by several thousand dollars, relative to what it otherwise would have been.

These gains in income would especially help families in rural areas, who currently face higher payments as a percentage of income for health insurance. Because employers substitute between wages and health benefits in compensating their employees, containing the growth rate of costs means that employers will pay a larger portion of overall compensation as wages rather than health insurance premiums. The benefits of cost-containment also extend to retirees in rural areas, who will be able to keep a larger portion of their Social Security payments as the growth rate of Medicare Part B premiums slows.

By increasing affordability, strengthening the safety net, and tailoring provisions to meet the needs of rural areas by investing in primary care and critical community hospitals, health insurance reform will provide security and stability that reverses the growing challenges posed by the status quo for rural health care. These changes will produce a healthier population in rural America and allow its residents to devote their resources to other activities, including making investments in education, new businesses, and other areas.

Box 5: Encouraging Innovation in Rural America

A common theme in the Administration's policies for growing a robust rural economy is innovation. The Administration is encouraging the creation of new online skills laboratories to increase access to education. Increased broadband availability will increase education and business opportunities in rural areas. In the area of clean energy, the renewable fuels standard is expected to bring nascent advanced biofuels into the marketplace, and ARPA-E is funding early stage energy research. The Administration is also investing in new technologies to improve water allocation. Here we highlight three specific programs at the forefront of the Administration's rural strategy that promote innovation: telehealth, which will increase access to quality health care in rural communities; agriculture and food research, which will foster innovation in several priority areas; and regional innovation clusters, which will facilitate business and community development.

Telehealth – using telecommunications technologies such as internet video and mobile phones to deliver health-related services remotely – can allow for the coordination of care between doctors and patients, and with other care providers such as nurses and pharmacists, without regard to distance. For example, telemedicine systems can allow remote monitoring of intensive care unit patients from a central location during after-hour shifts, and remote examination of children by primary care providers. Through the Recovery Act and other grant initiatives, the Administration is making substantial investments in programs that extend this healthy and potentially life-saving technology to rural areas. The Federal Communications Commission recently announced a commitment of $191 million to 22 broadband telehealth networks that will link hundreds of hospitals regionally in more than 15 states. Recently passed health reform legislation will build on these investments by directing the newly created Center for Medicare and Medicaid Innovation to consider rural telehealth expansions.

The proposed fiscal year 2011 budget increases funding for several research and extension programs by over $180 million. These programs are designed to spur new innovation and, in so doing, maintain the long-term prospects for American agriculture through improvements in productivity and food safety. For instance, the Agriculture and Food Research Initiative will achieve its highest level ever to support competitive, peer reviewed grants to researchers with an eye toward supporting research in several areas that are priorities for the Administration such as childhood obesity, food safety, climate change, and bioenergy.

The Administration is also seeking to promote economic opportunities through regional innovation clusters. The Administration includes in its proposed fiscal year 2011 budget the Rural Innovation Initiative, for which the Department of Agriculture will set aside up to 5 percent of its funding from approximately 20 different programs and then allocate this funding competitively to regional pilot projects geared toward local needs. This initiative will raise roughly $280 million in loans and grants to promote a coordination of projects and is designed to make the regions more attractive for business development. In March of this year, the Department of Agriculture requested proposals through its Rural Business Opportunity Grant program, which provides technical assistance to rural communities. This grant focuses on funding regional (or multi-jurisdictional) collaboration that incorporates some aspect of the Administration's broader rural objectives, such as promoting local and regional food systems, producing biofuels or renewable energy, spreading broadband, or innovatively using natural resources to generate business opportunities.

Continue to VII. Conclusion

[26] This figure is calculated by taking the 81.8 percent of the $53.6 billion State Fiscal Stabilization Fund that must be allocated toward education and assuming that the money is disbursed to counties in the same proportions as it is disbursed to states, on the basis of total population and school-age population.

[27]This internal CEA calculation assumes that rural areas receive an amount proportional to population of the $3.95 billion in Recovery Act funding for Workforce Investment Act programs.

[28]The CEA analyzed the House and Senate health-insurance reform legislative proposals as of December 2009. The version signed into law was amended based on the Senate legislation. While the legislative changes affect short-run projections of savings resulting from reform, its long-run measures to control costs in the public and private sector are largely the same as the earlier version of the legislation analyzed by the CEA.