



# Economic Recovery and Business Dynamism in Rural America

By Olugbenga Ajilore     February 20, 2020

While the discourse on rural America following the Great Recession has revolved around the resulting lack of jobs and loss of services, the lack of startups and entrepreneurial activity in these communities should not be ignored. Firm growth<sup>1</sup> is a crucial part of economic development, and business creation has been critical in the aftermath of previous recessions. But policies geared toward encouraging startups have not been effective in rural areas, leading to a growing regional divide.<sup>2</sup> This lack of firm growth since the Great Recession should be a cause for concern for policymakers.

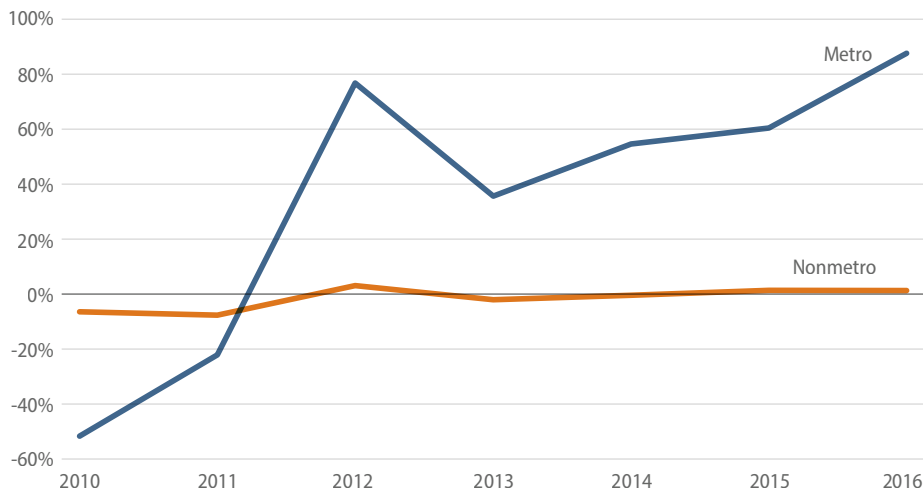
A study<sup>3</sup> by the Economic Innovation Group (EIG) found that compared with previous recoveries from recessions, there was a significant falloff in the creation of business establishments after the Great Recession. It finds that in the four-year periods after the 1991 recession and 2001 recession, the number of total new business establishments nationwide averaged more than 400,000, while the four-year period after the Great Recession only saw around 166,000 total new establishments. The study finds that this number was primarily driven by just 20 counties. (see Figure 1 for a comparison of establishment growth in metropolitan counties and nonmetropolitan counties)<sup>4</sup>

The net change in the number of establishments in the years following the Great Recession is basically zero in nonmetropolitan communities, while there is growth in metropolitan communities. This meager business recovery is driven by firm growth in metropolitan counties, primarily the 20 largest metropolitan counties. Business growth is crucial for economic development, and this lack of business dynamism may be a factor in why nonmetropolitan counties have yet to recover from the Great Recession.

FIGURE 1

### Establishment growth has been concentrated in metropolitan counties

Percentage change in number of new business establishments by metropolitan status



Source: U.S. Census Bureau, "Statistics of U.S. Businesses," available at <https://www.census.gov/programs-surveys/susb.html> (last accessed December 2019).

## Defining urban and rural communities

A recent Center for American Progress issue brief<sup>5</sup> outlined what has been happening in rural communities since the Great Recession using a detailed breakdown of rurality. One takeaway was that while rural communities have continued to struggle since the Great Recession, some have seen modest growth. This breakdown of rurality provided a more precise analysis of the labor market dynamics occurring in rural communities. Now, it is possible to provide even further precision on what is happening in urban and rural communities using a new classification system: the American Communities Project<sup>6</sup> (ACP). A project of The George Washington University, the ACP created a typology of counties that incorporates demographic and socioeconomic data. (see Appendix Figure A1 for full definitions of the ACP categories)

This issue brief looks at business dynamism since the Great Recession in terms of establishment growth in rural communities using the ACP classification. There are two main takeaways from this analysis:

1. Metropolitan counties have experienced positive firm growth since the Great Recession, especially large cities and urban suburbs that are densely populated and racially diverse.
2. Many rural communities are not experiencing establishment growth, though there are some pockets of rural America that are seeing growth in businesses. These communities are also experiencing growth in immigration.

