Challenges and Opportunities in Chicago’s Hardest-Hit Neighborhoods

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The views expressed today are my own and not necessarily those of the Federal Reserve System or the FOMC.
Covid-19 and the Future of the U.S. Economy
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Introduction and disclaimer

Good afternoon, everyone. Thank you for the kind introduction. I appreciate the opportunity to speak with the members of the Illinois Chamber of Commerce. The views I share today are mine and don’t necessarily reflect the views of the Federal Open Market Committee (FOMC) or the Federal Reserve System.

I was very glad to see that the Illinois Chamber was focusing its annual meeting on economic development in distressed communities. And I was also heartened to hear that Wintrust would be announcing that a new bank branch would soon be opening in Chicago’s Lawndale neighborhood.

A thin silver lining of our current virtual environment is that it allows those from outside the city and across the state to join us without a long trip. So I also want to acknowledge those from near and far as we celebrate the important addition of financial services to one of Chicago’s distressed communities.

While every neighborhood is unique, limited access to quality education, living-wage jobs, transportation, decent affordable housing, and other resources is common in many distressed communities, which are now also among the most severely affected by Covid-19. Many such communities have long suffered from disinvestment, economic exclusion, and systemic racism. My remarks will highlight five main points about the
challenges and opportunities today in Chicago's distressed and hardest-hit neighborhoods.

First, the pandemic and recession have challenged us all at an unprecedented scale, but residents and businesses in predominantly minority neighborhoods have borne an unfair and outsized burden. Since the first recorded case of Covid-19 in Chicago eight months ago, cases and deaths in minority neighborhoods have been especially high. So have job losses and business closures.

Second, while many hoped the pandemic and economic fallout would quickly pass, we find ourselves still struggling to contain the virus and mitigate the economic damage. Until we make sufficient progress in controlling the spread of the virus, an inclusive economic recovery will be difficult.

Third, the expirations of enhanced unemployment insurance benefits, Payroll Protection Program (PPP) lending, and restrictions on some layoffs for firms receiving special industrial relief aid loom large. These reductions will test the true resiliency of the U.S. economy. The potential hole in aggregate demand may be large, and in my view more fiscal relief is needed in order to limit further damage to households and businesses, especially those in vulnerable communities.

Fourth, the longer the dual challenges of the pandemic and recession continue, the greater is the risk of deepening the already stark inequities in our economy. At the Chicago Fed, we recently launched an initiative called Project Hometown to examine how our communities can recover from the pandemic and overcome racism and other
inequities. In Project Hometown's public forums, many business and community leaders have insightfully emphasized that the long-term disinvestment that Lawndale shares with other West Side and South Side neighborhoods worsens job opportunities during the pandemic; further limits access to food, education, and shelter; and magnifies the many barriers to economic opportunity.

Finally, I will conclude my remarks by highlighting the importance of collaboration among diverse actors—including policymakers, regulators, financial institutions, residents, and mission-driven organizations, as well as business leaders—to support Lawndale and other disinvested neighborhoods and to bring about a more inclusive and equitable recovery.

**Greater adverse impact in distressed communities**

Long before the pandemic, neighborhoods like Lawndale suffered from chronic disinvestment, which left them vulnerable in economic downturns. But the pandemic has had a greater adverse impact for several reasons.

For one, there have been large numbers of job losses among workers in the retail, leisure, and hospitality sectors since March. Public health concerns about in-person contact and stay-at-home orders have hit these sectors particularly hard.¹

A serious concern is that workers in retail, leisure, and hospitality often are relatively low paid and have little savings, leaving them especially vulnerable to hardship when they

¹ See Chetty et al. (2020) and Alexander and Karger (2020).
lose their jobs. These sectors also employ more women and minorities, who have both lost jobs and been hit hard in other ways, such as by having to shoulder a disproportionate share of the extra childcare responsibilities or contracting the virus at a higher rate.\textsuperscript{2}

Notably, many job losses resulted from closures of small businesses located in the city’s more affluent areas. But Chicago’s long-standing racial and income segregation means that workers losing these jobs tend to live in lower-income and minority communities.

