Resilient Communities in a Resilient Economy

Reinventing Older Communities: Building Resilient Cities

May 9, 2012

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FEDERAL RESERVE BANK
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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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Introduction

On behalf of the Federal Reserve Bank of Philadelphia, I want to welcome you to the Reinventing Older Communities conference. This conference is one of our signature events, bringing together a talented and diverse mix of stakeholders who are committed to addressing the community and economic development needs of older industrial communities. This is our fifth Reinventing conference, and these biennial events have become an important resource for the Federal Reserve System, as they contribute to our research and understanding of the interaction between older communities and the broader economy.

Congress created the Federal Reserve System in 1913 with 12 individual Reserve Banks overseen by a Board of Governors in Washington, D.C. One of the strengths of our nation's decentralized central bank is that it gives us roots in Main Streets and communities across our diverse nation. We are delighted that several other Federal Reserve Banks share our interest in smaller industrial communities and have partnered with us to sponsor this year's Reinventing Older Communities conference. So let me recognize and thank the Federal Reserve Banks of Boston, Chicago, Cleveland, New York, Richmond, and St. Louis.

The past few years have been an extraordinary period for all of us. We have endured a financial crisis and the worst global recession of the post-war era. This period has served as a striking reminder of how economic forces and decisions – both large and small – can influence events on Main Streets and neighborhoods across our District and our nation.

Yet the economy has now grown for 11 consecutive quarters. To be sure, growth is not robust. But growth in the past year has continued despite significant risks and external and internal headwinds. Natural disasters in Japan, a sovereign debt crisis and banking problems in Europe, turmoil in North Africa and the Middle East that led to a steep increase in oil prices, and our own debt ceiling fiasco, all made growth difficult. But I

also remind you that the U.S. economy has a history of being remarkably resilient. These shocks held GDP growth to less than 1 percent in the first half of 2011, and many analysts were concerned that the economy was heading toward a double dip. Yet, the economy proved resilient and growth picked up in the second half of the year.

Building Resilient Cities

What leads to such resilience? That is one of the key questions posed in this conference, and it is an important one for understanding the prospects for the U.S. economy. We know that older manufacturing cities have suffered from secular declines as many of these communities have struggled to find their way in a changing economy. The long-term trends of improved productivity and efficiency in many large-scale manufacturing industries, which are good for the economy as a whole, have led to a secular decline in employment in many of these industries. As a consequence, many older cities with industries that depended heavily on older-style labor-intensive production processes have felt the brunt of shrinking employment and the loss of an industrial base that provided the economic foundation for their communities. If these communities are unable to adapt and change, the fallout can include declining populations and tax bases and deteriorating housing markets.

Yet, some of these cities have fared better than others. At least one recent study by the McKinsey Global Institute finds that over the next 15 years, half of worldwide GDP growth is likely to come from so-called "middleweight cities" – those cities with a current population between 150,000 and 10 million.[1] One key to achieving this will be to determine how communities can use their strengths and resources to become resilient cities.

But what does it mean to be resilient?

One source defines community resilience as "the individual and collective capacity to respond to adversity and change. It is a community that takes intentional action to enhance the personal and collective capacity of its citizens and institutions to respond to and influence the course of social and economic change."[2]

My interpretation of community resilience is one that, in part, reflects my personal experiences. I was an economics professor at the University of Rochester in Rochester,

[1] Richard Dobbs, Sven Smit, Jaana Remes, James Manyika, Charles Roxburgh, Alejandra Restre, "Urban World: Mapping the Economic Power of Cities," McKinsey Global Institute (March 2011); available at: http://www.mckinsey.com/insights/mgi/research/urbanization/urban_world.

[2] U.S. Department of Health and Human Services: http://www.samhsa.gov/dtac/dbhis/dbhis_stress/resilience.htm

NY for many years and served as dean of the William E. Simon Graduate School of Business from 1993 to 2003. I think it is fair to say that the Eastman Kodak Corporation was to Rochester what the Big Three automakers were to Detroit. Kodak was the dominant economic force and employer in Rochester for more than three-quarters of a century. More generally, over the last several decades, the solid manufacturing base of Rochester, made up of firms like Kodak, Xerox, and Bausch and Lomb, has steadily shrunk. Yet, Rochester ensured that it was not solely dependent on past technologies. During my time there, Rochester was able to shift its focus from the darkroom to medical imaging and other technologies. New companies were formed around the university and area medical centers. Scientists and engineers from these manufacturing firms became entrepreneurs. So even though Kodak's local employment fell from a peak of 61,000 to fewer than 7,000 today, Rochester has exhibited remarkable resiliency. In fact, the region has gained 90,000 jobs, on net, over the same period. Challenges, of course, remain, as such transformations take a long time.

