

SPEECH

Community Development: What Does it Take to Create an Economy that Works for All?

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When you think of the economy, you may think of terabytes of data crisscrossing the cloud, farmers plowing a field, trucks on a tangle of freeways, and snaking lines of conveyor belts—a humming network whose health is measured in acronyms like GDP or CPI.

But the economy is also a web of kitchen tables. And what happens at those tables determines the wealth of nations.

Economists talk about human capital, by which they mean everyone from a toddler spooning applesauce in a house down a gravel driveway to a neurosurgeon finishing her coffee in a brownstone.

We measure the health of our human capital in jobs numbers and consumer debt. But we also measure it with data that may seem far removed from the economy of dairy plants and warehouses: data on mortalities, hospitalizations, asthma rates, and high school dropouts.

Each of those measures of individual and community health has economic implications. The fact is, when some of our human capital—some of our people—are ill, when they're hungry, when they're enmeshed in their own financial worries, our whole economy suffers.

We learned this, tragically, during the pandemic. People of color, poor people, hourly workers, and people in rural communities were hit hardest. The COVID death rate for Black and Latino New Yorkers by April 2020 was twice the rate for whites.¹ Between February and April 2020, employment declined by more than a third for low-wage workers, compared to a decline of nine percent for upper-middle-wage workers.²

The suffering was concentrated, but the economic damage was widespread.

The nation's gross domestic product (GDP) shrunk by 32.9% in the second quarter of last year, the sharpest drop on record.³ People in basement apartments in Queens, small towns in Oneida County, and row houses in Union City suffered more than their wealthier neighbors. But the repercussions of that suffering were felt everywhere.

I'd like to talk to you today about why the Community Development team at the New York Fed cares about these disparities, and the work we're doing to address them.

Community Development and the Federal Reserve

A little background on what we do: Since the 1980s, each of the 12 regional Federal Reserve banks has operated a community development function to promote economic growth and financial stability for low-income communities.

As head of the New York Fed's Community Development unit, my team and I serve the people who sit down each night at a constellation of kitchen tables in New York; Northern New Jersey; Fairfield County, Connecticut; Puerto Rico, and the U.S. Virgin Islands. Our district encompasses both the skyscrapers of New York City and the tiny town of Webb, New York. It includes the 130,000 people in Stamford, Connecticut and the 630 people in Coral Bay, St. John, in the U.S. Virgin Islands.

The original focus of the Federal Reserve System's Community Development units was to support the implementation of the Community Reinvestment Act, a federal law passed in reaction to revelations about bank redlining and racial discrimination in home lending.

What's become clear in the decades since that law passed is that the segregation that resulted from discriminatory lending hurts Black people, Latino people, and poor people from the day they're born until the day they die.

Many of the challenges these communities face started with banks and lending policies. According to an analysis by the real estate company Redfin, the average homeowner in a neighborhood formerly redlined for mortgage lending has gained 52% less in personal wealth from property value increases over the last 40 years than one in a greenlined neighborhood—a difference of around \$212,000, on average.⁴

Segregation holds people back in a thousand ways: segregated schools, food deserts, and lack of healthcare, to name just a few. The premise of the Community Reinvestment Act is that banks played a role in creating segregated neighborhoods, and they should play a role in addressing the aftermath of that segregation.

The Community Development teams link the banks who must serve communities under the Community Reinvestment Act with the people who make change in those communities—neighborhood leaders, nonprofits, businesses, and grassroots groups. We also serve as an independent, nonpartisan source of information, doing research to analyze communities' needs. This information helps policy makers prioritize issues, helps people advocate for programs and services their communities need most, and helps businesses understand what's happening in the communities they serve.

This hasn't been high-profile work, historically.

Still, quietly, the Fed's Community Development teams grew into hubs of ideas, ideas around how businesses can invest in the poorest neighborhoods. We've done so with the knowledge that our work is a facet of the Fed's dual mandate; that improving employment in our poorest neighborhoods contributes to a healthier economy for everyone.

We produce important research that informs smart policy. For example, our team's Claire Kramer Mills and Jessica Battisto produced a report in August about the pandemic's effect on Black-owned businesses. The report continues to be cited in the media, and I think it played a role in last summer's corporate commitments to make sizable grants and loans to Black-owned businesses.

That's the kind of work we're hoping to do more of.

The New York Fed's Strategic Focus within Community Development

My team and I spent last summer—the summer our attention toggled between hospitals, Zoom, childcare, and street protests—wrestling with how we could use our collective skills, our connections, and our passion to push forward real changes, changes that could help create an economy that works for everyone. We did so knowing that the voices of people who live in communities worst hit by poverty, segregation, and COVID must be heard—and heeded.

We crafted a new strategic plan focused on leveraging our connections in business, finance, and neighborhoods to build bridges between communities and funders.

For instance, late last year, we convened a group comprised of bankers, business leaders, and tenants' rights activists to address the eviction crisis. Our team synthesized that discussion into a white paper we hope can serve as a roadmap for keeping tenants in their homes. We'll be following up this year, working with the Local Initiatives Support Corporation, the University of Pennsylvania, housing advocates, and business leaders on forums focused on national housing security solutions.

As a result of our soul-searching over the pandemic summer, my team and I arrived at a new strategy. We concluded that we would focus on fewer things, with greater intensity.

