Michelle W Bowman: Building economic resilience in communities

Speech (via prerecorded video) by Ms Michelle W Bowman, Member of the Board of Governors of the Federal Reserve System, at the Policy Summit 2021 "Pathways to Economic Resilience in our Communities", hosted by the Federal Reserve Bank of Cleveland, Cleveland, Ohio, 23 June 2021.

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Thank you, Emily, and thank you to the Federal Reserve Bank of Cleveland for hosting this policy summit. I'd also like to thank the participants and attendees for taking part in these critical conversations. It's really a pleasure to be here with you to support the discussions of economic resiliency that will take place over the next several days. Considerations of what builds resilient communities are at the top of the list as we look back at the economic impact from the pandemic and look ahead, as we experience a recovery that we want to benefit everyone.

I would also like to highlight that three of the sessions taking place over these next few days will provide an opportunity for all of you to convey your own perspectives on the economic recovery from the pandemic. We would like to hear directly from you about how you see the recovery progressing in your own communities, whether you see unique aspects to the way businesses and families in your communities experienced the downturn and ongoing recovery, and what opportunities or challenges you think may lie ahead as we all adjust to lasting changes in the economy following the pandemic.

These discussions will be the first of several aimed at continuing the *Fed Listens* initiative that began in 2019 and was part of the Federal Reserve's broad review of its monetary policy framework. The initial purpose of *Fed Listens* was to interact in a public setting with members of the public and community groups to hear about issues relating to our dual-mandate goals of maximum employment and price stability. The insights gained from these conversations proved to be highly valuable. Even though our framework review concluded last year, we are continuing the *Fed Listens* initiative with a focus this year on the economic recovery from the pandemic. We expect these listening sessions will benefit the Federal Reserve's ongoing policymaking process, while also providing important insights from affected communities, and enhancing transparency and public accountability.

With that in mind, let me briefly describe what I see as the current state of national economic conditions. As we continue to see progress toward the recovery, including the lifting of economic and social-distancing restrictions, the economy is growing at the fastest pace in decades. Economic output has likely surpassed its pre-pandemic peak, but even with this progress, there are over 10 million people still without jobs who are either actively looking for employment or have since left the labor force. Employment has been recovering rapidly in the sectors of the economy related to goods production and sales, but the services economy has been much slower to recover. Employment in the leisure and hospitality sectors is down by more than 3 million jobs since February of 2020.[1]

As the recovery in the labor market and spending on goods and services continues to gain momentum, we are seeing upward pressures on consumer prices. In recent months, inflation has risen to well over the Federal Reserve's longer-run goal of 2 percent. This rise has reflected, in part, the fact that inflation numbers at the onset of the pandemic were very low. As those low values drop out of the 12-month average of price changes, this measure of inflation has increased and will likely increase further. But there is more to the recent rise in inflation than just these measurement issues. The impressive upswing in economic activity has played an important role as it has led to a number of supply chain bottlenecks and put upward pressure on prices for many goods. These upward price pressures may ease as the bottlenecks are worked out, but it could take some time, and I will continue to monitor the situation closely and will adjust my outlook as needed.

Post–COVID-19 economic outcomes

We know that economic downturns are hardest for lower-income people, those with less education, and some minority groups. I believe that government responses to the pandemic—the lockdowns, school closures, and economic restrictions on businesses—significantly widened differences by income, education, race, and gender, and those disparities have persisted during the recovery. For example, we know that those with a high school education or less were among the hardest hit in the downturn last spring, and I am concerned about those individuals falling behind. In 2020, 20 percent of prime-age adults with less than a bachelor's degree experienced a layoff, 8 percentage points higher than for those with at least a bachelor's degree.[2]

It seems that women, and especially minority women, have shouldered a larger share of adverse labor market impact because of limited child care options and the need to assist school-aged children with remote learning during the pandemic. The impact of COVID-19 has been especially hard for Black and Hispanic women in the workforce. Over 3.5 percent of Black and Hispanic women dropped out of the labor force altogether, compared with 1.7 percent of women overall.[3]

We also see divergent outcomes for small business owners across race and ethnicity. In the Federal Reserve's 2021 Small Business Credit Survey, 52 percent of Asian-owned, nonemployer small businesses reported their financial conditions as poor, compared with 38 percent of Hispanic-, 36 percent of Black-, and 28 percent of White-owned firms.[4]

The Federal Open Market Committee views the maximum level of employment as a broad-based and inclusive goal. Thus, these gaps in employment and other measures of economic wellbeing can be interpreted to show that more progress is needed to reach maximum employment. The goal is to promote an economy in which all can contribute to and share in the benefits of economic growth.

Community voices

With the experiences of the pandemic fresh in our minds, an event like this policy summit offers insights and perspectives from a broad range of community voices about what is working on the ground. I find it especially rewarding and valuable to hear from groups like those attending this summit. Conversations with the leaders of community groups inform me and other Fed policymakers of community and consumer experiences in real time.

Just last month, for example, the Board of Governors met with our Community Advisory Council (CAC). This council consists of a diverse group of experts and representatives of consumer and community development organizations and interests. In our conversation, they provided thoughtful insights about the recovery as it is evolving in communities across the country. Their perspectives touched on the disparities the pandemic has exacerbated and on the challenging road ahead.

