<u>Summary of the Federal Reserve Bank of Cleveland's *Fed Listens* Program</u>

The Federal Reserve Bank of Cleveland took several approaches to solicit a wide range of perspectives from diverse stakeholders across the Fourth District[1] to help inform the Federal Reserve's review of the strategy, tools, and communication practices used to pursue the monetary policy goals established by Congress: maximum employment and price stability.

Between March and May 2019, the Cleveland Fed queried its Community Advisory Council (CAC), its eight Business Advisory Councils (BACs), its branch boards of directors in Cincinnati and Pittsburgh, and more than 600 direct service providers through its Community Issues Survey. Questions were customized to each audience and focused on how the Fed's monetary policy impacts respondents' businesses and communities, including the perceived advantages, if any, of running a "hot" labor market, the importance of stable price inflation, and the effects on low- and moderate-income (LMI) communities and individuals. Capping off the effort, a *Fed Listens* session with Federal Reserve Governor Lael Brainard and Federal Reserve Bank of Cleveland President and Chief Executive Officer Loretta J. Mester was held on June 21, 2019, to conclude the Cleveland Fed's Policy Summit 2019: Connecting People and Places to Opportunity in Cincinnati, Ohio.

Community Advisory Council

The Cleveland Fed's Community Advisory Council comprises experts and leaders in the Fourth District and convenes them to discuss issues of concern to underserved and lower-income individuals and communities. Its purpose is to inform and advise the Cleveland Fed about current and emerging economic and social issues and trends impacting these individuals and communities. At the CAC's March 2019 meeting, members were asked to comment on monetary policy's impact on low- and moderate-income communities using the following prompt and question:

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[1] The Fourth District comprises Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia.

> *Monetary policy refers to the actions the Fed takes to achieve both stable prices and maximum employment. With this in mind, please consider the following question:*
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> *How does the Federal Reserve's monetary policy broadly affect the communities you represent with respect, for example, to housing, access to credit, retirees/savers, small businesses, or community banks?*

Key takeaways

Several themes about the economic and financial challenges of low- and moderate-income communities emerged in the discussion that followed. Some of the themes were not easily connected to monetary policy:

- Access to personal credit, savings, and retirement: Monetary policy impacts the cost of accessing credit, particularly for families that lack good credit and are otherwise stressed financially. Access to credit for businesses, including small businesses, was mentioned as potentially being affected as well.
- Job access and wages: To the extent that monetary policy can further boost employment, LMI communities would likely benefit, though employment barriers can be more local and include public transportation and lack of job training.
- Multifamily investment and housing policy: A council member noted that monetary policy may impact multifamily affordable housing construction because of lending costs. Multifamily LIHTC (Low-Income Housing Tax Credit) projects may need more soft money—money that does not go into the physical construction, but instead goes toward such items as fees in order to fill financing gaps.
- Public funding and other investments: Monetary policy decisions may have implications for nonprofit bond issuance and yields. Smaller municipalities are having problems with access to credit.

Business Advisory Councils and Boards of Directors

Surveys were administered to the Cleveland, Cincinnati, Columbus, Dayton, Lexington, Pittsburgh, Erie, and Wheeling Business Advisory Councils and to the Cleveland Fed's Cincinnati and Pittsburgh Branches' boards of directors. Members were asked several questions related to monetary policy.

Key takeaways and select responses

1. The Fed's two goals of maximum employment and price stability were seen as either very important or extremely important in a large majority of the responses.
2. Price stability and maximum employment both contribute to confidence in the current economy. Confidence in the economy translates into growth. Most respondents believed the Federal Reserve was either somewhat successful or very successful over the past decade at achieving both of its goals.
3. The survey asked about the advantages and disadvantages of running a "hot," or tight, labor market. According to respondents:
    - Advantages: Increased minimum wage, employers' placing more value on employees, increased urgency to invest in workforce development, and reduced transfer payments.
    - Disadvantages: Higher employee turnover, employees who feel they should be paid more, employees sacrificing long-term career goals for short-term gains, and employee burnout.
4. A majority of respondents believed that workers were either somewhat or very able to ask for and secure higher wages.
5. In order to contain turnover and retain qualified employees, some respondents said they have granted higher merit wage increases to employees for the past few years (relative to the cost of living and to historic levels), and often are willing to increase the wage level of employees to retain them.

