

Crossing the Geographic Divide
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Thank you for inviting me to talk with you today, and thank you to the many members of our Baltimore Board of Directors and Community Investment Council who have taken the time to join us as well. I'm sure you're all looking forward to hearing from director Mary Ann Scully, a panelist in the "Women and Wealth Building" workshop later this afternoon.

This conference addresses issues that have been of interest to me for a long time and have taken on a particular urgency for me since I joined the Fed. You may have heard of the economist Robert Lucas, who won the Nobel Prize in 1995. Several decades ago, in an article about economic development, he wrote, "The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else." He was right. I've spent the past nine months traveling around the Fifth District, and I've been struck by the tremendous diversity in our communities and by the diversity of the challenges and opportunities facing these communities. The more I learn about our district, the more I want to understand why some areas are thriving while others are struggling — and what can be done to help everyone.

Our upcoming panel has a lot of experts on that topic. I thought I might set up their conversation in the context of the macroeconomy. Before I say more, the views I express are my own and might not be shared by my colleagues in the Federal Reserve System or on the Federal Open Market Committee (FOMC).¹

Growing the Workforce

The FOMC met last week and reviewed a pretty healthy economy: GDP growth is strong, inflation is moderate and the unemployment rate is as low as it's been since the late 1960s. We've been adding an average of more than 200,000 jobs per month for more than five years. That's a very large number when the "breakeven" needed to keep up with population growth is around 80,000 to 100,000 jobs per month. There are actually more job vacancies than there are people looking for jobs.

One question many people have is, how long can this kind of growth last? To try to answer that question, let's look at what drives growth, which you can boil down to a pretty simple statement: Economic growth depends on how many people are working and how productive they are. Right now, productivity growth is fairly slow. So absent a productivity surge, future growth will require increasing our labor force. But our population is also growing slowly — which means the growth in our labor force will have to come from people currently on the sidelines of the labor market.

There are a lot of people on the sidelines. The labor force participation rate (which includes people working or actively looking for work) has dropped about 4.5 percentage points since 2000, from a little over 67 percent to less than 63 percent. That might not sound like a lot, but it is a really big number to the people who study this kind of thing. So while the unemployment rate has dropped about 6 percentage points since its Great Recession-era peak, the employment-population ratio has barely budged and is still below pre-recession levels.

How likely are people who have left the labor force to return? Much of the drop in labor force participation is the result of demographics, such as baby boomers retiring and more young people attending college. If we look at the labor force participation rate for what we call “prime-age” workers, aged 25-54, it is much higher, around 82 percent, and is only 2 percentage points lower than in 2000. That suggests many of the people on the sidelines intend to remain there.

So what can we do? We’re unlikely to force retirees back into the workforce, and we want our students to finish school. But there are large disparities between groups of people of prime working age across a variety of dimensions, including education, race, gender and geography. Growing the labor force requires improving employment outcomes for these groups. I believe it’s the biggest opportunity for the growth of our economy.

Urban, Inner City and Rural Divides

Given the themes of this conference, I’ll focus today on geographic differences. One thing that’s struck me is the stark difference between the opportunities available to people in urban areas and people in rural areas. It’s remarkable how quickly, and how much, things change as you leave the city.

I see it as I travel throughout the Fifth District, and I see it in the data. Across the district as a whole, the employment-population ratio and labor force participation rates are about 6 percentage points higher in urban than in rural areas. (Both those numbers are calculated for people between the ages of 16 and 64, so the difference doesn’t just reflect that rural populations tend to be older.) Interestingly, Maryland is an exception — it’s the only state in the district where these measures are about the same. That probably reflects the state’s size, which puts rural areas in closer proximity to urban areas than in other states.

There are a number of factors to untangle about why this divide exists, and it’s something the Richmond Fed has begun studying in depth. But in many cases, it’s because the jobs that traditionally supported these communities have moved, and the people (often understandably) haven’t.

