Inclusive Economic Development and Regional Growth

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FEDERAL RESERVE BANK OF CHICAGO

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Good morning. I am Charlie Evans, president and chief executive officer of the Federal Reserve Bank of Chicago. I am pleased to welcome you to the sixth annual Summit on Regional Competitiveness. It's a pleasure for us to work with Kelly O'Brien and the leadership team at the Alliance for Regional Development to host these convenings each fall. In 2012, the creation of the Alliance was spurred by the release of a *Territorial Review of the Chicago Tri-State Metropolitan Area* by the Organisation for Economic Co-operation and Development (OECD). Since then, the Alliance has focused on strengthening the economic competitiveness of the 21-county, tri-state area covered by that report.[1] And in many ways the Alliance's interests align with some important work that the Chicago Fed does across our five-state region.[2] Today, my remarks will highlight some of these common interests and underscore their importance in the current economy. I will close my remarks with some food for thought for the discussions that will follow.

Let me begin by noting that any opinions I express this morning are my own, and they do not necessarily reflect the views of my colleagues on the Federal Open Market Committee or in the Federal Reserve System.

A major part of the Federal Reserve's mission is to foster "the stability, integrity, and efficiency of the nation's monetary, financial, and payment systems in order to promote optimal macroeconomic performance."[3] Fulfilling this mission includes our work addressing the economic challenges faced by workers, families, businesses, and communities at both the regional and local levels.[4]

We know that competitive metropolitan areas contribute to a strong and stable national economy. However, to keep ours competitive, we have to address several ongoing challenges. Some of them include encouraging the efficient movement of people and goods within our metro areas; matching employers and workers in an increasingly specialized labor market; and promoting innovation and entrepreneurship. Additionally,

[1] The report by the Organisation for Economic Co-operation and Development (2012) covers the Chicago metropolitan area comprising parts of Illinois, Indiana, and Wisconsin.
[2] The Chicago Fed serves the Seventh Federal Reserve District, an economically diverse region that comprises all of Iowa and most of Illinois, Indiana, Michigan, and Wisconsin.
[3] Our full vision and mission statements are available online, https://www.chicagofed.org/utilities/about-us/our-vision-and-mission.
[4] For a discussion on gaining a grounded perspective of the underlying realities the economic data are trying to capture, see Raskin (2013).

there is a growing realization that equity and inclusion—across the socioeconomic spectrum—are essential to the *sustained* economic success of a region.[5]

The 2012 review of the Chicago metro area was the first of its kind conducted by the OECD in the United States. It assessed the region's capacity to contribute effectively to Midwest and national economic performance and quality of life. While a little dated, the OECD report and others like it are motivated by a key principal that is explained in the foreword to the report:

> The need to pursue regional competitiveness and governance is particularly acute in metropolitan regions. Although they produce the bulk of national wealth, metropolitan economies are often held back not only by unemployment and distressed areas but because opportunities for growth are not fully exploited. Effective metropolitan governance is called for if a functional region as a whole is to reach its full potential.[6]

According to the OECD's *Territorial Review*, that call for "effective metropolitan governance" in the Chicago area rests mainly on four thematic policy issues:

- the effectiveness and coordination of workforce development programs,
- the metro area's capacity for innovation,
- its role as a major center for logistics in North America, and
- its capacity to encourage green growth over the long term.[7]

I'd like to highlight some key Chicago Fed initiatives that closely parallel the work of the Alliance and that address some of the OECD's policy themes.

First, it's worth recalling that the 12 Federal Reserve Banks are by definition regional entities charged with responding to the specific credit-access challenges and economic characteristics of their respective parts of the country. The 21-county, tri-state area covered in the OECD report is the core of our five-state region. We have a research group dedicated to studying our regional economy, including its industries, strengths, and growth opportunities. Our Community Development and Policy Studies, or CDPS, team has both research and outreach staff. CDPS focuses on our District's economically marginalized communities and populations, and works to inform sensible and inclusive policy development. I want to take a few minutes to delve further into some specific components of our work in CDPS that I think is particularly relevant to today's discussion.