While some rural communities are experiencing firm growth, there may be a role for the federal government to support local governments through expanding the capacity of community development corporations. The establishment and growth of new firms is critical to productivity growth,<sup>7</sup> and productivity growth is at the heart of broader economic growth. Until policymakers consider business dynamism a critical issue in any effort to revitalize left-behind communities, these rural areas will continue to struggle in their recovery.

## Business growth post-Great Recession has not been evenly distributed across regions

Figure 1 shows that metropolitan counties have driven most growth in business establishments since the Great Recession. However, that analysis does not reveal what is happening within metro and nonmetro counties. Using the ACP classification and establishment data from the Census Bureau's Statistics of U.S. Businesses, the author was able to analyze which communities have been doing well and which communities are falling behind. Table 1 provides the average year-over-year net change in the number of establishments from 2010 to 2016, sorted by year 2016.

**TABLE 1**  
**Most rural communities have experienced meager establishment growth since the Great Recession**  
Average year-over-year changes in number of new business establishments, 2010–2016

Net change	2010	2011	2012	2013	2014	2015	2016
Big Cities	-237.13	31.83	705.98	472.68	611.53	598.00	760.51
Urban Suburbs	-192.34	-59.02	217.90	103.05	143.80	143.80	260.99
Exurbs	-38.90	-15.19	58.08	28.15	46.25	49.83	71.92
College Towns	-23.34	-25.70	33.50	7.40	21.44	31.54	42.62
Latter-day Saints Enclaves*	-22.15	-10.15	43.95	30.56	34.41	41.80	38.32
Middle Suburbs	-65.56	-39.64	36.31	-11.99	0.58	17.64	34.73
Military Posts	-11.11	-19.27	18.08	8.37	15.79	17.84	31.30
Graying America*	-17.02	-13.56	13.01	4.07	7.64	14.17	16.73
Hispanic Centers*	-11.76	-6.90	18.88	7.10	13.40	13.80	9.40
African American South*	-9.91	-13.09	1.92	-5.62	-1.04	-0.61	4.06
Rural Middle America*	-8.05	-9.64	7.19	-5.30	-1.62	1.98	3.28
Working Class Country*	-7.93	-9.15	1.56	-2.34	-1.96	0.75	1.63
Evangelical Hubs*	-8.16	-9.99	3.79	-1.12	-1.44	1.45	0.65
Aging Farmlands*	0.36	-0.89	2.21	-0.36	0.23	0.29	-0.63
Native American Lands*	-5.02	-2.17	3.76	-3.98	-0.93	0.02	-2.05

\*Rural county categories

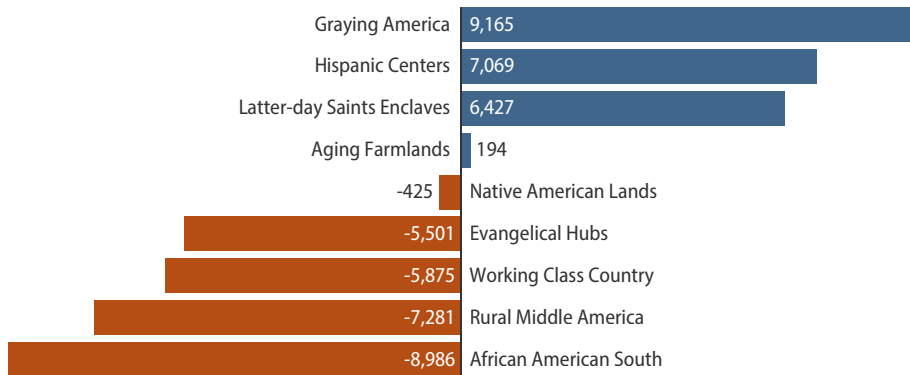
Note: Areas are ranked by 2016 data.

