Rural Economic Development:

New Opportunities and Challenges for Commercial Bankers

by Marvin Duncan, William Fischer and Richard Taylor

This article is the first in a series focused on rural economic development issues and opportunities affecting commercial bankers and the communities they serve. It and subsequent articles in this series are taken from a report of the same name prepared for the Rural Economic Development Task Force of The American Bankers Association in the summer of 1995. The second article in this series will appear in the next issue of the ***Journal of Agricultural Lending.***

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This article illustrates demographic and economic trends affecting rural America. For the most part rural America has not fully shared in recent national economic progress.

In subsequent articles we demonstrate commercial banking's stake in the economic health of rural America and emphasize the importance of community bankers to rural economic development. We also discuss the tools and programs available to bankers and their communities to support economic development. Finally, we identify new tools for commercial bankers. These will help bankers become even more effective in supporting job formation and income generation in their communities.

This series of articles is intended to provide both a stimulus for renewed efforts in economic development for rural America and a foundation upon which improved private/public partnerships can be built to support such development.

Introduction

Nearly a decade ago, Murray Lull, a member of the Rural Economic Development Task Force, testified before the Joint Economic Committee of the U.S. Congress on behalf of the American Bankers Association. Speaking on rural development, he identified challenges that are even greater and more immediate today (1):

"We are concerned about the current situation (in rural America) … Policies which encourage public and private investment in rural America are a vital ingredient in rebuilding the economic base of farm communities …

"As the basic comprehensive financial intermediaries in rural areas, banks must play a central role – by providing credit to assist new businesses, to encourage diversification in agricultural production, and to fund improvements in education and community infrastructure …

"Local banks have a major stake in the economic health of their customers, and they are uniquely qualified to meet the credit needs of their communities."

Demographic and Economic Trends

Urbanization has been a long-term trend in the United States. Although rural population growth increased for a short period in the late 1960s and 1970s, more recent trends have returned to the long-term pattern of rural population loss (2). That tempo of change has increased in recent years as small towns and rural counties experienced slowing of growth and, increasingly common, natural declines in population (3).

Though U.S. population is concentrated in county units of 50,000 population or greater, the great majority of U.S. counties have population below that level (Figure 1). All states had at least two counties of at least 50,000 population. Alaska, Wyoming and South Dakota each had two. New Jersey had no counties of less than 50,000 population. Moreover, more populous counties were found predominantly in the areas of Wisconsin east to the Atlantic; the Washington, D.C., to Boston corridor; the retirement centers of the Carolinas and Florida; and the far west and southwest. The United States is far advanced in the process of becoming a nation of cities and suburbs.

The demographic characteristics of the U.S. population have been changing as well. Between 1960 and 1990, the distribution of U.S. population has shifted toward a more elderly society. The proportion of Americans beyond their working years also has grown substantially. Americans aged 65 and older made up 9.2% of the U.S. population in 1960; by 1990, that proportion had increased to 12.6%. Both rural and urban areas experienced those trends.

The most striking change differentiating urban from rural areas is the decreased proportion of young adults in rural areas compared to urban areas. Young people, having been educated for the work force, are moving to urban areas for career opportunities. The National Governor's Association in its report *New Alliances for Rural America: Report of the Task Force on Rural Development* notes, "Between 1979 and 1986, rural areas gained new jobs at only 43% of the rate for metropolitan counties" (4). Many young people would have preferred to find career opportunities closer to home and to their families (5).

Population Growth

Population growth rates from 1983 to 1992 were lowest in counties of less than 10,000 people. Moreover, the natural growth rate (the number of births compared to deaths and excluding migration) was negative in 36% of those smaller counties. Sixty-eight percent of all counties with population below 10,000 had declining overall population. Among those counties with population of 10,000 to 24,999, 49.1% exhibited declining overall population. Only in county groupings with population above 25,000 did average growth rates exceed 2%. Population growth rates for counties with population of 50,000 or more people averaged 10.3%. Only 22% of those counties had declining population. Population decreases in counties with 50,000 people or more, when occurring, were associated with outmigration from older U.S. cities.

Another measure commonly used to evaluate population trends is to compare growth rates in nonmetropolitan counties (in which the population is less than 50,000 and the county is not an integral part of a metropolitan center) with growth rates in metropolitan counties. By this measure of comparison, nonmetropolitan counties in the United States had lower population growth rates from 1983 to 1992 than did metropolitan counties, about 2.5% growth compared to nearly 11% (Figure 2).

