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"Can Economic Opportunity Flourish When Communities Do Not?"

Eric S. Rosengren
President & Chief Executive Officer
Federal Reserve Bank of Boston

Conference Address
The Federal Reserve Bank of Boston's 58th
Economic Conference:
"Inequality of Economic Opportunity"

Boston, Massachusetts
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FEDERAL RESERVE BANK OF BOSTON™

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Good morning, and let me again welcome you to the Federal Reserve Bank of Boston's 58th economic conference. This year, our conference focuses on inequality of economic opportunity, with the hope of identifying possible policy remedies.

While *income* inequality may be a somewhat controversial issue, most people – even most economists – agree that equality of *opportunity* is a worthy goal. Yet society has fallen short in delivering on the goal of equality of opportunity. This conference features an intentionally diverse mix of scholars presenting research on a wide range of topics – including measuring inequality of opportunity, barriers to economic opportunity, early childhood intervention, education policy, the effects of geography on opportunity, and the effects of unequal opportunity on overall economic performance.

While income inequality is something of a “hot topic” in policy and scholarship today, the Boston Fed has long been concerned about the economic well-being of all citizens, including low- and moderate-income individuals. Indeed, the issue of income inequality was the focus of our Annual Report some 15 years ago.

To emphasize our concern with such topics, I would note that this our flagship economic conference series has, over the years, often taken an expanded view of the Federal Reserve’s mandate to maximize employment. Conferences have explored issues that determine long-run employment, such as financing public schools (1972), education in the 21st century (2002), minority business development (1976), welfare reform (1986), investment in public infrastructure (1990), and the importance of the full employment part of the dual mandate (2013).[1]

At the Boston Fed, we have a tradition of emphasis on employment and unemployment, not just inflation – that is, on both sides of the Federal Reserve’s dual mandate. We have traditionally emphasized promoting maximum sustainable employment as well as stable prices, which the Federal Reserve has defined as 2 percent inflation.[2] And as our research conferences and community work demonstrate, we have long been concerned with programs that impact low- and moderate-income individuals. This conference continues with the tradition of examining tools and levers outside of monetary policy that often can more directly help these individuals.

In short, this conference continues the Boston Fed's long-standing practice of emphasizing our duty to advance the maximum well-being of all citizens. Realizing that many of the problems faced by low- and moderate-income citizens are closely related to the economic decline of the cities they live in, in recent years, the Boston Fed has focused on determining successful policies for revitalization – a process I will tell you about today.

As I begin, I would note, as I always do, that the views I will express today are my own, not necessarily those of my colleagues at the Federal Reserve's Board of Governors or the Federal Open Market Committee (the FOMC).

Opportunity, in the Context of Local Communities

The first day of this conference covered, in some detail, why economic opportunities may not be evenly distributed. Conference participants noted, for example, that education from early childhood through college is an expensive proposition, and that many such highly priced opportunities may not be available for those with limited economic resources. Conference participants also discussed why opportunities might differ depending on parent and family characteristics, which go beyond income and wealth, and may be a particular impediment for some subgroups.

These impediments can be significant barriers to social mobility, and I expect our first session today will cover why intergenerational poverty is so prevalent, and why individuals from disadvantaged geographies frequently are unable to progress beyond the circumstances of their local community.

The focus of much of the discussion at this conference thus far has been on *people* – opportunities for people, barriers faced by people, and limited social mobility for people.[3] In my remarks today, I am going to take a somewhat different approach, which I believe will help bridge the conversation to the upcoming sessions. Beyond individuals and their families, I would like to ask what the impediments are that make it difficult for entire *communities* to escape their disadvantaged pasts. I emphasize communities because much of the weight in equalizing opportunity is borne at the local level.

Many New England communities experienced one or more significant negative economic shocks in the past half century – as textile producers, lumber mills, and manufacturing operations that were once the mainstay of many communities declined or completely disappeared. While it is difficult for individuals to overcome limited opportunities, the ability of entire communities to reinvent themselves has become increasingly important as evidence mounts suggesting how important social surroundings can be for individual success.

Ultimately, most of the key services that make up the public infrastructure supporting a healthy economic environment must be provided locally.[4] How well these local services are provided can vary considerably across communities, which in turn can have a substantial effect on the distribution of opportunities that impact individual development (the opportunities discussed yesterday at this conference). For example, most education in a child's formative years is provided by local school systems or nonprofit agencies, including early childhood education and, if necessary, English for speakers of other languages classes (ESOL). Local delivery also, obviously, characterizes elementary through high school education.

