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Encouraging Economic Development in High-Poverty Rural Communities

Remarks by

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at

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Mississippi Valley State University

Itta Bena, Mississippi

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Thank you for that kind introduction. I also want to thank Hope Enterprise Corporation for inviting me to speak and Mississippi Valley State University (MVSU) for hosting us on its lovely campus.

It is a great pleasure to visit the Mississippi Delta. This region gave America the priceless musical heritage of the Blues. It was also the site of some of the watershed events of the civil rights movement. But the Delta, like many rural areas, has long confronted the challenge of poverty. Today I'll speak about three areas of opportunity for addressing the challenges of rural poverty--education and workforce development, entrepreneurship and small business development, as well as access to financial services--the topic of this conference.

MVSU's mission, providing young people an affordable college education, is itself a very powerful antipoverty program--for its graduates, of course, but also for other communities that are touched by the university. MVSU opened its doors in 1950 as Mississippi Vocational College. The vocation of every member of its first class of 200 students was teaching. And even as it added other programs and became a full-fledged university, MVSU has continued to train many of the teachers who enrich, inspire, and spark the imagination of children who grow up in the Delta.

MVSU and other historically black colleges and universities, or HBCUs, play a crucial role in their communities. For much of the 20th century, HBCUs were the primary means for black men and women to obtain the education needed for middle class or professional jobs. Larger percentages of HBCU students, compared with students at predominantly white institutions, come from lower-income families and are the first in their families to attend college. This university and other HBCUs support intellectual

leadership, creativity, and innovation. I want to honor you for this proud history and for your continuing commitment to a better future for your students and for the region where many of your students were born and will build their lives and raise their families.<sup>1</sup>

### **Challenges and Opportunities in Poor Rural Communities**

Today, data at the national level show a strong economy. Unemployment is near a half-century low, and economic output is growing at a solid pace. But we know that prosperity has not been felt as much in some areas, including many rural places. The Federal Reserve can help by carrying out our monetary policy mission of supporting maximum employment and price stability. We also support strong communities by conducting research, promoting community development, and enforcing laws like the Community Reinvestment Act, which helps ensure that people have adequate access to financial services wherever they live. We not only work with communities, we are in communities, through the presence of our 12 regional Reserve Banks.

Poverty remains a challenge in many rural communities. Indeed, 70 percent of the 473 “persistent poverty” counties in the United States are rural.<sup>2</sup> Unemployment and mortality rates remain high in these communities. Along with lower incomes and wealth, the rate of business start-ups in these areas is lower. And their residents have less access

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<sup>1</sup> For a history of the role of HBCUs, see, for example, Todd Greene and Ashley Bozarth (2018), “The Critical Role of Historically Black Colleges and Universities in Workforce Development,” in Stuart Andreason, Todd Greene, Heath Prince, and Carl E. Van Horn, eds., *Investing in America’s Workforce*, vol. 1: *Investing in Workers* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research), pp. 189-94; and Ronald A. Johnson (2018), “HBCUs as Pipelines for Diversified Intellect, Creativity, and Innovation,” in Stuart Andreason, Todd Greene, Heath Prince, and Carl E. Van Horn, eds., *Investing in America’s Workforce*, vol. 1: *Investing in Workers* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research), pp. 195-204.

<sup>2</sup> As defined in PL 115-31 as counties where 20 percent or more of the population live in poverty as measured by the U.S. Census Bureau in the 1990 and 2000 decennial censuses (for more information, see <https://www.census.gov/programs-surveys/saige/guidance/model-input-data/decennial.html>) and the 2011-2015 American Community Survey (<https://www.census.gov/programs-surveys/acs/technical-documentation/table-and-geography-changes/2015/5-year.html>).

to financial services. Many of these disparities have existed for generations, and in some places have roots in a history of discrimination.

