A House Divided: Geographic Disparities in 21st Century America

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What is the role of “place” in economic policy?

Economists have traditionally been skeptical about geographic location’s role in reducing inequality and increasing economic opportunity. People are mobile.

But the gap between poorer and richer places is more evident.

Should policies aimed at decreasing inequality now begin targeting places, rather than people?

If so, what place-based policies have the best chance for success?

Some trends worth noting:

- The gap in income distribution between poorer and richer states is no longer shrinking, after narrowing through most of the 20th century.
- Migration from poorer to richer states, once an important response to regional economic shocks, has slowed.
- Housing costs in thriving areas have become prohibitive to workers in less prosperous places.
Some Key Questions to Consider

- Conference papers will address key questions about regional disparities:
  - Whether and why persistent differences in labor market conditions across locations have changed in the last two decades.
  - Why economists who have traditionally downplayed the importance of regional economic shocks are reconsidering that view.
  - How geography impacts access to quality education and health care.
  - How current research explains the decline in interstate migration, including how much is related to local housing policies.
  - Demographic differences, including age, between rural and urban America.
  - Different ways to measure quality of life in rural and urban America.
Context for the Fed’s Focus and Involvement

- Our focus on development in low and moderate income communities and rural areas is rooted in the Fed’s dual mandate from Congress, and its overarching focus on the public’s welfare.

- Our primary mission is certainly macroeconomic policy, but we focus on improving economic outcomes *throughout* New England, including low and moderate income regions, through:
  - Research on these issues; for example on the drivers of resurgence in post-manufacturing smaller cities;
  - Convening;
  - Innovative programs like our Working Cities / Working Communities Challenge;
  - The longstanding Boston Fed focus on labor markets and dynamics of participation, in contributing analysis to national monetary policy.
Nationally, We are Seeing Significant Disparities in Outcomes, by Geography

- “Superstar Cities” are attracting more people and businesses:
  - In particular, they are attracting young, well-educated workers.
  - Incomes are growing quickly.
  - Often they are seeing rising housing prices.

- While more rural areas face significant challenges:
  - Fewer young people, more older people.
  - Lower educational outcomes than cities.
  - Incomes growing more slowly.
  - Health outcomes that are less favorable than in metropolitan areas.
Figure 1: College versus High-School Wage Premium
1963 - 2017

Note: Percentage gap between college and high-school wages for full-time, full-year workers, holding labor market experience constant over time.
Source: Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS) and author's calculations
Figure 2: Life Expectancy
1980 - 2014

Note: The metropolitan/non-metropolitan designations are based on metropolitan-area boundaries as of February 2013.
Source: Global Health Data Exchange at the Institute for Health Metrics and Evaluation (IHME), U.S. Bureau of the Census
Geographic Disparity is Evident in New England

- Major cities in New England have prospered recently – e.g., Burlington VT, Portland ME, and Boston MA.
  - This was not always the case – in the period from 1960 to 1980, median family income in New England fell relative to the United States.

- Primary cities have prospered more recently:
  - Attracting younger people
  - Attracting more educated workers
  - Population has grown

- Outside of primary cities, the opposite is true:
  - Older population
  - Less educated population relative to primary cities
  - Slower population growth
Figure 3: Per Capita Personal Income Trends in the Boston, Burlington, and Portland Metropolitan Statistical Areas
1969 - 2017

Source: Bureau of Economic Analysis
Figure 4: Population Growth
2010 - 2018

Note: Boston Metro is the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area. Burlington Metro is the Burlington-South Burlington Metropolitan Statistical Area. Portland Metro is the Portland-South Portland Metropolitan Statistical Area. The remainder is the state’s population excluding the population of the metro area.

Source: U.S. Bureau of the Census
Figure 5: Share of Population Age 20-39
2018

Note: Boston Metro is the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area. Burlington Metro is the Burlington-South Burlington Metropolitan Statistical Area. Portland Metro is the Portland-South Portland Metropolitan Statistical Area. The remainder is the state’s population excluding the population of the metro area.

Figure 6: Share of Population Age 65 and Older
2018

Note: Boston Metro is the Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area. Burlington Metro is the Burlington-South Burlington Metropolitan Statistical Area. Portland Metro is the Portland-South Portland Metropolitan Statistical Area. The remainder is the state’s population excluding the population of the metro area.

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Figure 8: Median Family Income Trends in Massachusetts Mid-Sized Cities with the Lowest Median Family Income

Figure 9: Population Growth Trends in Massachusetts Working Cities Challenge Participants

Note: WCC Grant Recipients refers to Round 1 winners.
Source: U.S. Bureau of the Census
Over the past 50 years, many of the smaller cities saw manufacturing decline, and little progress in economic outcomes; however, in many of the smaller cities the population has been growing.

5 years ago the Boston Fed initiated a grant competition, the *Working Cities Challenge*, to help people in struggling, post-industrial communities address chronic problems by building leadership and collaboration across sectors, on shared goals.

After inaugural rounds in Massachusetts, we expanded the program to Rhode Island and then Connecticut.

Now the effort is expanding in northern New England, supporting rural areas as well as smaller cities. The *Working Communities Challenge* launched this year in Vermont, with plans to expand to Maine.
The first round of winning cities have leveraged $1.6 million in award grants (from foundations and states) into $11 million in follow-on funds. Cities have adjusted spending to reinforce winning initiatives.

Needles are moving on 10-year goals, e.g.: jobs, and school outcomes, improved in Lawrence, MA; crime is down in Chelsea, MA.

Many citizens have been positively affected (through jobs, training, education, small business creation, or connection to social supports).

There has been new CEO and anchor-institution engagement in most cities.

The application process creates important new work and capacity in cities that win and some cities that did not win.

We have seen better targeting of statewide policy toward smaller cities.

There has been increased national and local philanthropic interest/investment in smaller cities.
We need to try new policies. The lack of economic progress in many regions of New England, and the country – regions that continue to have significant populations – calls out for new solutions.

This has encouraged a focus on place. Greater focus on qualities that enable economic turnaround is an important goal. Hopefully this conference will stimulate further such initiatives.

The Boston Fed’s Working Cities / Working Communities efforts provide a useful framework for addressing some of the regional disparities at the heart of this conference.

We look forward to learning from participants about what more can be done.