When states were grouped into regions, only the New England and Middle Atlantic regions had higher average nonmetropolitan county growth than either average growth for the metropolitan counties of the states as a whole. In the West South Central and the West North Central states, nonmetropolitan population growth was negative; and in the East South Central states, it was barely positive. These three regions had the weakest average nonmetropolitan population growth in the nation.

Among individual states, North Dakota, Wyoming, West Virginia, Oklahoma, and

(more on page 10)

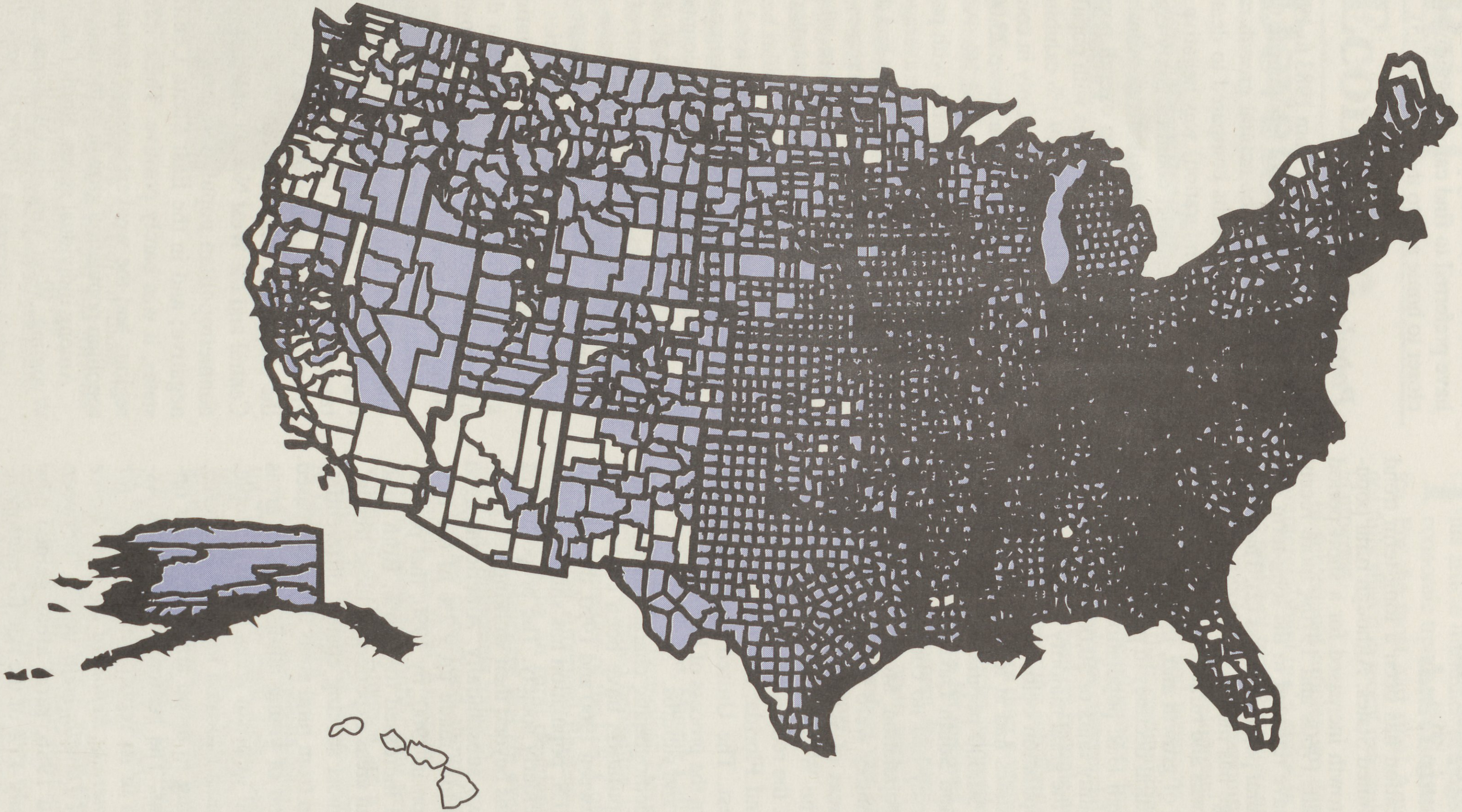

Figure 1. Counties With Less Than 50,000 Persons, 1990

Source: U.S. Department of Commerce, Bureau of the Census

Less than 50,000 persons, 1990

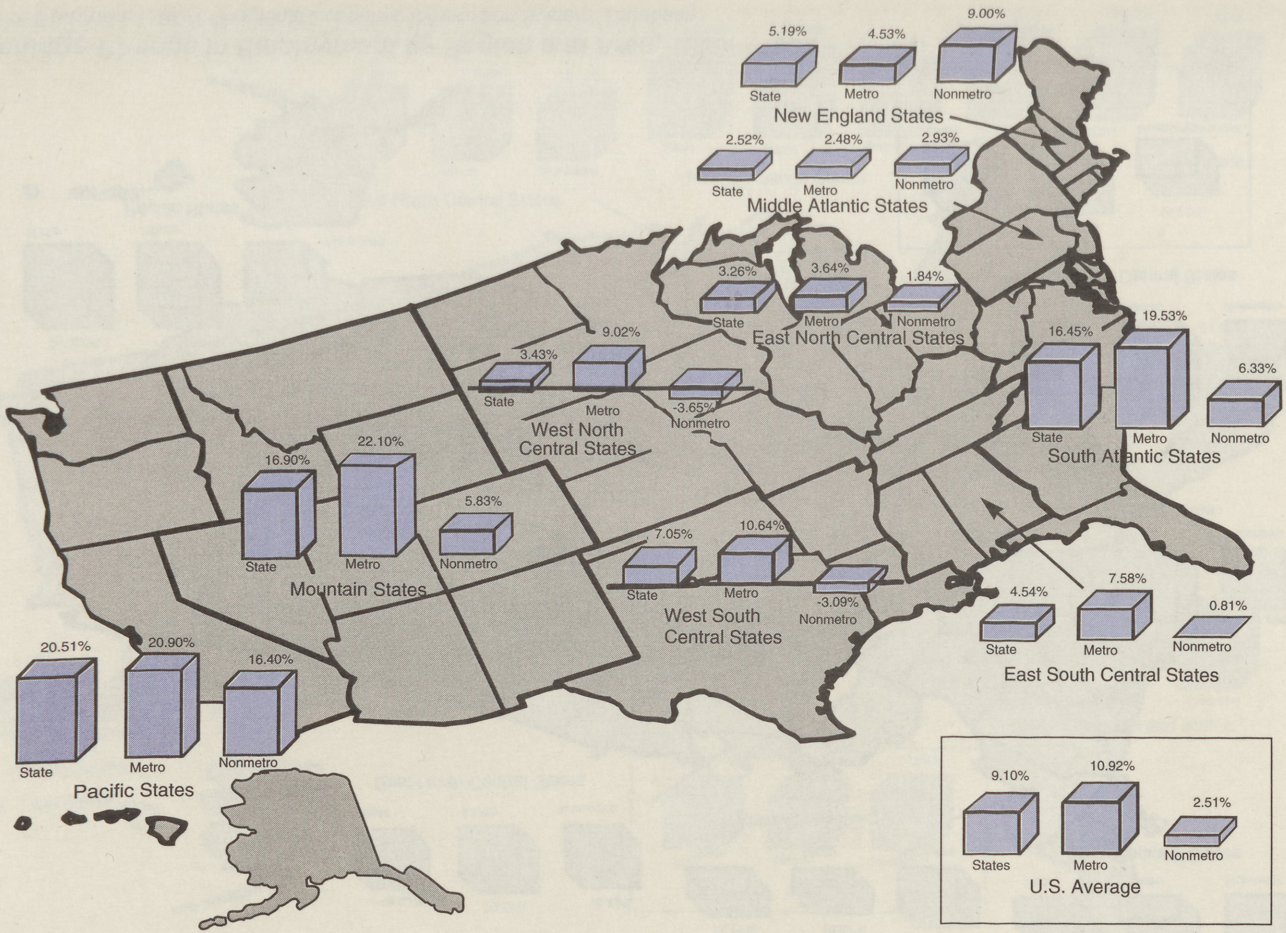

Figure 2. Percentage Change in Population by Region and Area, 1983 – 1992

Source: U.S. Dept. of Commerce, BEA. "Regional Economic Information System" Database.

