

# Connecting Communities



## *Reinventing Our Communities: Planning for Equity in Recovery – Lessons We’re Learning from COVID-19*

May 28, 2020

*Organized by the Federal Reserve Bank of St. Louis*

# Welcome

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**Patrick T. Harker**  
President and CEO of the  
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Philadelphia



**Raghuram G. Rajan**  
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University of Chicago  
Booth School of Business

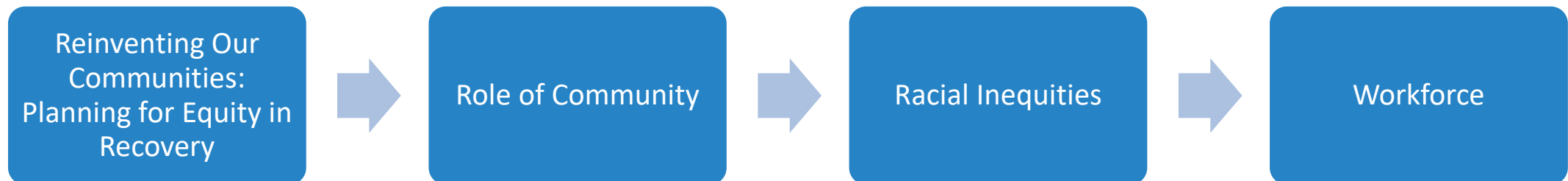


**Andre Perry**  
Fellow, Metropolitan  
Program at the Brookings  
Institution



**Heather Boushey**  
President and CEO of the  
Washington Center for  
Equitable Growth

## Agenda for this webinar



Join

- Call-in number **888-625-5230**
- Conference Code: **260 668 24#**
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/34799>

Questions

- Email us at: [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Type your question into the chat box of the webinar

Website

- Please visit <https://bsr.stlouisfed.org/connectingCommunities>

The **Connecting Communities**<sup>®</sup> audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

# Legal Notices and Disclaimer

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**The information, analyses, and conclusion set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.**

# Community Development

The mission of the Federal Reserve’s community development function is to promote the economic resilience and mobility of low- to moderate-income and underserved individuals and communities.



# *Reinventing Our Communities: Planning for Equity in Recovery*



**Patrick T. Harker**

*President and CEO*

Federal Reserve Bank of Philadelphia



FEDERAL RESERVE BANK OF PHILADELPHIA

# Equity in Recovery: Role of Community



**Raghuram G. Rajan**

*Katherine Dusak Miller Distinguished  
Service Professor of Finance*

University of Chicago Booth School of  
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# Pandemic

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Many emerging divisions in society even before the pandemic

- Young vs. old
- Moderately educated vs. well educated
- Race
- Rural vs. urban, left-behind communities

Pandemic exacerbates these divisions

- Lockdowns to protect the old, young first to lose their jobs or not be hired
- Job losses affect moderately educated more than educated
- Rural may see lockdown vs. opening tradeoff differently than urban



# Stimulus spending needed in any case

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Spending should be targeted to reducing some of these divisions.

- Infrastructure is an investment for the future and more likely to benefit the young than the elderly.
- If green-oriented, infrastructure can help address climate change, an important concern of youth.
- Nonresidential construction provides jobs for the moderately educated. There is likely to be a shortage of such jobs in the next three years because:
  - Private nonresidential construction is likely to fall as offices and malls give way to warehouses and data centers.
  - States and local bodies are likely to be strapped, and \$400 billion in infrastructure spending comes from them annually.
- There will be an estimated shortfall of about \$500 billion in nonresidential construction over the next three years, according to Morgan Stanley — costs of building infrastructure will be relatively low.

How should the decisions on such spending be made?

# Priority should be on left-behind communities

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## Spending on

- Soft infrastructure (e.g., broadband)
- Hard infrastructure (strengthening community training facilities, better access to markets, local transportation networks)
- Financial infrastructure (e.g., community banks) can help them attract jobs.