Rochester is but one example. My hometown of Birmingham, AL, once called the Pittsburgh of the South, was ravaged by a declining steel industry, as was its larger namesake. Yet it has revived and proved its resiliency. Across the nation, countless cities and smaller communities have found ways to use their assets to rebound from economic challenges. The stories and strategies may vary, but there are lessons to be learned.

The Research Department at the Philadelphia Fed has begun a research project to measure urban resilience. Resilience is based on the response of local economic activity to an economic shock – whether it be a temporary shock (related to the business cycle or some other temporary factor) or a persistent shock (related to long-run trends in technology, productivity, or preferences). Our researchers are examining two working definitions of resilience that are grounded in economic theory. According to the first measure, an area is considered more resilient to the extent that it experiences milder fluctuations in employment over the business cycle. According to the second measure, resilient areas are those that experience faster employment growth than could be expected based on national growth rates given their industrial structure. The aim of the research project is to combine these two measures into an index that we will then be able to track over time. The project is a work in progress, and it is too soon to share definitive results. However, the results to date are suggestive. Our researchers have found that larger older cities, especially those in the Northeast and Midwest, have seen smaller fluctuations in their employment cycles than other cities. Detroit was a notable exception, having experienced much larger cycles, especially in its declines after 2000. Southern cities score higher on the second resiliency measure, having experienced

higher employment growth, reflecting household migration patterns. Combining the two measures, Philadelphia scores in the middle of the group of 25 metropolitan areas the staff examined. The next step in the analysis is to examine how the indexes change over time and see whether there are certain metropolitan area characteristics that are correlated with resilience. Early results suggest that industrial diversity is related to greater resilience. As I said, this is a work in progress, and so far, it does look promising.

Our research in this area is going to be informed by what we learn over the next couple of days, as conference participants explore the various ways that these older industrial communities are marshaling their resources to become resilient cities. Noted academics and practitioners from a wide range of disciplines will discuss workforce development, small business creation, urban education, and housing issues. These panelists will share research findings, as well as real-world examples of how various strategies and partnerships have strengthened their communities. Our presenters will engage you in conversations that will challenge your thinking about community development. We encourage you to challenge them as you discuss the role of anchor institutions in the development of cities, education reform, and the pursuit of a creative, entrepreneurial, and resilient economy.

This morning, some of you participated in a tour of Philadelphia's Kensington neighborhood, where you visited two local organizations: Impact Services, an organization that has helped more than 24,000 veterans, ex-offenders, and others find jobs; and the Energy Coordinating Agency of Philadelphia, which provides training so people can pursue jobs in weatherization, energy audits, and lead abatement. Others participated in a tour of nearby Chester, Pennsylvania, where you saw first-hand how a city is trying to redefine itself by creating new office space, developing a top-notch soccer stadium, and opening a casino to attract businesses and consumers.

While not every strategy will work in every city or every neighborhood, these strategies highlight the human effort that is driving revitalization efforts and the innovation that is needed to truly be resilient in this economy.

I do want to caution you that resilient and vibrant communities are not just about government programs or directed industrial planning by community leaders. Indeed, one can find instances where government and entrenched interests, seeking to restore the "good old days," actually slow the innovation and change many communities should undertake.

The economic strength of our country is deeply rooted in our market-based economy and the dynamism and resilience of its citizenry. As we contemplate strategies for

unleashing the potential in our communities, do not underestimate the importance of entrepreneurship and individual initiative to laying the foundations for change and growth. Government regulations on small and emerging companies can have a stifling effect on economic growth, and despite our best intentions, the law of unintended consequences can loom large in any effort to direct or control economic activity. After all, we all now know that small businesses are the engines for employment growth and some become very large and successful businesses. So I urge you to look beyond planning and directed investments, all of which may have a place, and look to people: how do we improve education and equip them for a more knowledge-based economy? And how can we unleash the creative and entrepreneurial spirit of all our citizens? They are our most valuable asset and the ultimate source of opportunity and growth. Thank you and I hope you find the next few days informative and enriching.

Introduction of Jeremy Nowak

Now I would like to introduce our next speaker, Jeremy Nowak, president of the William Penn Foundation. He has a long history of involvement in community development. Prior to joining the foundation, Jeremy was CEO of The Reinvestment Fund, one of the most innovative and successful community investment funds in the country. Yet, he is here not only as an interested and experienced party to your discussions but also as the chairman of the board of directors of the Federal Reserve Bank of Philadelphia. Each Reserve Bank has a nine-member board of directors selected in a nonpartisan way to represent a cross-section of banking, commercial, and community interests within a Federal Reserve District.

These directors, by law, not only fulfill a governance role in providing oversight for the Bank's performance but also provide valuable insights on economic and financial conditions in the District and the nation. These insights help me and my colleagues on the Federal Open Market Committee as we deliberate and seek the best course for monetary policy for the nation.

I have valued Jeremy's insights on community and economic issues over the past few years, and I know you will enjoy his perspectives today.