We picked three areas to concentrate on, searching for ideas in those areas that can tear down barriers to economic mobility for low- and moderate-income people. Our goal is to elevate ideas that have national or even international potential. And we want to connect those ideas with funding.

Our focus areas underpin economic mobility. They are the economic drivers of health, household financial well-being, and climate-related risks to low- and moderate-income populations. I'd like to speak a little about why we picked these three areas.

Economic Drivers of Health, Financial Well-Being, and Climate-Related Risks

As this last year has made tragically clear, we can't have a healthy economy without healthy people. And as we've tragically learned, each of us may only be as healthy as our sickest neighbor. As Dr. Martin Luther King, Jr. said, "All men are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly." The truth of this has never been clearer. Finding solutions to barriers to good health, especially for Black people, the Latino community, and poor people, has never felt more urgent, or more necessary to the health of the overall economy.

There's a role for professionals in finance, investing, and banking in fixing this. As Maggie Super Church of the Healthy Neighborhoods Equity Fund in Boston says, "I can buy stock in a pharmaceutical company that makes a pill to lower blood pressure, but I can't invest in a neighborhood that does the exact same thing." Bringing together businesses, philanthropists, and others to build a pathway to make such investments possible is one of our team's goals.

Our second focus is on household economic well-being. Roughly one-third of households nationally told Fed researchers last year that they wouldn't be able to meet an unexpected \$400 expense.⁵ We saw, over the past year, that poverty and death are too often dire companions. Overlay a heatmap of poverty and a heatmap of COVID deaths and the borders are astonishingly close. A focus on household economic well-being also felt essential to fostering overall economic health.

Researchers have found that the financial lives of low-income workers are tremendously complex. One reason: their income is often spiky, with periods of pay and periods without. Professionals in finance and business may be able to develop tools that can help low-income workers smooth out their cashflow. Bringing people with that expertise to the table is another of our goals.

Finally, climate change: New York and its neighbors have suffered greatly from storms that come with a changing climate, most dramatically during and after Hurricane Sandy.

Again, the poorest neighborhoods suffered disproportionately. A loss of power that means a loss of everything in your refrigerator hits New York's Brownsville a lot harder than Soho. Across the country, the poorest and most segregated neighborhoods—the same neighborhoods created by the redlining that gave rise to our work in the first place—can be as much as 12 degrees hotter than their wealthier and whiter neighbors. Finding solutions that help mitigate climate change's effects on poor communities and communities of color also fit well with our core mission.⁶

The problems in these three areas are often interwoven: Climate-change-causing diesel exhaust in the poor neighborhood around the Bronx's Hunts Point market worsens health; families in Livingston County's Fowlerville, one of New York state's poorest towns, may have to travel much farther to see a primary care doctor than people in Westchester.

How We'll Do It

We know these are hard, longstanding challenges. That's why we're framing our work in each of these areas by reaching out for help. We're in the process of assembling a panel of experts and community leaders in each focus area whom we can look to for advice; we're calling these groups our "kitchen cabinets." As we look for big ideas in each of these areas, I'm mindful of something Dr. Jo Ivey Boufford, of NYU's School of Global Public Health, said at the first meeting of the health team's kitchen cabinet. "Wouldn't it be transformational," she asked, "if we actually did all the things we know we should be doing?"

With that in mind, our focus is on connecting ideas that work with funding, and to accomplish that, we've created a new role at the New York Fed. I'm pleased to introduce today Otho Kerr, our unit's new Director of Strategic Partnerships and Community Impact Investing. Otho will serve as our first capital connector, with a mission of connecting ideas that have the possibility to create real change with funding. Otho has a long track record of doing this work, having been a founding partner at one of the nation's first impact investing funds and served, most recently, as Chief Investment Officer for Acumen, an international impact investment firm that invests in early-stage companies whose products and services enable the poor to transform their lives.

As we seek to elevate ideas that have the potential to create real and lasting change, we will also be hosting events, like the one today, that bring together diverse groups of people to exchange ideas and look for solutions. My hope is that, someday soon, we can all be together in person, to make this exchange richer and more meaningful.

My goal is to turn the fortress that is 33 Liberty Street, not too far from Wall Street, into a busy, buzzy center of ideas about expanding economic opportunity, a place that helps build the connections needed to meet the challenges our neighborhoods face in this moment.

Our hope is that by identifying and elevating promising ideas that have the potential to make transformative changes, and by connecting those ideas with funding, we can begin to dismantle racism and poverty, which serve as barriers holding back our whole economy. Our aim is to ensure that every household—everyone at every kitchen table—in every neighborhood in the Second District, from Oneida to Vieques, and the nation as a whole, can contribute to a thriving economy for all of us.

¹ New York Times, "Virus Is Twice as Deadly for Black and Latino People Than Whites in N.Y.C.," April 8, 2020.

² Liberty Street Economics, *Some Workers Have Been Hit Much Harder than Others by the Pandemic*, February 9, 2021.

³ Bureau of Economic Analysis, *Gross Domestic Product, Second Quarter 2020*, July 30, 2020.

⁴ Redfin News, *How Redlining Caused a Wealth Gap and Low Homeownership for Black Families*, June 11, 2020.

⁵ Federal Reserve Board of Governors, *The Fed - Update on the Economic Well-Being of U.S. Households*, September 23, 2020.

⁶ New York Times, "How Decades of Racist Housing Policy Left Neighborhoods Sweltering," August 24, 2020.