While broadly speaking, labor market outcomes are better in urban areas than in rural areas, that’s not true for every part of an urban area: There are divides within cities as well. In this, unfortunately, Maryland is not an exception. Here in Baltimore, at the same time new shops and restaurants are being built on Pratt Street and luxury apartment towers are rising on Light Street, there are parts of the city where people can’t find jobs and row houses sit vacant.

This is a topic our Bank has been actively studying for several years. For example, we are currently in the midst of an extensive research project, focused on Baltimore, to understand how some individuals are able to move out of intergenerational poverty.² And last year, we brought together some of the leading researchers in urban economics for a conference here. I wish I could tell you we'd found a silver bullet, but as you know the challenges and solutions are complex.

We have to keep searching for the answers, because the size of the opportunity is significant. Areas with higher employment rates tend to have lower poverty and crime rates and fewer challenges with substance abuse. And on the national level, increasing our labor force is an important opportunity to support continued economic growth.

Workforce Development and Mobility

While there's no one-size-fits-all answer, I do think there are some common themes; in particular, workforce development and mobility.

I mentioned that there are currently more open jobs than there are people looking for jobs — and I've lost count of how many “now hiring” signs I've seen outside retail stores and on highway billboards. So why aren't people in inner cities and rural areas filling these jobs? Part of the answer seems to be a mismatch between the skills employers are seeking and the ones people have. I have heard from a number of my contacts in the district that they've having trouble finding skilled workers.

One qualification many employers are looking for is a four-year college degree. But students from rural areas are less likely to attend college than students from suburban areas. Economists at the University of Virginia, for example, studied outcomes in that state and found that college attendance ranges from less than 50 percent of high school graduates in some low-income, predominantly rural school districts to more than 80 percent in some high-income, suburban school districts.³ Students who grow up in the inner city also are less likely to attend college than their suburban peers — perhaps because they are significantly less likely to graduate from high school.

Getting kids to enroll in college is just part of the challenge; roughly 40 percent of college attendees fail to earn a degree within six years. These students may be left with significant debt and few benefits. So we also need to look at preparing students to succeed in college. That preparation begins very early in life, before a child even enters kindergarten, and continues through high school.

Of course, there are well-paying jobs that don't require a four-year college degree, and there are students for whom a four-year college just isn't the right fit. Preparation at the K-12 level needs to include informing students about those opportunities and about how they can train for them, for example at community colleges or via apprenticeship programs.

All that said, it doesn't do much good to train people for jobs that don't exist, so we need to look at the demand side as well. It can be challenging to lure employers to some rural and inner-city

areas, but workforce development can help by creating the skilled workers potential employers are looking for.

Mobility is another challenge in both rural and inner-city areas: Even if there are jobs, it can be difficult for people to get to them. Rural areas lack public transportation, and in cities, you might have to transfer buses three times. This is a topic outside the purview of a central bank per se, but our community development team has convened several symposia devoted to the topic.

Conclusion

The challenges are huge but so are the opportunities. If we want to our economy to continue to grow, we need to find ways to address the obstacles many people face to joining the labor force. By doing so, we also can address the poverty and associated ills that afflict far too many of our neighbors. The Richmond Bank is digging deeply into the issues and welcomes any thoughts you have on possible solutions. And now, I look forward to hearing the thoughts of our panel.

¹ Thank you to Jessie Romero for assistance preparing these remarks.

² For more on community development efforts in Baltimore, see Jeanne Milliken Bonds, Anne Burnett and Emma Sissman, “[Community Finance in East Baltimore: a Study of Phase One Redevelopment and Financing](#),” Federal Reserve Bank of Richmond *Community Practice Paper* #3, 2018.

³ See Emily Cook, Jessie Romero, and Sarah Turner, “[Transitioning from High School to College: Differences across Virginia](#),” Federal Reserve Bank of Richmond Economic Brief no. 17-12, December 2017.