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Subcommittee on Human Resources:

The Geography of Rural American Poverty

Good morning Chairman Smith, Ranking Member Davis and other subcommittee members. My name is Mark Partridge and I am the Swank Chair of Rural-Urban Policy at The Ohio State University. Thank you for the opportunity to discuss poverty reduction and economic development in rural America. Before I begin, I note that my views are based on my long-time research on this topic and do not reflect the views of The Ohio State University.

Today, I will discuss the characteristics of rural poverty and then I will describe some ways to reduce its adverse effects. Though I do not have sufficient time to present supporting evidence, I start by noting that there is significant research that shows that poverty has high socioeconomic costs to the economy, government, and its citizens.¹ My aim is to dispel some simplistic rural stereotypes that are held by many people, especially urban residents who are less familiar with rural America. Before doing so, I will briefly describe rural America's diversity. In my discussion, I will use the official federal metropolitan/nonmetropolitan area definition to identify urban and rural, meaning that I am using a labor market definition of rural.

Much of rural America is struggling today due to a downturn in the commodity super cycle that has hampered mining, energy, and agriculture. This is exacerbated by the fierce foreign competition that has faced lower-wage rural manufacturers for the last 20 years. All in all, given rural America's disproportionate reliance on products traded internationally, today's relatively high value of the U.S. dollar has further eroded the competitiveness of these rural businesses. Indeed, it is not surprising that President Trump took advantage given this economic angst in rural America last November. Yet, portrayals of the "death" of rural America are misleading. Dating back to the 1970s, net-domestic migration from rural to urban America is about zero—indicating that the reported demise is greatly exaggerated. In reality, rural America is very heterogeneous, much like the vast diversity of American cities. However, common features of rural Americans are their incredible pride in their own lives, and the strong value they place on their communities.

1. RURAL AMERICA IS DIVERSE

1a. Three Rural Americas. Rural America is very diverse and is comprised of three very different components. The first includes high-amenity regions near lakes, oceans, mountains, etc. that have been growing rapidly since the 1970s. For example, numerous Mountain-West communities have transformed themselves from extractive mining/logging economies to

¹Partridge, Mark D. and Dan S. Rickman. (2006) *The Geography of American Poverty: Is there a Role for Place-Based Policies?*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

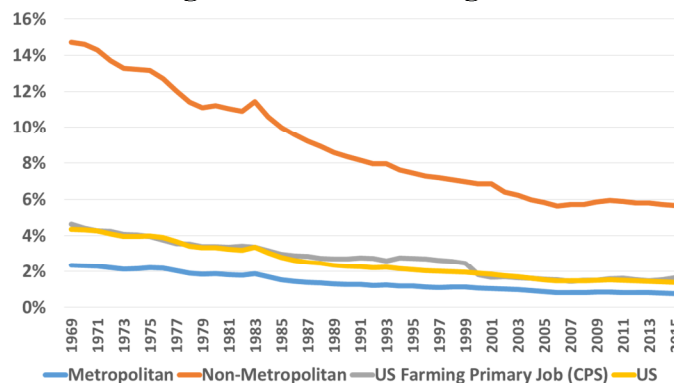
communities that rely on their natural beauty or climate for their livelihood. The second is metro-adjacent rural communities that provide commuting access to urban jobs and services for rural residents and provide access to rural markets and recreation for urban residents. These areas have also grown while mostly maintaining their attractive rural lifestyle. The third rural region is the remote or extractive-based rural communities that depend on agriculture, mining, and forestry. These communities struggle with labor-saving technological change that means fewer workers are needed in the production of their base-industry products. Remoteness from urban markets and services further disadvantages these communities. Finally, these remote rural areas are vulnerable to commodity-price super cycles that lead to a lack of economic stability and diversity, deterring the formation of small businesses.²

1b. Changing structure of rural economies. Local rural economies were autonomous islands up through World War II. Since then, labor-saving technological change in the primary goods sector has freed up labor. Much of it relocated to cities, especially before 1970. Improvements in roads and autos greatly expanded rural-urban commuting, changing the economic base of many rural communities. The expansion of rural-urban commuting and other technological changes led to the organic creation of large rural-urban regions centered on their largest urban cities. The wellbeing of these large regions increasingly hinges on the prosperity of their urban economies.