But education is only one of many key services with a strong local component. Studies have shown that the educational attainment of a mother is highly correlated with the eventual educational attainment of her children. Most services aimed at helping teenage mothers complete high school are provided at the local level, as are other services for single mothers. For another example, programs that aim to reintroduce ex-offenders into the workforce – which can be a particularly challenging endeavor – are provided by local communities. Cities with substantial numbers of ex-offenders are often particularly stressed to fund these programs.

These are but a few examples of the local delivery of services that can influence both opportunities and outcomes for a community's citizens.

Importantly, the quality of these local services depends on the economic circumstances of the broader community. The financial, leadership, and peer resources available can be highly dependent on whether a community is flourishing and effectively coordinating services.

The importance of the "community context" reinforces the notion that successfully addressing the issue of economic opportunity will increasingly require communities that are both in good health economically and effective in delivering key local services. This raises some questions. Have we invested enough time and energy into encouraging communities to flourish? And is local civic and social infrastructure sufficient to provide opportunities for individuals to overcome economic barriers?

Today, I will discuss some of the experience in this regard through the lens of some of the mid-sized cities in Massachusetts.[5] And I will briefly describe actions being taken by the Federal Reserve Bank of Boston, along with a host of partners, that may be a promising model for helping such cities to help themselves.

Can *Cities* Become "Upwardly Mobile"?

Figure 1 shows median family income in 2010 dollars for the United States, Massachusetts, and the mid-sized cities in Massachusetts. For the mid-sized cities, the chart shows median family income for three cities – the city with the highest, median, and lowest median family income growth over the roughly 50-year period.

As you can see, the median family income in the Massachusetts mid-sized city ranked in the middle in terms of growth is relatively close to that of the entire United States, with both showing improvement from 1959 to 1999, but then showing a decline over the 10 years leading up to the end of our data. However, the cities with the highest and lowest median family income growth show sharply divergent outcomes, not unlike charts summarizing the experience of individuals at the two ends of the distribution. The mid-sized city with the highest median family income growth of the 33 Massachusetts mid-sized cities has shown dramatic gains in family income. In contrast, at the other end of the distribution, the city with the lowest median family income growth has shown declining median family income since 1969.

Figure 2 suggests how difficult it has been for mid-sized cities to be upwardly mobile. The figure shows the 10 mid-sized Massachusetts cities with the lowest median income at the end of each decade since 1959. If mid-sized cities were upwardly mobile, we would expect to see successful cities dropping off this list over time. But, as the color coding illustrates, many of the cities with the lowest median family income in 1959 continue to be cities with the lowest median family income through the most recent decade. For example, Lawrence has been among the six Massachusetts mid-sized cities with the lowest median family income since 1959, and was in the unfortunate position of having the lowest median family income over the last three decades.

Figure 3 shows how striking the decline in median family income has been in many of these mid-sized cities relative to the median family income in the United States. The city of Lawrence, which had been close to the median family income for the United States in 1969, was earning only 60 percent of the median family income for the United States by 2009.[6] In addition, most of the other mid-sized cities have seen median family income relative to that for the United States fall by between 20 and 30 percent.

While these cities have experienced difficulties for a variety of reasons, many of them had strong manufacturing sectors in 1960, which provided median family incomes relatively close to the national average. However, as **Figure 4** illustrates, many of these cities have experienced dramatic declines in manufacturing employment, particularly over the past three decades.

As manufacturing declined in many of these mid-sized cities, one might have thought that the general population of such cities would drop significantly. **Figure 5** shows that while there have been modest percentage population declines in some cities, both Chelsea and Lawrence have experienced *increases* in population. Of the five mid-sized cities with the lowest median family income, only Holyoke has seen a sizable percentage population decline.

While the overall population of these cities generally has not experienced dramatic declines, there have been substantial changes in their demographic composition.

One change has been the significant increase in Hispanic and Latino populations in many of these cities, as seen in **Figure 6**. These cities have often been referred to as "gateway" cities because many of them host sizable immigrant populations. During the decades when manufacturing was growing in New England, many of these immigrants came from Europe; more recently, many of the new immigrants have come from Latin America. The one exception in the figure, Fall River, reflects that more than half the city's population traces their ancestry back to the Azorean islands of Portugal.[7]

Regardless of their ethnic makeup, it is important to note that the failure of many of these cities to effectively deliver key "backbone" services can have a significant impact on residents. For example, in Lawrence, the ability of residents to make progress was impeded by the poor performance of the Lawrence Public Schools, culminating in the schools being placed in state receivership.