## More firepower if combined with opportunity zone tax benefits

- Private-public partnerships

How can bottom-up plans emerge from communities and obtain funding?

# Challenges

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Best if funding takes the form of block grants so that communities have the greatest ability to address their specific needs.

- Community leadership needs to get engaged
- Consensus building around community priorities
- Project design and implementation

Such projects can themselves increase community engagement and cohesion.

How can viable infrastructure spending projects be generated in the short run, without going back to a top down structure?

- Some will emerge as a result of the pandemic — private assets that need rescue/rehabilitation (e.g., community bank in Pilsen)
- Some could emerge from sharing best practices and greatest mistakes across communities.
- NGOs/professionals/philanthropies could assist the design process.
- Convening power of entities like the Federal Reserve Banks could help.

Ideas?

# Equity in Recovery: Racial Inequities



**Andre Perry**

*Fellow, Metropolitan Policy Program*

Brookings Institution



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# Before the coronavirus became a pandemic: *Housing*

## Devaluation of homes

In a previous study, we presented evidence of **home devaluation in Black-majority neighborhoods**

↓ **23%**

on average, compared with homes in neighborhoods that are <1% black, amounting to

**-\$156 Billion**



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# Before the coronavirus became a pandemic: *Small Business*

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## Devaluation of businesses

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**Highly rated** businesses in black neighborhoods experience **lower revenue growth** than **poorly rated** businesses in neighborhoods that are less than 1% black

Source: Analysis of Dun & Bradstreet and Yelp data



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# Before the coronavirus became a pandemic: *Small Business*

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- Black people represent **12.7%** of the U.S. population, but only **2.2%** of the nation's 5.7 million businesses with employees (2017).

Source: Census Bureau 2018 Annual Business Survey

- Only **1%** of black business owners were able to obtain loans in their founding year, compared with **7%** of white entrepreneurs.

Source: Stanford Institute for Economic Policy Research

- Black entrepreneurs are denied bank loans more than twice as often than their white peers — **53%** vs. **25%**.

Source: Federal Reserve



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# Before the coronavirus became a pandemic: *Small Business*

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- People of color pay higher interest rates on average than their white peers – **7.8%** to **6.4%**.
- About **half** of black businesses survived the Great Recession, compared to **60%** of white-owned firms.
- **95%** of black-owned businesses did not receive PPP loans as part of the CARES Act.

Source: Federal Reserve

Source: Stanford Institute for Economic Policy Research

Source: Center for Responsible Lending



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# How to counter devaluation

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## Invest in **PEOPLE**

- **Direct capital** toward minority-owned firms and “DBEs” (Cut the Check)
- **Remove unnecessary bureaucratic barriers** to entry for entrepreneurs from black communities

## Invest in **PLACES**

- Make **targeted infrastructure investments** in black neighborhoods
- Incentivize DBEs to **renovate and operate** in devalued areas



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# Equity in Recovery: Workforce



**Heather Boushey**

*President and CEO*

Washington Center for Equitable  
Growth

# Principles to guide long-term structural change in the U.S. economy

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Recognize that markets cannot perform the work of government