Sources: U.S. Census Bureau, "Statistics of U.S. Businesses," available at <https://www.census.gov/programs-surveys/susb.html> (last accessed December 2019); American Communities Project, "The American Communities," available at <https://www.americancommunities.org/> (last accessed December 2019).

FIGURE 2

**Business dynamism varies by rural community**

Aggregate net change in number of new business establishments  
in rural communities, 2010–2016



Sources: U.S. Census Bureau, "Statistics of U.S. Businesses," available at <https://www.census.gov/programs-surveys/susb.html> (last accessed December 2019); American Communities Project, "The American Communities," available at <https://www.americancommunities.org/> (last accessed on December 2019).

Table 1 shows that most of the establishment growth is concentrated in Big Cities and Urban Suburbs. These communities experienced the largest losses right after the Great Recession, but unlike other communities, they recovered quickly. Nearly all rural communities, on the other hand, fall behind metro communities. In fact, many of these communities experienced negative establishment growth through 2014. Figure 2 shows the aggregate establishment growth in just the rural communities.

A consistent theme among analyses of economic conditions in the United States is that southern rural communities have struggled particularly hard since the Great Recession. According to Figure 2, rural communities in the African American South, Evangelical Hubs, and Working Class Country have experienced many firm deaths. A previous CAP brief<sup>8</sup> showed that individuals who grow up in rural communities in the South tend to lack upward mobility and have lower educational attainment and lower rates of union membership than those who grow up in other areas. These factors are driven by structural racism, which erects economic barriers by limiting educational options and limiting worker power. While largely affecting African Americans, the adverse outcomes are not limited to this community; they broadly harm individuals throughout the rural South.

Small businesses, especially in the South as well as Rural Middle America, have been struggling to survive in the current economic environment, particularly due to the trends of consolidation and growing market concentration. This increasing concentration, especially in rural communities, has led to the rise of the modern company town, where a community is dominated by a single firm.<sup>9</sup> In the agricultural sector, the number of federally inspected slaughterhouses declined 36 percent from 1990 to 2016.<sup>10</sup> This rise in concentration has allowed these larger firms to exert market power

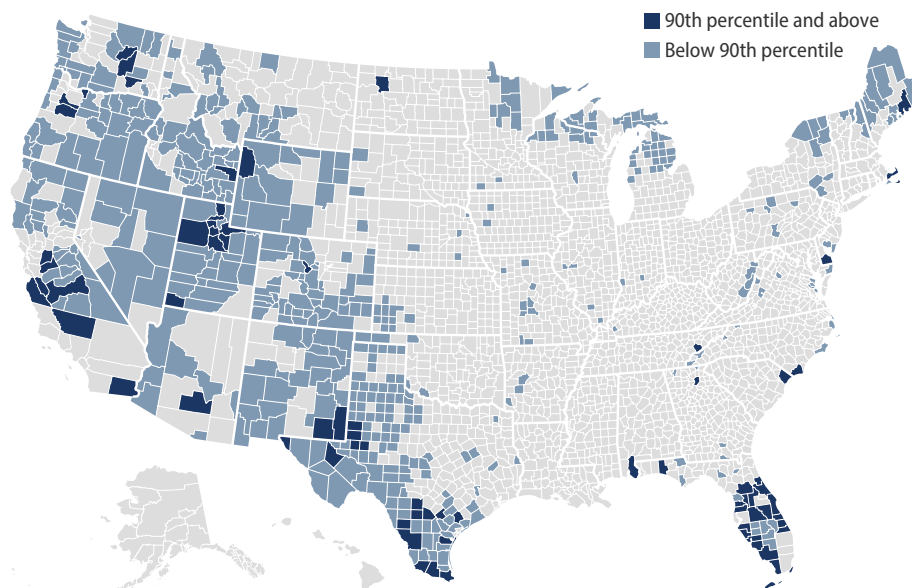
on smaller firms and on their own employees—a trend that has been especially prevalent in the corn and soybean seed markets: The shares of the four largest firms in each of these two markets have risen to more than 85 percent and more than 76 percent, respectively.<sup>11</sup> This increased concentration in rural communities may be a factor in limiting startup activity.

