Prosperity for Rural Virginia:

The Continuing Story of Rural Virginia

Rural Virginia Prosperity Commission

Prepared for the Rural Virginia Prosperity Commission, Richmond, August 24, 2000 by Commission Staff from the Rural Economic Analysis Program, Virginia Tech and the Weldon Cooper Center for Public Service, University of Virginia.

INTRODUCTION

My purpose is to begin a process by which we come to a common understanding of the nature of the economic problems facing rural Virginia. We will hear lots of authentic, specific experiences from people at the grassroots level. It is necessary and proper that we listen and learn. But in that process, we risk not being able to see the forest for the trees—a trap we must not fall into.

The economic problems that face rural Virginia are complex. They are rooted in a dynamic market economy. Those of us who have spent lifetimes studying and thinking about the economic problems associated with being rural know that we have less than perfect understanding of those problems and of solutions that might have some chance of affecting a positive change.

We will not attempt to deal with possible solutions today. We have enough to do just to try to begin to understand the nature of the problem. Only when we have begun to define the problem will we be able to begin to consider possible solutions.

Today, we will consider four questions:

- What is rural?
- What are the economic consequences of being rural?
- What must any region have to prosper?
- Will the economic problems of rural Virginia self-correct?

I ask you to make a conscious effort to discard whatever intellectual baggage you brought here. Not your values, not your experience. We need those things. But let us stand back and try to get a big picture of the situation. We face a difficult challenge, and we will not be able to deal with it unless our minds are open and our thinking fresh.

WHAT IS RURAL?

We cannot talk about the road back to prosperity in rural Virginia without first spending some time thinking about what it means to be rural.

We can define rural in many ways:

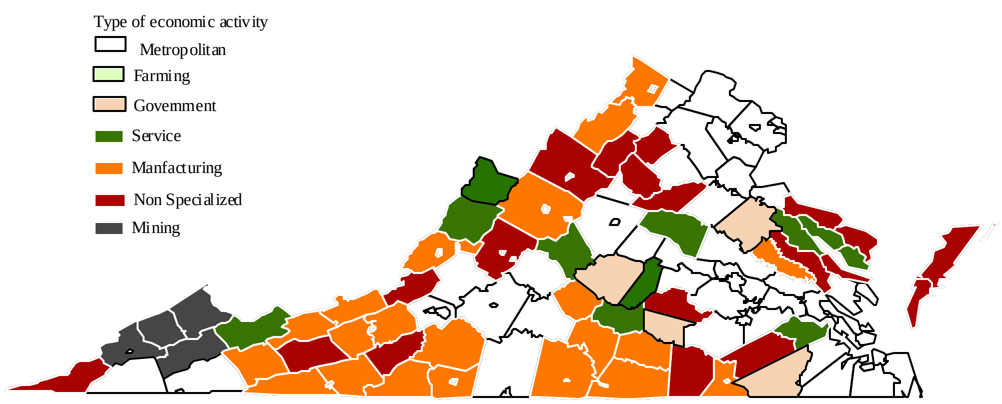
- Rural is where people make their living from resource-based industries—farming, forestry, fisheries, or mining.
- Rural is non-metropolitan.
- Rural is where population densities are low.
- Rural is where few business services exist.

Resource-Based Economies

Not so long ago, what being rural meant was fairly obvious. Rural areas were places where people made their living primarily from natural resources—from farming, forestry, fisheries, or mining. Today, that concept of rural is limiting. No counties in Virginia are primarily dependent upon forestry or fisheries for their economies, even though forestry and fisheries are elements of the local economies in a number of places. Only two counties in Virginia—Highland and Cumberland—are dependent on farming for a significant part of their economy. In many other counties farming is important. Agriculture and agribusiness generate about 11 percent of all jobs and some 10 percent of economic activity in the state.[1] These numbers will be much higher in counties where farming is prevalent. But farming itself is so efficient that it is not the chief way many people make a living. Four counties in southwest Virginia are dependent upon mining—Buchanan, Dickenson, Russell, and Wise.

The notion that the only areas that are rural are those dependent on resources industries is no longer acceptable (Figure 1). If resource-based is the only way to define rural, few rural areas are left in Virginia.

