Understanding Geographic Inequality

BY JESSIE ROMERO

Researchers describe the unequal distribution of resources or outcomes across geographic areas as "spatial inequality." Such inequality is important for the Fed to understand, particularly with respect to labor market outcomes, says Sonya Waddell, vice president of Regional and Community Analysis at the Richmond Fed. "Fulfilling our employment mandate requires understanding the dynamics that underpin unemployment and labor force participation," she says. "If we don't understand how outcomes vary for different groups of people, or in different areas, then we're missing an important part of the picture."

Waddell also notes the unique responsibilities of a regional Reserve Bank. "We need to know about areas of our District that are not performing as well, or where people don't have the same opportunity to participate in the economy."

Across the Fifth District — and nationally — there are differences in outcomes between urban and rural areas. People who live in rural areas and smaller towns are less likely to be employed than their counterparts in larger cities, for example. They also tend to have less education and worse health outcomes. At the end of 2018, researchers at the Richmond Fed began a concerted effort to understand the sources of this type of spatial inequality. They identified issues including a lack of connection between workers and available jobs; obstacles to participation such as addiction and disability; and the loss of banks, hospitals, and other "anchor institutions."

To help inform this research effort, in October 2019 the Richmond Fed hosted a conference in Harrisonburg, Va., on the social and economic aspects of growth in rural areas. The conference brought together foundations, educators, policymakers, business leaders, and community representatives, among others, to discuss topics including workforce training, access to broadband, and access to capital. "We wanted to make sure that what we are learning aligns with the findings of people who have been living and breathing these issues for decades," says Waddell.

Although large cities are faring better economically on average, there are significant disparities within urban areas. In the Baltimore metro area, for example, per capita annual income is higher than the national average — yet there are neighborhoods in the city where more than 40 percent of the population lives in poverty. Baltimore is also riddled with nearly 17,000 vacant homes, a consequence in part of the large decline in population that has followed the loss of manufacturing jobs since the 1950s.

Redeveloping distressed urban areas is the subject of research by Richmond Fed economists Raymond Owens and Pierre-Daniel Sarte and Princeton University's Esteban Rossi-Hansberg. In a forthcoming article in the *American Economic Journal: Economic Policy*, they analyze Detroit, whose central business district is surrounded by largely abandoned residential neighborhoods. This violates one of the most basic tenets of urban design: that people will live close to their employers to minimize commuting costs.

Why haven't developers or new residents moved into these neighborhoods? Owens, Rossi-Hansberg, and Sarte found that these areas are trapped in a cycle in which residents and developers are unable to coordinate their actions. No resident wants to be the first person to move into a vacant neighborhood, and no developer wants to be the first to invest. In this situation, city governments or other outside institutions can help solve the coordination problem and shift the city to a different equilibrium by guaranteeing a minimum level of investment. "If the city is credible — if developers believe it will make good on the guarantee — that can generate a level of investment that can transform some deteriorating areas of Detroit into self-sustaining neighborhoods," says Owens. "And ideally, the guarantee will never be called upon, so there aren't any out-of-pocket costs for the city." The authors identified 52 census tracts that can be mapped into the negative equilibrium. Of those, there are 22 where the gains from development could be large, potentially generating hundreds of millions of dollars in residential and business rents and attracting thousands of new residents to the city.

Owens, Rossi-Hansberg, and Sarte are now exploring if the Detroit approach can be applied to Baltimore. They're starting with a detailed analysis of the city's neighborhoods, including characteristics such as property values, distance from amenities, zoning laws, and vacancy rates. "This helps to determine whether a given neighborhood is deteriorating because it's in a location that has become obsolete or if in fact there is some inherent value that isn't being realized because of a coordination problem," says Owens.

One major difference between Detroit and Baltimore is that in Detroit, entire neighborhoods are vacant; in Baltimore, vacant properties are interspersed among occupied homes and buildings. This creates the risk that current residents could be displaced by rising housing costs, which has to be factored into the overall calculation.

"There's no magic bullet to make every crumbling neighborhood better off, unfortunately," says Owens. "But we hope our work spurs conversations with policymakers and provides some guidelines for how a city can practically approach redevelopment projects." **EF**

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