The ACP classification system shows that not all rural communities have experienced negative firm growth: Graying America, Hispanic Centers, and Latter-day Saints Enclaves saw an increase in net establishment growth since the Great Recession, although this growth may not be evenly distributed within these communities. Figure 3 maps this trend to show which parts of the country are experiencing significant growth. It specifically maps establishment growth in the counties represented by Graying America, Hispanic Centers, and Latter-day Saints Enclaves.

**FIGURE 3**

### Rural communities experiencing firm growth are located in large states

Aggregate net change in number of new business establishments in the rural community classifications experiencing firm growth from 2010 to 2016\*



\* Depicted are the counties shown in Figure 2 as making up the four rural community classifications that experienced positive firm growth from 2010 to 2016: Graying America, Hispanic Centers, and Latter-day Saints Enclaves.\*\*

\*\* **Correction, February 20, 2020:** Figure 3 has been updated to clarify that the counties shown are categorized as Graying America, Hispanic Centers, and Latter-day Saints Enclaves

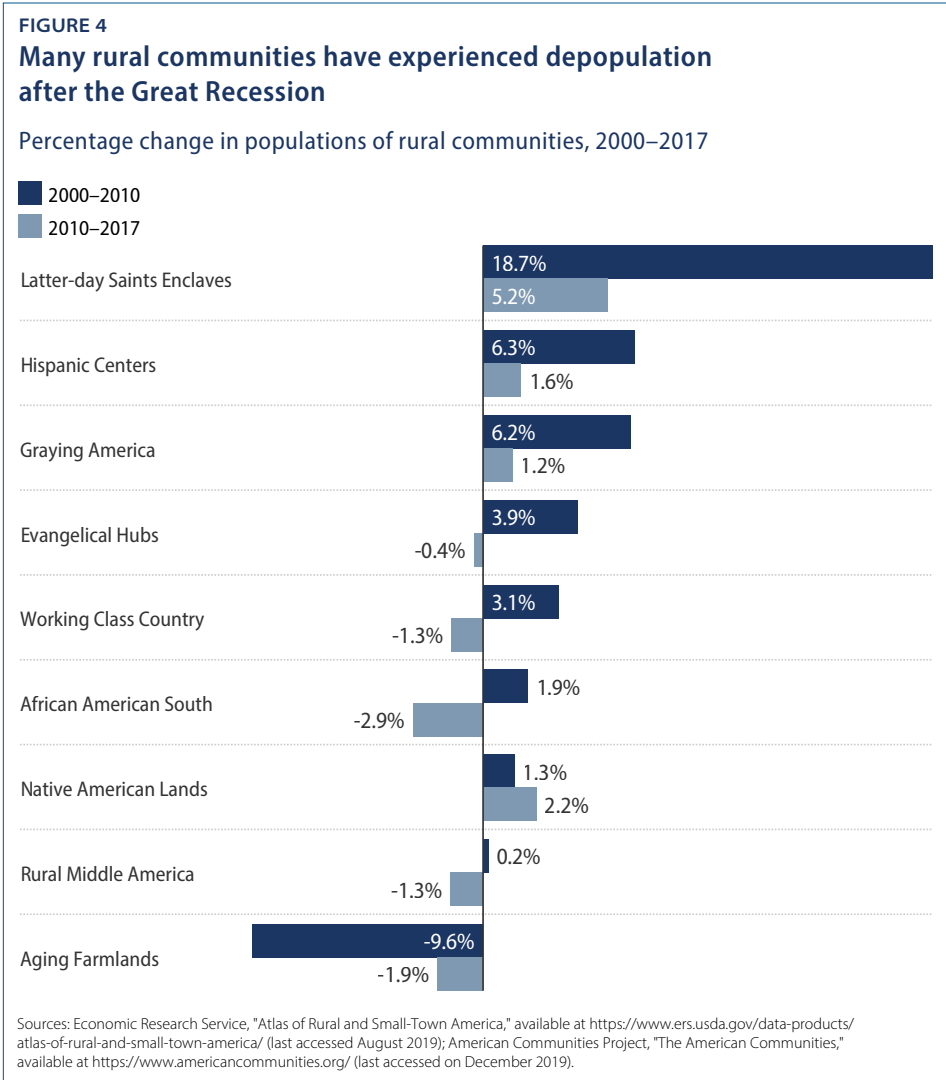
Sources: U.S. Census Bureau, "Statistics of U.S. Businesses," available at <https://www.census.gov/programs-surveys/susb.html> (last accessed December 2019); American Communities Project, "The American Communities," available at <https://www.americancommunities.org/> (last accessed on December 2019).