A key component of the Chicago Fed's community development mission is to understand how economic opportunity extends to communities and households. So, in

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[5] For a discussion on the connections between economic policymaking and inclusive growth, see Brainard (2017).
[6] Organisation for Economic Co-operation and Development (2012, p. 3).
[7] The four policy issues explored in the Organisation for Economic Co-operation and Development (2012) are stated in supporting materials available online, http://www.oecd.org/cfe/regional-policy/oecdterritorialreviewsthechicagotri-statemetropolitanarea.htm.

addition to analyzing macroeconomic and broad financial developments, CDPS promotes the identification and study of trends at the local level—especially in those communities and households facing the greatest barriers to labor and housing markets. Not surprisingly, these communities and households also face tremendous obstacles to new skills attainment and investment capital.[8]

Over the past several years, CDPS has developed a body of work that explores regional trends in older industrial cities. This work has explored how leadership in these places connects their residents to regional labor markets so that they may take advantage of the opportunities and benefits of economic growth and mobility.

Beginning with the Industrial Cities Initiative,[9] we looked at ten industrial cities around our District, including Racine. This initiative coincided in many ways with our early engagement with the Regional Alliance. Although the ten cities all shared a common manufacturing legacy, some of them were experiencing higher income, population, and job growth. We wanted to understand why—and whether there were lessons or strategies that could be shared or scaled. Through more than 200 interviews with city and regional leaders, we identified three key principles they said would be critical to the success of their cities' economic development.

- The first one is investing in human capital: Many places are making efforts to attract a more educated workforce, often through downtown revitalization efforts. But the places that outperform their peers are those that are working to expand opportunities for existing residents. Post-industrial cities lag national averages for postsecondary educational attainment. Closing this gap is likely to be essential to meeting employer demands for a skilled workforce.
- The second is addressing diversity: Some of the cities profiled were destinations during the early twentieth-century "Great Migration" of blacks from the South. Other places profiled saw increasing diversity through recent waves of immigration. As I've mentioned before, ensuring that all residents can benefit from economic growth is an important component of the success of a city and its region.
- And the final principle is that cities that are more "connected" to their regions tend to thrive. Cities that provide their residents with more links to regional labor market opportunities—perhaps through education and infrastructure—strengthen the potential for business attraction and retention.[10]

During those interviews with local leaders, we also heard that they wanted to better understand how they are faring relative to other cities that share common traits. They also wanted to learn from others who may be facing similar challenges, for example, around housing affordability or demographic shifts that affect their labor force. We

[8] Brainard (2017).
[9] Longworth (2014).
[10] Longworth (2014, pp. 15–16).

developed the Peer City Identification Tool[11] to help leaders identify potential peers in terms of economic resilience, equity, housing affordability, and demographic outlook. The "P-CIT," as we refer to it, is accessible through the ChicagoFed.org website and is one of our most visited pages. I encourage you to explore this tool when you have a chance.

Our current work is around efforts to understand what older (often smaller) cities are doing to ensure positive labor market outcomes for all of their residents who are affected by regional, national, and global economic trends. The next iteration of our industrial cities work will explore how economic growth and inclusion can be achieved. Let me offer a preview of some of the findings from a forthcoming paper that summarizes extensive qualitative research.[12] I encourage you to think about how these findings connect to today's discussions.

- First, labor markets matter: Whether a labor market is tight or loose will shape how opportunities are extended to individuals. A tight labor market provides an opportunity to bring some individuals who have dropped out of the labor force back in. In places where there is little or no economic growth, the practice of labor market inclusion becomes much more challenging.
- Second, cities can become more inclusive by addressing barriers to employment. These often include substandard public transportation, limited child-care options, scarce workforce training resources, and underfunded education and training. Affordable housing shortages near employment centers represent a longstanding issue in many regions; city leaders can expect more demand for affordable workforce housing if labor market inclusion is made a top priority.
- And third, coordination among several actors of different backgrounds is needed to account for the diversity among current and potential workers. Some people are more attached to the labor market than others.[13] It takes careful coordination across a diverse set of actors to ensure that economic growth provides real opportunities to all—or at least a much broader set of prospective labor market participants than in earlier times.

