

**Advancing Our Understanding of Urban Economics**  
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Good afternoon. We're pleased you have joined us to hear firsthand about some of the most interesting and relevant research being done in the field of urban and regional economics. All of us at the Richmond Fed hope this is just one of many opportunities we'll have to collaborate and exchange ideas.

Before I share any of my own ideas, I should note that the views I express today are my own and not necessarily those of the Federal Reserve System or any other member of the Federal Open Market Committee.<sup>1</sup>

Why is the Richmond Fed interested in urban economics? In a sense, the answer can be traced back to 1977 and the passage of the Community Reinvestment Act (CRA). This law was intended to discourage “redlining,” or, more precisely, to encourage banks “to help meet the credit needs of local communities in which they are chartered.” The CRA set up a process by which citizens and community groups could protest if they believed a bank was discriminating against a particular neighborhood. Initially, community groups needed help navigating the administrative process of filing a protest, so some Reserve Banks set up functions to provide that help. The Board of Governors asked every regional Reserve Bank to establish a similar function, and by 1981, community development had a presence throughout the System.

This presence has evolved over the years. As community groups became more skilled at navigating the protest process, they needed less assistance doing so. At the same time, banks and community groups were increasingly seeking each other out: banks were looking for community investment opportunities, and community groups were looking for funding. So we shifted into more of a facilitator role — bringing together community groups, financial institutions and other stakeholders to provide people and businesses in low- and moderate-income neighborhoods with tools and resources to address credit and development issues.

For nearly three decades, then, understanding the constraints and the opportunities in communities throughout our district has been part of our mandate. More recently, here in Richmond we have been expanding on that mandate by investing the resources of our research department in studying urban areas specifically.

As you all know, most economic activity takes place in cities. In our district, which includes Virginia, Maryland, Washington, D.C., the Carolinas and most of West Virginia, metro areas generated more than 90 percent of economic output in 2015 and were home to more than three-quarters of the population. Just three cities — Baltimore, Charlotte and Richmond, where our three branches are located — account for 20 percent of our district's population and nearly one-quarter of its GDP. As a regional Reserve Bank, we want to understand what contributes to — or inhibits — economic vitality in our region, and understanding cities is an important part of the equation.

Not all cities are the same, of course. Our region boasts some of the nation's most culturally and economically vibrant cities, but we also have cities suffering persistent decline. And even within relatively prosperous or fast-growing cities, there are pockets of deeply entrenched poverty that policymakers have struggled to redress. In recent years, for example, we've become tragically aware of the serious challenges facing many neighborhoods in Baltimore — challenges whose roots go back many decades and for which solutions do not seem to be near at hand.

OK, you might be thinking, but why isn't the Richmond Fed just sticking to monetary policy? Part of the answer is that studying our region is essential to conducting monetary policy. For example, what's happening in one area or one sector might be a harbinger of things to come for the economy as a whole. And national statistics such as the unemployment rate mask significant disparities between people in different areas of the country or different demographic groups. The fact that, in October, the economy added 216,000 jobs and the unemployment rate for the nation was 4.1 percent doesn't mean that rural West Virginians or inner-city Baltimoreans have an easy time finding jobs.

The other part of the answer is that monetary policy isn't the right tool to address these disparities. Effective monetary policy creates an environment conducive to economic growth and job creation, but it doesn't affect the many other real variables that influence when and where economic growth occurs — such as a region's initial endowments of land or natural resources, transportation patterns, changes in technology or even changing tastes in where people want to live. Monetary policy is a blunt instrument — addressing the unique challenges facing Baltimore or any other city requires finesse.

That's why your work is so exciting and so important. People in this room today have contributed to developments in urban economics that enable us to model cities in incredibly rich detail and make sure that any counterfactual policy experiment is based on a city's current, specific reality. I think that's an incredibly promising direction for economists and policymakers to pursue. Of course, I don't think it's going to provide us with a silver bullet to solve the problems faced by far too many people in far too many cities across our country — I'm looking at a lot of really smart people, and I think if there were a silver bullet, you would have found it already. These are incredibly complex and difficult questions, and the solutions are likely to be years in the making. The Richmond Fed is proud to be playing some role in helping to advance the science, and we are committed to that effort for as many years as it takes.

Before I let you get back to finishing your lunch — and thank you very much, Dave Beck and your staff here in Baltimore, for providing us with such a good meal — let me emphasize that we do not view our role as coming up with the “right” solutions or prescribing specific solutions to policymakers. Our role is as a convener and a disseminator; we want to bring together the best researchers (including our own economists, of course) and help get that research into the hands of policymakers so they can design the most effective solutions for their unique places and people.

Thank you again for joining us, and I'm sure you will find the afternoon presentations just as interesting and informative as the ones this morning.

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<sup>1</sup> I am grateful to Jessie Romero for assistance in preparing these remarks.