The counties highlighted in dark blue areas show large establishment growth. Many of these communities, especially among Graying America, are recreation-dependent. Research by Meghan Lawson for Headwaters Economics found that recreation counties attract new residents and are experiencing earnings growth.<sup>12</sup> In the Hispanic Centers, on the other hand, several of the counties are mining-dependent, primarily

in the oil and gas industry. Figure 3 illustrates that it is difficult to apply lessons learned and strategies used in the growing communities to other, more stagnant areas that are not rich in amenities or that lack abundant resources.

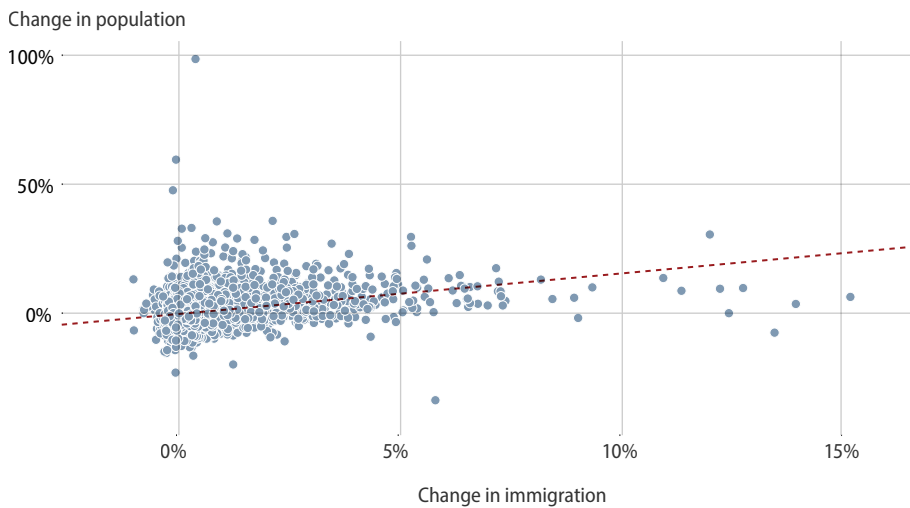
Immigration can help spur growth in rural areas

One lesson that may be applied to all rural communities is the importance of fostering population growth. Data from a 2019 CAP brief show that many nonmetro counties have been experiencing population loss,<sup>13</sup> which an EIG report found has adverse impacts on housing markets, government finance, and business dynamism.<sup>14</sup> On that last point, communities that are losing population see a decrease in the demand for goods and services and therefore experience greater firm deaths. Figure 4 shows that many of the nonmetro communities that have been experiencing population loss following the Great Recession are in the Southern and Midwestern regions.



**FIGURE 5****Counties with more immigration have larger population growth**

Linear prediction of percentage change in population and percentage change in net international migration, 2010–2017



Source: Author calculations using STATA 16.1 program of Economic Research Service, "Atlas of Rural and Small-Town America," available at <https://www.ers.usda.gov/data-products/atlas-of-rural-and-small-town-america/> (last accessed August 2019).