Perspectives on economic resilience

In the time I have with you this morning, I'd like to offer my perspective on economic resilience. I often find striking similarities between urban and rural communities, just as the upcoming panel on the "common ground in urban and rural America" will explore. When it comes to building economic resilience, there are a few key elements that facilitate a quicker recovery across different kinds of communities after challenging times. There are a wide range of topics on this conference's agenda, from broadband access to workforce development to affordable housing to small business development—I will focus on just a few of these.

One key element to community resiliency is the engagement of local financial institutions in providing access to credit and supporting small businesses with funding and technical assistance. As a former community banker, I know that few understand their communities better because they live in the local economy and can step in to lend in a targeted way to those best prepared to benefit. During the pandemic, community bankers and other lenders such as community development financial institutions (CDFIs) were the key to making sure that healthy businesses temporarily hurt by lockdowns, economic restrictions, and social distancing were able to access the multiple rounds of Paycheck Protection Program (PPP) funding that kept workers on their payrolls.

In other ways, community banks once again showed how irreplaceable they were in responding to the needs of consumers and small business clients. While I have heard from community groups that small businesses struggled to navigate the PPP application process, especially those that did not have a preexisting banking relationship, community banks and CDFIs made a concerted effort to meet small business needs. The 2021 Small Business Credit Survey results showed that small banks were the most common source for PPP loans among employer firms, and applicants leveraging assistance from smaller banks were the most successful in obtaining all of the PPP funding they applied for.[5] Additionally, I heard from the CAC last month that CDFIs were also effective in lending to smaller borrowers with limited or no financial institution relationships.

An environment that supports resilient small businesses means more jobs and economic growth in local communities—both urban and rural. In the past 10 years, small businesses created over 10 million net new jobs, or about two-thirds of net new job creation, overall. In rural counties, 65 percent of the total jobs, which is a significant majority, were provided through employment in a small business.[6] Creating and encouraging an environment that supports small business growth and entrepreneurship is a vital component of economic vitality and advancing a more broad-based recovery. This is exactly the type of environment that the Federal Reserve has been working to encourage with accommodative financial conditions promoting the flow of credit to households and small businesses.

And finally, as all of us are acutely aware after more than a year of pandemic-related shutdowns, broadband access has become even more of an essential utility. It's something that families need for children attending virtual school online, for expanding work opportunities, and for remotely accessing goods and services. This essential service is often unavailable or considered a luxury in many rural and lower-income urban communities. Data from the Census Bureau show that only about 65 percent of households in both rural and lower-income counties pay to have a subscription to internet services, compared with the national average of about 80 percent.[7]

A report from the Federal Reserve Bank of Philadelphia also found income- and race-related gaps in both broadband availability and adoption rates across neighborhoods in Philadelphia.[8] Internet access has become necessary for those looking for a job, and, not surprisingly, the unemployment rate for those without a computer connected to the internet was about 3 percentage points higher than the unemployment rate for those with a computer with internet access. Investing in the infrastructure to increase broadband availability and to support broadband adoption in these communities could help close the employment gaps. Additionally, it can help level the playing field for children attending school, open opportunities for adults to pursue more stable and better-paying jobs and online education, and also enable access to online banking and other internet-based financial services.

In summary, it seems clear that much progress remains to be made in these areas. The Federal Reserve is committed to supporting the economic recovery and will do so through our monetary policy tools, supervisory responsibilities, and community development function. I'm looking forward to seeing how the opportunities from your collaborations and the creative solutions arising from this summit will help support vulnerable communities in adapting to and recovering from economic shocks. Through this approach, and with partnerships among practitioners like those here today, we can ensure that those who experienced the greatest effects from the pandemic are included in the economic recovery. Thank you again for this opportunity to be here today, and I wish you a productive and successful conference.

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1 See U.S. Bureau of Labor Statistics, "Employment Situation Summary," news release, June 4, 2021.

2 See Board of Governors of the Federal Reserve System, Report on the Economic Well-Being of U.S. Households in 2020 – May 2021 (PDF) (Washington: Board of Governors, May 2021).

3 See "Civilian Labor Force Participation Rate," U.S. Bureau of Labor Statistics, June 4, 2021. The overall labor force participation rate dropped from 63.4 percent in January 2020 to 61.7 percent in April 2021.

4 The Small Business Credit Survey is a collaboration of all 12 Federal Reserve Banks and was fielded in September and October 2020. See Federal Reserve Banks, *Small Business Credit Survey: 2021 Report on Firms Owned by People of Color* (PDF) (Federal Reserve Banks, 2021). Nonemployer firms include the self-employed, freelancers, and independent contractors.

5 Federal Reserve Banks, *Small Business Credit Survey*.

6 See Hanna Love and Mike Powe, "Rural Small Businesses Need Local Solutions to Survive," Research Brief, Metropolitan Policy Program (Washington: Brookings Institution, December 2020).

7 See Michael J. Martin, "For the First Time, Census Bureau Data Show Impact of Geography, Income on Broadband Internet Access," *America Counts,* December 6, 2018.

8 See Alvaro Sánchez, *Toward Digital Inclusion: Broadband Access in the Third Federal Reserve District* (Philadelphia: Federal Reserve Bank of Philadelphia, March 2020).