The Hard Truths of Trying to 'Save' the Rural Economy

2018

By Eduardo Porter

Can rural America be saved?

There are 60 million people, almost one in five Americans, living on farms, in hamlets and in small towns across the landscape. For the last quarter century the story of these places has been one of relentless economic decline.

This is, of course, not news to the people who live in rural and small-town America, who have been fighting for years to reverse this decline. But now, the nation's political class is finally noticing. The election of Donald Trump, powered in no small degree by rural voters, has brought the troubles of small-town America to national attention, with an urgent question: What can be done to revive it?

Rural America is getting old. The median age is 43, seven years older than city dwellers. Its productivity, defined as output per worker, is lower than urban America's. Its families have lower incomes. And its share of the population is shrinking: the United States has grown by 75 million people since 1990, but this has mostly occurred in cities and suburbs. Rural areas have lost some 3 million people. Since the 1990s, problems such as crime and opioid abuse, once associated with urban areas, are increasingly rural phenomena.

Rural communities once captured a greater share of the nation's prosperity. Jobs and wages in small town America played catch-up with big cities until the mid 1980s. During the economic recovery of 1992 to 1996, 135,000 new businesses were started in small counties, a third of the nation's total. Employment in small counties shot up by 2.5 million, or 16 percent, twice the pace experienced in counties with million-plus populations.

These days, economic growth bypasses rural economies. In the first four years of the recovery after the 2008 recession, counties with fewer than 100,000 people lost 17,500 businesses, according to the Economic Innovation Group. By contrast, counties with more than 1 million residents added, altogether, 99,000 firms. By 2017, the largest metropolitan areas had almost 10 percent more jobs than they did at the start of the financial crisis. Rural areas still had fewer.

The Economic Innovation Group measures "distress" as a combination of data ranging from joblessness and poverty to abandoned homes and educational attainment. Since the 1990s, there has been an "intensifying ruralization of distress," said John Lettieri, the group's president.

I've lived most of my life in big cities. I don't pretend to understand what it's like to live in a small town or on a family farm, or how it feels when all the jobs in a community seem to be fading away. I do spend a lot of time thinking about how the economic changes of the last several decades have undercut many American workers. One thing seems clear to me: nobody —

not experts or policymakers or people in these communities — seems to know quite how to pick rural America up.

States, municipalities and the federal government have spent billions to draw jobs and prosperity to stagnant rural areas. But they haven't yet figured out how to hitch this vast swath of the country to the tech-heavy economy that is flourishing in America's cities.

There are 1,888 counties in America in which more than half the population is rural, according to the Census Bureau, and they stretch from coast to coast.

In Comanche County, a land of cattle, farming, oil and gas on the plains of southwestern Kansas, 1,790 people live in a sparsely settled area of nearly 800 square miles. In Perry County — home to some 26,500 people in the Appalachian Mountains of Eastern Kentucky — so far no other industry has replaced once-mighty coal. Essex County in New York's Adirondacks is three-quarters rural, by the census definition. So is Calaveras County in California.

After World War II, small town prosperity relied on its contribution to the industrial economy. The census considers Price County, Wis., to be 100 percent rural. Still, over a third of the jobs there are in manufacturing, from building industrial machines to assembling trucks. Auto parts manufacturers in West Point, Ga., draw workers from all over Troup County. Overall, manufacturing employs about one in eight workers in the country's 704 entirely rural counties. That's more than agriculture, forestry, fishing and mining combined and second only to education, health care and social assistance, which includes teachers, doctors, nurses and social service counselors. Most of those jobs are government funded.

But factory jobs can no longer keep small-town America afloat. Even after a robust eight-year growth spell, there are fewer than 13 million workers in manufacturing across the entire economy. Robots and workers in China put together most of the manufactured goods that Americans buy, and the high-tech industries powering the economy today don't have much need for the cheap labor that rural communities contributed to America's industrial past. They mostly need highly educated workers. They find those most easily in big cities, not in small towns.

Consider Lake County, in Tennessee. Some 7,500 people live there, about 500 fewer than in 2000. Lake County is betting on a new industrial park on Cates Landing on the Mississippi River. But it will be tough to reverse years of declining employment. Between 2013 and 2017, the county averaged fewer than 250 manufacturing jobs, according to the Census Bureau's American Community Survey. That's half as many as it had in 2000.

What to do? Since the presidential election in 2016, when small town voters enthusiastically endorsed the populist campaign of President Trump, policymakers and academics have thrown themselves at understanding the economic backdrop to their frustrations. They have come up with no shortage of proposals for how to turn rural America around, from offering a tax credit for employers that hire workers in distressed communities to designing investment funds to draw venture capital into rural areas.