These areas also generally lack diverse industries and employment options and often have suffered from a decline in a traditional industry. In Appalachia for instance, timber, coal mining, tobacco, and textiles have long been in decline.<sup>3</sup> Likewise, the number of jobs in agriculture and low-skilled manufacturing, mainstays of the Delta's economy, is decreasing as a result of automation and outsourcing.<sup>4</sup>

### **Education and Workforce Development**

High-quality education and training play a crucial role in extending opportunity in rural areas, starting with early childhood education.<sup>5</sup> But in many rural communities, access to high-quality preschool education is limited. Mississippi is one of several mostly rural states where nearly half of residents lack access to good quality childcare, which is the main source of early childhood education.<sup>6</sup> Many decades of research also

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<sup>3</sup> See, for example, Federal Reserve Bank of Atlanta (2012), "From Textiles to Turnaround: A Tale of Two Cities," *Economic Development Podcast*, July, <https://www.frbatlanta.org/podcasts/transcripts/economic-development/120718-textiles-to-turnaround-tale-of-two-cities.aspx>; Karl Rhodes (2013), "The Future of Coal," Federal Reserve Bank of Richmond, *Econ Focus*, vol. 17 (fourth quarter), pp. 28-31, [https://www.richmondfed.org/~/-/media/richmondfedorg/publications/research/econ\\_focus/2013/q4/pdf/feature4.pdf](https://www.richmondfed.org/~/-/media/richmondfedorg/publications/research/econ_focus/2013/q4/pdf/feature4.pdf).

<sup>4</sup> See, for example, Sungki Hong and Hannah G. Shell (2018), "60% of District's Jobs Could Face Automation in the Next 20 Years," Federal Reserve Bank of St. Louis, *Regional Economist*, vol. 26 (third quarter), pp. 19-20, 22-23, <https://www.stlouisfed.org/publications/regional-economist/third-quarter-2018/many-jobs-face-automation>; and Charles Davidson (2017), "Tending to the Farm, Part 3: Technology Reshapes Agriculture," Federal Reserve Bank of Atlanta, *Economy Matters*, January 12, <https://www.frbatlanta.org/economy-matters/2017/01/12/tending-to-the-farm-part-three>.

<sup>5</sup> See Rob Grunewald (2018), "Early Childhood Investments: Paving the Way for the Future Workforce," in Stuart Andreason, Todd Greene, Heath Prince, and Carl E. Van Horn, eds., *Investing in America's Workforce*, vol. 1: *Investing in Workers* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research), pp. 297-314, <https://www.investinwork.org/~/-/media/Files/volume-one/Early%20Childhood%20Investments%20Paving%20the%20Way%20for%20the%20Future%20Workforce.pdf?la=en>.

<sup>6</sup> See, for example, Rasheed Malik, Katie Hamm, Leila Schochet, Cristina Novoa, Simon Workman, and Steven Jessen-Howard (2018), *America's Child Care Deserts in 2018* (Washington: Center for American Progress, December), <https://www.americanprogress.org/issues/early-childhood/reports/2018/12/06/461643/americas-child-care-deserts-2018>.

confirm that children who grow up in areas with better-quality K-12 schools or in classes with higher-quality teachers have better outcomes in life.<sup>7</sup>

Later in life, workforce training and education are most effective when they train workers in skills needed by local employers. Rural areas where traditional industries are declining and where new employers may be moving in often experience a mismatch between the skills of local workers and those demanded by the new employers. Training and retraining programs tend to be centralized and concentrated in areas with a higher population density, which puts many rural areas at a disadvantage.<sup>8</sup>

Education benefits both the student and the community. It is true that some young people leave their hometowns to seek greater opportunity. However, it is also true that young families, drawn back home by family and social ties, are the largest source of in-migration in many rural communities. Young families are more likely to come if they believe their children will get a good education. Returnees often bring back important skills and experiences and make meaningful contributions to the local economy.<sup>9</sup>

An excellent example is Tim Lampkin, an MVSU graduate. Tim grew up and graduated from high school in Clarksdale. After graduating from MVSU, he moved to

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<sup>7</sup> See, for example, Raj Chetty, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez (2014), “Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States,” *Quarterly Journal of Economics*, vol. 129 (November), pp. 1553-1623; and Raj Chetty, John N. Friedman, and Jonah E. Rockoff (2014), “Measuring the Impacts of Teachers II: Teacher Value-Added and Student Outcomes in Adulthood,” *American Economic Review*, vol. 104 (September), pp. 2633-79.

