

Charles I Plosser: Reinventing older communities – bridging growth & opportunity

Speech by Mr Charles I Plosser, President and Chief Executive Officer of the Federal Reserve Bank of Philadelphia, at the 2014 Reinventing Older Communities biennial conference, Philadelphia, Pennsylvania, 12 May 2014.

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The views expressed are my own and not necessarily those of the Federal Reserve System or the FOMC.

Highlights

1. President Charles Plosser welcomes participants to the 2014 Reinventing Older Communities biennial conference.
2. President Plosser highlights emerging trends in the labor market, demographics, and educational system and discusses how understanding them can help prepare communities for growth and prosperity.
3. President Plosser says it is important to think about how we can continue to upgrade the skills and productivity of young people and the workforce more broadly to successfully reinvent our communities.

Introduction

It is my pleasure to welcome you to the Reinventing Older Communities conference. This is the sixth biennial conference hosted by the Federal Reserve Bank of Philadelphia. It has grown to become an important event for the Federal Reserve System as we bring together a rich and diverse mix of stakeholders who are interested in understanding the interaction between older industrial communities and the broader economy.

The Federal Reserve System, which is marking its centennial year, is a decentralized central bank, with 12 individual Reserve Banks throughout the country that are overseen by a Board of Governors in Washington, D.C. As Theresa Singleton mentioned, we are delighted that seven of those Federal Reserve Banks are partnering with us to sponsor this year's conference. I thank them and the other sponsors who have helped us create what promises to be an outstanding event.

I also want to thank you for taking the time to join us for this conference. Your participation here and your ongoing work in communities around the nation demonstrate your commitment to bridge growth and opportunity. In that way, we can reinvent our communities to ensure they are places where people can lead fulfilling and successful lives. But this work requires a creative forward-looking approach.

Maybe it's the fact that the Stanley Cup playoffs are still going on in mid-May, but I'm reminded that Wayne Gretzky was once asked about his success in hockey. The Great One responded by saying, "I skate to where the puck is going to be, not to where it has been." He scored many goals with this strategy, and I believe his philosophy can be helpful in many disciplines. For example, I have talked about the need for monetary policy to be forward looking. But I believe this approach also applies to the revitalization of older communities.

Now, I am by no means a community development expert or a hockey player. During my lifetime, I have lived in several older communities, including Rochester, NY, and Birmingham, AL, where I was born. I attended college in Nashville, TN, and graduate school in Chicago. I have lived and worked in New York City, as well as in and around Los Altos, CA, near the heart of Silicon Valley, and for almost eight years now, I have lived here in Philadelphia.

It occurs to me that often older communities seek to turn back the clock to restore their past glories. A variation is to chase the puck. But in so doing, they find themselves perpetually in the past, never quite catching up and usually falling further behind. These are unlikely to be successful strategies. It is appropriate to learn from the past. But trying to restore the past is not a strategy for success. As most of you are aware, rebuilding and revitalizing our older cities is not about the past but our ability to seize the future.

The Philadelphia of tomorrow will not be the Philadelphia of the past, nor should it be. There are many opportunities for productive transitions and improvements. Indeed, we should seek to exploit the latest innovations to make Philadelphia, like many of our postindustrial cities represented here today, wonderful places to live, work, and play. We have to acknowledge that our world has changed, and it continues to change at a very rapid pace. Embracing that change in order to reinvent the future of our cities is hard work, but it can pay off handsomely.

The extent to which we are able to see where emerging trends are headed – where the puck will be, if you will – gives us the chance to take advantage of the opportunities they present. That will allow our communities to be more successful and more effective.

I want to spend the remainder of my brief time discussing a few emerging issues for you to consider over the next few days, as you participate in the conference workshops and plenary sessions.