The industrial structure of rural America has shifted away from agriculture and mining, becoming closer to that of urban America, though urban areas still take on different economic functions. The US Bureau of Economic Analysis (BEA) calculates the number of farm jobs (including farm proprietors) based on whether the household has even minimal farm income, which generally overstates farming’s share of the economy due to the large number of casual/lifestyle farmers who primarily work elsewhere. The US Bureau of Labor Statistics (BLS) also calculates the share of workers (including self-employed) in agriculture, but only includes individuals for whom agriculture is their *primary* job. The BLS measure is more accurate.

Figure 1, which shows reallocation away from the farm economy since 1969, contradicts the stereotype of rural America as dependent entirely on traditional industries, such as agriculture. It reports the BEA share of full- and part-time jobs in the US, metro, and nonmetro America, as well as the more accurate BLS figures for the entire nation for comparison. Looking at the BEA data, the rural nonmetropolitan farm share declined from 15% to 6%. The BLS (CPS) national employment share, in which agriculture is the primary job, runs about the same as the corresponding BEA national share. For mining, another traditional mainstay of rural America, the share of total employment bounced around 2% to 3% over the 1969-2015 period (not shown). The point is that rural economies are much more diverse than in the past. Efforts to jump-start rural economies also need to be broad based.

Figure 1
Percentage of Jobs in Farming: 1969-2015



Source: Farming share of total employment for Metropolitan, Non-Metropolitan, and US: Bureau of Economic Analysis; Total Full-Time and Part-Time Employment CA25 (1969 – 2000) CA25N (2001 – 2015). Farming as the worker’s primary job as a share of total employment: *Current Population Statistics*, Bureau of Labor Statistics, Table cpsaat01.

²Betz, Michael, Michael Farren, Linda Lobao, and Mark D. Partridge. (2015) “Coal Mining, Economic Development, and the Natural Resources Curse.” *Energy Economics*. (50), 105-116.

2. THE GEOGRAPHY OF AMERICAN RURAL POVERTY

2a. Measurement. I use the official poverty definition from the U.S. Census Bureau. The poverty income thresholds are based on family size and are annually adjusted for inflation. For example in 2016, the poverty threshold for a single-parent family with two children was \$19,337, and the threshold for a family of four with two children was \$24,339.³ Many question whether the official guidelines reflect a “true” poverty threshold due to “in-kind” benefits such as Medicaid not being counted. Regardless of the value of perfect poverty rate measures, they are *highly correlated* with the official figures, and I cannot imagine anyone would argue that the official thresholds imply a tolerable standard of living.

Note that official poverty thresholds are not adjusted for local cost of living. It is regularly stated that the official thresholds overstate rural poverty, or understate urban poverty, because of higher urban cost of living—particularly for housing. While it’s true that urban housing is more expensive, this argument overlooks the fact that rural residents have to travel greater distances for groceries, public services, schools, daycare, etc. (and that rural housing is often substandard). Also, housing prices capitalize all site-specific amenities including access to jobs, public services, private services, and other features.⁴ In other words, part of the reason why rural housing tends to be less expensive is because its value is lowered by its remoteness from services; the costs associated with having to travel relatively long distances to work, school, or the grocery store make up for the lower cost for the housing itself. Hence, much of the low level of housing costs in rural areas (or the high cost in urban areas) is due to these disadvantages faced by rural residents. What this means is that adjusting for “cost of living,” such as in the Census Bureau’s Supplemental Poverty Measure, would arbitrarily harm poor rural residents because they would be directly penalized for the “distance penalties” in their daily lives, and then also indirectly penalized by over-adjusting rural cost-of-living due to these house-price capitalizing effects.