During the pandemic, minority- and women-owned businesses in these communities are more likely to have closed, both because of the industries in which they operate and because they have fewer resources to draw on in difficult times.\textsuperscript{3} Moreover, many of these businesses likely lacked the resources to pivot quickly to online sales.

During one of our Project Hometown events over the summer, Nedra Sims Fears, executive director of the Greater Chatham Initiative, noted that in Chicago, we are seeing a digital divide among businesses—particularly in the inability of some businesses to pivot to online ordering and delivery. Moreover, she observed, it has been a patchwork effort to get families access to broadband and other technological

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\item \textsuperscript{2} In our outreach, we at the Chicago Fed have observed that socioeconomic indicators of vulnerability—such as poverty and unemployment—were strongly correlated with poor health outcomes (Longworth, 2014).
\item \textsuperscript{3} Bartik et al. (2020).
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resources—to give them the hardware, the software, and the training they need—so that they can successfully work from home.4

Business owners’ relationships with accountants, lawyers, and financial institutions were important factors in whether their financial records were in order ahead of applying for PPP loans. Early assessments of the Paycheck Protection Program suggest that women- and minority-owned businesses were less likely to have received these U.S. Small Business Administration (SBA) loans—which may have been the result of their limited access to technical and legal guidance.5 Although these businesses account for smaller numbers of lost jobs, their ability to recover and prosper will be a key test for whether our economic recovery is inclusive.

Workers living in predominantly minority neighborhoods are more likely to be in high-social contact jobs at essential businesses, which amplify the public health risks.6 Moreover, these workers tend to earn below-average wages and are unlikely to receive hazard pay for the health risks they bear.

And for children in low-income and minority neighborhoods, the abrupt and continued closures of schools have exacerbated inequities in accessing education. It is also more

4 The video recording and transcript of the July 29, 2020, Project Hometown virtual event, Minority Middle Neighborhoods in a Time of Crisis, that Fears (and others) participated in are available online, https://www.chicagofed.org/events/project-hometown/minority-middle-neighborhoods.
5 Anderson et al. (2020).
6 Faberman and Hartley (2020).
difficult for schools to meet the nonacademic needs of students—including providing food, dental care, mental health services, and safety—in the current environment.

As Chicago Public Schools’ chief equity officer, Maurice Swinney, recently said in a Project Hometown discussion, “It’s a part of our job and our social responsibility to … come up with the right solutions that close opportunity gaps, that start to heal and do the right transformative work that we have to have in order to advance equity in Chicago public schools.”

**Complex longer-term risks**

The longer the pandemic and recession go on, the more difficult it will be to achieve an equitable and inclusive recovery.

As temporary layoffs turn into long-term unemployment, families will be stressed to make ends meet. The fiscal policy supports implemented early in the crisis helped mitigate the worst of the immediate fallout for many families. Unfortunately, many of those fiscal supports have now run out. Unless they are extended soon, financial stresses may greatly intensify. Many low-income households have limited savings to tap into and face the risk of running out of resources. Some indicators already suggest a

7 The video recording and transcript of the August 3, 2020, Project Hometown virtual event, Public Education in Chicago During the Pandemic—Challenges for Fall 2020, that Swinney (and others) participated in are available online, https://www.chicagofed.org/events/project-hometown/public-education-in-chicago.
large drop in spending among low-income consumers after the July 31 expiration of expanded unemployment insurance.

I don’t think I’m alone in my opinion that we are taking a very serious and unnecessary risk if we do not extend federal assistance to out-of-work households. Even after the worst of the crisis passes, the scarring of families’ balance sheets may weigh on spending and leave them further behind over the longer term.

Also, workers experiencing long-term unemployment risk losing skills and perhaps dropping out of the labor force or even going on disability insurance. Many may need retraining to be productive in the future—not only to refresh skills, but to meet the demand in emerging or reconfigured industries, such as telehealth or renewable energy.

