

ADDRESSING RURAL ECONOMIC DISADVANTAGE

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SUMMARY

Incomes of rural workers remain lower than incomes of urban workers, and differences are especially pronounced among the most highly skilled and educated (Albrecht, 2012). Under these circumstances it is difficult to retain or attract skilled and talented workers to rural America. The importance of a skilled and educated workforce increases as the economy transitions from a manufacturing and goods-based economy to one driven by knowledge, creativity and the provision of high-value services (Gabe et al., 2012). Assuring a viable rural America may require increased investments in rural broadband technology, infrastructure and education, as such investments currently fall proportionally short of similar investments in urban areas.

Historically, residents of rural areas have been economically disadvantaged relative to their urban counterparts. In rural areas, average incomes have been lower, poverty rates higher, and unemployment and underemployment more extensive (Albrecht et al., 2000). Thus, those choosing to live in rural areas do so at considerable economic cost. Recent developments in information and communication technology may have reduced the relevance of location and provide hope that the economic disadvantages of rural living may be reduced. With modern information and communication technologies it is now possible for many businesses and individuals to locate or expand where they wish, even in rural areas, and still be connected to suppliers and consumers throughout the world.

Even with the reduced relevance of location for many businesses, however, additional reasons exist for the historical economic advantages of urban areas. Urban advantage can be summarized in two major factors – location and population size. First, with respect to location, urbanization means that transportation costs are reduced by being near markets and suppliers, and a pooled market for workers with industry-specific skills ensures both a lower probability of unemployment for workers and a lower probability of labor shortages for businesses. Even with the benefits of 21st century technology, urban areas still retain some of these locational advantages (Krugman, 1991; Venables, 2003). Additionally, urban areas experience other locational advantages. Research clearly shows that skilled workers with similar knowledge and skill sets are more productive when working in close proximity and having face-to-face interactions with others than when working in isolation. Interaction and the exchange of ideas resulting from agglomeration greatly enhance creativity (Gaspar and Glaeser, 1998; Glaeser, 2011; Storper and Venables, 2004). Rural areas are distinctly disadvantaged in opportunities for these types of interaction.

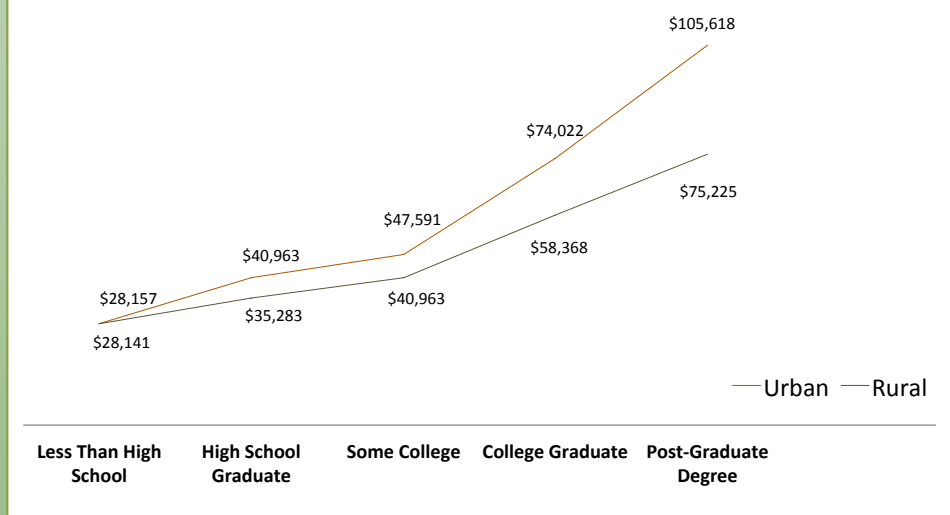
In addition to location, population size provides further advantages to urban areas. A larger population provides opportunities for more specialized services and greater economic opportunities. These advantages can be illustrated by looking at health care. Many small towns have a doctor or two and perhaps even a hospital. However, these small-town doctors are

