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PLACE-BASED POLICIES FOR SHARED ECONOMIC GROWTH

A HAMILTON PROJECT POLICY FORUM

Washington, D.C.

Friday, September 28, 2018

ANDERSON COURT REPORTING  
500 Montgomery Street, Suite 400  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

PARTICIPANTS:

**Welcome and Introduction:**

ROBERT E. RUBIN  
Former U.S. Treasury Secretary  
Co-Chair Emeritus, Council on Foreign Relations

**Fireside Chat:**

DEVAL PATRICK  
Former Governor, Commonwealth of Massachusetts  
Managing Director, Double Impact, Bain Capital

DAVID LEONHARDT  
Associate Editorial Page Editor, Op-Ed  
Columnist  
*The New York Times*

**Roundtable Discussion: The Role of Education in  
Strengthening Regions:**

**Moderator:**

JAY SHAMBAUGH  
Director, The Hamilton Project  
Senior Fellow, Economic Studies, The Brookings  
Institution

**Panelists:**

REBECCA BLANK  
Chancellor  
University of Wisconsin-Madison

LOUISE FOX  
Chief Economist  
United States Agency for International  
Development

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PARTICIPANTS (CONT'D):

SHAWN KANTOR  
L. Charles Hilton Jr. Distinguished Professor  
of Economic Prosperity and Individual  
Opportunity  
Florida State University

STEPHEN SMITH  
Professor of Economics and International  
Affairs  
The George Washington University

**Roundtable Discussion: The Impact of Structural  
Racism and the History of Segregation on Regional  
Inequality:**

**Moderator:**

TRACY JAN  
Race and Economics Reporter  
The Washington Post

**Panelists:**

BRADLEY HARDY  
Associate Professor, Department of Public  
Administration and Policy, American University  
Nonresident Senior Fellow, Economic Studies,  
The Brookings Institution

FREDERICK WHERRY  
Professor and Department Representative,  
Sociology  
Princeton University

**Roundtable Discussion: Using Federal Investments to  
Drive Local Growth:**

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PARTICIPANTS (CONT'D):

**Moderator:**

RYAN NUNN  
Policy Director, The Hamilton Project  
Fellow, Economic Studies, The Brookings  
Institution

**Panelists:**

SHAUN DONOVAN  
Senior Strategist and Adviser to the President  
on Allston and Campus Development  
Harvard University

TRACY GORDON  
Senior Fellow  
Urban-Brookings Tax Policy Center

MAURICE JONES  
President and Chief Executive Officer  
LISC

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## P R O C E E D I N G S

MR. FURMAN: Hi, I'm Jason Furman. I'm here to welcome you today to this event at the Hamilton project and one of the great things about the Hamilton Project and we are going to get this today is you could a combination of the broader economic thinking on a topic area but combined with motivated and linked to very specific policy proposals for what you can do in that area. Today we are going to do it for one of the biggest and I think, most interesting areas, in both economics and the economic policy debate right now, which is place-based policy. To motivate that, I am going to tell you what I learned in graduate school about this topic, 25 years ago. I learned that you didn't need to worry very much about place-based policy for two reasons. One reason is that there is really strong convergence, that if you looked at the places in the late 19<sup>th</sup> Century that were poor they were 1/10<sup>th</sup> as rich as the richest places at the end of the 19<sup>th</sup> Century. And by the year 1990, they

were only a third as poor as those places. As capital migrated to places where workers were cheap, and even more importantly, as workers migrated to places where there was opportunity. SO this convergence between places basically if you had a concern you could just wait for it to be solved and it would be. The second reason was the economics of the policy in this area which is when people can move from place to place, it means that if you do something for a particular place you can help a person because you build a new factory, you do a new subsidy, you do a new infrastructure project and that will attract more people to the area. By attracting more people to the area, wages won't go up, all that will go up is what economists think of an inelastic factor, the thing that can't change, which is land. If you try to do anything for places, even poor people and places, you are going to end up benefitting the landlords from the fact that you made that place more attractive, not the people that live. You should find poor people wherever they are, not

look for poor places. Both of these ideas are now being challenged and questioned in part because the facts have changed. In the last thirty years, instead of states converging, states are diverging and places are diverging. The Hamilton Project in their excellent volume that you have today documents the two times difference in the median income in the top 20% of states versus the bottom 20%. It's hard to predict the future but when you look at the fact that 75% of VC funding goes to three states, or that half of patents are in just 50 counties, it makes it look a lot like this divergence will continue in the future.

