Message From The Interim President

The Richmond Fed and Urban Economics

As I've shared before in this space, the Richmond Fed has a deep and long-standing interest in understanding the constraints and opportunities in communities throughout our district. Recently, we have been investing additional resources in studying urban areas specifically.

Most economic activity takes place in cities. In the Fifth District, 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.

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 entrenched poverty that policymakers have struggled to redress. These neighborhoods face 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 isn't urban economics outside the purview of the Federal Reserve? Isn't your job monetary policy? From the perspective of a regional Reserve Bank, however, 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 the economy added an average of 171,000 jobs per month during 2017 and the unemployment rate for the nation declined to 4.1 percent doesn't mean that people in rural West Virginia or inner-city Baltimore have an easy time finding jobs.

Moreover, 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 any given city requires finesse.

In November, the Richmond Fed hosted a conference in Baltimore where some of the leading economists in the field of urban economics shared their recent work. Developments in the field have enabled us to model cities mathematically in incredibly rich detail and make sure that any policy experiment is based on a city's current, specific reality. The work economists are doing today holds great promise for giving policymakers the tools to understand the consequences for a variety of stakeholders.

Of course, 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 of urban economics, and we are committed to that effort for as many years as it takes. But 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.

This is my last column as interim president of the Richmond Fed. In June, I will be retiring after more than three decades with the Federal Reserve System. It has been my privilege to work with wonderful colleagues throughout the System and an honor to support the Fed's mission. In December, our Board of Directors announced that Thomas Barkin, a senior partner and chief risk officer at McKinsey and Company, had been selected as the Bank's new president and chief executive officer. Tom brings a wealth of management and financial experience to the Bank and has a strong legacy of promoting diversity and inclusion. He also has a keen understanding of the Federal Reserve from previously serving on the Atlanta Fed's Board of Directors. Everyone at the Richmond Fed looks forward to working with him to continue the Bank's service to the Fifth District and the country. **EF**

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