

# The case for post-covid rural investment

Karthik Nagalingam



In the early days of the pandemic cities were viewed in some ways as incubators to the virus. This is similar to many global pandemics of the past, from the Plague of Athens to the Bubonic to the more recent SARS epidemic. Those with the ability, fled to more suburban and rural areas. While much has been written regarding the decline of cities, this is very likely overdone, however there is a degree of urban flight and the pandemic could offer governments the ability to invest in rural communities in a way that many have not in quite some time.

The flight to rural areas can already be seen this year. Indeed, in the four week period ending 20 September, suburban home sales were up 13.6 per cent annually, 13 per cent in rural areas, and 8.8 per cent in urban areas. The momentum appears to be with US consumers seeking out more spacious living arrangements.

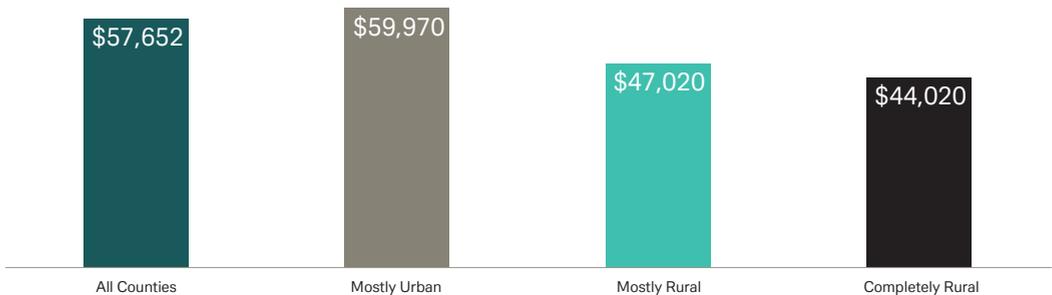
A mass exodus, though, is not likely to happen in the wake of the pandemic, but one trend that may reverse is the drop in prime-age workers in rural communities, specifically those aged 25 to 54. The trend has been in place for some years. In the US, the number of employed residents in that key age group has risen in urban communities as well as in suburban ones

and smaller urban areas since 2000, but overall employment declined in rural counties across all age groups in that same time frame. Therefore, rural areas now have a smaller share of the nation's prime working age cohort, which is also the prime consumption cohort, at the expense of urban and suburban regions.

A trend towards cities has also been simply assumed in other developed economies. A European Parliament study showed that a third of regions in Europe were expected to experience a decline in population in the 2008 to 2030 period.<sup>1</sup>

The declining number of rural residents is one thing, but the imperative for governments to invest in rural areas comes from the relative state of disadvantage that those in the country experience. A European study found that rural regions did not just have fewer residents, but that GDP per capita was also lower than it was in the city. In addition, the 2016 State of European Cities report<sup>2</sup> found that the highest GDP and employment growth were generated by higher income cities. This is an effect of cities experiencing a larger influx of relatively young citizens as well as more migrants looking for opportunities – both educational and vocational.

### Median household income in the US by county type: 2013-2017



Source: US Census Bureau, Deutsche Bank

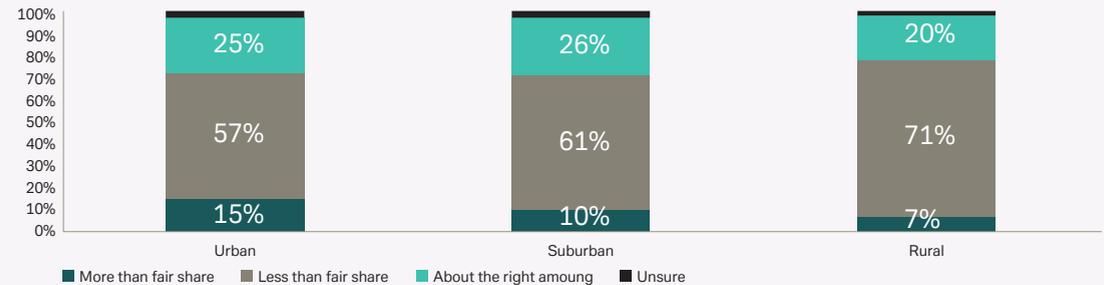
This stronger population growth in urban regions leads directly into elemental economic theory which proffers that an increasing labour force can be a driving factor in economic growth. This is before even accounting for the possible benefits of human capital investment (education), which is usually higher in cities as there is more opportunity for training. These factors combine to create a gap in average

incomes between urban and rural areas.

Across the board, a majority of Americans think there should be more investment in rural areas. A Pew Research study in the US during 2018 found that 71 per cent of rural residents, 61 per cent of suburban and 57 per cent of those in urban communities believed that rural areas received less than their fair share of federal funding.

<sup>1</sup> Redfin.com

## Proportion of US residents that think rural areas receive \_\_\_\_ of federal dollars



Source: Pew Research Center, Deutsche Bank

The pandemic and the ensuing technological and societal shifts presents the opportunity to jumpstart investment and economic opportunity in rural areas and possibly even reverse the trend of young workers moving away.

What can governments do to close the development and economic gaps between rural and suburban areas?

### 1. Invest, particularly in novel industries.

Some industries that used to operate in rural areas have either been transferred to other regions or aged out entirely. Post-covid, governments have the opportunity to assess their ability to subsidise and award tax credits to foster new industries of these regions.