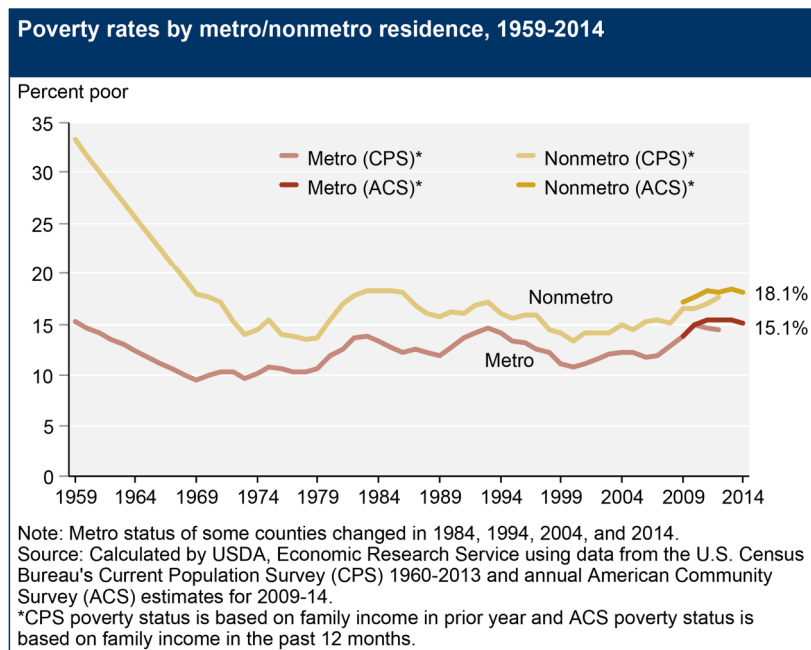
2b. Rural versus urban poverty. Figure 2 shows that measured rural poverty rates have been greater than urban poverty rates since they were first calculated for 1959. The gap was very large initially, steadily narrowing until the mid-1970s, after which the gap has been much more stable. The gap was 3 percentage points in 2014 with urban and rural poverty being respectively 15.1% and 18.1%. Importantly, note that this gap has artificially fallen as exurban and more populous nonmetropolitan counties have been reclassified as metro. Likewise, using the definition of extreme poverty in which households fall below one-half the poverty-income threshold, 2014 rural deep poverty was about 8%, compared to 7% in urban areas.

Rural poverty is hidden from view. Despite having higher official poverty rates, rural poverty receives much less public attention than urban poverty—more so than simple differences in population would suggest. There are several reasons, including the fact that rural areas are far from urban and coastal media centers. Another key reason is that rural poverty is hidden, often out of view of those traveling through rural areas, and it is rarely concentrated in “poor neighborhoods” the way it often is in cities. In other words, “out of sight, out of mind.”

³U.S. Census Bureau, <http://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-thresholds.html>.

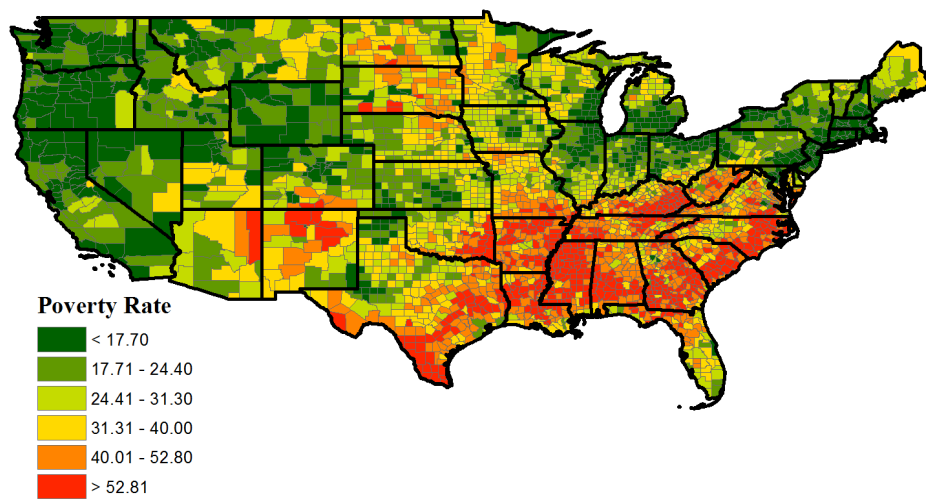
⁴Partridge, Mark D., Dan S. Rickman, Kamar Ali and M. Rose Olfert. (2009) “Agglomeration Spillovers and Wage and Housing Cost Gradients Across the Urban Hierarchy.” *Journal of International Economics* 78 (1): 126-140.