<sup>8</sup> See Kate Dunham, Annelies Goger, Jennifer Henderson-Frakes, and Nichole Tucker (2005), *Workforce Development in Rural Areas: Changes in Access, Service Delivery and Partnerships*, U.S. Department of Labor, Employment and Training Administration Occasional Paper 2005-07 (Oakland, Calif.: Social Policy Research Associates, June), [https://wdr.doleta.gov/research/FullText\\_Documents/Workforce%20Development%20in%20Rural%20Areas.pdf](https://wdr.doleta.gov/research/FullText_Documents/Workforce%20Development%20in%20Rural%20Areas.pdf).

<sup>9</sup> See John Cromartie, Christiane von Reichert, and Ryan Arthun (2015), *Factors Affecting Former Residents’ Returning to Rural Communities*, USDA Economic Research Service Report No. 185 (Washington: U.S. Department of Agriculture, May), [https://www.ers.usda.gov/webdocs/publications/45361/52906\\_err185.pdf?v=0](https://www.ers.usda.gov/webdocs/publications/45361/52906_err185.pdf?v=0).

Mobile for work. He wasn't gone long, though, before he felt called to return to make his home here in the Delta. Since moving back, Tim has founded several businesses, as well as a nonprofit that helps people of color start and grow their own businesses.

### **Entrepreneurship and Small Business Development**

As with Tim and his clients, entrepreneurship opportunities can motivate residents who have left rural communities to return home--or to keep them from moving away in the first place. Business ownership represents an important source of income and wealth for both owners and their employees. Recognizing this fact, successful communities find ways to help residents turn what they know and do best, including skills they may have gained from industries in decline, into profitable small businesses.<sup>10</sup> One example of a community taking this approach is Clarksdale, Mississippi.

About 10 years ago, civic and business leaders assessed what made Clarksdale special and how those characteristics could help the community thrive. Since Clarksdale calls itself "Home of the Blues," attracting tourists using the local Blues culture seemed promising. Over the years, Clarksdale has created new jobs by investing to improve its downtown, and has supported local businesses that cater to tourists interested in the community's musical heritage.

This growth is also creating new businesses not directly related to tourism--businesses such as Urgent and Primary Care of Clarksdale. Dr. Mary Williams opened her urgent care facility last spring, partly in response to the closure of nearby Quitman

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<sup>10</sup> Such support systems generally include consistent and easily accessible ways for potential business owners to find the advice, financing, and education they need to be successful. See Federal Reserve Bank of Kansas City (2015), *Grow Your Own: Entrepreneurship-Based Economic Development for Local Communities* (Kansas City, Mo.: FRB Kansas City), [https://www.kansascityfed.org/~media/files/publicat/community/gyo/entrepreneurship-econ-dev-local-communities.pdf](https://www.kansascityfed.org/~/media/files/publicat/community/gyo/entrepreneurship-econ-dev-local-communities.pdf).

County Hospital. Dr. Williams worked with local organizations to develop a business plan and obtain the financing needed to open a business that is critical to the community.

DeWitt, Arkansas, is another rural community where entrepreneurship is sparking a local revival. DeWitt is a town of about 3,000 people. Like Itta Bena and many small towns, it has seen a steady decline in population over the past few decades. The economy there is a mix of manufacturing and agriculture, and many families have farmed the land for generations, such as the family of Tami and Troy Hornbeck.

The Hornbecks grew up in DeWitt, starting and eventually selling a successful business built on a new soybean varietal that grows well in the South. More recently, they have been helping lead a new industry in their community using waste vegetable oil from local restaurants and oil pressed from camelina, a crop farmers are beginning to grow locally. This cooperative effort involves a partnership between a community college, a university, the local government, farmers and restaurants, and a Community Development Financial Institution, or CDFI, among others.<sup>11</sup> While still in the early stages, it has led to the creation of several new businesses and imbued the town with a new sense of what is possible.