Address fragilities in our markets themselves

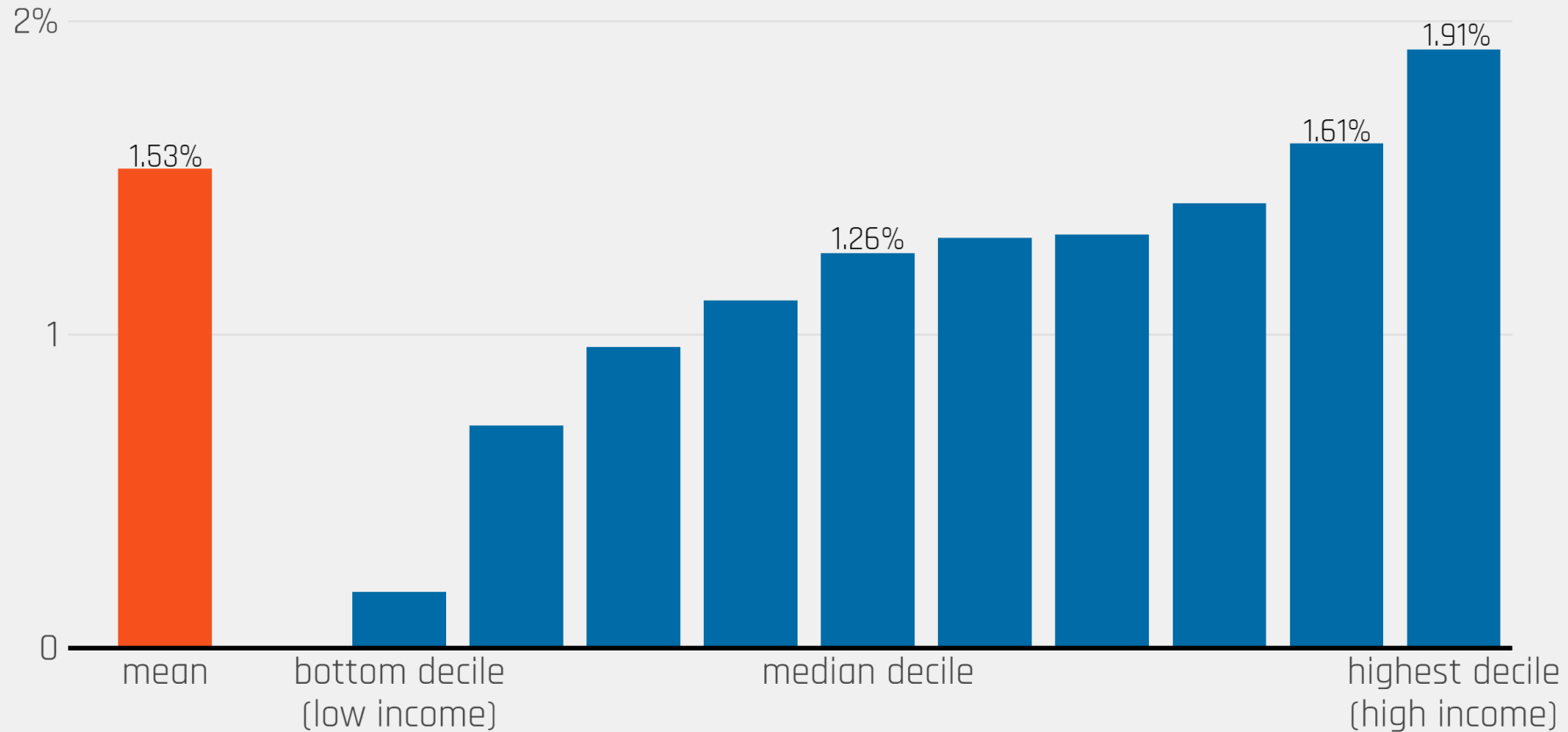
Keep income flowing to all the unemployed workers and small businesses now and in future crises

Ensure those who are still employed can stay employed

Produce headline economic statistics that represent the wellbeing of all Americans

## Average economic growth largely represents the fortunes of the rich

Average growth in national income and in each decile of national income in the United States, 1980-2016