Clean technology can be key to this endeavour and, here, there are two perspectives. First, it can offset jobs losses in the fossil fuel industry that are receiving less investment. Second, it can offer a new avenue of energy access to rural communities. While this has already started in some regions of the US, there is scope to do more. In November 2017, the Department of Agriculture announced \$2.5bn of investment in rural electric infrastructure improvements. Those funds were aimed at helping communities in Minnesota, Missouri, North Dakota, and elsewhere in the northern Midwest improve distribution systems, create new renewable energy projects, and develop smart grids<sup>3</sup>.

Government subsidies will be particularly helpful as companies look to reshore operations post-pandemic. As they do, policymakers should consider using federal grants and offer tax

credits to encourage companies to prioritise rural communities, possibly even those where those industries originally operated. Many companies are already considering reshoring options. Early in the pandemic, many developed countries saw the pain that came from global supply chains breaking down, especially those which handled vital medical equipment such as masks, protective equipment, and even parts to ventilators. In the years ahead, governments will need to mandate or incentivise companies, who had outsourced those manufacturing jobs for cheaper labour, to keep those jobs on domestic soil. Placing those jobs in rural areas will not only help current residents but could also encourage flows of new workers into those communities.

### 2. Leverage the new remote learning capabilities of the pandemic to service rural areas.

For any demographic shift to rural areas to be sustainable, educational infrastructure is key. While, eventually, a population shift toward rural communities will necessitate large investment in physical schools and vocational training centres, in the short term governments can leverage the massive step forward that has been made in remote services to offer upskilling to an underserved rural community. If governments invest in the human capital of these regions and companies are more open to remote working setups, then there is the potential for rural output to rise even if there is no large shift in demographics in to these communities.

Some initial discussion on this topic has taken place this year. During the most recent stimulus talks in the US, members of both parties were in agreement on adding a tax credit to parents

whose children were set up in remote learning systems as a way to offset family expenses. This could be a model for driving future incentives in rural areas. The government could offer companies tax credits to tailor e-learning and other training programs to more rural regions. This could be doubly advantageous as it will allow those in rural areas to upskill as well as possibly opening up newly-trained labour, potentially at lower wages, compared with an urban/suburban alternative.

### 3. Telemedicine must be leveraged into rural communities

Governments and private institutions must expand telemedical coverage throughout rural communities. By doing so, it will help close the service gap between rural and urban communities which will help close the health and wealth gaps. Indeed, the Center for Disease Control says that rural residents are more likely than their urban counterparts to die prematurely from the five leading causes of death in the US – heart disease, cancer, unintentional injury, chronic lower respiratory disease, and strokes. While telehealth was given high marks when surveyed in the past<sup>4</sup> there was less uptake until the pandemic itself when users and providers both grew more comfortable out of necessity.

We must seize the opportunity granted by the pandemic. Telehealth services can help eliminate challenges such as distance to providers for specialised care, which is a large hindrance to those with chronic conditions. Of course, if there is a sustained demographic shift into rural communities over the long term, there will need to be a significant investment in healthcare infrastructure. But in the short to medium term, the practices that have been developed and deployed in remote medical services since the outbreak of covid can go a long way.

To achieve this, the US, and other countries without a federal healthcare system, will have to incentivise companies through grants and again likely tax breaks to build on service in these ways. Countries with a nationalised healthcare service must invest more at a government level to provide outreach into more rural regions.

### 4. Rebuild or enhance infrastructure, including vital digital connectivity

Digital connectivity is among the biggest differentiators between urban and rural areas and governments must invest in national broadband services. Indeed, they should think about running parts of the industry like the utilities that they are in the 21st century. A dbDIG survey found that the percentage of the rural population in the US with expertise on key technology skills – such as web-design and programming – is only a quarter of their urban counterparts (36 per cent urban versus 9 per cent rural averaged between two skills).

Even on more basic skills of computer applications rural people have half the skill base of those in urban areas (44 per cent versus 23 per cent). Without investment, the lack of access to quality broadband, and therefore the ability to hone digital skills, will continue to drive a meaningful gap in economic productivity for rural areas.

While governments may be opposed to rolling out large broadband project to rural community without understanding what the pickup rate will be, there is also the more general option of Low Earth Orbit broadband service (see our piece “The fundamental right to connectivity”). These are at a nascent stage commercially, but they have the potential to provide more affordable high speed internet to rural areas and can possibly be repurposed or adjusted slightly if it is found that the use is not there.

If these initiatives work in terms of raising rural wages and economic output as well as driving population flow back to these areas, governments on all levels will have new problems. In particular, they will have to work out how to properly invest in the massive amount of new infrastructure, including essentials such as schools, hospitals and highways. But this will be a good problem to have as it will indicate a growing rural economy. Furthermore, if the investment is done properly, it will create a feedback loop effect that will cause further investment, more jobs, and a rejuvenation of rural areas.

<sup>1</sup> [http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/614646/EPRS\\_IDA\(2017\)614646\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2017/614646/EPRS_IDA(2017)614646_EN.pdf)

<sup>2</sup> [https://ec.europa.eu/eurostat/statisticsexplained/index.php/Statistics\\_on\\_rural\\_areas\\_in\\_the\\_EU](https://ec.europa.eu/eurostat/statisticsexplained/index.php/Statistics_on_rural_areas_in_the_EU)

<sup>3</sup> <https://www.nrdc.org/sites/default/files/rural-clean-energy-report.pdf>

<sup>4</sup> <https://pubmed.ncbi.nlm.nih.gov/30112737/>