During another Project Hometown conversation, the City Colleges chancellor, Juan Salgado, said: “Skills that were in demand before are going to continue to be in demand as we move forward—communications, teamwork, flexibility, familiarity with technology. These sorts of higher-level, meta skills are the kinds of things that really need to be built into what we’re doing because the worker that is going to see success … in a recovery is going to be the worker that is really able to provide that added value to the workplace.”

The longer children are out of school, the harder it may be for educators to connect with them and for students to catch up or feel engaged with their teachers. For example,

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8 The video recording and transcript of the August 10, 2020, Project Hometown virtual event, Workforce Challenges During Chicago’s Recovery, that Salgado (and others) participated in are available online, https://www.chicagofed.org/events/project-hometown/workforce-issues.
Project Hometown panelist Shantá Robinson, an assistant professor at the University of Chicago, emphasized the following: “If I'm a student, I'm vulnerable, I'm in a space where I don't have access to technology, then how is the school going to reach out to me, get me back, and then maintain that connection … in the midst of a pandemic, when they're also trying to figure out that for an entire district of young people? So getting those students back is not going to be an easy task.”

And nonprofits and mission-driven organizations working in disinvested neighborhoods will find it more challenging to secure the resources they need to serve their communities. Greater fiscal support for such institutions would likely have major long-term payoffs.

**Coordinated efforts are necessary for an inclusive, equitable recovery**

Including our most vulnerable communities in economic recovery and prosperity will likely require much effort and coordination among many different actors.

That’s why I’m so glad to be speaking with you as we celebrate an example of this coordination with today’s addition to the North Lawndale Employment Network’s community hub. Nonprofits and state and local governments are at the frontline of providing services to many severely impacted households. They provide food, health care, virus testing, help with accessing unemployment insurance, housing, and other

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9 See note 7.
assistance. The ballooning need for these services comes at a time when tax revenues are falling and leaving a large and important gap.

Community Development Financial Institutions (CDFIs) can help fill in this gap by providing credit and financial services to smaller nonprofits and even small businesses. One lesson from the Great Recession is that during bad economic times, scaling up the activities of CDFIs with greater support from the CDFI Fund\(^\text{10}\) is vitally important for helping our most distressed communities.

Along these lines, in a Project Hometown discussion, we heard from Alex Bartik, an assistant professor at the University of Illinois at Urbana–Champaign (UIUC), that improving social contacts through nonprofits, churches, and social institutions can help improve labor market outcomes in distressed neighborhoods.\(^\text{11}\) His observations echo what my staff have heard, namely, that the coalitions of public, private, and nonprofit organizations that came together during the Great Recession have also been providing critical early responses to the pandemic in many communities.

In Chicago, we are fortunate to have a significant network of CDFIs, business development groups, foundations, and nonprofits that support lending and investment in the communities hardest hit by the pandemic. One CDFI—IFF, the former Illinois Facilities Fund, which now has a 15-state footprint—was instrumental in acquiring and renovating the facility where the new bank branch will be located.

\(^{10}\) Further details on the U.S. Department of the Treasury’s CDFI Fund are available online, https://www.cdfifund.gov/Pages/default.aspx.

\(^{11}\) See note 4.
A little farther north, in Garfield Park, Chicago Fed staff recently visited The Hatchery, a newly constructed business incubator built by an extensive network of mission-driven organizations. We have visited many other developments in disinvested neighborhoods that have required complex, collaborative, and coordinated efforts, such as the Lawndale Christian Health Center and the Farm on Ogden.

But not all places have the same robust network of CDFIs and other organizations that Chicago has. So we’ve also been actively engaged in efforts across the Midwest to start and grow CDFI-type organizations. These organizations can come together to support their local communities and help bring about an equitable and inclusive recovery.

**Conclusion**

We have much work ahead in our economic recovery if we are to confront the inequities exacerbated by the pandemic.

The Fed’s actions touch communities, families, and businesses across the country. We are committed to using our full range of tools until we are confident that the economy has weathered recent events and is on track to achieve our maximum employment and price stability goals.

Through Project Hometown, the Chicago Fed will continue to bring together leaders and experts with diverse perspectives to examine how our communities can recover from the pandemic, overcome long-standing inequities, and grow stronger.

We welcome you to join us in those efforts.
References