Figure 1. Types of Economic Activity in Non-Metropolitan Counties, 1989



Source: Economic Research Service, USDA. *http://www.ers.usda.gov/epubs/other/typolog/typ89va.txt.* Accessed Aug. 12, 2000.

Rural as Non-Metropolitan[2]

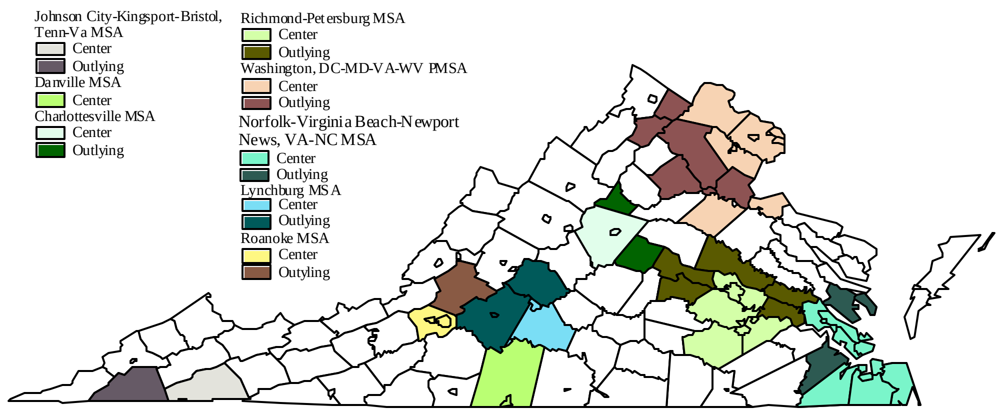
Rural development researchers have commonly defined rural as all that area not included within the Census Bureau's Metropolitan Statistical Areas (MSA), so rural by

[1] David Lamie. *The Economic Impact of Agriculture and Ag-Related Industries on the Commonwealth of Virginia*. Va. Coop. Ext. Pub. No. 448-233/REAP R035. August, 1998.

[2] US Department of Commerce, Census Bureau uses the terms metropolitan and non-metropolitan to define areas based on population concentrations. USDA, Economic Research Service uses the terms rural and urban also based on population concentrations. USDA breaks down each category into continuums. For our purposes, we are defining rural along a continuum and assume urban and metropolitan are synonymous and will use the term urban.

this definition means non-metropolitan. As a rough cut, that delineation works fairly well. In Virginia, 61 counties and cities are within the most recent definition of MSAs (Figure 2). Yet in Virginia, as in other states, the way in which MSAs are defined includes counties adjacent (outlying) to metropolitan areas where workers commute into the metropolitan area (center). Hence, in Virginia, such counties as Amherst, Bedford, Botetourt, Clarke, Fluvanna, Greene, Isle of Wight, Scott, Warren, and Washington are not counted as rural since they are part of MSAs.

Figure 2. US Census Bureau, Metropolitan Statistical Areas (MSA), 1996



Source: US Bureau of Labor Statistics. "Metropolitan Areas and Components, 1996, with FIPS Codes." *http://stats.bls.gov/790metdf.htm*. Accessed Aug. 12, 2000.

Using the metropolitan/non-metropolitan delineation to define rural leaves a lot of places that would commonly be thought of as rural in non-rural or urban classifications. It may be one way to delineate rural areas, but it is an imprecise way.

