

# Benjamin Franklin Birthday Celebration

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American Philosophical Society

Philadelphia, PA

January 13, 2017

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Patrick T. Harker

President and Chief Executive Officer  
Federal Reserve Bank of Philadelphia



FEDERAL RESERVE BANK  
OF PHILADELPHIA

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The views expressed today are my own and not necessarily those of the Federal Reserve System or the FOMC.

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Good morning and thank you. It's a pleasure to be here.

I'm going to keep my introductory remarks short, so we can get to the conversation more quickly. I'm following Ben Franklin's advice that: "Silence is not always a sign of wisdom, but babbling is ever a mark of folly."

I think it's probably wise to start with an explanation of why I'm even here. Why is this policy wonk, who raises and lowers interest rates, interested in inequality and prosperity?

The Federal Reserve actually has a strong interest in the subject. This year marks the 40th anniversary of the Community Reinvestment Act (CRA), which among other things, requires banks to meet the credit needs of all communities, including those of lower income. Originally, the Fed got involved to help banks fulfill their CRA requirements, and we still do. But our role has also evolved to be a primary conduit and convener for community organizations and the funders that can help. That's everything from community investment funds to some of the world's largest financial institutions. We don't fund projects or organizations ourselves, but we do conduct research and help foster best practices.

For those of you who don't know, the Federal Reserve System is divided into 12 regional banks around the country and a Board of Governors in Washington, D.C. Each District bank is independent and operates as a representative and reporter of economic issues in their region. The Philadelphia Fed District consists of Eastern Pennsylvania, Southern New Jersey, and Delaware.

Each of the 12 regional banks has a community development and outreach function, and each does exceptional work. Obviously, I'm biased towards our bank, and I see Philadelphia as having a unique position and ability to conduct research and find real, sustainable solutions for some of our most intractable problems.

The other banks oversee bigger Districts — San Francisco has the nine western states and covers more than 20 percent of the country — but the Third District offers a microcosm of the issues and economics we see around much of the country: We have urban, rural, and postindustrial areas. We have small businesses and huge multinationals. We have industries using the cutting edge of technology and traditional manufacturing. In short, we have a perfect laboratory to study the way programs aimed at economic mobility and self-sufficiency work.

I'll give you an example. The unemployment rate for Pennsylvania is higher than the national average. But when I talk to employers and business owners, they say they can't find qualified applicants. There are people out there who want jobs and employers who have them; the gap is in skills.

My staff recently conducted a study on what they call "opportunity occupations." These are jobs that pay at or above the national median income, but that don't require a traditional four-year degree. They make up close to 30 percent of the job market nationally.

We can help a lot of workers and a lot of businesses by emphasizing training and skills and looking at practical ways to get people into not just jobs, but careers. I recently went with my team to Roxborough High School, which is involved with the Philadelphia Academies project. Students at the Academies study a core discipline — the ones I talked to were concentrating on everything from international entrepreneurship to biotech — and will come out of high school ready to enter a profession, if they choose. Some may stay in that career for a long time, some will go on to do a conventional bachelor's degree, and some will get more technical training. But all of them will have the skills to find a path that leads them to a prosperous life.

This is just one example of the kind of work my team is studying and the research they're undertaking. They also are examining everything from healthy communities to housing to consumer credit. It's a big job and the Third District has a lot to contend with. In 2004, only six of the 60 counties had poverty rates higher than the national average. By 2014, that number had risen to 11.

From a monetary policymaker's perspective, the issues of poverty and economic mobility are obviously important. We tend to speak of the economy as a whole, using a broad brush to paint a sweeping portrait of America. And that's important. But the national economy is made up of a myriad of other economies — state, local, and community microeconomies. Each is like a single brushstroke. Each microeconomy has its own cause and effect and contributes to the overall picture. No one of them operates in isolation, and we should all remember that our neighbors' economic fortunes are tied to our own. Studies in community development add depth and contour to what we see.

I've always gone with the business mantra of "play to your strengths." So, I look at the strengths of the District and the strengths of the Philadelphia Fed and see a way to make real change happen.

I truly believe that this District can be an innovation lab. We have the demographics, the economic profile, and most importantly, extraordinary people with a strong sense of community. The Fed has world-class research talent and exceptional partners in the public, private, and not-for-profit sectors. Programs and solutions we find here can be adopted and adapted for towns and cities across the country.

I know that's a big challenge, but you can't succeed if you don't try, right?

Economic mobility happens when people have a level playing field. That's what community development work fundamentally does: It tries to put everyone at the same point on the starting line and ensure each person has access to opportunity.

We know there is a cycle of poverty, and that poverty in one generation disproportionately leads to poverty in the next. It is a systemic hurdle to success. Raj Chetty, a leading economics professor, now at Stanford, is the go-to guy for this area of research. He and his coauthors found that where a child grows up has an effect on his or her upward mobility later in life. The likelihood of a child born into the bottom fifth of the income distribution reaching the top fifth varies markedly across the United States, from a low of 4.4 percent in Charlotte, NC, to a high of 12.9 percent in San Jose, CA. Philadelphia falls in between at 7.4 percent. The San Jose odds are much better than either Charlotte or Philadelphia; but they're still lower than we should accept.<sup>1</sup>

Even here in our metro region, the data continue to illustrate inequality across geography. A child who is raised in a low-income family in Bucks County will make over \$4,000 more at age 26 than a child in a similar family in Philadelphia County.<sup>2</sup>

I've talked a lot about the pragmatic reasons behind the importance of this work. But I'd also add that this is a moral imperative. We're honoring Benjamin Franklin today, and that naturally evokes the philosophy and essence of what it means to be American. This is a country, perhaps more than any other, whose fundamental ethos is that anyone can be anything they want if they work hard. Ben Franklin himself is a testament to this. He left school at 10 to work full-time in his father's candle shop, yet went on to become one of our most revered founding fathers.

Franklin saw the value of helping people and places in the future. In his will, he left trusts to Boston and Philadelphia that were intentionally invested in 100- and 200-year periods, so the interest could compound. The money was then used to fund apprenticeship programs and civic projects in each city, as Franklin's will directed. Even today, Franklin's legacy funds scholarships, helping students to move up the economic ladder.

At the heart of this push for economic mobility is the quintessentially American belief that everyone should have an equal chance at success. It is the soul of democracy and the foundation of any fair society.

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<sup>1</sup> Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. "[Where Is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States.](#)" *Quarterly Journal of Economics*, 129:4 (2014), pp. 1553–1623.

<sup>2</sup> Federal Reserve Bank of Philadelphia calculations based on the Equality of Opportunity Local Area Rankings data (Equality of Opportunity Project, Harvard University), available at [www.equality-of-opportunity.org/rankings/](http://www.equality-of-opportunity.org/rankings/) (last accessed January 9, 2017).

There isn't one single barrier to moving up the economic ladder, and those barriers don't come from a single source. There are multiple, tangled factors — education, training, affordable housing, child care, even basics like transportation. If you can't get to work, you can't work. Finding solutions to those problems takes a lot of sharp minds and hard work, and I think we can get there.

Maybe someone as extraordinary as Ben Franklin would've succeeded anyway, if he'd been born today, despite having to leave school at such a young age. But what if the structural barriers wound up being too much? The next Ben Franklin could be out there, but barriers are preventing him — or her — from succeeding. And wouldn't we all be worse off for that?

Our aim at the Philadelphia Fed is to make sure economic growth is inclusive and that every person has access to the tools needed to achieve his or her fullest potential. We want to use our research and our convening abilities to find solutions that can be applied across the Third District and the country. To quote Ben again: “An investment in knowledge pays the best interest.”