

The Urban/Rural Dilemma or Why Should Urban Virginia Care about Rural Prosperity? Jim Hite

The residents of Virginia's prosperous urban crescent should care about economic conditions in rural Virginia because

- ✍ A lagging rural Virginia is costing them money.
- ✍ The so-called urban "underclass" is largely the result of failed rural development policies.
- ✍ The optimal size of a city for investors is larger than the optimal size for residents.
- ✍ A prosperous rural area offers an attractive market for the goods and services of urban businesses.

Government Transfers of Wealth from Urban to Rural Virginia

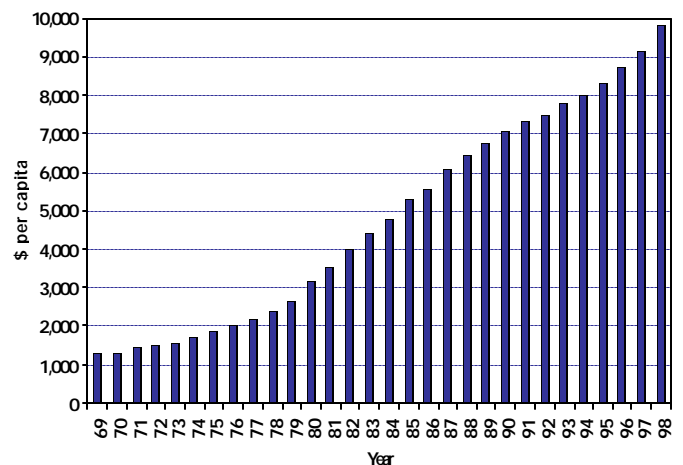
Measuring precisely the transfer of wealth between urban and rural Virginia is not possible, given existing data. Yet sufficient data exist to indicate that the transfers are very large. Using data made available from the Appropriations Committee of the House of Delegates, the Rural Virginia Prosperity Commission has been able to quantify intergovernmental transfers that are occurring. The 1998 data show that 46 rural and 14 urban jurisdictions got a total of \$359 million more from the Commonwealth treasury than they contributed. In effect, taxpayers in these jurisdictions are making zero contribution to the costs of operating the Commonwealth. The amount the rural areas received in excess of what they contributed was about \$189 million.

With 59 jurisdictions getting back more than they send, the remaining 77 jurisdictions get less from the Commonwealth than they contributed in personal and corporate income taxes and sales and use taxes. Those 77 include both rural and urban, cities and counties with a population in 2000 of 4.3 million: 60 percent of the state population. Some jurisdictions in Northern Virginia contribute more than \$1,000 per capita over and above what was collected, and in one jurisdiction, almost \$2,000 per capita. These per capita amounts include

corporate income and other taxes, not just personal income taxes plus sales and use taxes.

The gap in per capita income between rural and urban jurisdictions continues to grow. In 1969 it was about \$1,300, based on rural being defined by population per square mile (less than 120 people per square mile). It had grown to nearly \$10,000 by 1998 (Figure 1).

Figure 1. Difference in rural and urban per capita income, 1969-1998.



As long as rural Virginia has an economic lag, suburban and urban residents may find these transfer payments of interest. Without them, almost certainly a greater number of poorly educated rural residents would flow to the cities. But if economic opportunities can be expanded in rural Virginia,

Jim Hite is Adjunct Professor, Department of Agricultural and Applied Economics, Virginia Tech and Staff Director, Rural Virginia Prosperity Commission.

such transfers would gradually disappear, leaving more tax money available to spend on meeting pressing needs in urban Virginia such as more schools and better transportation systems.

Rural to Urban Migration and the Urban Underclass

Traditionally, rural families have had higher birth rates than urban families. In fact historically, most cities have not had high enough birth rates to maintain a stable population. Migration from rural areas to urban centers goes back to the very beginning of cities. Rural migrants have replenished the cities with new talent and new energy.

However, most of our major urban problems have rural roots. Early on, Niles Hansen (1980) documented those roots. Rural poverty and urban poverty are inextricably linked. If the problems of rural poverty are not solved, rural people seeking a better life will see the bright lights of the city and end up on its doorstep.