Figure 2:⁵



2c. Rural poverty is geographically very persistent. Figures 3 to 6 respectively show the 1959, 1979, 1999, and 2015 poverty rates for counties in the lower 48 states and DC. On the positive side are the dramatic declines in poverty from 1959 to 1979, as poverty rates fell, especially in the South, during the 1960s War on Poverty. Yet, a key feature in the geography of poverty is its persistence. Dating back to 1959 and probably well before then, high-poverty clusters have existed in central Appalachia, the Black (or Cotton) Belt, the Mississippi Delta, the Rio Grande, and Native American reservations across the west. These long-lasting poverty clusters can be predominantly white, black, Hispanic, and Native American, illustrating that poverty has little racial bias. Another feature of not just rural poverty clusters, but also poverty in general, is that it is disproportionately composed of children, with one-fourth of rural children and more than one-fifth of urban children living in poverty.⁶ The lack of resources and opportunities for poor children helps perpetuate an intergenerational cycle of poverty.

Figure 3
1959 Poverty Rate United States



⁵USDA Economic Research Service: Downloaded from: <https://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/poverty-overview.aspx>.

⁶Ibid.

Figure 4
1979 Poverty Rate United States

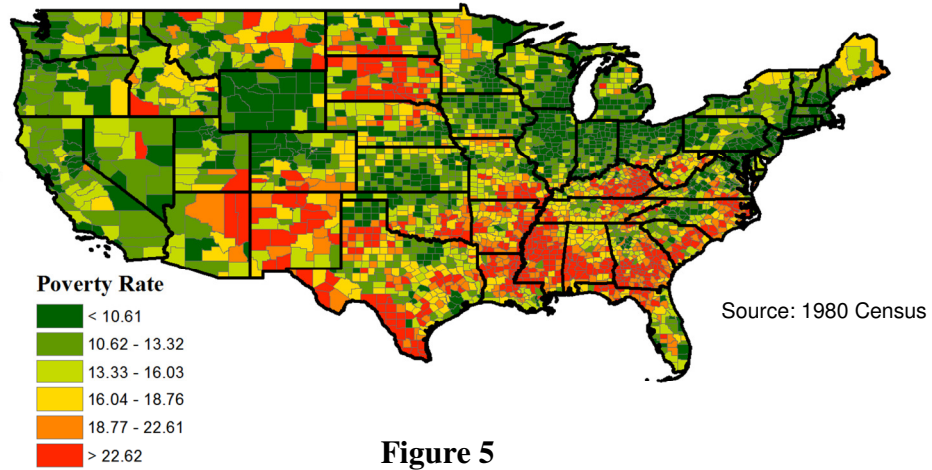


Figure 5
1999 Poverty Rate United States

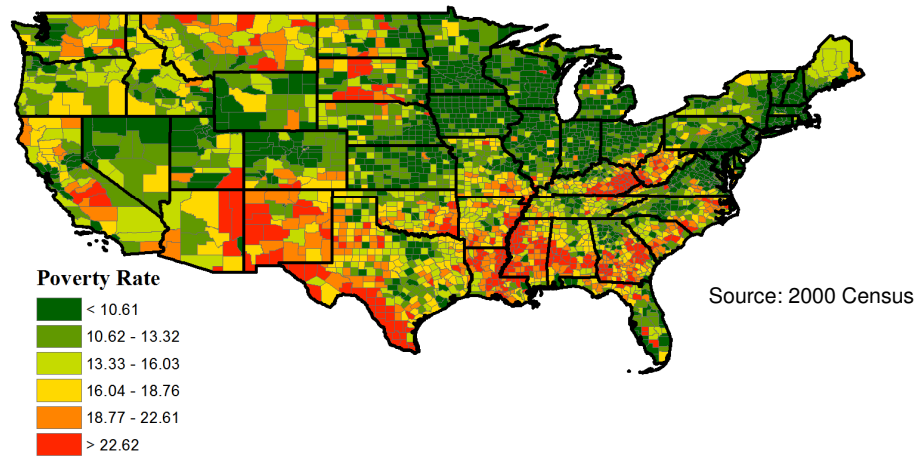


Figure 6
2015 Poverty Rate United States

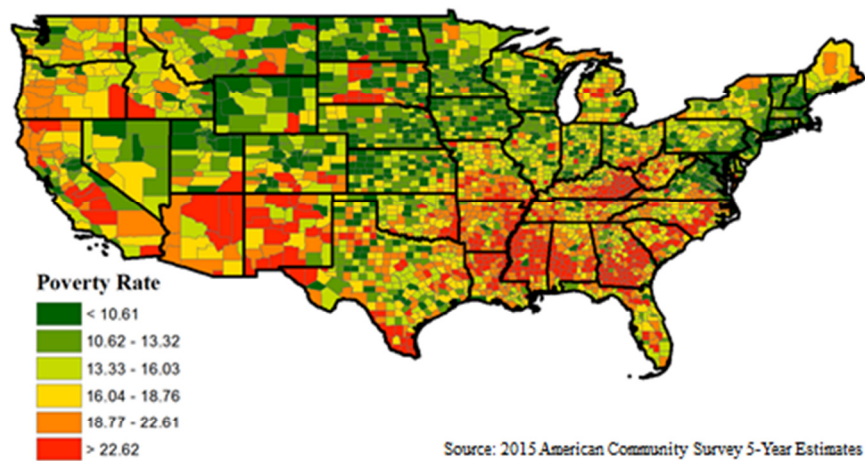
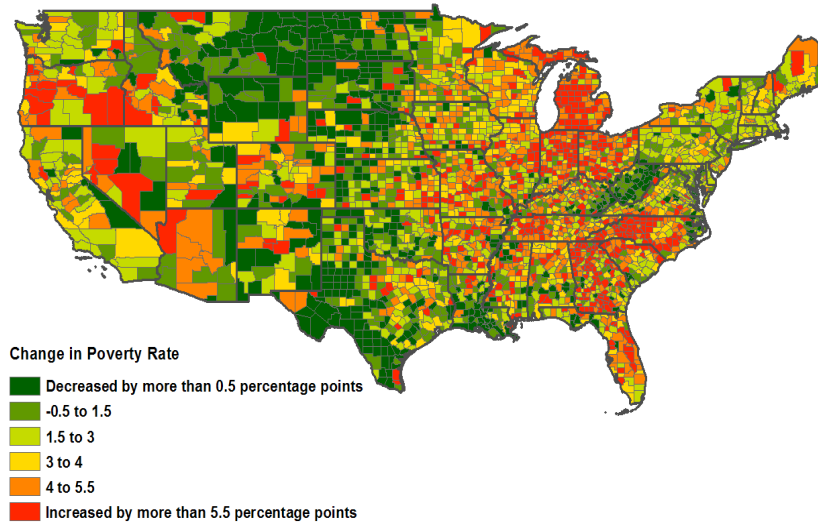


Figure 7
Change in Poverty Rates: 1999-2015



