

BBA Economic Digest

Commentary by Dean Barber July 26, 2020

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What is Rural?

For many of us, rural is an abstract concept. We think of farmland and forests. It's a feeling that we get, knowing that we are out in the country. We know rural when we see it.

Not surprisingly, the U.S. government has multiple official definitions of “rural,” applying to different programs, often determining which local governments are eligible for rural-aid money. (A Washinton Post story in 2013 identified 15 different federal definitions of rural.)

The U.S. Census Bureau does not actually define “rural.” Rather, it says that whatever is not considered urban -- and it gives two definitions of that -- is considered rural.

The first is "urbanized areas," which have a population of 50,000 or more. There are 486 of those, according to the 2010 census. "Urban clusters" have a population of at least 2,500 and less than 50,000. There were 3,087 of those.

But wait, there's more. The Office of Management and Budget designates counties as metropolitan, micropolitan, or neither. A metro area contains a core urban area of 50,000 or more population, and a micro area contains an urban core of at least 10,000 (but less than 50,000) population.

All counties that are not part of a metropolitan statistical area (MSA) are considered rural. (Easiest for me to remember.)

The Federal Office of Rural Health Policy accepts all non-metro counties as rural and uses an additional method of determining rurality called the Rural-Urban Commuting Area codes. Like the MSAs, these are based on census data that is used to assign a code to each Census Tract. Tracts inside metropolitan counties with the codes 4-10 are considered rural.

Following the 2010 Census the FORHP definition included about 57 million people, about 18 percent of the population and 84 percent of the country's land mass.

As of March 2020, there are 384 metropolitan statistical areas and 543 micropolitan statistical areas in the United States. All else is considered rural.



Size and Scope of Rural America

About 60 million people, or 19.3 percent of the population, live in rural America, which makes up nearly 97 percent of the country's land mass, according to America Counts, the journalistic arm of the U.S. Census Bureau.

Conversely, about 80 percent of the population lives in urban areas (which we also defined yesterday). making up just 3 percent of the land mass.

Though some rural communities are doing quite well, many suffer for the lack of economic opportunities, especially where there exists a dearth of broadband internet, healthcare services and grocery stores, the latter creating "food deserts."

Population growth in rural counties accounts for 0.1 percent of the nation's growth since 2010. One-third of rural counties are gaining population, one-third are flat and one-third are depopulating, according to National Conference of State Legislatures.

According to the U.S. Department of Agriculture, about 35 percent of rural counties have experienced growth since the 2010 census. They are typically close to metro areas and offer recreational opportunities.

Census Bureau found that 24 percent of all counties lost population -- 9 percent in metro counties and 91 percent in rural areas. Of all rural counties, about 35 percent are depopulating, meaning they have fewer people today than they did in 1950.

Prior to the pandemic, I attended the Economic Development Association of Alabama's Rural Conference. There I listened to a small town mayor accurately speak to population loss as the main reason to preventing economic growth. Incredibly, none of the other speakers even mentioned it.

The simple truth is that population loss and firm deaths equate to a decrease in the demand for goods and services. It is the principal reason why economic growth is inhibited in many rural counties.



Challenges Facing Rural Communities

They include demographic changes, workforce development, capital access,

infrastructure, health, land use and a host of other issues. I could write extensively on each.

Compared to metro (urban) areas, rural areas have less access to broadband, fewer educational institutions, and less health care options. (Since 2005, 170 rural hospitals have closed in 36 states and hundreds more are at risk.)

While some rural communities are growing, most have experienced less economic growth than their urban counterparts. Rural economies were the hardest hit by the 2008 recession and the slowest to recover. By 2017, average rural employment was still 2 percent lower than in 2007.

In the first four years of the recovery, counties under 100,000 lost 17,500 businesses, while economies in counties over 1 million people added 99,000.

COVID-19 will only make things worse. The resulting recession has already put small businesses, a key driver of rural economies, into an economic vise grip, and almost twice as many rural areas rely primarily on the recreation industry as urban areas.



One Rural Solution: Entrepreneurial Development

Let's face it, economic development is hard. There is no magic button, no silver bullet.

This is especially true in rural America, characterized by low population density, often declining manufacturing activity, and resource constraints. Traditional approaches to economic development -- particularly business attraction -- often just doesn't work to anyone's satisfaction.

So where does that leave many rural communities? I would argue that there are likely business niches unfilled, and that supporting entrepreneurship development is a way to bring economic vitality back to Main Street.

Sadly, I've spent time in many rural communities where this is an afterthought that is not pursued.

For this to work, there would have to be a vision and a process to include small loans and financial incentives, skills training, mentorship, and resources required to create a locally-led and sustainable entrepreneurial environment.