Entrepreneurs such as the Hornbecks and Dr. Williams need support to succeed, the kind of support HBCUs and other institutions of higher education have long provided. MVSU itself is supporting rural minority entrepreneurs through its participation in the HBCU Entrepreneurial Ecosystem Initiative, which teaches students how to start and grow a business.

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<sup>11</sup> CDFI Certification is a designation given by the CDFI Fund of the U.S. Department of the Treasury to specialized organizations that provide financial services in low-income communities and to people who lack access to financing. CDFIs include regulated institutions, such as community development banks and credit unions, and nonregulated institutions, like loan and venture capital funds.

But inspiring stories like these are not as common as they could be. Entrepreneurship has the potential to play a greater role in poor rural areas, particularly in areas whose residents are predominantly black and other people of color. Recent surveys have found relatively high levels of interest in owning businesses among young people of color.<sup>12</sup> Indeed, nationwide, black women represent one of the fastest growing groups of entrepreneurs.<sup>13</sup> Yet research by the Federal Reserve suggests people of color experience greater challenges in gaining access to credit to start or expand businesses, which leads me to my last topic and the focus of this forum: access to financial services.<sup>14</sup>

### **Access to Financial Services**

Access to safe and affordable financial services is vital, especially among families with limited wealth--whether they are looking to invest in education, start a business, or simply manage the ups and downs of life. Family income and savings represent the largest source of funding for students' education. However, more than half of students or their families also borrow to finance their studies. And racial wealth disparities make black students more likely than white students to borrow for their education.<sup>15</sup> Similarly,

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<sup>12</sup> See FRB Kansas City, *Grow Your Own*, in note 10.

<sup>13</sup> See Walker's Legacy (2016), *Black Women Entrepreneurs: Past and Present Conditions of Black Women's Business Ownership* (Washington: Walker's Legacy, October), <https://www.walkerslegacy.com/new-report-highlights-struggles-faced-by-black-women-entrepreneurs-offers-roadmap-for-solving-toughest-issues>.

<sup>14</sup> Alicia Robb, Mels de Zeeuw, and Brett Barkley (2018), "Mind the Gap: How Do Credit Market Experiences and Borrowing Patterns Differ for Minority-Owned Firms?" Community and Economic Development Discussion Paper 03-18 (Atlanta: Federal Reserve Bank of Atlanta, September), <https://www.frbatlanta.org/community-development/publications/discussion-papers/2018/03-mind-the-gap-financing-minority-owned-firms-2018-09-14>.

<sup>15</sup> Judith Scott-Clayton and Jing Li (2016), "Black-White Disparity in Student Loan Debt More Than Triples after Graduation," *Evidence Speaks Reports*, vol. 2 (3) (Washington: Brookings Institution, October), <https://www.brookings.edu/research/black-white-disparity-in-student-loan-debt-more-than-triples-after-graduation>.

See, for example, Robert Kelchen (2015), "Financial Need and Aid Volatility among Students with Zero Expected Family Contribution," *Journal of Student Financial Aid*, vol. 44 (January), pp. 179-201, <http://publications.nasfaa.org/jsfa/vol44/iss3/2>; and Fenaba R. Addo (2018), "Parents' Wealth Helps Explain Racial Disparities in Student Loan Debt," *Bridges*, Fall, pp. 9-11,

racial wealth disparities mean access to credit is critical for would-be entrepreneurs who must borrow to supplement personal savings and support from friends and family. Banks often consider credit scores when evaluating loan requests, however, and high-poverty regions tend to have a larger percentage of people with no established credit rating or a low credit score. This combination of low wealth and low credit scores limits access to credit or causes borrowers to turn to higher-cost credit.

Fortunately, CDFIs are helping potential borrowers improve their creditworthiness and providing them with safe and affordable credit. While CDFIs fill a critical gap in some communities, most consumers use other banks and credit unions. In rural areas, this often means a community bank.<sup>16</sup> Industry consolidation has led to a long-term decline in the number of community banks. While most rural communities continue to be relatively well served, that is less often the case in communities with high-poverty rates.<sup>17</sup>

In 2018, Federal Reserve staff members met with leaders in rural areas across the country that had recently experienced a bank branch closure. We found that small businesses, older people, and people with limited access to transportation are most

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<https://www.stlouisfed.org/publications/bridges/fall-2018/parents-wealth-helps-explain-racial-disparities-in-student-loan-debt>.