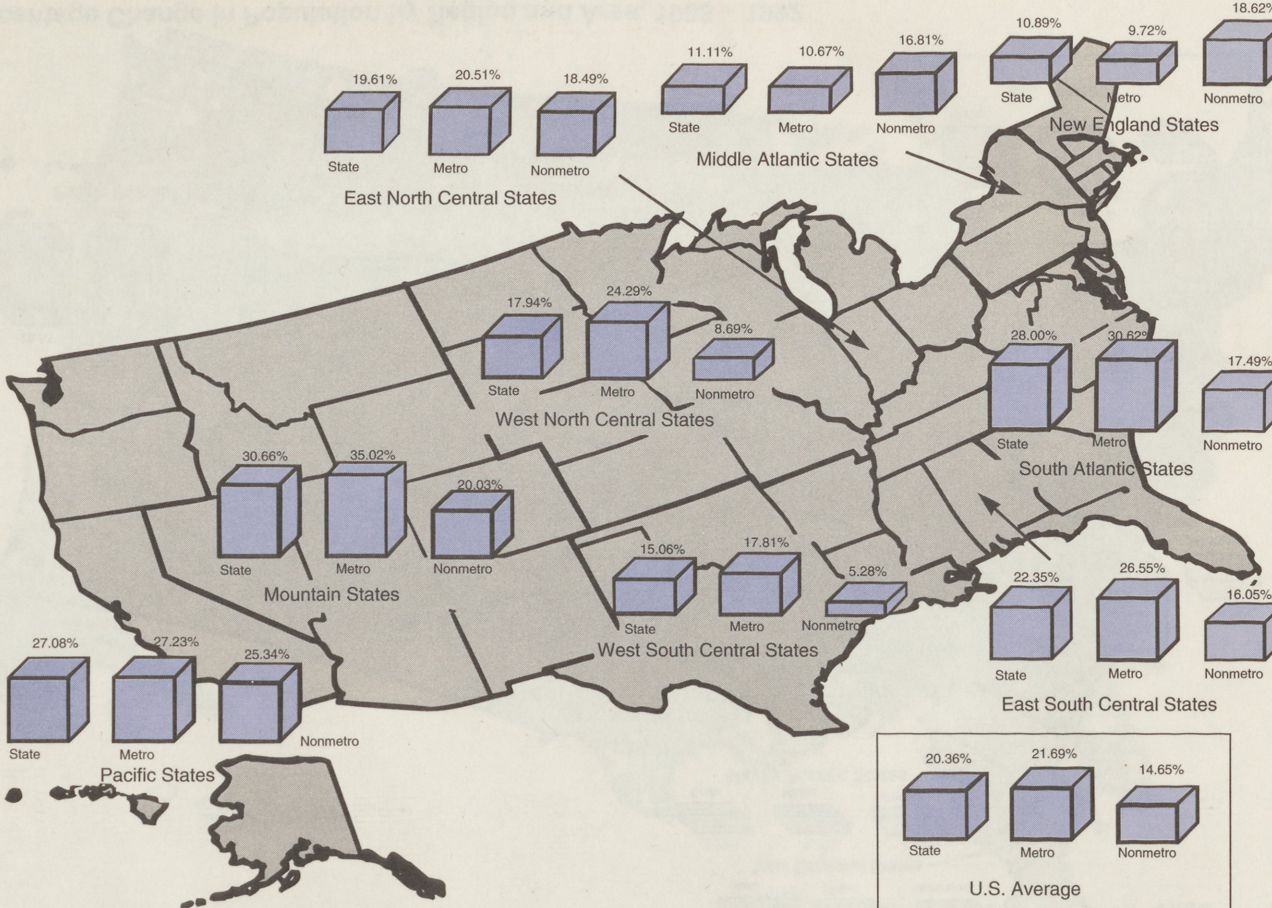

Figure 3. Percentage Change in Employment by Region and Area, 1983 – 1992

Source: U.S. Dept. of Commerce, BEA. "Regional Economic Information System" Database.