These local problems are no small matter when you consider that most social and educational services are produced, managed, and provided locally. Local governments and local organizations play key roles in what is the focus of this conference – equalizing economic opportunity. As you'll see in **Figure 7**, in Lawrence alone, there are 14 licensed nonprofit center-based preschool programs, 11 nonprofit organizations providing support to young parents pursuing their education, and 10 nonprofit organizations that provide ESOL classes.[8] It stands to reason that local services are likely to have the greatest impact if they can be coordinated effectively and collaboratively – and if local private, public, and nonprofit resources are working together to address the multifaceted challenges their residents may face.

Research by the Federal Reserve Bank of Boston's Yolanda Kodrzycki and Ana Patricia Muñoz found that having effective civic leadership and a common vision within a city paired with strong cross-sector, collaborative support for that vision can significantly improve the chances of a city improving its economic circumstances.[9]

Their research illustrates that a big part of the answer to these complicated and persistent challenges facing mid-size cities is *people in multiple sectors working collaboratively with a common vision.* In addition, their research suggests that civic infrastructure is a prerequisite to physical infrastructure, requiring active leadership of cross-sector "muscle," spirited consensus, and passion and perseverance over the long haul. Put another way, it may take 10 to 15 passionate but collaborative visionaries pushing for some 10 to 15 years to achieve transformational change.

For the skeptics among us, allow me to acknowledge the obvious: economic development in these challenged cities will take time. The task and toil required are not unlike the paradox of the long distance runner. In order to reach the finish line successfully, one needs equal amounts of patience and urgency. What our research suggests is that like-minded local leaders collaboratively focused on an agreed-upon vision may be the key ingredient.

Reinventing Cities

Figure 8 shows the mid-sized Massachusetts cities with the largest increase in median family income, measured relative to the United States as a whole. Three of the four were relatively prosperous in 1959 and have seen improvements in median family income relative to the United States since then. However, one of those cities, Cambridge, stands out as a city that was *below* the U.S. median family income in 1979, but has done especially well over the past three decades. In fact, Cambridge was among the 10 mid-sized cities with the lowest family income in Massachusetts in 1979, and has since made significant progress.

Clearly, Cambridge has benefited from large and important anchor educational institutions that have played a significant role in the city's success. However, these institutions were in Cambridge well before 1979, yet only in the past 30 years have we seen significant improvements in median family income relative to the United States median. To be sure, many would cite gentrification as a complicated matter affecting the enhanced performance of some communities over time, Cambridge among them.

While proximity to Boston and its strong educational, financial, and medical institutions has helped many Massachusetts cities to prosper, there are examples of mid-sized cities in New England that have reinvented themselves in other ways. **Figure 9** shows two other mid-sized cities in the region that have suffered major declines in manufacturing, but, as shown in **Figure 10,** have experienced significantly improved family incomes relative to the United States median. Both Portland, Maine, and Portsmouth, New Hampshire – much like Cambridge, Massachusetts – had median family incomes well below that of the nation in 1979, but have shown significant improvement since then. Again, gentrification's mixed effects and role must be taken into account, as it potentially increases the challenges for low- and moderate-income families in communities that are making progress.

Noting that some cities in New England and the nation have succeeded in reinventing themselves post-manufacturing, and given our research that highlighted the need to have strong cross-sector collaboration, we at the Federal Reserve Bank of Boston considered how we could facilitate and support revival in some of our region's mid-sized cities. The implementation of that vision has been the project we call the Working Cities Challenge.[10]

What Distinguishes "Working" Cities?

The Working Cities Challenge is an outgrowth of earlier community development work at the Boston Fed. For example, we participated in a joint Brookings Institution and Federal Reserve study on concentrated poverty published in 2008.[11] As an outgrowth of that project, we began working with the city of Springfield, Massachusetts, a populous "gateway" city that once had a strong manufacturing base, and studied the civic dynamics in similar mid-sized cities that had experienced success in reinventing themselves post-manufacturing.[12]

Looking to translate that research into action, we launched a competition among 20 mid-sized Massachusetts cities that we identified as having a below-median family income and above-median poverty rates.[13] The proposals those cities submitted needed to demonstrate strong collaboration between local businesses, nonprofits, and local governments. The cities vied for multi-year grants that would help to support the work described in their proposal.

Interestingly, in order to get the program up and running, we at the Boston Fed needed to change our own behavior, step out of our comfort zone, and begin to collaborate with cross-sector parties we had not worked with before. We tried to "practice what we preached" by actively adopting the very collaboration we were advocating for in the competition. Collaborating with outside parties turned out to be a most illuminating experience, one we are still learning from as we consider broadening the program to other states in New England.