Source: 1999 Poverty Rate: 2000 Census, Poverty Status in 1999 (NP087B); 2015 Poverty Rate: U.S. Census American Community Survey, Poverty Status in the Past 12 Months (S1701)

Though I discuss policy later, some “good news” about rural high-poverty clusters is that job growth has disproportionately large effects in reducing poverty compared to the rest of rural and urban America.⁷ If there were no poverty response to job growth, that would suggest that potential workers who are in poverty are either not interested in work or lack sufficient skills to take work. Hence, poor people want to work! Effective place-based job growth can reduce poverty, even in remote poverty clusters, though this needs to be weighed against the costs of creating jobs.

Low-poverty rate clusters can be found in the Northern Great Plains, upper Midwest, and Northeast. There are many governance, demographic and industry structural reasons for these regions’ historic success in maintaining low poverty, but that is another topic.

Figure 7 shows the change in poverty rates from 1999 to 2015. Overall, while the official U.S. Census Bureau poverty rate rose from 11.9% to 13.5%, there is significant heterogeneity across the US. The first pattern is the significant increases in areas with high shares of manufacturing such as in the Great Lakes states and in the South—both with high shares of rural manufacturing. However, there were declines in poverty rates in the Great Plains and the Northeast. Reasons for the decline in the Great Plains include the major super-commodity cycle that favored that region, though clear reasons for the decline in the Northeast are harder to identify.