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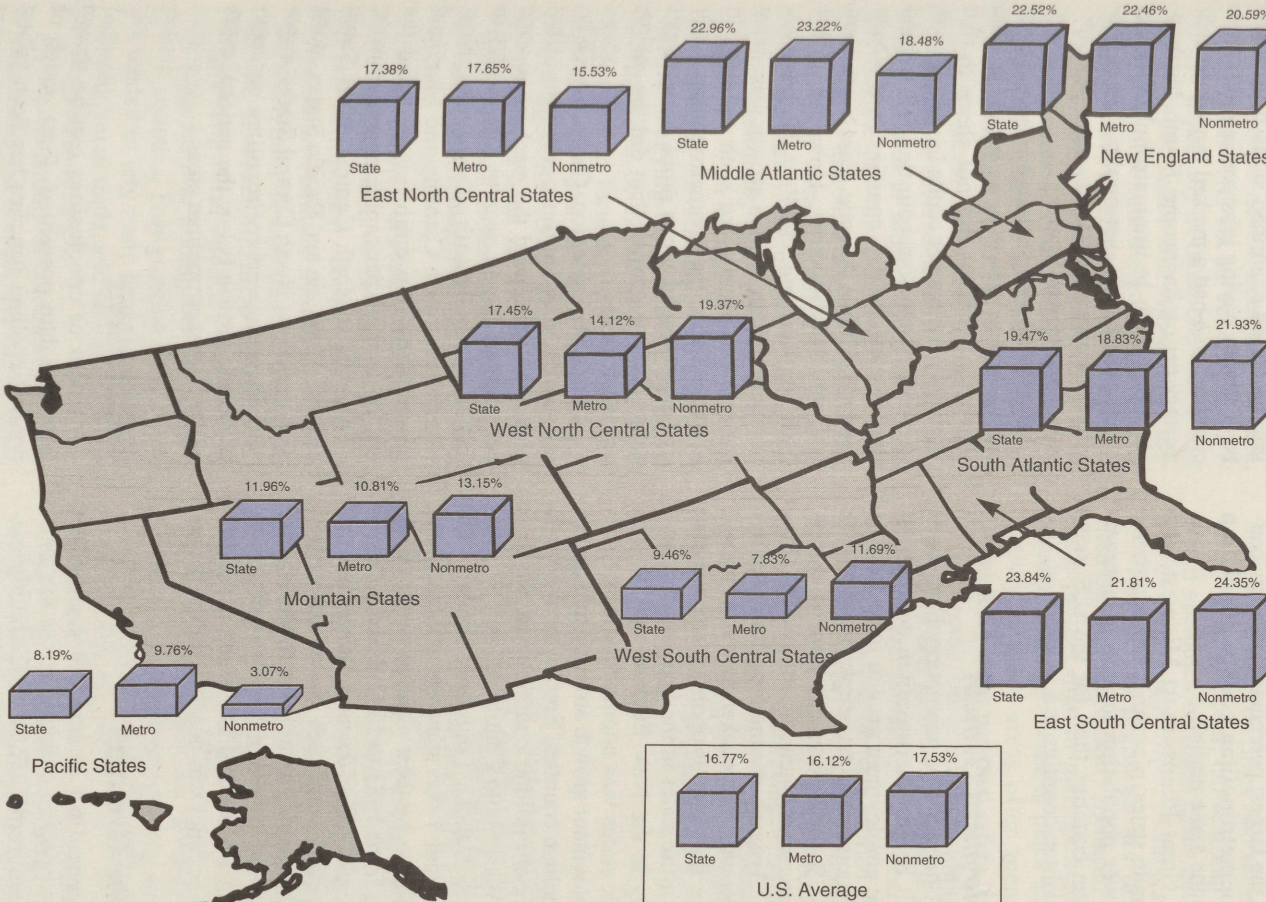

Figure 4. Percentage Change in Real Per Capita Income by Region and Area, 1983 – 1992
Source: U.S. Dept. of Commerce, BEA. "Regional Economic Information System" Database.

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Iowa experienced the largest percentage loss in average nonmetropolitan county population from 1983 to 1992. Nevada, Hawaii, Alaska, California and Florida registered the largest percentage gains in average nonmetropolitan county population during the same period.

All Great Plains, most Midwest, and Mid-South states, plus three outlying states, had lower population growth in nonmetropolitan counties than for the U.S. nonmetropolitan counties as a whole.

Employment Growth

In the United States, nonmetropolitan counties fell behind metropolitan counties in average employment growth from 1983 to 1992. Nonmetropolitan employment growth was 14.7% for the period, compared to metropolitan employment growth of 22% (Figure 3). Average nonmetropolitan employment growth was weaker than the national average for nonmetropolitan areas across many of the states in the U.S. midsection.

Only in the New England and Middle Atlantic states was nonmetropolitan county employment growth stronger than in the metropolitan counties. Employment growth in nonmetropolitan counties was weakest in the West South Central states.