6. Most respondents said they believe it is very important for price inflation to be predictable and stable. They said that this helps to predict a firm's profitability, anticipate clients' future buying power, and create a more equitable economy, and it allows households to better predict future spending, including for retirement and home purchases.
7. Most respondents said their firms have not been affected by inflation over the past decade.

Community Issues Survey

The survey is sent biannually to organizations in the Fourth District who directly serve either LMI individuals or communities (e.g., workforce boards, food pantries, small-business centers, workforce training providers, housing or health and human services agencies). In March, the survey was sent to more than 600 contacts, with 180 direct service providers responding (29 percent response rate). This iteration included the following question:

> *For our final question, we're going to switch gears to* ***monetary policy.*** *The Federal Reserve has a dual mandate from Congress with the goals of maximum employment and stable prices. The Fed conducts monetary policy to achieve these goals primarily through its interest rate policy—setting a target for the federal funds rate. The federal funds rate influences the interest rates that consumers and businesses pay for loans.*
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> *With that in mind, please consider this question: How well do you feel the Federal Reserve's interest rate actions take into account issues facing the low- and moderate-income people you serve?*

Key takeaways

1. A majority of respondents either did not think the Federal Reserve considered low- and moderate-income people in their decisions (27 percent) or said they did not know (27 percent).

2. Respondents who felt the Fed did not consider low- and moderate-income people when making monetary policy cited reasons such as a greater focus on the middle class, a feeling that low-income people are generally disregarded because the extent of their borrowing is limited, or a feeling that they are unaffected by interest rate changes.
3. There were some who felt the Fed does consider low-income individuals: "There seems to be a real understanding of low-income economic struggles as well as a continual and proactive attempt to keep a finger on the pulse of the community," said one provider.

***The Fed Listens*: A Discussion with Federal Reserve Leadership**

On June 21, the final session of Policy Summit 2019 featured Federal Reserve Governor Lael Brainard and Cleveland Fed President and Chief Executive Officer Loretta J. Mester in a *Fed Listens* event on the intersections between community development and the economy. Conference attendees, who included social service practitioners, policymakers, and researchers, discussed with each other two questions related to the Fed's monetary policy and then shared their thoughts with the Fed policymakers.

In introductory remarks, President Mester noted that the Federal Reserve has a keen interest in understanding the impact its research and policy has on its various constituents, including those in low- and moderate-income areas. Governor Brainard added that the Fed was undertaking the *Fed Listens* initiative "to hear how Americans are experiencing the economy day to day and to make sure we are carrying out the monetary policy goals assigned to us by the Congress in the most effective way we can."

About 200 Policy Summit participants were then asked to think about and discuss two questions at their tables:

1) According to the national statistics, the labor market has improved significantly compared to five years ago. Today, what does the employment picture look like in low- and moderate-income (LMI) communities that you know and/or serve?
2) Over the last five years, official measures of inflation have typically been running below the Fed's 2 percent objective. How has inflation been affecting the low- and moderate-income communities you know and/or serve?

Participants shared views on these questions at their tables and then with President Mester and Governor Brainard. The following summary includes excerpts from those comments and notes taken by designated moderators during the discussion period.

Question 1: Employment in LMI Communities

Many attendees identified as a major issue mismatches between the needs of businesses and the skills of available workers. One participant noted that finding talent takes too long for businesses, though others said many jobs created by businesses are unattractive to prospective employees. Some participants noted a lack of mid-level or mid-skill jobs. One moderator summarized a table's thoughts on the availability of entry-level positions: "People don't want them."

Similarly, participants noted that jobs created in LMI communities are often low-paying positions, noting that underemployment is more pressing than unemployment (see "Other Observations" below). Attendees from Ohio and Kentucky observed that the recent surge in low-wage job creation followed the exodus of manufacturing jobs paying livable wages. Attendees at one table said that wage growth is a better indicator of the economy's health than inflation. Several tables mentioned that wage stagnation is deepening wealth and income gaps.