3. Enhancing Economic Development & Reducing Rural Poverty

Enhancing rural economic development requires significant patience, and strategies need to be realistic. Even good policy aimed at stimulating rural economies will not succeed by the next election, and there is no way to “save” every struggling rural community if economic forces say otherwise. However, there are some things that can enhance rural economic development and reduce poverty. There are two approaches to help poor families. First, there are people-based policies that directly support poor people with little leakage to the wealthy or community elites. Examples include education, training, and grants to help households relocate to where there are more job opportunities. The second is place-based policies in which places with a high share of poor people receive significant aid. Examples include infrastructure development, targeted

⁷Partridge, M.D. and D.S. Rickman. (2007) “Persistent Pockets of Extreme American Poverty and Job Growth: Is there a Place Based Policy Role?” *Journal of Agricultural and Resource Economics*, 32: 201-224.

industry attraction, and policies aimed at the specific place. While both types of policies have their limitations, I believe both are needed to reduce poverty. Therefore, I will describe both, starting with people-based policies first, and then shifting to place-based policies that aim to lift all boats with the rising tide. Please note that this is somewhat simplistic, and that people-based and place-based policies should be evaluated on a continuum and not as an either/or proposition.

3.1 Building strong rural economies requires “building from within.”

The stereotype that rural means “declining” is misleading and incorrect. There are hundreds and hundreds of prosperous rural communities. Yet, traditional rural mainstays such as farming, mining, and manufacturing have all struggled in recent years. In rebuilding and reinvigorating rural economies, there are two prominent mindsets that are counterproductive. The first is trying to bring back the “good ol’ days.” Examples include Great Plains farm communities scheming to bring back the family farm economy of 1950, or Midwestern manufacturing communities that wish to bring back thousands of jobs that existed before productivity and international trade eliminated them, or northern logging communities hoping to bring back large-scale logging and milling before mechanization rendered many of those jobs obsolete. The second counterproductive mindset is the notion that struggling rural communities need to find an outsider who will save their community by opening a large plant or new business. The “outsider will save us” mentality asserts that if the community is “nice” and provides massive tax subsidies to these potential entrants, all of the communities’ problems will be solved. This strategy overlooks that outsiders will not come unless they are granted many regulatory and tax concessions. It also overlooks that once they are established in the community, they often extort more tax concessions, move onto the next “victim,” or even move offshore. Outside firms are typically in agriculture, mining, and manufacturing, which further exacerbates the lack of economic diversity that plagues some communities with a boom-bust cycle that does not foster long-term private investment.

Rural communities have many entrepreneurial and human capital resources right in their midst, with the most important being small business development and entrepreneurship. There is a long research tradition that supports the notion that having higher shares of small businesses and self-employment is consistent with faster *future* growth,⁸ especially in lagging regions such as central Appalachia.⁹ Self-employment is associated with employment multipliers (or spillovers) that are over twice the size of comparable multipliers for regular wage and salary employment at existing firms.¹⁰ There are many reasons for this: small businesses buy more of their inputs locally, more of their profits remain local, and small business development supports a virtuous entrepreneurial cycle that supports even more business formation.^{11,12} Indeed, research into the locations of the fastest growing US firms finds that these firms can be found in what may seem to be mundane or mature industries such as agriculture and that these firms may exist in any setting from very sparse rural to very large cities, showing that they are not at all precluded from rural areas.¹³ And stronger local economies mean that expanding employers will have to reach down and hire more disadvantaged workers as labor pools shrink.

⁸Goetz, S. J., Fleming, D. A., & Rupasingha, A. (2012). “The economic impacts of self-employment.” *Journal of Agricultural and Applied Economics*, 44(03), 315-321.

⁹Stephens, Heather, Mark D. Partridge, and Alessandra Faggian. (2013) “Innovation, entrepreneurship and economic growth in lagging regions.” *Journal of Regional Science*.

¹⁰An employment multiplier for self-employment is defined as how many total *net* jobs would be created if one self-employed job is created—e.g., a multiplier of 2.5 would suggest that on net, one new self-employed job creates additional 1.5 jobs elsewhere through spillover effects.

¹¹Rupasingha, A., & Goetz, S. J. (2013). Self-employment and local economic performance: Evidence from US counties. *Papers in Regional Science*, 92(1), 141-161.

¹²Tsvetkova, Partridge, and Betz (forthcoming) op cit.

¹³Li, Minghao, Stephan J. Goetz, Mark D. Partridge, and David A. Fleming. (2016) “County Location Determinants of the INC5000s.” *Entrepreneurship & Regional Development*. 28: 97-125.