Many communities have tried to reverse the trend of depopulation through welcoming immigrants, a strategy that can be successful.<sup>15</sup> Figure 5 confirms a positive relationship between the net international migration rate and population change over the post-Great Recession period.

There are numerous examples of places throughout the country where immigrants have revitalized and benefited rural communities—not just in the agriculture sector but also in manufacturing, health care, tourism, and startups.<sup>16</sup> Nebraska, for example, has seen a long influx of Mexican immigrants who are employed at Tyson meatpacking plant, thereby increasing the state's population and in turn creating a demand for small businesses.<sup>17</sup> Certain policies, such as the Heartland Visa, can encourage immigration targeted toward areas experiencing depopulation.<sup>18</sup> Communities can also employ certain strategies to create social infrastructure to help immigrants thrive.<sup>19</sup> For example, providing English as a second language (ESL) classes or other communication programs for migrants and their children to facilitate dialogue between new migrants and other community members is helpful.

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## Conclusion

Since the Great Recession, business growth nationwide has faltered relative to recoveries from previous recessions. Metropolitan counties have recovered in terms of establishment growth, but that recovery has been concentrated in the largest cities.<sup>20</sup> In rural communities, the counties that had positive establishment growth were confined to recreation-dependent counties located in Florida and Texas and in the Central Valley of California, as well as communities rich in certain resources.

Many rural communities are taking steps to support local businesses through community development corporations and cooperatives, but there may be a role at the federal level to expand the capacity of these organizations. Policymakers need to create a better climate for small businesses to thrive and grow. This is important for all regions but vital for rural communities, as they are also struggling with other problems—such as higher rates of opioid use,<sup>21</sup> hospital closures,<sup>22</sup> and job loss<sup>23</sup>—that harm their viability. Until there are efforts at all levels of government to foster small-business growth and rural entrepreneurship, these communities will continue to fall behind the rest of the country.

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FIGURE A1

## American Communities Project urban and rural universe

Description and geography of ACP community classifications

### Metropolitan counties

#### Big Cities

Dense and diverse areas with high incomes, high poverty, and high crime rates



#### Exurbs

Wealthy and well-educated areas with largely white populations, low crime rates, and longer commutes to work



#### Urban Suburbs

Educated and densely populated areas that are racially and economically diverse



#### Middle Suburbs

Middle-income areas with low diversity and below-average rates of college education



#### College Towns

Highly educated communities with high turnovers in population, low diversity, and populations that skew young



#### Military Posts

Middle-income, diverse communities around military bases



### Rural counties

#### African American South

Median population is roughly 40 percent African American; communities that are largely low-income with high unemployment



#### Aging Farmlands

Agricultural areas with many seniors, little diversity, and low unemployment rates



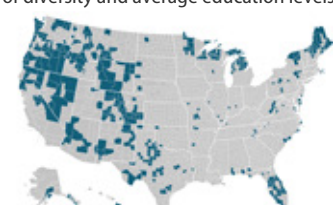
#### Evangelical Hubs

Communities with many evangelical adherents and fewer college graduates and health care providers



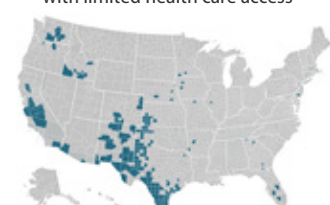
#### Graying America

Communities with large senior populations; populations that are middle income with low rates of diversity and average education levels



#### Hispanic Centers

Largely rural areas with large Hispanic populations and populations that skew young and lower income, with limited health care access



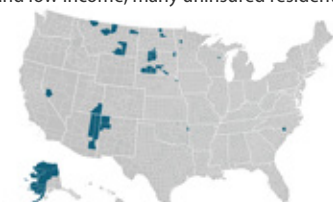
#### Latter-day Saints Enclaves

Communities with large youth populations; middle income with low rates of diversity and crime



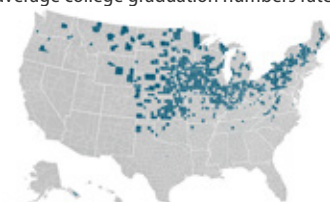
#### Native American Lands

Communities with large Native American populations and populations that skew young and low income; many uninsured residents



