

Moving the Needle in Smaller Towns
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Thank you for coming to join us today. Before I say more, 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.

I came to Richmond a little more than 18 months ago. In that time, I've been very much "on the ground" and have enjoyed the opportunity to dig into the Fed's Fifth District, which spans from Maryland to the Carolinas. It didn't take me long to learn that we have two economies in our District—one in bigger cities and one in smaller towns. Now, 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. I believe the Richmond Fed has an opportunity—and a responsibility—to contribute to the understanding of what is happening and how it might change. That's why we're sponsoring this conference.

As Kartik Athreya is going to talk about in more detail, smaller towns are different from bigger cities along a variety of dimensions, including demographics, geography and educational attainment—all of which contribute to differences in labor market outcomes. Smaller towns also have what we call "thinner" markets, ones with fewer employers. So if dislocation hits even one sizable employer, the whole town feels it.

The solutions will vary from place to place. A coal mining town in West Virginia doesn't necessarily face the same challenges as one on the Eastern Shore of Maryland or a farm town in central Virginia. But broadly speaking, research suggests the need to address four core issues to move the needle in these communities: education, connection, 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 the answer isn't just to send more kids to college because a large share of students who go 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 lays the foundation for later learning, both “hard” and “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.¹ One study suggests that attending pre-K boosts high school graduation rates by 11 percentage points.²

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.³ Yet nearly 60 percent of rural communities have few or no options for licensed

child care.⁴ That contributes to a gap 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. While we do have many strong school districts in our region, there are also districts 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 by 24 percent.⁵ In West Virginia, pre-K is now offered in all of the state’s 55 counties.

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. And, as I’ll discuss later, communities need to attract and retain educated workers as well.

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 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. As

we'll hear more about in the first panel, 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.⁶ In addition, we're seeing more and more productive collaborations between schools and employers to provide small-town residents with in-demand skills, which I'm looking forward to hearing more about in our first panel. These partnerships are good for employers, who need skilled workers. They're good for students, who get a direct entrée to a quality job. The school plays a critical connector role.

I've also seen community colleges play a critical role in fostering a startup ecosystem, bringing access to coaching and connection to investors for prospective entrepreneurs and, thereby, growing critical jobs for communities that struggle to recruit them. I was recently in West Virginia, for example, where the Eastern West Virginia Community and Technical College operates the NewBiz Launch Pad accelerator program and the Institute for Rural Entrepreneurship and Economic Development, which supports new businesses in agriculture, manufacturing, arts, tourism and technology.

But funding is a major challenge for community colleges. Certificate programs offer the most direct path to employment, but students can't use federal financial aid to pay for them. Often state scholarship programs can't be used for them either. State funding formulas are complex, and community colleges generally don't receive as much state money for students enrolled in noncredit programs. So I'm excited about programs like Fast Forward in Virginia, which funds

short-term training through the state's community colleges, and West Virginia Invests, which covers tuition and fees for students seeking certificates in high-demand fields.

Many community college students also face obstacles 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.

Theme 3: 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.

I don't mean to imply that there aren't strong social networks in place. On the contrary. Small-town 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."

We need to address the informational gaps that often exist. For example, family, friends, neighbors and co-workers play a fundamental role in people's aspirations and decisions about education and work.⁷ 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, research has found that rural students are less likely to apply to high-resource colleges.⁸

The disappearance of anchor institutions such as banks, hospitals and colleges is part of the challenge. The number of rural counties with fewer than two bank branches per 10,000 residents in the Fifth District roughly doubled between 2012 and 2017. Eleven rural hospitals in our District have closed since 2010 and another 21 hospitals—nearly 20 percent of those in our District—are at high financial risk. Many rural colleges also face serious financial struggles. Ten in our District have closed their doors since 2000.⁹ 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. The College Advising Corps, for example, based in Chapel Hill, places advisers in high schools to provide personalized college guidance to students from disadvantaged backgrounds. In addition to helping students navigate the application and enrollment process, advisers also help students and their families to see college as an option in the first place.