Underlying all those theorems that said help people not places was that people could move freely. And we are seeing people move less and less than they used to. So all of this both increases the motivation for focusing on places and also raises the possibility that those policies should work. I should say that I am still not fully convinced but I am open-minded which is why I am looking forward to today's

discussion. Because it still is the case that our place-based policies can be designed poorly and distorted by the political system. That they can end up helping somebody in one place but leave out poor people in another place, that we can create ten zones that between them have 3 million people and kid ourselves into believing that we have done something for 330 million people in America and that we can build huge infrastructure projects in a place that suffers actually from a lot of problems but not really lack of infrastructure because it has fewer people that it has roads. So I think there is still quite a lot to be skeptical of, quite a lot of pitfalls here, but I don't think anyone could say that the status quo is one that is defensible, that we shouldn't be thinking hard and especially thinking hard about all the place-based policies that we already do. So one of the papers that Tracy Gordon co-authored for this points out that we already do \$700 billion a year, how can we do that better? So I am really looking forward



to today's discussion because this is something that economists are having a fresh set of debates around. Politicians of course have always done place-based policies and if you are the governor of a state you can't do national policy, all you can do is place-based policy and we should figure out how to do better, but maybe we should have an open mind toward changing our attitude towards it. So I just wanted to conclude by thanking the Hamilton Project for this excellent event. You have a great introduction to this volume co-authored by Jay Shambaugh, by Ryan Nunn who has the disgraceful legacy that I am now going to share with you that he was offered in 2016 he was offered a job to work on the Staff of the Council of Economic Advisors cause we thought he was the very best person in Treasury's Office of Economic Policy and he rejected us to go work at the Hamilton Project, not that I am bitter. And Janet Persons who I also had the chance to work with. So it's a great introduction, it's a great set of policy proposals that you will

hear from the authors, but now we will hear from David Leonhardt and Deval Patrick as they talk about these issues. Thank you.

MR. LEONHARDT: While the Governor gets miked, I will state the obvious. We are enormously fortunate to have Governor Patrick with us today. You can read a much longer version but the highlights are that he ran the Civil Rights division of the Justice Department under President Clinton, served as a two-term governor of Massachusetts and is currently Managing Director of Bane Capital Double Impact which tries to both make money and do good at the same time.

MR. PATRICK: Tries to and does.

MR. LEONHARDT: And does. Thank you for joining us.

MR. PATRICK: Thank you for having me.

MR. LEONHARDT: I guess I want to start in the broadest possible way and then we will get to place-based, which is if you could kind of frame for us the larger problem here. It seems to me that there

are so many people in this country who feel frustrated about being left behind. They are concentrated in places that feel left behind, but this notion of a stagnation of a stagnation of living standards for broad numbers of people, some combination of the middle class and the working class and the poor strikes me as one of the central challenges that our society faces. I just would love to hear how you are thinking about that problem.

MR. PATRICK: You started with a hard one. I would say that you know a little about my personal story. I grew up on the South Side of Chicago. Much of that time on Welfare and through a series of opportunities and people who paid attention to me and great schools and adults who involved themselves, have had extraordinary opportunities and some of the accomplishments that you described. I tell the story about our youngest daughter when she was in kindergarten here in Washington in the 80's, having the homework assignment and they were studying changes

in the seasons and she was asked to describe to mom and dad the four seasons and so she came home and said "First you drive up and the doorman takes your car". And my wife said "Sweetheart, that is not what they are talking about". She was describing her several visits to the Four Seasons Hotel. But one generation, right? And that is the story that is not told as often as we'd like in the country, but it is told more often in this country than any other place on earth. That's an American story. I think that story is being told less often now than it used to.

MR. LEONHARDT: So when you say "people are feeling stuck" it's not just they are feeling stuck, they are stuck.