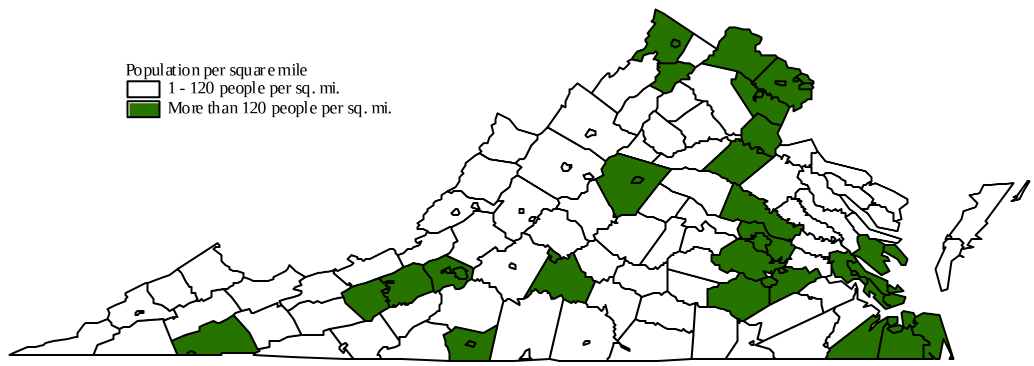
Population Density

If we think of rural as being areas that are relatively sparsely populated, we have another way to define rural Virginia. Figure 3 shows the counties in Virginia divided between those that have fewer than 120 people per square mile, and those that have more than 120 people per square mile.

A natural break occurs in the population numbers around 120, and this division fits our intuition in that only a few non-rural or urban areas are identified west of Roanoke. In 1998, 34 Virginia counties had population densities greater than this threshold. Some counties such as Pulaski and Warren lack substantial cities but have slightly more than 120 people per square mile; however, we think of them as rural. Other counties such as Frederick, Henry, and Montgomery with populations of significantly more than 120 people per square mile, we would probably also think of as primarily rural.

Still, counting as rural those counties with less than 120 people per square mile is one workable way to delineate rural Virginia. This lack of population concentration separates truly rural counties from those with more concentrated business activity.

Figure 3. Population per square mile based on 1998 population estimates.



Source: Weldon Cooper Center for Public Service. "1998 Final and 1999 Provisional Population Estimates," *http://www.virginia.edu/coopercenter/vastat/txt/est9099a.html*. Accessed Aug. 12, 2000.

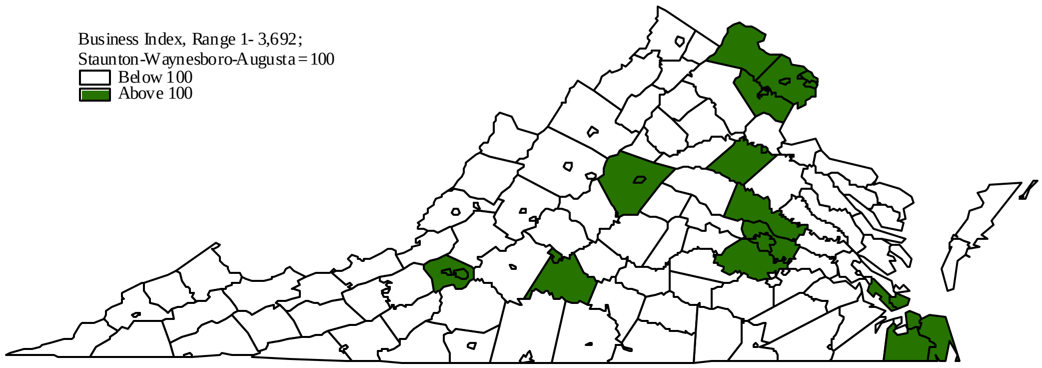
Business Services

Another way to think of what is rural is to see rural places as those that are not urban based on some important measure. Urban places typically have a large and varied number of business services available—accountants, lawyers, consultants, people who service office equipment, etc.

We can delineate Virginia counties based on how many business service establishments are located in each county. The number varies widely from one in counties like Lee to thousands in some of the counties in Northern Virginia. In Figure 4, we divide the counties based on those that have more business service establishments than Augusta County, including Staunton and Waynesboro, and those that have fewer. (Augusta was the "break" county with an estimated 120 people per square mile in 1998). Eleven counties (including their independent cities) in Virginia have more business service establishments than Augusta: a grouping in northern Virginia, a grouping beginning at Spotsylvania (including Fredericksburg) and moving down to the Richmond City area, a grouping in the Hampton Roads area, and then in Albemarle (including Charlottesville), Campbell (including Lynchburg), and Roanoke City and County (including Salem and Vinton).

Using the number of business services as the criterion to determine what is rural leaves the greatest part of Virginia as rural. If population per square mile were overlaid on business services, the relationship between the two would be obvious.