We didn't fund the grants ourselves – our private, public, and philanthropic partners did[14] – nor did we choose the winners.[15] What we did do was incent the development of the collaborative vision in each city by allowing only one proposal per city and requiring high-level involvement from business, nonprofit, and local government leaders. Proposals could focus on any issue area, as long as they were meant to improve the lives of low- and moderate-income citizens in their community.

While we were looking for innovative proposals, this was as much about the process as the project. By that I refer to the ability of business leaders, government officials, and nonprofit organizations in a particular city to focus on a specific problem facing low- and moderate-income individuals in their city and work collaboratively to solve it.

Hopefully, this process of working together will provide benefits well after the particular project that the Working Cities Challenge funded is over. This is particularly true in relation to the private sector, which in some cases has not been at the table and actively engaged.

As a result of this relatively unconstrained application process, each of the 20 Working Cities put forward a proposal that addressed specific, systemic challenges facing their low- and moderate-income residents. In the western Massachusetts city of Holyoke, the city team focused their proposal on ways to encourage Hispanic and Latino entrepreneurship. While nearly half of the city's population identifies as Hispanic or

Latino, only 9 percent of Holyoke's businesses are currently Latino-owned. By streamlining access to the city's economic development services, the Holyoke team's initiative aims to bring this figure to 25 percent over the next 10 years.

A number of the proposals focused on helping cities make informed decisions using data, a complicated and challenging area for smaller cities. In Fitchburg, the city is implementing a "report card" for its North of Main neighborhood that tracks municipal indicators including education, public safety, economic development, and housing – to name a few. They hope to use the results to make better decisions about how the city allocates funding and resources for the neighborhood and its residents.

Earlier in this talk I mentioned the city of Lawrence and the challenges its residents faced due to poor performance in the school system. Lawrence actually won the top prize in the Working Cities Challenge for a proposal that focused on its schools in a unique way.

Their plan aims to strengthen the economic security of parents of children in the Lawrence Public Schools by creating a network of workforce-supportive services ranging from specialized adult education and certificate training, employer internships, financial coaching, and expanded access to child care – which is often crucial to helping a parent be able to work more hours. Lawrence is also committed to making the school community open and accessible to Latino residents – historically a challenge for many gateway cities. In implementing this comprehensive network of services, the Lawrence team has a goal of raising the income of parents with children in the Lawrence Public School System by 15 percent over a 10-year period.

In Chelsea, the team is working to transform the city's Shurtleff-Bellingham neighborhood from a transient, high-poverty area into a neighborhood where residents have the opportunity to climb out of poverty, then choose to stay long-term and invest time and resources.

On Thursday, Chair Yellen and I visited Chelsea to meet with the leaders and clients of CONNECT, a consortium of local organizations that works collaboratively to provide integrated employment services for local residents related to economic instability, housing, and financial and educational opportunities.[16] While there, we were able to hear from residents directly about how programs like CONNECT are making a difference in their community, especially for those residents who are trying to enter or re-enter the workforce. I found it very rewarding to be able to talk with Chelsea residents and see that the sort of collaboration encouraged by efforts like the Working Cities Challenge is indeed having a positive impact on their lives.

We are still in the first year of implementation, and realize that it will take some time to see the full results. One positive outcome that we have seen so far is that the engaged participation of cities in the competition has encouraged other organizations to undertake similar endeavors. While the ultimate socioeconomic impact of this competition may take years to observe in the data, the initial qualitative results look promising. The Federal Reserve Bank of Boston will be looking to replicate the experience in other states in New England, with the unique characteristics of each state impacting the exact design of the competition.

Concluding Observations

In summary and conclusion, I would note that a variety of studies have highlighted important interventions that can affect economic opportunity. Most of these interventions – services and education, for example – are produced at the local level, so it stands to reason that the effective delivery of such services can be significantly impacted by the effectiveness with which communities and local institutions work together in providing the services. Money alone is not sufficient. Many of the Massachusetts cities that have lagged the nation have performed worse over time despite significant expenditure of governmental or nonprofit funds in these cities.

Our research at the Boston Fed suggests, in addition, that a crucial factor in these outcomes may be the inability of institutions and groups in these cities to mobilize around, support, and pull toward a collaborative vision for change.

This highlights that creating true economic opportunity may require new thinking and tactics, and new points of emphasis – such as civic collaboration and leadership – rather than just an increase in funds. The Boston Fed, sparked by its research that highlighted the long-term benefits of cross-sector collaboration around a common vision, is looking to expand the Working Cities Challenge to try to incent communities to help themselves.