MR. PATRICK: Yes, they are. And what many people on the South Side of Chicago have been feeling for a long time, because there were lots of other creative, inventive and ambitious folks who didn't get the breaks that I did. What they are feeling on the South Side of Chicago, folks are feeling more broadly.

In fact I used to say that in the recession, when I was in office, poor folks have been in terrible shape for a long time, but after the recession, or during, the Middle Class were a paycheck away from being poor. And they were terrified by that. What I feel that we often describe as income inequality is a shorthand for economic mobility. That is the ability to move from where you are to where you want to be that is the source of continuing anxiety notwithstanding what the statistics say about the strength of the economy. And the reason we should worry about that is because I think that ability to move is central to the American story. I do think, and I say this as a Democrat and a Patriot, that government has a role to play in that. Not in solving every problem in everybody's life but in helping people help themselves. I think government has to step up and see that role. Now does it have to be one strategy? Is it place-based versus people based versus something else? The only elective position that I have had in government is as a Governor and what I

wanted and what I sought was multiple levers. I never saw it as having or wanting one magic bullet as it were. I wanted lots of different ways to improvise and to try things. And I wanted ways to bring the private sector and advocacy groups and individuals to the table, lots of different voices and ideas so we could see what worked. And we did try some things, some of which worked incredibly well and some of which worked less so. We can talk about some of those.

MR. LEONHARDT: It is such an affecting story about your daughter and when I hear it and I guess other people would have the same reaction, I immediately go to thinking of my own family stories of pride at past situations that have been overcome. And then you flip that and you think about how angry people must be if that have not had that experience in their family. They didn't work any less hard in all likelihood than your family or my family and you understand that anger. So let's talk about this notion of what works and what works less well. Let's start

with place-based strategy. Jason did a really nice job of very honestly letting out some of the questions about place-based strategies.

MR. PATRICK: Yes, he always does.

MR. LEONHARDT: And I think those are fair questions to ask. IS it the role of federal government to get involved in a specific way and try to target specific places or when you combine pork from Congress with a race to the bottom among localities, are the downsides of place-based strategies so large that you worry that even if they are a good idea in theory, that in practice they can't really work. How do you balance those two ideas?

MR. PATRICK: We have a book and a lot of really brilliant economists who have contributed to that book and to thinking on these policies so I fee underqualified to give a definitive response to your question. I do think that what we need in government is what we are getting more and more in the private sector which is a lot of innovation. What we need for

successful innovation is to raise our tolerance for failure but politics punished failure so we also have to raise our tolerance for failure in that space as well. We have to try some different things and not feel like we have to have one solution. Now with that frame I would say that "Look, we have to be careful not to just accept that places where poor people are, are just going to be places where poor people have to be". In other words that we are locking in segregation and poverty because that's the way it is. I don't accept that and I don't think we should accept that and that is one risk that I see, in other words, that the good intentions of focusing on economic development based on place, sometimes lock in the poverty or push away the poor people to other places where there is not poverty without actually dealing with the causes of the poverty, building up the capacity of the people who were living lives of poverty, who are in fact stuck. It seems to me, there has to be some blend of human capacity building that



goes with place-based strategies.

I give you an example of how we thought about it when I was in office. We had lots of big plans when I ran.

MR. LEONHARDT: This is 2006?

MR. PATRICK: Yes, 2006. And then I won. And the bottom fell out of the global economy so the first order of business was trying to climb out of that hole. We had a group of Governor's Economic Council which was esteemed economists and business leaders who came in and said "Governor, we feel it important to advise you that Massachusetts has historically gone deeper into recession than most other states and stayed longer". And I said "Thank you very much for that, where do we go from here?" You know it was apparent to me from experiences in the private sector and from common sense that we were not going to come out of recession without a strategy. It wasn't just going to be waiting and hoping. We were going to have to have a plan so we decided to focus on

three things - education, innovation and infrastructure. Education because it's the single best long term investment in human capacity and by that I meant pre-K-life-learning capacity building and there were strengths we had naturally. We have 300 colleges, universities, research institutions, teaching hospitals within 45 minutes of downtown Boston. It is one of the most extraordinary concentrations of brain power on the planet. There were collaborations between public and private institutions that had not happened. So thinking about how to use the convening power of the Governor just to help that happen e had already had a high standards approach to Pre-K but there was a lot more room for innovation in that space. At the worst of the challenges in the state budget, thanks frankly to the Obama Administration Stimulus Bill, we were able to invest in K-12 public education at the highest level in the history of the commonwealth. And the students repaid us by achieving at the highest levels in the