Figure 4. Business Services, 1996



Source: US Census Bureau. County Business Patterns, 1996. *http://www.census.gov/epcd/cbp/view/cbpview.html*. Accessed Aug. 12, 2000

No One Right Way

We have no single right way to define rural Virginia. Rurality occurs along many different dimensions. Some counties have parts that are quite urban and other parts that are very rural. In Washington County, for example, Abingdon is a rapidly growing town. The strip along I-81 from Abingdon to Bristol is now almost completely built up. Yet, once we leave that strip, we are in open country that most people would recognize as rural.

Places can be rural in some ways and not in others. Places that are rural but near large and growing cities, like some of the counties in the lower Shenandoah Valley, have quite different economies and opportunities from those in extreme southwestern Virginia or in some parts of central Piedmont. Places near a major research university, like those in the New River Valley, have different possibilities from those in the Northern Neck. Places that have interstate highway access have different economic opportunities from places in the Piedmont between Lynchburg and Richmond City. **We must not make the serious mistake of thinking that all rural places are homogeneous.**

ECONOMIC CONSEQUENCES OF BEING RURAL

Being rural has economic consequences. It affects the economic comparative advantage of an area. Rural areas, with lots of land relative to people, have always had advantages in producing things that require large land areas. They have disadvantages in producing things that require close proximity to large numbers of people. These consequences manifest themselves in a variety of ways.

As long as a large fraction of the population was required to be in farming to produce food for the rest of the population, rural areas were assured a substantial population. But increases in production technology, with regard to both labor and land, have reduced the requirement for large numbers of people and large land areas to be devoted to agricultural production. While resource-based industries continue to be important in some parts of the Commonwealth, all resource-based industries (farming, forestry, fisheries, and mining), before measuring the total economic multiplier impacts, accounted for less than 1.5 percent of Virginia's Gross State Product in 1997.

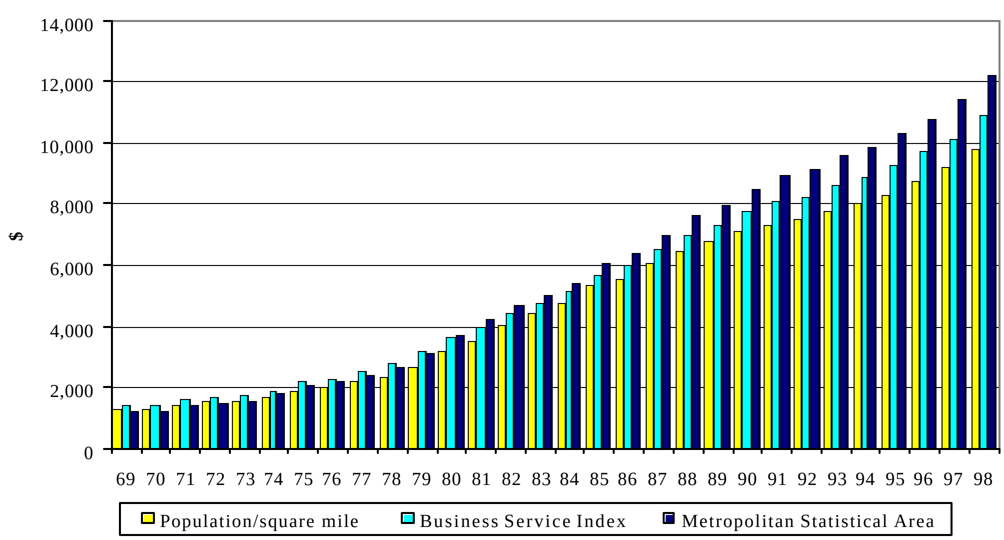
Moreover, increases in agricultural productivity have increased the worldwide supplies of agricultural commodities relative to demand so that the long-term trend in the prices has been downward for a generation or more. Farming, forestry, and fisheries may be able to provide prosperity for some parts of rural Virginia. But these resource-based industries are not likely to ever again produce enough income to support a population as large as the current population in many of the counties that are rural by two or more of the criteria we discussed.

As the traditional economic base of rural areas has eroded, incomes in rural Virginia have declined relative to the urban parts of the Commonwealth.

- In 1998, 85 percent of all personal income received by Virginians went to those who live in the urban counties.
- In the 1996-98 period, 87 percent of all growth in personal income in Virginia occurred in the counties within MSAs.