Many tables said that public transportation fails to adequately link LMI communities to jobs, emphasizing this problem is particularly acute in rural areas. Commenting on persistent transportation shortcomings, one attendee suggested that community development leaders should target job creation in LMI regions with limited access to high-opportunity areas. Attendees felt that even if workers can physically get to jobs, workers often don't possess the appropriate skillsets for available positions. Participants either said high-skill workers were provided opportunities in positions far below their capabilities or that low-skill workers weren't receiving adequate training for open positions.

Attendees generally offered two solutions to mismatches in the labor market: improve education and improve transportation. Regarding education, attendees said both schools and employers must improve how they prepare the labor force. One participant noted an abundance of technical programs at community colleges near Dayton, Ohio, that are routinely underused, and another said employers are increasingly recruiting workers from other locales rather than investing in local workers.

Other frequently mentioned issues included the ongoing effects of the opioid crisis and the reintegration of formerly incarcerated workers into the labor force.

Question 2: Inflation

Across many discussion groups, inflation was not a primary point of concern. One participant said that residents in LMI communities are generally unaware of inflation because prices are too high relative to the wages employers pay. Similar notes from table moderators suggest this was a common thought among discussants.

While LMI communities generally may not feel the relative effects of inflation, participants said, the rising cost of necessities does burden households. Many tables cited child care and healthcare costs as two major points of frustration for LMI residents. One attendee told her tablemates that child care "was a big problem at the YMCA (where she worked): paying [childcare workers] $10 an hour and expecting them to show up every day is unrealistic." And, while many participants focused on the impact of healthcare expenses on residents, others mentioned that rising healthcare costs for businesses put downward pressure on wages. Beyond child care and healthcare costs, concerns also circulated over increases in utility bills for LMI residents.

Other Observations from Fed Listens: Frustration over Economic Indicators, Cliff Effects

Attendees voiced frustration that the official economic statistics fail to capture many peoples' struggles. The following are notes from the discussions at different tables during the event:

- "Economic health isn't what the numbers show. No *resiliency* among LMI communities."
- "Many people are struggling, so how are we near 'full employment'?"
- LMI workers are "trapped in service industry jobs."
- "[The] federal poverty level is a joke."

Attendees often highlighted underemployment—rather than unemployment—as a pressing concern in LMI communities. One participant suggested reconsidering how inflation is calculated for LMI residents, particularly given the fact that expenditures such as housing, utilities, and groceries account for a large percentage of low-wage workers' income.

Cliff effects—the loss of access to government-subsidized programs following increases in income—was another frequently cited challenge. Some attendees said workers often face an unappealing tradeoff between a relatively low-paying job versus benefits such as SNAP (Supplemental Nutrition Assistance Program), affordable housing subsidies, and healthcare coverage.

In closing remarks, President Mester noted that many of the solutions to the economic stresses of LMI communities and people lie outside the realm of monetary policy, but she pledged to bring participants' concerns to the appropriate policymakers. "What we can do by collecting your comments and summarizing them is make sure that they get into the hands of the people that can actually make those policies. . . . That's my promise to you is that we will make sure that people hear what you're saying." Governor Brainard summarized some of the main themes she heard from the discussion, including the lack of connection felt by some communities, such as those in rural areas or those seeing high incidences of opioid addiction or structural barriers tied to racism or people formerly incarcerated people. Governor Brainard concluded that "Your insights today were extraordinarily valuable to us. What's clear to me is that this expansion and continuing it is extremely important to create opportunities, but it's not enough."

A selection of comments shared with Governor Brainard and President Mester during the listening portion of the session:

1. Statistics don't always measure the real things that are happening in LMI communities. There is a supply-and-demand problem. There are fields in which employers cannot find people to do the work, but there are also people working three jobs because what they really need is a living wage and a job with benefits. The unemployment rate does not count the people who have dropped out of the labor force either because of health problems or addiction problems or because they've already used their unemployment benefits. For some of the lower-wage jobs in health fields, for example, there are not enough training slots for the people available. Some participants felt that when one invests in a community rather than in individuals, the benefits don't always get to the people. If one focuses on investing in businesses for example, doing so may not create jobs for people in that community.
2. Benefits of a tight labor market don't trickle down to people of color and people of lower or low income. People don't have time for training programs that would allow them to move up the income

ladder. There has been a systemic policy of racial bias throughout our nation for almost its entire existence, and policies that created racial bias haven't yet been addressed.