North Dakota, Louisiana, Kansas, Oklahoma and Texas nonmetropolitan counties had the weakest average employment growth from 1983 to 1992. Hawaii, Nevada, Arizona, Florida, and Delaware nonmetropolitan counties had the strongest average employment growth during the same period. Average employment growth in North Dakota and Louisiana nonmetropolitan counties was negative for the period.

Income Growth

Average real per capita income growth in nonmetropolitan counties across the United States from 1983 to 1992 slightly outpaced that of metropolitan counties (Figure 4). This apparently paradoxical relationship is likely due to four factors. First, high paying jobs have been declining or growing more slowly than lower paying jobs in metropolitan counties. Second, jobs moving into nonmetropolitan counties often pay more than those previously in such counties. Third, since average income growth in nonmetropolitan counties during the period examined starts from a low base, higher paying jobs coming into these counties have had a marked impact on their average per capita income. Fourth, low population growth in nonmetropolitan areas relative to that of metropolitan areas distorts the comparisons of average per capita income growth figures.

Despite seeming strength in average per capita income growth at a national level, a number of regions did not share in that strength. Average per capita income growth in nonmetropolitan counties fell behind that of metropolitan counties in the New England, Middle Atlantic, East North Central, and Pacific states. However, in the New England and Middle Atlantic states, nonmetropolitan income growth was above the national average for such counties. In all other states, the nonmetropolitan counties experienced more rapid average per capita income growth than did the metropolitan counties.

Alaska, New Mexico, California, Oklahoma and Washington nonmetropolitan counties experienced the weakest average per capita income growth from 1983 to 1992. South Dakota, Tennessee, New Hampshire, North Carolina and Maryland nonmetropolitan counties recorded the highest average per capita income growth.

Most East North Central, West South Central, Mountain and Pacific States, along with two West North Central States, experienced average nonmetropolitan per capita income growth below the national average for nonmetropolitan areas.

Implications

A number of conclusions can be drawn from the data presented. First, much of nonmetropolitan America has been falling behind in population and employment growth from 1983 to 1992. This continues a longer term trend. Substantial variability in performance is found across individual states. Especially in the nation's heartland, the disparity has been striking. Both the duration of the trends identified and the magnitude of those changes imply the trends may not change without a concerted private/public partnership focusing on rural economic development. Even then, those trends will not be reversed everywhere. Especially in those counties below 10,000 in population and with negative natural rates of population growth, reversing the trends will be extraordinarily difficult.

The nation has been building its population and economic base around larger cities and their suburbs for an extended period. Without substantial public policy support of private sector initiatives, that trend may be difficult to reverse. Broader-based economic growth is important to bring job and income growth opportunities to people residing in nonmetropolitan areas. The nation would benefit from more effective use of the human capital and fixed investment in nonmetropolitan communities.

Second, in an economy more focused on producing services and with manufacturing embodying more technology in the final products, economic growth can more easily occur in locations outside of larger cities and their suburbs. While the past benefits of agglomeration in the United States appear to have been substantial, improved communications technology seems likely to reduce the advantages of urban over rural locations.

A recent study of rural counties in the Tenth Federal Reserve District concludes that nonmetropolitan counties adjacent to metropolitan counties tended to outperform those more distant from metropolitan counties. However, important examples of fast-growing rural counties were found both adjacent *and* nonadjacent to metropolitan counties. Fast-growing rural counties tended to rely more heavily on manufacturing, retail trade, and services than on farming and mining (5).

Hence, no county or community should be abandoned just because it is small. Economic growth tends to occur when an entrepreneur is able to match a good idea with adequate financing and strong market demand. Though it may be more difficult to foster self-sustaining economic development in the smaller counties or communities, it can and does occur.

Third, as quality of life-style issues become more important for many Americans, locations in small cities and towns become more attractive for firms and their workers. The educational, cultural and recreational attributes of small cities and larger towns often equal those of larger cities. Environmental problems are less pronounced and more easily managed in nonmetropolitan than in metropolitan areas. Finally, a stronger sense of place and community in these areas often means less crime and greater personal safety.

As a result, opportunities to improve job formation and income generation in rural America are available. Moreover, those opportunities may be broader than was true a generation ago. To capitalize upon those, however, will require a well-conceived private/public partnership. Commercial banks are ready with their several thousand strong community-based network to help businesses and communities build on those opportunities. ▲

References

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