The difference in income between rural and non-rural continues to grow whether measured by population, business service index, or MSA. The rate of growth is accelerating in recent years. Average per capita income in 1998 was almost $10,000 higher in Virginia's urban counties than in the rural counties (Figure 5).

Figure 5. Difference in per capita income, urban versus rural areas of the state, 1969-98



Source: US Dept. of Commerce. *Regional Economic Information System 1969-98*. Bureau of Economic Analysis. RCN-0250

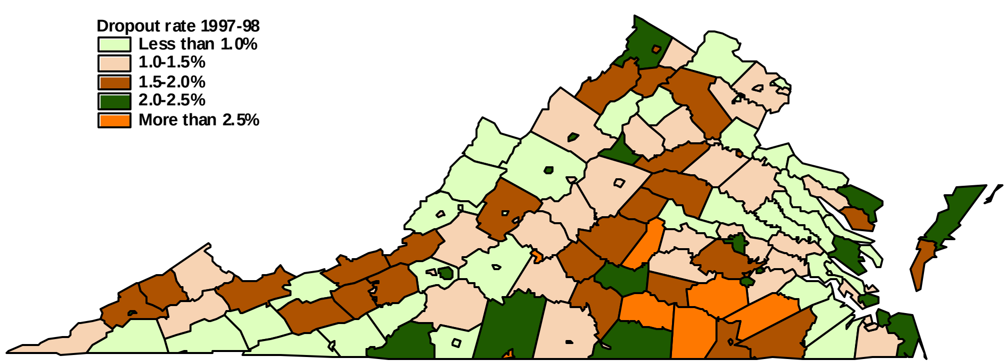
CONSEQUENCES OF BEING RURAL

Even acknowledging the issues of defining what is rural, one important economic consequence of being rural is that, on average, rural people are likely to be poorer. And in recent years, they are getting poorer still.

Whatever is driving the modern economy in Virginia does not appear to favor rural areas. Another consequence is that the brighter, better educated, and more ambitious young people migrate out of rural areas. Thus, they deprive the places they leave of the investments that have been made in their education as well as their potential leadership and entrepreneurship.

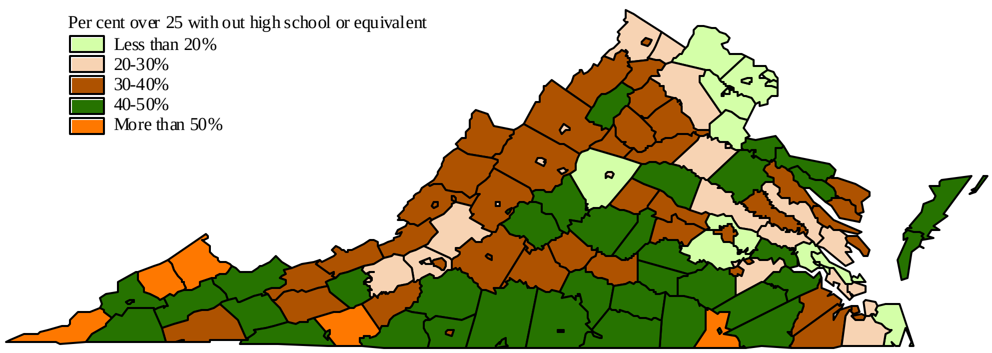
Figure 6 shows that the high school dropout rate in the rural counties of Virginia does not differ much from that of the urban centers. Yet based on the 1990 Census, many rural counties had upwards of 40 percent of the population 25 years old or older who had not finished high school (Figure 7). And in five counties, over 50 percent of the population had not finished high school. That picture is likely to be only marginally better in the 2000 census because the younger and better educated continue to leave rural communities.

Figure 6. Dropout rate, 1997-98 school year



Source: Va. Dept. of Education. "1997-98 Superintendent's Annual Report for Virginia." Richmond, Va., 1999.

