Reinventing Our Systems

Reinventing Our Communities Conference

Investing in Opportunity
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Good afternoon and thank you for your warm welcome.

I hope you will all agree that we've had three exceptional, thought-provoking days in Baltimore. Our time together has been packed with compelling speakers, new ideas, and challenging questions.

And now it seems that it is my job to summarize what we have experienced but not tamp down the energy and excitement that has been generated during our time here.

But first, let me acknowledge the incredible work that Noelle St.Clair and the entire Federal Reserve staff did in creating this event. We all know that conferences like this take a lot of effort, creativity, and attention to detail, not to mention flexibility and good humor. Please join me in thanking everyone involved in making this week a reality: our speakers, tour guides, and partners. You all have sacrificed sleep and time with your loved ones to ensure this event came off without a hitch. Thank you.

And a special thanks to our host city of Baltimore and President Tom Barkin and his team at the Richmond Fed as well as President Ron Daniels of Johns Hopkins University and the 21st Century Cities Initiative.

What you heard inside this hotel and what you saw outside these walls have hopefully armed you with new insights and ideas to carry forward as you return home.

I want to take my time with you this afternoon to deliver some brief remarks that may be slightly different than many of you might have expected from a Federal Reserve Bank president. Rather than focus on data and economic models, I want to talk to you about the need for and the power of systems change.

And, while this speech may be a little different, I still have to issue the standard Fed disclaimer: The views I'm expressing here today are my own and do not reflect those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Perspectives on Opportunity

The Fed is first and foremost a data-driven institution that relies on objective research to inform policy decisions. That said, our understanding must be informed by the real experiences of those who make up the economy — real people who work, spend, save, and invest in the many ways that drive our local and national economy.

While the data and strategies shared over the past three days have provided valuable insight, I, for one, have found inspiration in the stories. From the personal journeys of Due Quach to Zachary Wood, these perspectives on opportunity have illustrated the power of narrative to shed light on issues and bring data to life.

I believe the best policy happens at this intersection of national data and local realities — at the intersection between research and practice.

To that end, one of the most important parts of my job is traveling around the District and hearing from people. We hear stories of community stakeholders — from bankers to laborers, young students to the retired, from the unemployed to the self-employed. We hear stories from urban to rural communities across Pennsylvania, New Jersey, and Delaware.

Through our travels, we are reminded that, even as the economy at large prospers, people in many communities face real economic challenges.

We have heard about increasing rates of poverty in suburban communities, the continuing movement of educated workers out of rural areas, rental housing challenges in cities, and the economic impacts of the opioid epidemic in all of these places.

I've learned so much from these interactions, and I value the insights people share about how the economy is working — or in some cases, not working — for them.

We've spent the past three days looking at incredibly innovative approaches to fixing entrenched problems. We have seen examples of investing not only financial capital but also our collective human, social, and physical capital in order to truly maximize opportunities for more Americans and foster greater economic mobility. We have heard the call to action for strategies that move us beyond transactional to transformational change.

What is clear from these stories, and the data that support them, is that in order for this to happen, there is a need for real systems change. These stories are, in fact, where systems change can begin.

Reinventing Our Systems

Now, systems change can sound like a heady, overwhelming task — it's too big, it's somebody else's problem, it's beyond my control. But I would argue that we all have a role to play in systems change.

Systems change is about understanding what is working and what it isn't, being willing to question what is underneath, and knowing that cosmetic repairs will never be successful if we don't reexamine the whole structure. This is work we all can do, and I fundamentally believe this is work we've started here together over the past three days.

All systems require continual assessment to ensure that the assumptions we make, and the truths we hold to be absolute, still make sense as the world around us evolves.

As a few of you may know, I am an engineer by training. One of my first jobs as an engineer was working on the New York City subway system in the 1980s. Many nights were spent walking deep into subway tunnels first opened in 1904 looking for cracks and damage, suggesting repairs for a crumbling system and trying to avoid New York rats. I can assure you this work was as glamorous as it sounds. As the city is contemplating new improvements, I am sure it is uncovering some of the same structural issues I witnessed first-hand three decades ago.

Like those outdated and aging subway lines, some of the systems that impact our economy also need reinventing. In many cases, we have been putting bandages on larger structural problems, covering things that are fundamentally flawed.

Yet, history has handed us an opportunity to fundamentally alter a system of practices and perspectives that may no longer be serving our best interests and needs.

We have a labor market with very little slack left. We have employers who say they can’t find the right skills, businesses that say a dearth of workers is affecting their ability to grow, and HR departments that are struggling to fill vacancies.

At the same time, my office sits in a city with a 5.9 percent unemployment rate and an astounding 25.7 percent poverty rate, and we gather today in a metropolis with similar disparities, at 6.5 percent unemployment and a 22.2 percent poverty rate.

This is why the location of this conference is so important — in Baltimore as in Philadelphia — we have a unique moment in time when we can harness the economic changes happening and ask the challenging questions: How are we making sure our growth and revitalization benefits everyone?

If we are to prosper locally and nationally, we need to create systems that promote regional growth and work for more communities.

As we reflect on the magnitude of the task at hand, it is essential to remember that systems are made by people, and therefore can be changed if it is collectively determined that they are no longer serving us. This requires, however, that we bring a sense of intentionality and urgency to reinventing these systems into something better.

Challenging Our Assumptions — Racial Equity

In order to change systems, we need to challenge our assumptions. At this moment, this means we need to talk about the real disparities we see in our economy. We are all familiar with the data highlighting differences in poverty rates, median household income, and homeownership by race.