I'm also interested in initiatives that bring the community to isolated families in ways that broaden their perspectives and improve their fortunes. I recently visited Garrett County,

Maryland, where they operate a 2-Generation model that works with both parents and children. They help each family define a tailored pathway, simplify full access to available funding and provide critical wraparound services like transportation and financial coaching. They support parents pursuing employment or training efforts in ways that help children receive high-quality early education.

Coaching has also been critical to the success of Taylor County, West Virginia, where over the past five years more than 220 new businesses have opened—in a county of fewer than 17,000 people. The town of Grafton, in the county, is participating in the Energizing Entrepreneurial Communities Program, which pairs coaches with local entrepreneurs.

More broadly, the most compelling way to reduce isolation is to invest in infrastructure. Historically, that was highways; today, it's broadband. It's expensive to build new infrastructure in areas with low population density and challenging terrain, as the members of our second panel will discuss. But even if broadband is available, not every household can afford it. That's evident here in Virginia, where just 49 percent of households making less than \$20,000 per year have a broadband subscription, compared with more than 93 percent of households making at least \$75,000 per year.¹⁰ But, like rural electrification 80 years ago, the benefits—in terms of opportunity identification, skill building, telemedicine and the like—are too big to pass up.

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 overall as the labor market tightens. More broadly, health in rural communities matters a lot, and we support the large number of initiatives working to reduce chronic illness and thereby improve job attendance and productivity.

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, 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.¹¹ 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.

Making Change Happen

I've had the opportunity this year to travel the smaller communities in our District. I've been to Hartsville and Bamberg, Greenville and Wilmington, Petersburg and Wise, Frederick and the Eastern Shore, Beckley and Bluefield. In all of these communities, I've seen local leaders

passionate about leading their towns forward. What seems to work? I might point to four imperatives:

1. A good story. The story is for employers, and the story is for talent. But, importantly, the story is less about marketing the plan to outsiders and more about marketing it to those who live there—why one should come and why one should stay. A beautiful town square, an annual festival, attractive housing, a great school system and attractive amenities are often part of that story. But changing the prospects of a town, it seems to me, starts with aligning the mindsets of the people in that town. And a great metric is whether the kids who grow up and go to school there choose to come back.
2. Integrated leadership. The local leadership, of course, needs to be inclusive, but it also needs to be regional in its nature. Almost by definition, small towns are surrounded by other small towns, and the strategy for that region needs to be integrated across jurisdictions. They need to speak with one voice and operate together, whether it's on education, business recruitment or housing development. Similarly, a nearby bigger city isn't a problem but a benefit—as proximity to amenities and transportation can enhance the story. The path to success isn't going it alone; instead, it's working together.
3. Opportunistic funding. As we'll hear about during and after lunch, funding is a challenge. But—perhaps surprisingly—a lot of money goes toward smaller markets, often in a patchwork fashion. Making progress requires finding a source of committed funding, whether it be federal or state agencies, local donors or foundations, local businesses, hotel

taxes, tobacco settlement funds or asset sales. It also requires developing the capacity to absorb that funding. The towns that seem to have the most momentum are the ones that seem to make the most out of their potential funding sources.

4. Staying power. This kind of transformation takes time. Success breeds success, but it requires patience and persistence. Often, core institutions near the town, such as universities, companies or foundations, can help provide that continuity across political eras.

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 small-town residents themselves.¹² Thank you, and I'm looking forward to the conversations we'll have throughout the day.

¹ Visit <https://heckmanequation.org/> for an overview of research on early childhood education.

² 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.

³ See Table 1 in Rasheed Malik, "[The Effects of Universal Preschool in Washington, D.C.](#)," Center for American Progress, September 26, 2018.

⁴ 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.

⁵ 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.

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

⁷ 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.

⁸ 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.

⁹ Helen Fessenden, "[Too Small to Succeed?](#)" Federal Reserve Bank of Richmond *Econ Focus*, First Quarter 2017.

¹⁰ Data come from the American Community Survey. "Broadband" in these data includes cable, fiber, DSL, satellite and cellular connections.

¹¹ 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.

¹² Thomas I. Barkin, "[The Supply Side of Rural Economic Development](#)," Federal Reserve Bank of Richmond *Econ Focus*, Third Quarter 2018.