history of the Commonwealth which was its own magnet for attracting more and more business investment into the state. Innovation because there are a handful of industries that depend on that kind of concentration of brain power - Life Sciences is one of them but so is CleanTech, so is Precision Manufacturing, there are a host of others. They are not all white coat PhD type jobs. There are jobs up and down the range of skillsets. We had to be intentional about that range and we were reaching into different communities again around capacity building so there was overlap if you will in the education strategy and in the innovation strategy. And then infrastructure I describe as the kind of unglamorous work of government but it is what government does in my view to support and encourage private investments so its road, rails and bridges, yes, but it was also broadband expansion including into places that didn't have it. We have places that are as rural and remote in Massachusetts as you could possibly imagine. It was also about universal access

to HealthCare. We were ahead of the nation in that respect and achieved 99% coverage for our citizens without breaking the state budget. All those things that enable individuals to take advantage of private sector opportunities. It takes a little while to get that machine going but we came out of recession faster than most other states and after eight years we had a 25 year employment high so I do think it's not thinking about just one thing, I am sorry to go on, but for me it wasn't thinking about just one thing, it was about how to get these things to come together and think about it frankly the way a citizen would experience it, how to get different elements of their experience functioning more coherent.

MR. LEONHARDT: First of all, I need to let you know that I will not be monopolizing the questions so the good folks from Brookings and Hamilton will be circulating guards so please write a question on one of them and we will get them up and I will ask them. So in Massachusetts it is obviously a very different

state from other parts of the nation in education but in other ways it is really a microcosm of the country in that particularly in this notion of place-based strategy in that I haven't looked at the statistics recently but I would imagine that if you look at median income, Boston has pulled away from the rest of the state, so you have had growing regional gaps when you compare it to the central part of the state, the north and south shore.

MR. PATRICK: We also have income disparity.

MR. LEONHARDT: You have income disparity and those two things interact with each other, right? SO when you were going through these strategies, infrastructure, innovation and education, can you give us an example of an area in which you said "Wait a second if we are not careful, too many of these gains will just go to Boston and Newton and Brookline".

MR. PATRICK: Yes.

MR. LEONHARDT: So if we just left it up to

kind of a private market or even the normal government dynamic and so we are going to go out of our way to make sure that the benefits of this go to places they might not have otherwise have gone.

MR. PATRICK: I will give you maybe two examples. One that was a medium success and the other that was a failure. But back to this point of interconnectedness. In the Life Sciences, as that began to explode, one of the critical needs was lab technicians. That is a medium skills job, it's an entry level job or just above an entry level job. You don't need to have a college degree.

MR. LEONHARDT: Not even a Two Year?

MR. PATRICK: It helps but the community colleges can help with certifications so you don't necessarily need it. You need a High School Diploma but you don't necessarily need an Associate Degree, it helps. But the community colleges can help with certifications and they are a step towards an Associate degree. I don't know if you know the Boston

area, but Roxbury Dorchester which is an area of concentrated poverty, high concentration community of color, is walking distance to some of the greatest teaching hospitals in the world. There is a huge need for lab technicians. A lot of folks in Roxbury and Dorchester weren't thinking of opportunities as Lab Technicians in the teaching hospitals and frankly I didn't really have the sense that the teaching hospitals were thinking of sourcing from Roxbury and Dorchester. So we started to think about how do we get Roxbury Community College to start teaching and preparing students there for jobs in the teaching hospitals and we tried to be intentional about that. We tried to create partnerships between employers in bio-tech and RCC for those jobs. I would say we were moderately successful, not wildly, but moderately. But that was again it was trying something, seeing where the gaps are and being intentional about it. The South Coast which is New Bedford, Fall River.

MR. LEONHARDT: Near the Rhode Island border,

Southeastern Massachusetts.