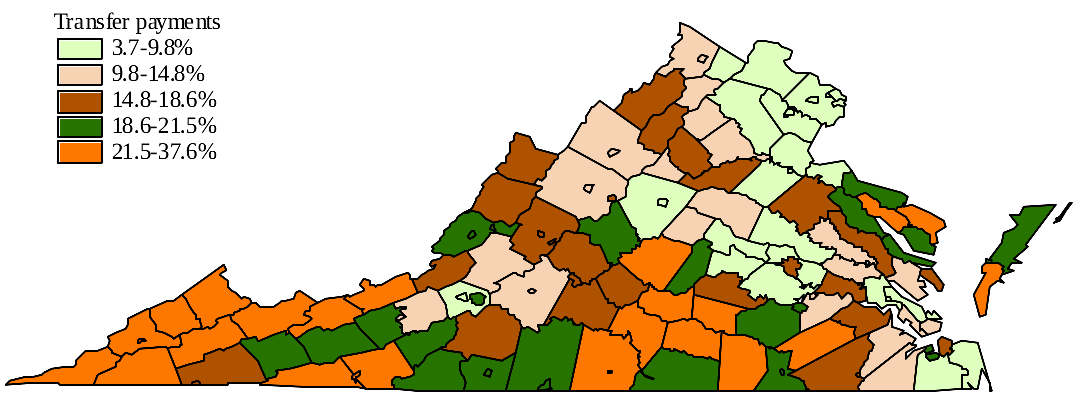
Figure 7. Percent of population over 25 without high school diploma or equivalent, 1990



Source: US Dept. of Commerce, Bureau of the Census. *Selected Social Characteristics*: *1990*. Washington, DC, 1991.

This differential migration leaves behind an older and less well educated population who are increasingly dependent upon transfer payments for a major part of their income. Transfer payments include some private pensions, but are primarily made up of Social Security and various types of public assistance. Figure 8 shows the percentage of all personal income in 1998 that was obtained from transfer payments. The higher percentages are in rural areas.

Figure 8. Percent of income from transfer payments, 1998

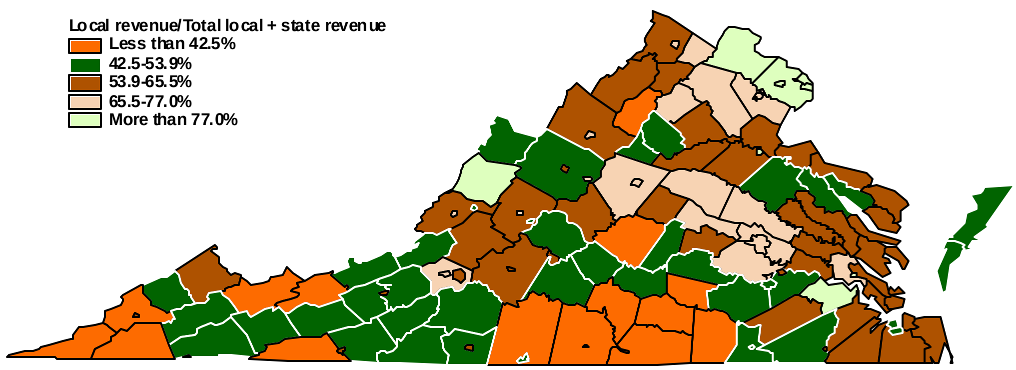


Source: US Dept. of Commerce. "Regional Economic Information System, 1969-98." Bureau of Economic Analysis, RCN-0250.

The bottom line is that rural areas with troubled economies become increasingly dependent upon transfers of various sorts from the growing urban centers. Not only are they dependent upon transfer payments as direct income to individuals, but also upon intergovernmental transfers to support schools and local governments.

Figure 9 shows local contributions to the total local plus state budgets for local services. The smaller percentages of local funds are in the rural counties, suggesting state funds are being transferred from economically strong urban areas to rural areas. If rural areas cannot catch up, subsidies from urban to rural Virginia will continue and are likely to grow in the future.

Figure 9. Local revenue as percent of total local plus state revenue, 1998



Source: Auditor of Public Accounts. "Exhibit A. General Government," *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 1998.* Richmond, Va.: Commonwealth of Virginia, April 1999.

CHOICES

We have three choices if rural communities are to improve important measures like per capita income.

- See more rural Virginians move to urban places;
- Subsidize rural communities with income earned in urban areas, and
- Find ways to "grow" the economies of rural places in Virginia;

Allowing continued population losses in rural Virginia might increase per capita incomes in declining areas, but it will only add to congestion and growth problems in urban Virginia. It will also devastate existing local businesses that remain in our rural communities. Mass out-migration is not a very appealing option nor is it one we are likely to consider in any serious way.