3. Our particular community, in an under-resourced neighborhood, has an unemployment rate of 12.3 percent. Over 60 percent of the people there are paying more than 50 percent of their incomes for housing. We also recognize, from a business perspective, that the cost of healthcare drives employability. Food is very expensive, and so are utilities, making it really hard for low-income people to survive. We hear employers say all the time that they can't get enough trained workers, but they also don't want to pay a wage that doesn't have the cliff effect. We've seen some improvement over the last five years, but not at the rate the rest of the state (Massachusetts) has. We don't have large employers; we don't have anchor institutions.
4. Individuals with criminal histories are a problem because they may have the skills and the education, but they're not considered employable. Expunging records would help, especially for those with some sort of low-level drug crime. Communities of color are much harder hit with that than other communities. There's a gap between people who need jobs and are ready to take jobs and those who have the skills and the education to qualify for those jobs.
5. Some chambers of commerce in Ohio have talked about experimenting with reentry programs. They have been pleasantly surprised about the results, including being able to retain more employees. They're also realizing that they need to be more attentive about providing support, not only for reentrants, but also for other low- and moderate-income individuals, particularly in terms of transportation and childcare.
6. Aggregate information and data in terms of maximum employment can be misleading for people of color in terms of variation on place and who's employed and who's not, on how those things tend not to change over time. Neighborhoods in Allegheny County, Pennsylvania, saw little change in the past three decades: communities that were well-off stayed well-off; communities that were disadvantaged became a bit more disadvantaged. So just because there are places with high economic growth, such as in Pittsburgh, that doesn't mean that everyone is benefitting.

7. Our LMI communities have not experienced tremendous benefit from economic growth over the last 5 to 10 years, and that might be for a variety of reasons, whether they're physically isolated from where the growth is occurring or dealing with populations that have structural disadvantages such as criminal records or addiction problems or people who can’t find affordable childcare. A lot of folks are finding that it's hard to pay for their housing, so they're moving out into the suburbs, and they're facing increased transportation costs, and they're not finding jobs that pay wages that would allow them to make up that difference. We're also seeing people who at one point in time did have decent paying jobs, but because of advances in technology, those jobs no longer pays premium wages, and they're getting lower-wage jobs, and some of them are just deciding to exit the labor force.
8. Some LMI communities can’t participate in technology-enabled remote work because of a lack of access to high-speed internet. If companies are moving away from having employees in the building, what does that mean for other jobs such as cleaning, and how does that move impact other employment?
9. There's a very promising program in Cincinnati that has taken the lead to design the kinds of processes that are needed to keep previously incarcerated people employed and to provide a variety of wraparound services to their employees. They found that this is the best business model because it produces very, very loyal employees, and they've expanded that model now to about 50 other companies. They're providing transportation to remote jobs out of the county. They're looking at the possibilities of onsite childcare. They're providing housing for their employees in nearby locations. So they're really going the extra mile and demonstrating that this is a good business practice for companies.
10. Low- to moderate-income families are having trouble providing for their families. So inflation is not as important. If something is so expensive in the first place, it doesn't matter how much more expensive it is later.

11. Below the numbers that show the aggregate economy doing well, the lower tier of workers has no resilience at all. Zero. In fact, they're in deficit-resilience category. It seems to many of us that the economy is much more fragile than the overall numbers show.
12. Even if employers build housing near the jobs that are being created, do our citizens have the education that can get those jobs?
13. Overlooked is the population of people who don't have high school diplomas. They have the least opportunity to participate in this system, and it's important for policymakers around the state and in this country to figure out a way that we can engage and more importantly incentivize people who did quit high school to get back into the game. We understand that a lot of careers don't require a bachelor's degree, but they all require a high school diploma or its equivalent.