Opening Remarks

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Strong Foundations: The Economic Futures of Kids and Communities
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FEDERAL RESERVE BANK OF CHICAGO

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Thank you for the kind introduction, Alicia. And thanks to the organizers at the Board of Governors and the Minneapolis Fed for inviting me to be part of this event. I regret that I can't attend today. But I am grateful for the opportunity to comment on the important issues raised over the last two days.

The Fed's mission is "to foster the stability, integrity and efficiency of the nation's monetary, financial and payment systems so as to promote optimal macroeconomic performance."[1] Ideally, a vibrant national economy translates to prosperity in all of our communities. Unfortunately, that ideal has not always been universally realized. For a variety of reasons, including major transformations in our manufacturing industries, some of our nation's communities have faced difficult obstacles to achieving the kind of economic success that the American public and policymakers expect.

When communities struggle, the consequences can be long lasting. Recent academic studies by Raj Chetty, Nathaniel Hendren and others[2] are able to confirm what earlier work had hinted at but didn't always have the statistical power to precisely describe — where you grow up or currently reside matters a great deal for academic performance, economic mobility and health. This conference has highlighted the harmful effects of growing up in neighborhoods that suffer from a scarcity of basic needs, such as quality schools, fresh food and child care facilities, to name just a few. Art Rolnick — the former research director at the Minneapolis Fed — and his colleagues proposed substantial investment in early childhood education programs many years ago as one very high return avenue to fighting persistent poverty.[3]

We should be particularly interested in these research questions because it is now well established that children growing up in the U.S. experience less intergenerational economic mobility and less equality of opportunity than children in most other advanced economies.[4] But has this always been the case? Or has the American economy or society changed in ways that has made it even harder for children to move up than in the past?

From the end of World War II to the early 1970s, the U.S. experienced what is sometimes referred to as a "golden age" — where economic growth was rapid and salaries grew throughout the income spectrum. Starting around 1980, however, there

[1] Board of Governors of the Federal Reserve System (2012, p. 5).
[2] See, for example, Chetty et al. (2014) and Chetty, Hendren and Katz (2016).
[3] See, for instance, Rolnick and Grunewald (2003). Also see the research produced by the Heckman Equation project: https://heckmanequation.org/.
[4] See Black and Devereux (2011) and Corak (2013).

was a sharp rise in income inequality, the causes of which economists are still trying to understand.

One simple question we ought to ask is this: Did the shift toward greater income inequality beginning around 1980 coincide with a decline in economic mobility? A series of papers from the Chicago Fed over the past decade suggests that intergenerational mobility did in fact start to decline precisely around this time. For example, a recently released working paper by Jonathan Davis and Bhashkar Mazumder documented a marked decline in mobility between two sets of cohorts: those born between 1942 and 1953 and those born between 1957 and 1964.[5] The first group entered the workforce in 1960s and 1970s, well before inequality rose, while the second group joined the workforce largely after the big rise in inequality. Davis and Mazumder show that the magnitude of the decline in mobility is striking, and is the equivalent of moving from the top quintile of economically mobile U.S. cities to the bottom quintile.

Since upward mobility may be particularly challenging for residents of low-income communities, it is imperative that we better understand what leads some communities to thrive and, just as important, what factors inhibit other communities from achieving success. Moreover, we need to do what we can to raise awareness of conditions in places in need of reinvestment and assistance. These objectives have made up the core mission of the Federal Reserve's community development departments for decades.

The Fed's community development function was created shortly after passage of the Community Reinvestment Act (CRA),[6] which marks its 40th anniversary on October 12 of this year. The CRA was one of a handful of laws designed to ensure credit would flow to places where banks typically did not lend, and was a reaction to policy decisions dating back to the New Deal.

One of the most infamous of these policies, based on 1930s era redlining maps, prevented banks from issuing mortgages to minority and some immigrant households or for older construction. New research by economists at the Chicago Fed is revealing the fingerprints of redlining practices from about 80 years ago on the characteristics of communities even today.[7]

While the worst of these lending practices have been addressed by CRA and other legislative and private actions, the CRA continues to be an important tool in addressing more subtle behaviors and policies and in encouraging scaled and coordinated revitalization. The Fed's community development function works in various ways to support and promote this work, to document innovative lending and development strategies and to improve conditions in marginalized communities.

[5] Davis and Mazumder (2017).
[6] For more on the CRA, see https://www.federalreserve.gov/communitydev/cra_about.htm.
[7] Aaronson, Hartley and Mazumder (2017).

This morning's plenary session will focus on skill development and workforce preparedness. It's encouraging that lending and investment in workforce development and job creation, with special emphasis on *innovation* in these areas, is now addressed directly in CRA guidance. It's also promising that CRA guidance encourages lending to groups that support and advise small businesses, in recognition of the fact that entrepreneurs are the principal source of new jobs in low-income communities. There is a great deal of work going on at the Fed's community development areas to provide technical assistance and interpretation to financial institutions on these fronts — both in one-on-one meetings and larger informational convenings.

The Fed's community development staff also works to ascertain the challenges to improving economic mobility through *qualitative* information gathering. A Fed publication titled *A Perspective from Main Street: Long-Term Unemployment and Workforce Development* was derived from a multiyear series of meetings and information sessions that collected the views of employers, local government, trade associations, educators and others.[8] Among the report's findings are that workforce development systems are not well coordinated locally, regionally or nationally. Secondary education is essentially disconnected from the labor market, and the record of community colleges in meeting the technical skill needs of employers is mixed. In particular, manufacturers cited a dearth of skilled workers.

In short, the evidence we have leaves considerable room for policy improvements to better harmonize diverse efforts and resources aimed at, ultimately, bringing about a better prepared and educated workforce. The stakes for our future could scarcely be higher.

I once again want to recognize the organizers at the Board and Minneapolis Fed, and look forward to organizing and hosting the 11th biannual conference in 2019 with the Board of Governors.

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[8] Board of Governors of the Federal Reserve System (2013).

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