unlikely to be heart surgeons and the small-town hospital is unlikely to specialize in heart surgery. The population is simply not large enough to provide sufficient demand to support such specialization. Medical specialists are usually based in large cities where they draw clientele not only from the larger urban population base, but also from surrounding rural areas that do not have specialized medical professionals. Significantly, specialized heart surgeons typically have much higher incomes than rural general practitioners. The same urban advantages exist in many other industries including finance, insurance, sports, and politics. Further, population size provides vast economy of scale advantages. Laying broadband cable to a city with where a million inhabitants will subscribe is more profitable than laying it to a small community where 500 residents will subscribe.

Similarly, many educational technologies and programs have substantial initial cost, whether 10 students or 5,000 students use the technology or program. Data from the Current Population Survey presented in Figure 1 indicate that incomes of full-time rural workers are only about 82 percent as high as their urban counterparts' when statistically controlling for industry of employment, race/ethnicity, age, and gender. Rural/urban income differences increase steadily as education levels increase. For persons with less than a high school degree, rural and urban incomes are virtually identical. Then as education increases, the income gap became progressively larger. Persons with a postgraduate degree could expect to earn \$75,225 in rural areas, which is only 71.2 percent as much as the \$105,618 this person could earn in an urban area.

Thus, even in the 21st century economy, most individuals and families are better off economically in urban compared to rural areas. Under these circumstances, attracting educated and skilled workers to rural areas remains an uphill battle (Albrecht, 2012). Problems are exacerbated because public investment in transportation, communication, health care, emergency response, recreational facilities, etc. has been disproportionately focused on urban communities (Stauber, 2001). Rural schools face severe economy of scale problems, rural students often have long commutes that reduce opportunities for study and participation in other activities, and many underfunded rural schools inadequately prepare

Figure 1. Median Personal Incomes of Full-Time Workers in Metro and Nonmetro Areas by Education
(Controlling for Industry, Race/Ethnicity, Age, and Gender)



Source: Albrecht, Don E. 2012. "A Comparison of Metro and Nonmetro Incomes in a Twenty-First Century Economy." *Journal of Rural Social Sciences* 27(1): 1-23.

their youth to meet 21st century realities. Additionally, rural areas have experienced declining employment in the natural resource industries and manufacturing, the historic primary employers of rural workers (Gabe et al., 2012). Employment declines in these industries are a consequence of technological developments where machines have replaced human labor in the production process and the outsourcing of jobs to foreign countries.

Yet it is essential to maintain a productive and competitive Rural America. Rural America provides a vast array of services such as food and energy security, water quality, ecosystem diversity, and tourism-based economy that stems from natural amenities. The continued provision or expansion of these services, however, depends on a highly skilled and adaptable rural population and workforce, the very group for whom rural living would be most costly. Viable rural areas could help make the US more competitive globally in two ways: first, by increasing contributions to the national economy through higher returns to human capital investments, and secondly, by allowing some individuals and firms to locate in rural areas whose presence in cities would result in higher congestion costs.

Policy changes must be implemented to ensure a productive and competitive rural America (Stauber, 2001). Achieving such policy is becoming increasingly difficult in an environment where a growing share of policy makers are elected by an urban electorate and with each

generation, fewer and fewer urban people have familial connections to and an understanding of rural issues.

Several factors must be considered in discussions of rural policy:

- First, it is essential that adequate broadband access becomes a reality for rural areas throughout the country. While broadband access does not eliminate rural disadvantage, communities that lack broadband access can expect their fortunes to decline rapidly as businesses locate elsewhere (Whitacre and Mills, 2007). Broadband-based telemedicine and distance education could greatly increase opportunities in rural areas.
- Second, it is essential that policy makers do not assume that policies designed for urban communities will have the similar expected impact on rural communities without consideration of the unique needs and constraints of rural areas. A "one size fits all" policy approach fails to address the unique concerns of rural communities. •

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