At the margin, economic development dollars spent on small business creation have very high returns, especially given that small and new businesses disproportionately create *net* new jobs. This is especially so in rural America because small businesses compose a disproportionate share of rural employment. Federal, state and local efforts can encourage small business formation in many ways. Of course, any efforts to reduce regulatory compliance costs for small businesses would be welcome, as their owners' most scarce resource is time. Other efforts are needed including more aggressive attempts by the Small Business Administration, the U.S. Department of Agriculture Rural Development, and other agencies to back loan guarantees for large pools of small business loans. These may individually be high-risk, but when aggregated and diversified, they are much lower risk. Efforts to help "train" potential small business owners should be expanded through community colleges and state extension services. These attempts should focus on basic management skills and help in identifying markets.

3b. Brain Drain, Quality of Life, and Enticing Former Rural Residents

Regional and urban economists find that the most robust predictor of future regional economic growth is its initial level of average educational attainment. It is not surprising that places that have a high share of "smart" people will have a lot of good things happening. Yet, rural America has lower average levels of educational attainment. Much of this is simply due to an industrial and occupational structure that favors the location of high human-capital firms in large cities—picture investment banking or intellectual property attorneys. Another reason is that young talented adults from the countryside have for centuries been captivated by the bright lights of the big city and the ensuing opportunities that await. For this reason, any efforts to stem the flow of young adults from the country to the city will likely be ineffective.

To be sure, there are charms that are mainly accessible in rural areas: safe streets, quiet, sense of community and knowing all of your neighbors, and a saner lifestyle. For these reasons, once the former rural residents "sow their oats," marry, and have children, rural communities become attractive again. Thus, rural attraction efforts should be centered on attracting families in their 30s and 40s. This cohort has both the experience and skills that would boost rural economies while deepening their rural roots as they raise their families.

Rural communities need to be realistic in how to attract young families. They cannot compete on economic opportunities (though they can narrow the gap), but they can compete in their unique quality of life in promoting good schools, nice parks/recreation, and a clean environment. Indeed, having high-quality local schools is paramount. Not only do they help train the next generation, but the kind of parents that are attracted by quality schools are the type of people rural communities covet. Likewise, these people are also more likely to place a higher value on a clean healthy environment, suggesting that environmental stewardship is another important economic development strategy.

3c. Improving governance and building rural capacity for development.

A key disadvantage for the rural poor is the lack of access to public services. One reason for this is that small rural communities lack the size and capacity to provide a wide range of government services. Specialized jobs such as economic development counselors, environmental/health inspectors, and mental health and drug abuse specialists can be too expensive for many rural communities. Likewise, individual rural communities lack the resources to provide broad-scale training programs because they lack scale.

The absence of good rural public services especially harms the rural poor. Fortunately, there are several low-cost ways to improve the quality of support services in rural communities. First, the

federal and state governments can facilitate and provide seed funding to start programs for rural counties to share personnel and resources such as for economic development, etc. For example, one specialist could serve (say) three different counties to provide mental health services by rotating across the counties. Not only would this fulfill the goal of capacity building, but it would also start pushing rural counties to collaborate with their neighbors in terms of policy and programs. State university extension services and local community colleges could further facilitate this role as they already have the organization and mission for such efforts.

To further facilitate capacity building, Congress should fully fund the federal-state regional development organizations and create new ones so that the entire country is covered. The Appalachian Regional Commission (ARC), formed in 1965, is a good example. Others currently include the Delta Regional Authority, Denali Commission, Northern Border Regional Commission, Northern Great Plains Regional Commission and the Southeast Crescent Regional Commission. These organizations cannot be expected to carry out their mission if they are insufficiently funded or not funded at all. Even the ARC, with a federal allocation of \$90 million in FY 2015 and \$146 in FY 2016 (with some temporary expenditures from the Obama Administration), is limited in what it can do for its over 25 million residents spread across 13 states.¹⁴ Still, the ARC is a fantastic example of what a regional organization with modest resources can accomplish. The ARC provides bridge loans and seed grants for infrastructure and programs including workforce training that would not be available otherwise. Yet, the ARC's main role is as a broker that can foster regional collaborations of businesses, communities, counties, nonprofits, local development districts, and various state and federal agencies. With ARC leading the brokering efforts, resource-scarce distressed regions can undertake programs that would otherwise be impossible. And the ARC provides small funding matches to ensure that projects can be implemented.