MR. PATRICK: Yes, exactly. For thirty years, they were promised the resumption of train service, commuter rail service by every gubernatorial candidate of both parties.

MR. LEONHARDT: To Boston, to Providence?

MR. PATRICK: To Boston, by every candidate from both parties. We had committed to this and had started work on it and spent money on it because there are lots of reasons why that community's economy and future depended on being reconnected to the jobs and opportunities in Boston and frankly why Boston's housing shortage and costs depended on being reconnected to more affordable opportunities in the South Coast. Imagine working in Boston and being able to take a 45 minute ride to the South Coast at the end of the day and live in an affordable property with a view of the water. Pretty sweet?

MR. LEONHARDT: Yes.

MR. PATRICK: So we went to the legislature



and to the people to raise money for that project. We had the support of the general public according to polling, a lot of work we did to build that case and we couldn't get the legislature to go along. That was all about how not to leave out a part of the community that was very much in need, but we couldn't get...

MR. LEONHARDT: Why not?

MR. PATRICK: That's a whole other story. That was politics.

MR. LEONHARDT: There was an interesting piece in Bloomberg recently, I believe by Noah Smith and I apologize if I am getting that wrong, about College Station, Texas, arguing that the single best model for development of some of these smaller metro areas is education and higher education which feels right to me. Do you agree with that and can you think of other examples for smaller communities in Massachusetts or elsewhere that aren't going to be able to build themselves around higher education? What are the other options for building a local economy?

MR. PATRICK: First of all, I want to  
violently

I agree with the premise that a local college or a university can be an economic hub, taking down those gates, and opening the doors to the community is a really powerful formula that we found in Massachusetts and I have seen in other places. That is not just true in Boston, its true in Worchester, it's true in Springfield, it is also true in New Bedford and in Fall River and those universities that are just outside the city that moved a satellite into the city or town or enormously important in getting collaborations in creating an entrepreneur cluster so that the intellectual property of the university is commercialized outside the university is a terrific formula. And government I think can help by thinking about where the holes can be plugged, what infrastructure is wanting in different places. And I will just part that.

MR. LEONHARDT: Okay.

MR. PATRICK: I think that other ways that you can think about it though are you know that not every community has to have a university already in place. I think Pittsburgh has had tremendous success because they have already had one, but there are communities in other places. I think about the number of companies today that need tech support like Resilient Coders which is one of these boot-camp organizations that in 14 weeks takes kids from a DYS situation or just bright kids who haven't had a chance, and prepare them for entry level jobs. The average entry level job for a kid from Roxbury today from Resilient Coders, entry level job is \$70,000.00. They had their first entry level job at \$100,000.00 in this last cohort. That's transformative. Many, many companies that need tech support don't necessarily think of themselves as tech companies now. If you have access to high speed internet you have a market that is global in fact, so how we think about the meaning of access to the internet and the support that is

necessary to make that work. Was it Chattanooga that made a decision ten years ago to invest in high speed internet as their future, right?

AUDIENCE: Yes.

MR. PATRICK: Transformative for this. They made a purposeful decision that they were going to bet their future on the future of the web ad they organized an economy around it. Having a strategy, making an investment, understanding that there were public and private dimensions to that strategy and then being intentional about it, is enormously important, whether or not there is a university component.

MR. LEONHARDT: We have some great questions. I am going to start diving into them.

MR. PATRICK: I will take the easy one first.

MR. LEONHARDT: I am going to take the personal one first. How do you advise young people now who are seeking to leave places for better

opportunities as you did? It seems to me another way to think about that is that we think about people more than places so should we worry so much about places or is it perfectly fine to have people going looking for the opportunity?

MR. PATRICK: Wow. Whose question is that?

MR. LEONHARDT: It may have been from Twitter, there is a mix of Twitter and in person.