Do that and over time if you stick with it, you will see results. I sincerely believe that rural America is far from being a lost cause, that good things can happen in places that continuously invest in themselves through entrepreneurial development.



Why Tesla Chose Austin

Tesla's choice of Austin as the site for its future \$1.1 billion gigafactory continues a longstanding trend of California companies seeing Texas as their preferred location.

"Austin has a certain synergy with California based companies. They like to be fairly close to each other. A really big advantage for Austin over Tulsa," **Dave Porter**, a former senior vice president at the Greater Austin Chamber of Commerce.

According to my friend **Joe Vranich**, head of Spectrum Location Solutions, Texas has been the No.1 destination for companies leaving California or establishing satellite operations, for more than a decade now.

Clearly, there is a psychology at work, which has a culmative effect. Year after year, Chief Executive's Magazine's annual "Best & Worst States for Business" survey ranks Texas ranks No. 1, while California ranks 50th.

And while some California execs may see Austin as an extension of themselves, others view the Lone Star state as a whole as a greener pasture.

The Dallas-Fort Worth area has had success luring corporate investment from California, witness McKesson, a Fortune 500 company, moving its San Francisco

headquarters to the region last year. Charles Schwab and Uber are coming.

Oklahoma is probably seen by California execs as somewhat of a blank slate or even a bridge too far.

And as Porter rightly suggests, you cannot disregard the talent factor. Austin bills itself as the "Human Capital." The decade ending 2018 saw a 32.7 percent increase in the Austin metro area population (estimated at 2.27 million).

Census Bureau estimates show that Austin, which has built a reputation as a tech hub away from Silicon Valley, remains one of the top destinations for migrating talent. Austin ranked third among the 50 largest U.S. metros based on net migration as a percent of total population in 2018.

In addition, 6.7 percent of Austin residents in 2018 lived elsewhere one year earlier. That is the third largest rate among the top 50 U.S. metros. It should also be noted, per Porter, that the Austin metro area ranks sixth for workforce educational attainment, with nearly 47 percent of the workforce having a four-year degree.



Incentives Weren't It

In the heated competition between states to win the occasional automotive assembly plant, incentive packages valued in the hundreds of millions are typically the norm.

North Carolina offered \$1.6 billion in incentives to win the Toyota-Mazda assembly plant, now under construction near Huntsville, Ala. Alabama's winning package totaled about \$800 million.

Now consider that the incentive package offered by Texas to win the \$1.1 billion Tesla "gigafactory" to be built on a 2,100-acre site in Austin comes in at a paltry \$68 million. Yes, you read that right.

Del Valle Independent School District offered Tesla \$46 million in property tax breaks over the next 10 years, and the Travis County Commissioners Court offered \$14 million during the same timeframe.

A representative from the governor's office told *The Texan*, a news organization, that "no state incentives were offered to Tesla."

The Tesla plant will eventually employ 5,000 workers with another 15,000 indirect jobs -- many going to Tier 1 and Tier 2 suppliers-- estimated to be created.

Said Travis County Judge Sam Biscoe: "Travis County has been able to take a tract of land that paid \$64,000 in tax revenue over 10 years and turn it into a tract that will pay \$8 million in tax revenue during the same period."

For Tesla CEO Elon Musk, incentives were clearly not the driver of the project as they represented a mere pittance and were almost an afterthought in the bigger scope of things. In some respects, I'm surprised the company asked for them at all.

"In my personal conversations with him, the tax benefits were helpful. But they were not really the incentive. The incentive was the opportunity of what he could achieve in Texas," Texas Gov. Greg Abbott told CNBC. Abbott noted that Musk's other company, SpaceX, has operations in the state.

Musk announced his choice of Austin during an earnings call on Wednesday. He said Tesla intends to build its Cybertruck, its Semi and the Model 3 and Model Y for the eastern half of North America at the future Austin plant.

“And then we think probably also the Tesla Roadster, a future program, would also make sense in California. So I think this is a nice split between Texas and California,” Musk said on the call.

What We're Reading and Watching

Jackie Robinson's Inner Struggle [New York Times](#)

These Are the 66 Best Documentaries of All Time [Vogue](#)

Austin Was Destined to Replace Silicon Valley. Then the Pandemic Hit [Marker](#)

The Idea of a 'Good Enough' Immigrant for the U.S. Doesn't Exist [Zora](#)

The Four-Letter Code to Selling Just About Anything [The Atlantic](#)

Our Ability to Process Information Is Reaching a Critical Limit [OneZero](#)

The Revolution Will Be Digitised: 25 Years Of The MP3 [Attack Magazine](#)

Elizabeth Cotton [Freight Train](#)(Above)



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