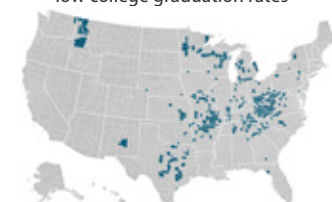
#### Rural Middle America

Largely rural communities with majority-white populations; middle-income communities with average college graduation numbers rates



#### Working Class Country

Rural, blue-collar America; low-income communities with low college graduation rates



Source: American Communities Project, "The American Communities: Map," available at <https://www.americancommunities.org/#map> (last accessed December 2019).

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## Endnotes

- 1 This brief defines “firm growth” as the difference between firm births and firm deaths within a given year.
- 2 Richard Florida, “The Extreme Geographic Inequality of High-Tech Venture Capital,” CityLab, March 27, 2018, available at <https://www.citylab.com/life/2018/03/the-extreme-geographic-inequality-of-high-tech-venture-capital/552026/>.
- 3 Economic Innovation Group, “The New Map of Economic Growth and Recovery” (Washington: 2016), available at <https://eig.org/wp-content/uploads/2016/05/recovery-growthreport.pdf>.
- 4 The definition of nonmetropolitan counties comes from the Economic Research Service. They are defined as counties with populations of fewer than 50,000 people. These include “urban areas ... that are not part of larger labor market areas,” “rural towns (places with fewer than 2,500 people),” and “open countryside.” Economic Research Service, “Rural Classifications: Overview,” available at <https://www.ers.usda.gov/topics/rural-economy-population/rural-classifications/> (last accessed January 2020).
- 5 Olugbenga Ajilore and Zoe Willingham, “Adversity and Assets: Identifying Rural Opportunities” (Washington: Center for American Progress, 2019), available at <https://www.americanprogress.org/issues/economy/reports/2019/10/21/476097/adversity-assets-identifying-rural-opportunities/>.
- 6 American Communities Project, “The American Communities,” available at <https://www.americancommunities.org/> (last accessed January 2020).
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- 8 Olugbenga Ajilore, “3 Ways to Improve Economic Outcomes for African Americans in the Rural South” (Washington: Center for American Progress, 2019), available at <https://www.americanprogress.org/issues/economy/reports/2019/08/06/470913/3-ways-improve-outcomes-african-americans-rural-south/>.
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- 12 Meghan Lawson, “Recreation Counties Attract New Residents and Higher Incomes,” Headwaters Economics, January 2019, available at <https://headwaterseconomics.org/economic-development/trends-performance/recreation-counties-attract/>.
- 13 Ajilore and Willingham, “Adversity and Assets: Identifying Rural Opportunities.”
- 14 Adam Ozimek, Kenan Fikri, and John Lettieri, “From Managing Decline to Building the Future: Could a Heartland Visa Help Struggling Regions?” (Washington: Economic Innovation Group, 2019), available at <https://eig.org/wp-content/uploads/2019/04/Heartland-Visas-Report.pdf>.
- 15 Kelly Pohl, “Minority Populations Driving County Growth in the Rural West” (Bozeman, MT: Headwaters Economics, 2017), available at <https://headwaterseconomics.org/economic-development/trends-performance/minority-populations-driving-county-growth/>.
- 16 Silva Mathema, Nicole Prchal Svajlenka, and Anneliese Hermann, “Revival and Opportunity: Immigrants in Rural America” (Washington: Center for American Progress, 2018), available at <https://www.americanprogress.org/issues/immigration/reports/2018/09/02/455269/revival-and-opportunity/>.
- 17 Sara McElmurry, “Proactive and Patient: Managing Immigration and Demographic Change in 2 Rural Communities” (Washington: Center for American Progress, 2018), available at <https://www.americanprogress.org/issues/immigration/reports/2018/11/14/460894/proactive-and-patient/>.
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- 19 McElmurry, “Proactive and Patient.”
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