Emerging trends

My comments will focus on the labor market and the importance it plays in shaping the future of our nation, but more relevant for this group, how it is shaping the future of our cities. The financial crisis and Great Recession led to severe dislocations in many sectors of our economy, including the housing sector, financial markets, and the labor market. Monetary and fiscal authorities responded in myriad ways to help the economy and our nation recover. But we should resist the temptation to implement programs with the goal of recreating the past.

The unemployment rate has slowly recovered and is now 6.3 percent from its peak of 10 percent in October 2009. Some are skeptical, though, because the decline in the unemployment rate reflects not only increases in employment but declines in labor force participation. Many interpret such declines in the participation rate as representing discouraged workers who have stopped looking for work. Yet, labor force participation rates can also decline for demographic reasons. Indeed, we have seen steadily declining participation rates since 2000, and we can account for about three-quarters of this decline in participation since the start of the recession in December 2007 because of increased retirements and movements into disability.

Demographic trends, driven largely by an aging baby boomer generation, are altering the age distribution of our population. More specifically, we are getting older, and the size of the working age population is shrinking relative to those over 65. It is widely recognized that this fundamental shift will require major changes in the structure of Social Security and Medicare programs.

Yet even as we solve such fiscal challenges associated with an aging population, we have to face up to the changing skills that employers are seeking. We are seeing a mismatch of skills in the workforce and the jobs that are being created. Many employers I have spoken to around the country talk about the fact that while they are hiring new workers, they are hiring a new type of worker: a worker who is more technologically sophisticated and productive. Going forward our educational system needs to be upgraded to prepare young people for this changing labor market. We are simply not keeping pace.

More specifically, business leaders I have met talk repeatedly about having trouble finding qualified candidates in the areas of science, technology, engineering, and math, or so-called

STEM jobs. As you know, the increasing needs for STEM-trained workers is one of the trends that will drive labor demand and productivity growth in our future. The Department of Commerce estimates that STEM employment grew at three times the rate of non-STEM employment in the previous decade and is projected to grow at twice the rate of non-STEM jobs through 2018.

Sadly, we are not doing an adequate job of preparing our workforce for these jobs. Manufacturing is one sector in which firms have implemented new production technologies and are in need of STEM workers. The Philadelphia Fed's April Business Outlook Survey of manufacturers included a special question about the factors influencing their decisions to remain in the region. Respondents identified the availability of skilled labor as the most important factor. They also ranked the availability of skilled labor as becoming a more important factor in recent years.

These concerns highlight the importance of our educational system in equipping our young people with the skills necessary to improve their own lives and improve the communities in which they live and work. Better wages accrue to a more productive employee. Firms will not locate in communities where they cannot find workers with the right skills and work ethic. For our older communities, successful revitalization will mean seeing to it that the workforce is up to the task.

The standard of living in our nation as well as our communities is inextricably tied to the productivity of our workforce. As we look to the future, we have to think about how we can continue to upgrade the skills and productivity of young people and the workforce more broadly. If we are to successfully reinvent our communities, we must focus on preparing our workforce for the future.

Conclusion

Let me conclude by reminding you that the theme of this year's conference is Bridging Growth and Opportunity. And I can think of no better bridge to opportunity than education. Education is a bridge for our young people and a bridge for our local economies. As someone who has spent over three decades in the teaching profession, I firmly believe that education is one of our most important investments. It is critical for the long-term health and prosperity of our nation. Education expands opportunity, leads to more innovation, and enhances productivity. In the end, this leads to better economic outcomes.

I am excited that this year's conference will highlight the critical role that education and workforce development play in reinventing older communities. We are honored to host a Sit Down with the Superintendents, a panel session that will give you an opportunity to engage in a dialogue with school superintendents from several older industrial cities. This is your chance to discuss how community development and educational leaders can work together to connect people with the right skills to the jobs ahead. This is another example in which those of you who think about workforce development can get ahead of the puck. And score a goal for all older communities.

The work that you do – building these bridges to opportunity – is about creating a better future for all of us who live in these special places. It will not be easy, and there is no quick fix, but it will be one of the most important things we can do. Thank you for participating in our program this year.