If rural areas offer little or no economic opportunity, rural people will move to the cities in search of such opportunities. With improvements in transportation and communications, many rural-to-urban migrants come from long distances. They tend to be those who are most sophisticated and best able to adjust to urban life and often make significant contributions to the urban economy. Other rural migrants, who are unable to bear the costs of long-distance migration, often lack the education and skills to find employment in the cities. And when they do not, they fill city slums and add to welfare rolls.

Studies of the process show that many of our toughest urban problems are the result of rural-to-urban migration of people lacking the skills to compete successfully in an urban environment. Nicholas Lemann's 1992 book, *The Promised Land*, documents the enormous migration of African-Americans from the rural South to the big northern cities in the post World War II years. These cities were unable to incorporate and absorb that migration. When migrants lack the labor market skills to thrive in urban areas, neither they nor the cities that receive them benefit. So urban people have a need to be especially concerned about economic opportunities in the general vicinity of their city for that is the source of a disproportionately large number of new city residents who lack the skills to be productive participants in the city's economy.

Optimal City Size and the Market

Rural economies capable of keeping population away from city centers are beneficial to city residents.

Research that describes the optimal size of cities makes it clear that a city can become too big in terms of population, given existing technology and institutional capabilities, to be functional. The optimal size of a city depends upon its specialization. Different types of cities have different optimal sizes. Yet the optimal size city for residents is smaller than the optimal size for investors, who may not have to live in the city and incur the costs of congestion and commuting. Although some city residents are investors, many of those who bear the costs of city growth are not the same ones who reap the benefits. Consequently, left to market forces alone, urban centers will inevitably become overly congested and livability will suffer. It is in the interest of urban residents to reduce in-migration from rural areas by making economic opportunities more attractive in rural places.

The state needs to intervene through public policy. Direct restriction on rural-to-urban migration is not compatible with a free society. Policies, however, that foster rural prosperity can mitigate the tendency of market forces to cause cities to grow beyond their optimal sizes.

Rural Markets

The prosperity of a city has always depended upon the wealth of its rural neighbors. Few cities, however, are dependent solely upon the market demand of their rural neighbors. Most major cities also cater to distant customers. But the wealth of the rural areas does determine the demand for wholesale goods and local and regional services which allow a city to function and prosper. The more disposable income in that trading area, the better the business in the city. If a city's trading area is poor, the economy of the city will shrink and dry up.

Arguably, a city is less dependent upon its immediate trading area today than was historically the case. In a time of lower transportation costs, cities are able to draw a food supply from all over the world. In a time of the Wal-Mart retail model, wholesalers in a central city are not necessarily tied to the retail sectors of outlying communities. Nevertheless, the well-being of the trading area still has a significant influence on the economy of a city. Cities draw from their trading areas to supply travelers who use their airports. The trading area dictates advertising revenues for newspapers and radio and television stations. The trading area also influences the business activities of many smaller, specialized merchants and service providers. Prosperity in surrounding rural areas cannot help but give a boost to the prosperity of a city.

Rural Virginia's Stake in Prosperous Virginia Cities

Just as urban Virginians need to have a strong interest in economic prosperity of rural Virginia, rural Virginians need to have an equally strong interest in strong and prosperous Virginia cities.

- ✍ Strong regional cities provide essential services that require a critical mass that sparsely populated rural areas cannot achieve.
- ✍ Strong and prosperous regional cities open up new niches for specialized and premium rural products.
- ✍ Growing cities provide employment opportunities for surplus rural population.

Cities and Critical Mass

Competitive success in a market economy requires that costs be kept low. Economies of scale is one of the most important ways costs are kept low. Economies of scale are reductions in average costs that occur as a result of three factors: 1) increases in the size of firms, 2) increases in the number of firms procuring similar goods in proximity to each other, and 3) increases in the number of similar economic activities concentrated in a given place. The latter two factors require a concentration of production in a given geographic location: a critical mass.