Increasing subsidization of rural communities is also not a very appealing option. First, it would make more and more rural Virginians dependent on handouts from their urban neighbors. And second, subsidization begets subsidization. Third, it tends to encourage housing development and population growth in some areas of rural Virginia. Since research shows housing growth alone does not pay for required governmental services, the amount of subsidy would tend to grow at an increasing rate through time.

The task of this Commission is the final alternative: to find a way to stimulate economic growth in rural Virginia communities.

BASICS OF REGIONAL ECONOMIC GROWTH

As individuals, we must sell something to the rest of the world in order to prosper. So too, must a community have something to sell to the rest of the world if it is to prosper. That part of the economy that produces goods and services primarily for sale to the rest of the world is called the economic base.

We must remember: **No place can grow and thrive unless it has something of value to sell to the outside world**. Every place must have an economic base or else it becomes a subsistent economy.

Generally, regions sell what they have in greatest relative abundance and what is in demand in the rest of the world. The traditional economic base of rural places was agricultural commodities, forest or fishery products, or the output of mines.

Having an economic base in goods or services for which demand is not growing very fast, however, will assure that a region declines relative to other regions with goods and services for which demand is growing rapidly. The problem of resource–based economies is that the demand for homogeneous commodities is not growing rapidly.

Hence, prosperity in rural Virginia requires that rural places find new economic bases, ideally centered on goods or services for which demand is growing fast. These new bases can sometimes be different and build on the output from resource-based sectors. However, they are more likely to be new activities not now being pursued in a particular rural community.

In the years after World War II, several places in rural Virginia created new economic bases in manufacturing. Manufacturing grew using relatively low-cost surplus labor being released from farming. Indeed, so successful was that strategy that manufacturing became the largest source of income in many rural counties of Virginia (Figure 1). Such a strategy was successful when it focused on relatively mature industries in which production processes were well established and relatively unskilled workers could be trained easily to perform routine tasks. Rural Virginia has a lot of those workers.

The conditions no longer exist that made a branch manufacturing plant strategy viable for much of rural Virginia. Those conditions have been destroyed by foreign competition. It was not just policies like NAFTA (North American Free Trade Association), the WTO (World Trade Organization), and GATT (General Agreement on

Tariffs and Trade) that brought that foreign competition. Improvements in the efficiency of handling goods in ports, improved communications that allow U.S. management to exercise control over far flung operations, and expanded basic infrastructure in developing countries have now made it possible to find still cheaper labor of the sort required by mature industries. Most of that new and cheaper labor supply is beyond the borders of the U.S.

The domestic textile industry, especially, has found that it cannot compete effectively with establishments overseas on the cost of production of standardized products. Hence, not only does it appear that resource-based industries are no longer viable options for the economic base of much of rural Virginia, but neither does it appear that the sort of large-scale manufacturing that competes head-on with foreign production is a viable option.

Manufacturing may still have a place as part of the economic base of some parts of rural Virginia. But it is highly unlikely it will take the form of big plants producing large volumes of standardized products for mass consumption. More likely, niche manufacturers will provide the manufacturing base. These operations will produce a special order, custom product which utilize lean workforces of skilled craftspersons or technicians capable of adapting rapidly to changing signals from the markets. Unfortunately, few rural places in Virginia have these kinds of workers.

We must, therefore, ponder the big question as we proceed: **What does rural Virginia have to sell to the rest of the world for which demand is growing and which can be sold at a profit?**

IS THE PROBLEM SELF-CORRECTING?

Finally, we turn to the question: Is the problem of lagging incomes in rural areas self-correcting?

Many of us believe in market mechanisms and think most economic problems are self-correcting. Yet, we have powerful reasons to believe that the economic problems of rural Virginia will not fix themselves.

The first reason, and the one easiest to understand, has to do with human capital—education, skills, and ambition embodied in individual human beings. People can move. The better educated and the more adaptable they are, the better able they are to move. The more ambitious they are, the more likely they will move to places where opportunities are greatest.