A final feature of these federal-state regional commissions is that they can initiate multi-county regional development districts (the ARC refers to them as local development districts). These districts are composed of functional economic regions that can help facilitate cooperation and collaboration between neighboring communities. In particular, since functional economic areas are predominantly centered around urban areas, it allows rural communities to work with their urban neighbors, which is particularly important given that urban-led growth is typically more sustainable because of the economic advantages possessed by cities.

3d.Geographically (Space) neutral policies

Regardless of urban or rural residence, there are successful policies that should be expanded such as the earned income tax credit (EITC). Originally envisioned by conservative Nobel Prize winning economist Milton Friedman, the EITC is a favorite poverty-reduction strategy of economists on the left and right. The EITC provides incentives for disadvantaged workers to find employment and the additional income further helps lift their households out of poverty.¹⁵

Early childhood education is another valuable tool that would reduce intergenerational inequality and poverty.¹⁶ Early childhood education has very high rates of return, significantly higher than most public or private investments. In rural areas with a lack of access to quality educational programs, such efforts could be critical in reducing future intergenerational poverty and can be a

¹⁴See the FY2017 ARC Performance Budget at:

<https://www.arc.gov/images/newsroom/publications/fy2017budget/FY2017PerformanceBudgetFeb2016.pdf>

¹⁵Grogger, J. (2003) "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families," *Review of Econ. and Stat.* (114): 394-408.

¹⁶Bartik, Timothy J. 2011. *Investing in Kids: Early Childhood Programs and Local Economic Development*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

useful economic development tool that builds future workforces while attracting parents who want good education for their children.

Workforce training, access to transportation, mental health provision, and childcare are other key components of poverty reduction, regardless of location. Yet, they need to be geographically targeted to reflect the realities of their respective environments. For example, rural workforce training needs to reflect the differing mix of jobs in rural communities. Some examples of training efforts include community college degrees and certificates for those who can successfully remain in their rural community. However, given the importance of rural-urban migration and rural-urban commuting, this training needs to be delivered in a way that opens opportunities to place rural workers in higher-paying urban labor markets. In addition, teaching job hunting skills in urban environments can serve disadvantaged rural workers well.

High-quality accessible rural childcare with hours of service that reflect the realities of modern rural workplaces is rare, making it even more challenging for disadvantaged rural parents to enter the workforce or to take the best employment opportunities. The same features describe rural healthcare and rural mental healthcare. Accessibility can be problematic, and in many states, health insurance coverage is far from ensured for the low-income working class. These services are further stretched as many rural communities have struggled economically and have been afflicted with various drug crises. One useful test will be to appraise whether states that expanded Medicaid also experienced greater labor force participation as key healthcare barriers were reduced. Nonetheless, small investments in healthcare and mental health can pay great dividends that keep struggling families intact and fully contributing to their communities.

4. Summary and Discussion

Rural America is very diverse with a mixture of prosperous regions in commuting distances of cities and in high-amenity areas. Yet, there are lagging rural regions that are not as prosperous due to their remoteness or dependence on commodities. Despite public perceptions, official rural poverty rates are higher than in urban areas, whereas poor rural households struggle with a host of barriers related to their remoteness including a lack of necessary public services and weaker employment opportunities. Rural poverty is also persistent over time and clusters in high-poverty regions.

To reduce rural poverty, a combination of direct “people-based” and “place-based” policies is needed. First, under the general notion that a “rising tide lifts all boats,” several approaches to improve rural economies as a whole should be undertaken. These include supporting more rural entrepreneurship, attracting families in their 30s and 40s to enjoy rural lifestyles, supporting regional collaboration, and implementing modestly-funded federal-state development organizations such as the ARC. Further, direct supports specifically for poor rural residents should also be expanded. These include the EITC, mental healthcare, transportation, job training, and early childhood education, though for the latter three, a clear rural-targeting needs to be employed to account for the sparse population and the long distances involved. With long-term, steady, patient effort, rural poverty can be greatly reduced, producing tremendous benefits to families, communities, and an American economy where more people are working and contributing.

Thank you.