The primary economic reason that cities grow is to provide that critical mass and reduce the per user overhead costs of facilities such as rail yards, truck terminals, airports, and water and sewer treatment facilities. They provide opportunities for face-to-face communications between people engaged in the business activities. They provide markets that support the practice of specialized professions: copyright lawyers, accountants with expertise in highly specialized areas, medical specialists, advertising and marketing consultants. Of special importance, cities are centers of finance.

The more remote a place is from urban centers of critical mass, the greater the economic disadvantages it faces. Having nearby access to such centers greatly increases the probability that a rural business person can be successful. Hence, prosperous cities within a couple of hours travel from a rural place is of enormous economic importance to that rural community.

Cities and Niche Markets

Potential niche markets are almost everywhere. But if those niches are very small, as they often are in rural areas, they may not be large enough to support sufficient business activity to sustain a family enterprise. Proximity to urban centers

greatly expands not only the number of niches but also the size of the niches into which a specialized business might operate profitably.

Among the important niches for farmers are those for high-quality, fresh produce. Large urban centers with affluent consumers make it possible for specialized, small-scale agriculture to thrive by offering a premium, fresh product and by catering to the specialized tastes of a relatively small number of urban consumers.

The niches need not be confined to those that can be exploited by farmers. Often sufficient demand in a large urban center supports specialized crafts people producing one-of-a-kind items such as furniture on a customized basis. Every growing city opens up new niche opportunities for innovative entrepreneurs who have the wit and energy to identify the opportunities and to exploit them.

Cities and Labor Markets

Historically, rural areas have had high birth rates and a surplus population that is exported to cities. Rural birth rates have generally fallen, but cities still provide places where surplus rural population can be productively employed to the mutual benefit of both the city and the rural areas. Many rural workers lack the job skills needed in urban areas, hampering the ability of urban centers to absorb surplus rural workers. Yet if the job skills are present, proximity to metropolitan areas significantly increases the rate of transition from unemployment to employment of rural workers, especially if the urban center is within the commuting zone of the unemployed rural worker (Mills, 2001).

How Can Urban Virginia Help Rural Virginia Prosper?

The problems of rural areas will not be solved if left to the marketplace to provide the solutions.

Change in rural areas must be initiated by the local residents. It cannot be mandated by the state or federal government. It can, however, be facilitated by state policies and programs. Urban residents, by supporting those policies and programs, improve both their cities and the rural communities. Without appropriate policies and programs, the gap between the rural and urban areas will widen. And the urban areas will send an increasing amount of their dollars to rural areas while rural areas send an increasing number of their population to the already congested areas. With appropriate policies and programs, both poor inner cities and poor rural communities can be improved.

Public policies are needed that will help rural areas offset some of the huge advantages in economies of scale that make urban areas attractive in the post industrial economy. Some states have used tiered tax incentives to tilt the playing field back toward rural areas. Others have been looking for ways to get modern telecommunications infrastructure into rural areas. Programs to encourage lenders to make capital available to small-scale businesses have also been successful in some states. Yet no one of these programs, by itself, is likely to be successful. With all of them together, rural areas may have a reasonable chance to prosper in the new century.

References:

- Hansen, Nile. 1980. *Rural Poverty and the Urban Crisis*. Bloomington, Indiana: University Press.
- Lemann, Nicholas. 1991. *The Promised Land*. New York: Vintage Books.
- Mills, Bradford F. 2001. "Unemployment Duration in Non-Metropolitan Labor Markets," *Growth and Change*. 32:2, pp. 174-192.

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****How to reach us:** REAP, Department of Agricultural and Applied Economics 0401, Virginia Tech, Blacksburg, VA 24061; by phone: (540) 231-9443; by email: reap01@vt.edu; or on the web at <http://www.reap.vt.edu/reap>

****Farm and Family Showcase:** September 5 and 6 at Kentland Farm. The event includes forestry, wildlife, fisheries, water quality, conservation, lawn and garden information, agricultural production, a trade show, and much, much more. For more information, see the website: <http://www.farmandfamily.vt.edu>.

****REAP Advisory Council** meeting, September 19, 2001 at the Virginia Department of Forestry, 900 Natural Resources Drive, Charlottesville, Virginia.



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