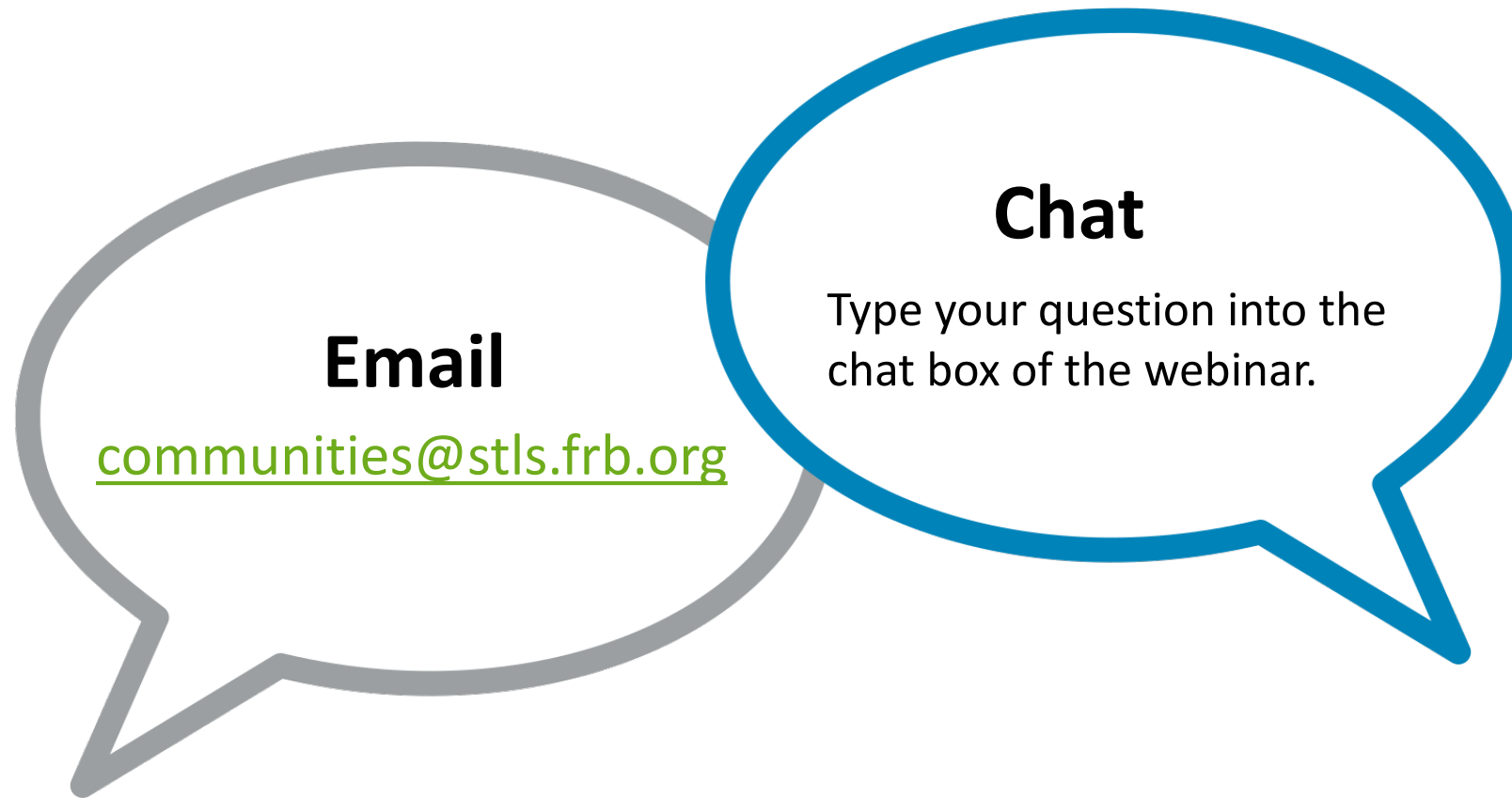


Source: Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," *The Quarterly Journal of Economics* 133 (2) (2018): 553-609.



# Questions

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# Next Steps

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- All session materials are available on our website, and in the next few days, we will post an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at [communities@stls.frb.org](mailto:communities@stls.frb.org).
- Information about future sessions will be posted on our website along with archived materials from past sessions: <https://bsr.stlouisfed.org/connectingcommunities>.