<sup>16</sup> See Federal Reserve Bank of Richmond and Federal Reserve Bank of Atlanta (2017), *Small Business Credit Survey: Report on Rural Employer Firms* (Richmond, Va.: FRB Richmond), [https://www.richmondfed.org/-/media/richmondfedorg/community\\_development/resource\\_centers/small\\_business/pdf/credit\\_survey/sbcs\\_report\\_rural\\_employer\\_firms\\_2016.pdf](https://www.richmondfed.org/-/media/richmondfedorg/community_development/resource_centers/small_business/pdf/credit_survey/sbcs_report_rural_employer_firms_2016.pdf).

<sup>17</sup> See Randal K. Quarles (2018), “Trends in Urban and Rural Community Banks,” speech delivered at “Community Banking in the 21st Century,” Sixth Annual Community Banking Research and Policy Conference, St. Louis, Mo., October 4, <https://www.federalreserve.gov/newsevents/speech/quarles20181004a.htm>.

According to 2017 Federal Deposit Insurance Corporation Summary of Deposits data (available at <https://www5.fdic.gov/sod>), nonmetro Persistent Poverty Counties had, on average, 0.36 bank branches per 1,000 people, compared with 0.53 for other nonmetro counties.

affected.<sup>18</sup> We also learned that the loss of the branch often meant more than the loss of access to financial services; it also meant the loss of financial advice, local civic leadership, and an institution that brought needed customers to nearby businesses.

Regulation and supervision need to be carefully tailored to suit the size and business model of different types of institutions. At the Fed, we have renewed our efforts to avoid unnecessary regulatory burden on community banks, which provide essential credit in their local communities.

Another means to address the issue of branch closures is the Community Reinvestment Act, or CRA, which encourages banks to help meet the credit needs of the communities they are chartered to serve. The CRA has been an important tool for strengthening local communities. The trend toward fewer branches and increased use of technology to deliver financial services presents a particular challenge to our current approach to CRA evaluations. Specifically, the current regulations use a bank's branches to define its assessment area, the area for which it is evaluated for CRA purposes. To the extent that banks serve much broader areas using online or other non-branch delivery systems, or have so many assessment areas that examiners cannot do a thorough evaluation in each, the financial needs of many rural communities may be overlooked.

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<sup>18</sup> These findings are broadly consistent with the literature, which identifies adverse effects of branch closures for small business borrowers, in particular, as well as for low-income communities. See, for example, Hoai-Luu Q. Nguyen (2014), "Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes," Massachusetts Institute of Technology Working Paper (Cambridge, Mass.: MIT, December), <http://economics.mit.edu/files/10143>; and O. Emre Ergungor (2006), "Bank Branch Presence and Access to Credit in Low-to-Moderate Income Neighborhoods," Federal Reserve Bank of Cleveland Working Paper 06-16 (Cleveland, Ohio: FRB Cleveland, December), <https://www.clevelandfed.org/newsroom-and-events/publications/working-papers/working-papers-archives/2006-working-papers/wp-0616-bank-branch-presence-and-access-to-credit.aspx>.

We believe that revisions to the CRA's implementing regulations should more effectively encourage banks to seek opportunities in underserved areas.<sup>19</sup>

### **Conclusion**

To summarize my main points today, people in rural communities who are struggling with persistent poverty need access to high-quality education from preschool through college. They need support for their aspirations to own their own businesses. And they need access to safe and affordable credit.

I will conclude where I began, by applauding both MVSU and Hope for their long-standing contribution toward bettering the lives of the people of Itta Bena and similar rural communities.

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<sup>19</sup> See Lael Brainard (2018), "Keeping Community at the Heart of the Community Reinvestment Act," speech delivered at the Association of Neighborhood and Housing Development Eighth Annual Community Development Conference, New York, May 18, <https://www.federalreserve.gov/newsevents/speech/brainard20180518a.htm>.