In many ways, these disparities are exactly why many of us are in this room today: We are trying to provide pathways to opportunity for communities that have been left behind. Let's consider the racial wealth gap. In 2016, white families had the highest level of median family wealth at $171,000. Yet black families' median net worth was only $17,600 and Hispanic families' $20,700.[1]

In order to understand what is driving this disparity, we need to look beyond the problems we see today and challenge the systems that brought us here. Research from our colleagues at the Federal Reserve Bank of St. Louis indicates that racial disparities in economic security persist due to deeply rooted structural and systemic factors.[2]

It is our job to question how those systems continue to perpetuate racially disparate outcomes that ultimately limit our economic potential.

Several of you attended the Racial Equity Learning Lab we hosted yesterday. Participants walked away with a toolkit to help them analyze the racial impact of their work. They were also challenged to think more deeply: What will you do to ensure your policies and programs are not perpetuating disparate impact? How will your work explicitly address these ongoing challenges?

While we strive to invest in opportunity, we also need to challenge our assumptions that systems are providing that opportunity equally to everyone. As community development professionals, you have an important role to play here. This will require a close examination of the systems related to homeownership, access to capital, small business, employment, and education. And it will require building systems that make equity a priority rather than an afterthought.

I hope we can each walk away from this conference challenging some of these assumptions, laying the groundwork to help us reinvent opportunities in a rapidly changing economy.

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[1] Lisa J. Dettling, Joanne W. Hsu, Lindsay Jacobs, Kevin B. Moore, and Jeffrey P. Thompson with assistance from Elizabeth Llanes, "Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances," FEDS Notes, Board of Governors of the Federal Reserve System (September 27, 2017).

[2] Ray Boshara, "The Importance of Exploring the Black/White Wealth Gap," On the Economy Blog, Federal Reserve Bank of St. Louis (June 12, 2017).

The highly transitional nature of the economy makes this work even more important.

Reinvent Opportunities — Automation Report

Machines and technology have already disrupted so much of how we work today, and future automation is only going to disrupt labor markets further.

The Philadelphia Fed recently took a close look at the employment landscape of the Fed's Third District. We assessed the likely effects of automation on jobs across sectors and geographies, including which jobs are at risk of disappearing or changing dramatically. We also analyzed the populations that will be hardest hit by these changes and where jobs will likely be created to absorb displaced workers.

In this research, which we are excited to release today, we found that close to one-fifth of jobs in the Third District had a 95 percent or higher chance of automating. And we found that those most likely to be impacted are those in the most vulnerable positions in our economy — women, people of color, younger people, and lower-skilled workers.

The research shows us that automation and technology could increase the inequality we are seeing in our economy, but that doesn't have to be the case.

"The robots are coming." In fact, they have been here for a while. However, what happens as a result is not inevitable. Our research shows that we can make decisions to reinvent our workforce and economic development systems to make sure that more people can benefit from these changes.

Disrupt Norms — Outcomes-Based Finance Model

In order to do that, we need to be bold enough to disrupt norms — particularly around funding.

Just last month, I had the opportunity to tour Tec Centro, a workforce training center that offers bilingual training to prepare local job seekers for the more than 12,000 job vacancies in Lancaster County. I spoke with students in the Certified Nursing Assistant (CAN) program whose wages will more than double in as little as three months when they finish their training.

Programs like these can transform lives, and they are essential to the growth of our regional economies. Yet, so many of these programs are unable to scale and meet the demands of our current economy.

That being said, as we heard from our previous panel, it would be impossible to “grant-make” our way out of this. Likewise, we can’t solve the workforce dilemma through public programs alone.

That is why I’m excited to announce a new pilot that facilitates private sector investment in workforce development. The Philadelphia Fed team in partnership with our city’s workforce investment board and a major Philadelphia-based national tech employer are creating a new outcomes-based funding model for workforce development.

With the guidance of thought-leaders like Social Finance, this new model will align incentives for every stakeholder.

The program will identify workers in jobs at risk of automation and train them in digital skills, ones that will be useful immediately after training but will also arm them with skills for the future.

Outcomes-based finance, or Pay for Success, is, of course, not a new concept. What makes this initiative different is that, instead of issuing social impact bonds and having government paying for outcomes, the employer will pay the bill once the training meets its business needs and demonstrates return on investment.

If it’s successful, this will be the first program of its kind to have the private sector paying for outcomes delivered via public workforce funding. Repayments can then be recycled to pilot other projects and meet the needs of even more jobs seekers and employers in Philadelphia. This will send a strong message to employers that workforce development is an investment, not a social service.

This is a new kind of partnership, the kind that fundamentally disrupts systems and the ways we have been doing things. And I think it will help hit the reset button on the relationship between the public and private sectors and the ways they work together.

Most importantly, this is an idea that can be adopted across industries. To say that this excites me would be a huge understatement, as you can tell.

We hope that by challenging assumptions about the impact of automation and by disrupting the norms of how the private sector invests in workforce development, we can reinvent opportunities for those who could most benefit from the growing economy.

Conclusion

We could not gather with you all here without acknowledging the great Jeremy Nowak, who served as chair of the board of the Philadelphia Fed for a number of years. I know that so many of you here in this room knew Jeremy. I'm told that, at his memorial service in August, a lot of the stories people told publicly and privately that day were about how often Jeremy had yelled at them but how much they loved him for it. He was that kind of guy: impatient and passionate. He spent his career at the intersections of capital and people, of data and anecdote, of reason and emotion. He asked hard questions, he challenged assumptions, he disrupted norms, and he reinvented opportunities. Every day. And he wanted all of us to do the same thing. Every day.

The good news is that you are already leading this work.

My challenge to you today — as Jeremy would have challenged us — is to not forget the role that you can all play in fundamentally changing the systems and structures that limit opportunity.

So, let us return home and continue to do the hard work and ask the hard questions and demand better answers from ourselves and from others.

And let us never forget that our work to reinvent our communities matters — for countless individuals and for our larger economy.

Thank you.