Concentrated, intergenerational poverty suggests that inequality of opportunity is a community issue. Most agree that equality of opportunity is a crucial social goal. Hopefully, research such as that done at this conference and policy experimentation of the sort promoted by the Working Cities Challenge will make noticeable headway in attaining this vital goal. While we must not underestimate the challenges, hopefully we will be able to look back a decade or so from now and see significant progress in our communities and steady improvements in equality of opportunity for people.

Thank you.

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[1] Nor are these issues just an annual event. For example, the Boston Fed's interest in ensuring fair access to credit for all individuals was evident in research and analysis in the early 1990s culminating in the landmark study of mortgage lending in 1992 that found that race was being used as a factor in mortgage lending decisions. Nor is it restricted to research, as the Boston Fed worked with banks and community organizations to try and make fair lending a reality. And more recently, the Boston Fed attempted to mitigate the effects of the recent mortgage market crisis by pursuing a variety of programs to help prevent unnecessary foreclosures – most notably three large foreclosure-prevention workshops.

[2] Not surprisingly, the Boston Fed's concern for the unemployed is evident when it comes to the formulation of national monetary policy. The Bank has a longstanding emphasis on the employment side of the Fed's mandate that has characterized the policymaking and speeches of the Boston Fed presidents since the 1970s – Frank Morris, Dick Syron, Cathy Minehan, and myself.

[3] For a good overview see Richard Reeve's essay "Equality, Opportunity, and the American Dream."

[4] Ron Haskins and Isabel Sawhill in their book, "Creating an Opportunity Society," discuss a variety of economic policies that could improve economic opportunity. Many of the policies would require effective provision of local services.

[5] We define Massachusetts mid-sized cities as cities and towns with a population of 35,000 – 200,000 in 2010 and a population of at least 30,000 in 1960. Thirty-three Massachusetts cities and towns meet these criteria: Arlington, Beverly, Braintree, Brockton, Brookline, Cambridge, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Framingham, Haverhill, Holyoke, Lawrence, Lowell, Lynn, Malden, Medford, New Bedford, Newton, Peabody, Pittsfield, Quincy, Revere, Salem, Somerville, Springfield, Taunton, Waltham, Weymouth, Woburn, and Worcester.

[6] For this analysis, we used the 2008 – 2010 American Community Survey (ACS) data.

[7] http://www.massinc.org/Programs/Gateway-Cities/About-the-Gateway-Cities.aspx

[8] Another consideration is the dissemination of state aid to local communities. Policy analysts in the Boston Fed's New England Public Policy Center (NEPPC) explored this for Massachusetts and found that the current local aid formula effectively gives favorable treatment to communities receiving more existing aid compared with those receiving less or no existing aid. As a fairer alternative, the authors proposed a new approach that considers existing and new aid together in filling the local gap. Bo Zhao and Katharine Bradbury, "Designing State Aid Formulas: The Case of a New Formula for Distributing Municipal Aid in Massachusetts," New England Public Policy Center Working Paper 08-2 (2008) http://www.bostonfed.org/economic/neppc/wp/2008/neppcwp0802.htm

[9] Yolanda Kodrzycki and Ana Patricia Muñoz, "Reinvigorating Springfield's Economy: Lessons from Resurgent Cities," FRB Boston Community Development Discussion Papers Series, No. 09-3 (2009). An abbreviated version of this research, entitled "Lessons from Resurgent Mid-Sized Manufacturing Cities,"

appears as chapter 5 of Susan M. Wachter and Kimberly Zeuli, eds., *Revitalizing America's Cities*, University of Pennsylvania Press, 2014. http://www.bostonfed.org/economic/ppdp/2009/ppdp0906.htm

[10] The Working Cities Challenge is an initiative led by the Federal Reserve Bank of Boston with a twofold goal: to advance collaborative leadership in Massachusetts' mid-sized cities and to support ambitious work to improve the lives of low-income people in those cities. For more information, visit: http://www.bostonfed.org/workingcities/

[11] http://www.frbsf.org/community-development/files/cp_fullreport.pdf

[12] This work helped inform Kodrzycki and Muñoz's paper.

[13] The participating cities were Lawrence, Fitchburg, Holyoke, Chelsea, Salem, Somerville, Brockton, Chicopee, Everett, Fall River, Haverhill, Lowell, Lynn, Malden, New Bedford, Pittsfield, Revere, Springfield, Taunton, and Worcester. For more information, visit http://www.bostonfed.org/workingcities/cities/index.htm

[14] For the full list of funding partners, competition partners, and steering committee members, please see http://bostonfed.org/WorkingCities/about/partners.htm

[15] For a description of the challenge jury selection process as well as a full list of jurors, please visit http://bostonfed.org/WorkingCities/about/challenge-jury-selection-process.htm

[16] http://www.connectnow.org/