In a report published in November, Mark Muro, William Galston and Clara Hendrickson of the Brookings Institution laid out a portfolio of ideas to rescue the substantial swath of the country that they identify as “left behind.” They identify critical shortages bedeviling declining communities: workers with digital skills, broadband connections, capital. And they have plans to address them: I.T. training and education initiatives, regulatory changes to boost lending to small businesses, incentives to invest in broadband.

Wisely, they suggest that any federal government effort must choose its targets carefully. Better to focus on middle-sized places that are near big tech hubs and have some critical infrastructure, rather than scatter assistance all over the landscape.

Sound as these ideas may be, however, even the authors concede that they may not be up to the task. “I don’t know if these ideas are going to work,” Mr. Galston acknowledged when I pressed him on the issue. “But it is worth making the effort.”

This is the inescapable reality of agglomeration, one of the most powerful forces shaping the American economy over the last three decades. Innovative companies choose to locate where other successful, innovative companies are. That’s where they can find lots of highly skilled workers. The more densely packed these pools of talent are, the more workers can learn from each other and the more productive they become. This dynamic feeds on itself, drawing more high-tech firms and highly skilled workers to where they already are.

“We have a spatial reorganization of the economy,” said Mr. Muro. “We have an archipelago of superstars in an ocean of low-productivity sectors.”

In hindsight, no amount of tax incentives would have convinced Amazon to expand in a medium-sized city such as Columbus, Ohio, rather than Northern Virginia and Queens,which sit in some of the largest pools of talent in the country. If even medium-sized cities find it difficult to compete, what are the odds that, say, a small town like Amory, Miss., where 14 percent of adults have a bachelor’s degree and a quarter of its 2,500 workers work in small-scale manufacturing, have a chance to attract well-paid tech jobs?

Consider a recent Brookings Institution study by Benjamin Austin, Edward Glaeser and Lawrence Summers. They focus on the alarming rate of joblessness in what they call the Eastern Heartland, the region roughly between the Mississippi River and the states on the Atlantic coast, where rural communities are doing particularly poorly.

After examining a range of potential policy interventions, they conclude that a targeted employment subsidy, such as the earned-income tax credit, is probably the most powerful tool available to revive employment. But they, too, are not sure it will work. “Our call for a wage subsidy is us saying, ‘We can’t figure this out, and we hope the private sector will,’ ” Mr. Glaeser told me.

There are, to be sure, some rural communities with productivity as high as some big cities. But they rely on heavily mechanized and automated industries that support few jobs: oil extraction or large-scale agriculture, in which tractors talk to satellites and no drivers are involved. The livestock business on the vast pastures of Sioux County, Neb., for example, supports an economy worth $306,000 per worker, according to data from Mr. Muro and Jacob Whiton of Brookings. But only 1,200 people live there.

In the Southeast Fairbanks area of Alaska, it is all about oil and gas. Output per worker is $203,000. But its population doesn't quite reach 7,000.

Excluding these places, the United States is still left with 50 to 55 million people living in rural communities that no longer have much to offer them economically.

What if nothing really works? Is there really no option but to do nothing and, as some have suggested, return depopulated parts of rural America to the bison?

Instead of so-called place-based policies to revitalize small towns, why not help their residents take advantage of opportunities where the opportunities are? Geographic mobility hit a historical low in 2017, when only 11 percent of Americans picked up shop and moved — half the rate of 1951. One of the key reasons is that housing in the prosperous cities that offer the most opportunities has become too expensive.

The most helpful policy for people in small towns could be to relax zoning rules in dense cities like New York and San Francisco, so that more affordable housing could be built to receive newcomers from rural Wisconsin or Kentucky, and they wouldn't need the income of an investment banker or a computer scientist to afford to live there.

Policymakers might not want to push too hard against agglomeration. It adds to American prosperity. As Enrico Moretti of the University of California, Berkeley, points out, a successful strategy to draw innovative firms away from mega-clusters to small-town America would reduce overall innovation. "If you put a tech company in a place like rural Indiana, it will be vastly less productive than if you put it in a tech cluster," Mr. Moretti said. "The effect is quite large."

Still, there are compelling reasons to try to help rural economies rebound. Even if moving people might prove more efficient on paper than restoring places, many people — especially older people and the family members who care for them — may choose to remain in rural areas. What's more, the costs of rural poverty are looming over American society. Think of the opioid addiction taking over rural America, of the spike in crime, of the wasted human resources in places where only a third of adults hold a job.

And if today's polarized politics are noxious, what might they look like in a country perpetually divided between diverse, prosperous liberal cities and a largely white rural America in decline? As Mr. Galston warned: "Think through the political consequences of saying to a substantial portion of Americans, which is even more substantial in political terms, 'We think you're toast.' "

The distress of 50 million Americans should concern everyone. Powerful economic forces are arrayed against rural America and, so far, efforts to turn it around have failed. Not every small town can be a tech hub, nor should it be. But that can't be the only answer.