



ECONOMIC BRIEF NO. 25

Understanding Rural Economies

This series of economic briefs explores fundamental concepts in economics and community and economic development.

In the past, rural economics has focused on agriculture, the chief economic activity in rural areas. So today, economists have no theories of rural economics to apply to evaluation of rural economies that depend on small factories and rural resort communities—rural economies that are becoming more prevalent in states like South Carolina.

Now thanks to new work by

Two simple examples illustrate Krugman's work. What if costs of transportation were very high, and there was no economic gain from economies of scale? For example, moving something would be too costly to consider and small-scale producers would be just as efficient as large-scale producers. The result would be that people produced what they needed in

their own backyards, production would be widely dispersed, and there would be no cities.

But if the tables were turned, that is, if the costs of transportation were zero, and the

The examples do show that falling transportation costs do not generally help rural places if economies of scale are an important consideration.

Many rural leaders may greet Krugman's research like anyone would greet the news that one is caught in a bad position with no way to get out by one's own efforts. A person may either accept it with a sinking feeling or refuse to believe it.

None of the implications of the Krugman research justify a fatalistic acceptance of long-term economic decline in rural places. Lower cost of living and open space can be assets for rural economic development. Yet the economic problems of being rural have not been lessened by recent trends in the bigger world that focus on transportation costs and economies of scale, trends that rural community leaders must realistically accept and manage.

Managing economic adjustment in rural economies to the maximum advantage of the local business climate is the only alternative realistically open, and new knowledge can only help in that task.

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economist Paul Krugman, key factors that affect economic opportunity in today's rural areas are being identified. His research examines how transportation costs and scale economies, the cost savings realized from concentrating economic activities in larger enterprises or in one area, predict how people and firms will decide whether to locate in rural or urban areas.

benefits of maximizing economies of scale were infinite, all production would be concentrated in one location. Under this scenario everyone would live in one big city. The rural areas would be depopulated.

These examples merely illustrate two extremes. Most places are somewhere in between, with economies affected by both costs of transportation and economies of scale.