Our CDPS group will continue to leverage the benefits of connecting diverse places. Facilitating such connections allows cities to keep on learning about effective strategies for inclusive growth from each other. Over the past couple of months I have met personally with leaders in Fort Wayne, Indiana, and Flint, Michigan. I've also spoken to a national convening of community development financial institutions. Today, we will hear from leaders in Spartanburg, South Carolina, and Racine, Wisconsin—areas that may share some common demographic and economic traits that might not be readily apparent.

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[11] Our Peer City Identification Tool is available online, https://www.chicagofed.org/region/community-development/data/pcit.

[12] George, Longworth, and O'Dell (forthcoming).

[13] See, for example, Aaronson et al. (2015).

Employers in Spartanburg and Racine draw workers from broad geographic footprints, which cross county and state lines. Both Spartanburg and Racine counties have seen increasingly tight labor market conditions, with unemployment at or below 4 percent, and have significant concentrations of manufacturing jobs. However, these two places also include communities with persistent barriers to economic inclusion, as well as poverty rates exceeding the national average. You can use our Peer City Identification Tool to see that both Spartanburg and Racine exhibit high levels of racial segregation, which present challenges for the economic and social inclusion of communities of color.[14]

In our growing economy, tight labor market conditions in these places currently allow for labor market opportunities to be extended to more people, including those traditionally marginalized. While monetary policy is too blunt a tool to address labor force challenges at the regional and local level, we continue to work with leaders and practitioners like yourselves to find efficient and effective ways to expand the opportunities that economic growth provides in our region.

Over the next several hours, you'll hear a variety of perspectives around the themes of human capital, workforce, and talent development. My job this morning has been to offer some framing observations that have emerged from our current research.

In closing, I want to recall some of the findings and recommendations of that OECD report[15] that was the genesis of the Alliance and the annual summit:

- When the report was released in 2012, our region's economic growth had slowed in the wake of the Great Recession. In more recent years, we have seen signs of a stronger recovery.
- Our workforce is aging, which some of our research suggests will be a headwind to economic growth.[16]
- The overall unemployment rate in our region is at a near all-time low, but black and Hispanic workers are continuing to experience much higher rates of unemployment than white workers.
- Concentrated poverty and the spatial segregation of minority populations[17] compound this problem.[18]
- Also making this problem worse is a chronic educational attainment gap between whites and blacks and Hispanics.

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[14] Data are from the Peer City Identification Tool based on 2010 U.S. Census measures at the city level.

[15] Organisation for Economic Co-operation and Development (2012). These findings are part of the assessments and recommendations beginning on p. 17 of the report.

[16] Aaronson, Davis, and Hu (2012).

[17] We continue to have a high degree of spatial segregation in the major cities within our District, according to the dissimilarity index data included in the Peer City Identification Tool.

[18] Chicago and Milwaukee are among the most segregated cities in the country. Some recent work has tried to quantify the costs of segregation. See, for example, the Urban Institute work available online, https://www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/cost-segregation.

While regional economic conditions have changed somewhat since the publication of the OECD report, it nonetheless calls attention to challenges that persist. Our work within the Federal Reserve has shown us that extending economic opportunities to all individuals is a complex task that must engage a broad range of participants. Gatherings such as this one help us make progress.

I'm sorry that I cannot stay for today's discussions myself, but I look forward to my staff's report on what we learn from the rest of the proceedings and how that will inform our work. I congratulate the Alliance on its successes to date, and I thank all of you for your participation and engagement in this important work.

Thank you.

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