We have already seen that school dropout rates between rural and urban places in Virginia are not much different. But huge differences exist in the levels of educational attainment of adults across Virginia. Those numbers show that the rural areas already suffer from a "brain drain." Without the human capital that is being drained away by out-migration of the better educated, more adaptable, and more ambitious young people, rural Virginia will lack a vital component of any economic renewal—people who have the abilities and commitment to bring about change. These people become the entrepreneurs—the important ingredient in any and all economic activity. They are the people who are increasingly hard to find in many of Virginia's rural communities.

The other reasons are more complicated. But we have begun to understand that economic development is a bit like a chain reaction in nuclear physics. Once achieved, it tends to be self-sustaining. Achieving a self-sustaining reaction, however, requires first assembling a critical mass. That necessary critical mass is made up of many things: infrastructure, access to technology (especially information technology), financial capital, human capital (especially entrepreneurs), a skilled workforce, and the like.

In economic development, the critical mass also relates to things like sufficient air travel to support an airport with frequent, direct flights to other major centers; a large, diverse pool of local skills and talents to allow firms to out-source specialized tasks; easy opportunities to interact informally and feed off the ideas of others engaged in similar activities; and all the other things that are possible in large urban centers but are not possible or are harder to accomplish in sparsely populated rural areas.

Once that critical mass is achieved, places tend to grow to the point of congestion—and sometimes beyond. Those places that fail to achieve that critical mass either sink into poverty or shed population to reduce the ratio of people to resources.

At some relatively low level of population, even the most remote places can provide a reasonably high per capita income for their inhabitants. After all, Alaska is one of our least populated states, but it has one of the highest per capita incomes in the U.S. **The only foreseeable self-correction that market forces will bring to the economic problems of rural Virginia is out-migration of people and the accompanying population loss.**

The cost of accepting self-correction is high—for those who cannot easily pull up stakes and move; for the urban centers which must receive an influx of migrants ill-prepared to make a living in an urban setting; for those who have invested capital in the rural places that will be left behind; and for the urban areas that will have to subsidize the rural communities. We have to find a better way. By working hard and working together, we can and we will.

SUMMARY

- What it means to be rural today is not as clear as it used to be. We can identify many ways to be rural, and we can describe many different types of rural places in Virginia. No "one size fits all" solution to rural prosperity is likely to work.

- Being rural carries economic disadvantages. It always has! But the disadvantages are perhaps greater in this new economy than they have ever been.

- The traditional resource-based industries can no longer support a sizeable population in rural Virginia. Prosperous farming, timber, fisheries, or mining industries may be very desirable things in their own right, but they can never be prosperous enough to support very many rural residents at a level of economic well-being that will be acceptable.

- Neither can traditional manufacturing of standardized products be counted on to provide an economic base for rural Virginia. It cannot withstand competition from manufacturers located in low-wage, offshore economies. Thus, an economic development strategy that focuses on subsidizing relocation of manufacturing plants will not be sufficient in rural areas of the state.

- The problem is not going to self-correct. The longer income opportunities lag in rural Virginia, the greater will be the out-migration of the better-educated, more ambitious young people that any area must have to prosper.

- Prosperity in rural Virginia requires that rural places have something to sell to the global market economy. Unless they have something to sell for which demand is growing, incomes in rural places will lag.

- If a new economic base cannot be discovered and employed, either more young people will leave the rural areas and move to the urban areas, or increasingly greater subsidies will have to be provided to rural residents from the wealth of our urban areas.

Our strategic problem is that the old economic base of rural Virginia is no longer sufficient to support the population of rural Virginia at a level of income reasonably comparable to that of urban Virginia. New economic bases must be found. If new solutions are not found, the rural areas of the Commonwealth will either continue to see population declines or urban residents will increasingly be stuck with supporting their rural neighbors. The needed subsidies, in the form of various types of transfer payments, will grow over time.

As members of this Commission, we must begin to think about what strategies and policies might help the communities of rural Virginia discover new economic bases. Think about what new things rural Virginians can sell locally, regionally, or worldwide that will allow their populations to prosper. Think about what policies or programmatic changes might be needed. Think about whether some new or different type of institutional presence needs to be established in the state to oversee policies and programs that will help rural communities help themselves. The challenge is a big one. We must find workable solutions to meet the challenge.