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

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Organized by the Federal Reserve Bank of St. Louis
Welcome

Patrick T. Harker, President and CEO of the Federal Reserve Bank of Philadelphia

Raghuram G. Rajan, Professor of Finance at the 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

- Reinventing Our Communities: Planning for Equity in Recovery
- Role of Community
- Racial Inequities
- Workforce
The Connecting Communities® 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.
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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
Equity in Recovery: Role of Community

Raghuram G. Rajan

*Katherine Dusak Miller Distinguished Service Professor of Finance*

University of Chicago Booth School of Business
Pandemic

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

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

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

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*

**Devaluation of businesses**

*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**

- 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**

- People of color pay higher interest rates on average than their white peers – **7.8%** to **6.4%**.
  
  Source: Federal Reserve

- About **half** of black businesses survived the Great Recession, compared to **60%** of white-owned firms.
  
  Source: Stanford Institute for Economic Policy Research

- **95%** of black-owned businesses did not receive PPP loans as part of the CARES Act.
  
  Source: Center for Responsible Lending

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How to counter devaluation

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

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 well-being 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

Questions

Email

communities@stls.frb.org

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Next Steps

• 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.

• Information about future sessions will be posted on our website along with archived materials from past sessions: https://bsr.stlouisfed.org/connectingcommunities.