MR. PATRICK: Ah, Twitter. Well, you know, every once in a while I get folks who contact me and they come in and they ask for a version of career advice like that. It's particularly difficult when they say they want to be a governor one day, tell me how to do that, what's the path, and I tell them they are asking the wrong person because I have zigged and zagged. I think for me, among the most important lessons is about getting intentionally outside your comfort zone so that you learn that you have the capacity to figure it out. When I graduated from college, I was interested in going into business, I

was interested in going into law, I was interested in going into the seminary, and I applied to all those things. I was rescued by my indecision by the Rockefeller Travelling Fellowship which was awarded to three graduating seniors and the requirement was that you spend time in a non-Western culture and they gave you enough money to get there and get back. I think that was so you wouldn't be tempted to hole up in the local Intercontinental Hotel and kind of wait it out. I wanted to go to Africa because I had never travelled outside the United States before. I wrote to everybody I knew who knew somebody in Africa and I got one answer from one person on a development project in Khartoum. And he said "Get here and we will figure it out". So I Got a backpack and I filled it up with what I thought I needed and I landed in Cairo, having taught myself the readings and the numbers in Arabic on the flight from Athens and after a few weeks I hitch-hiked from Cairo to Khartoum which took about three weeks for 1200 miles and I learned when I found

I made my way to his office that he had left the week before for two years in Long Beach, California and he said nothing to his office about what I was supposed to do. The person who as the head of the project said we don't know anything about you and we don't have anything for you so get out of here. In those days there were no cell phones, no Twitter, you couldn't call home for a lifeline or anything like that. My family wouldn't have been able to throw me a lifeline. I eventually talked my way onto the project and to get rid of me they sent me to Darfur which was another 700 miles over the Nubian desert, no airport, no train to get there, no roads frankly, you had to get space on top of a car of a truck and you road on tracks through the sand for five days. I will leave aside flipping over and being stranded out in the desert for three days but I lived out there for seven months, no phone, no mail and I figured it out. . I learned the language, I learned how to make friends, to do the job, and I learned how to feed myself. And when you

figure out that you can figure out what you need to figure out it is incredibly empowering. I think the most important thing is to take chances, calculated chances, but if my children tried what I just described I would kill them, but to take chances that put you outside your comfort zone, within reason, that convince you that you can figure it out and that also expose you to where your passions lie and where you feel you can contribute. I feel that as I have done that in my career, I keep discovering where my passions lie and where my purpose is.

MR. LEONHARDT: It actually reminds me of the research showing that college appears to have a causal effect on students, it's obviously impossible to completely separate out. Why it is that college would have a causal effect? Well some of it is what you learn, but it seems some of it is what you are describing which is, to finish college, you have to figure out so of an obstacle course to figure it out and if you do that, particularly if you came from a



background where it wasn't natural, it empowers you to figure out other problems in life. This is a good question. "Boston is one of the finalists for Amazon's HQ2. What would be your strategy as governor to attract or perhaps push away Amazon HQ2 from Boston?"

MR. PATRICK: Whose question is that? Yours? I am not calling you out; I feel it is more respectful to talk to you. Is that okay if I pass on that question or I talk to you off the record? I only ask because there is a governor now and I am not it and there is a Mayor who is part of it and I just don't want to get cross-wise of them and you know how these things are and I will say something that isn't what they would have said and then that will turn into a thing at home. God Bless them but I will stand right over here. Are you from the media? In which case we won't talk. I will stand right over here and we can talk about that afterwards if you don't mind.

MR. LEONHARDT: I am from the media, but...

MR. PATRICK: I know you are. That's why I

am not speaking with you.

MR. LEONHARDT: Massachusetts is not a typical state as one of our questions points out, whether it is its education infrastructure, it has a whole lot of advantages but it also has a whole lot of challenges, which other states don't. Given that, do you think there are place-based strategies that other states really need to emphasize that are different from Massachusetts? What are the big challenges for other parts of the country that are different for Massachusetts?

MR. PATRICK: S I think that every state has its advantages. We played to our strengths. I describe education as our natural resource in the way that corn is important in Iowa and oil and gas is important in Texas. Every state has a natural resource that can and is cultivated. I also think there are certain advantages that we as a nation ought to claim and drive toward. This will be a little controversial because I don't think we have really decided whether

we want to be a nation. We are uniquely good historically at innovation. To me it is a unique moment for innovation in the global economy. We ought to seize that. There are some things that make that unique strength durable and they have to do with education and what we value in education, meaning imagination and creativity. So the notion of having a point of view about high standards and high achievement nationally, I think is a very important thing. I don't think everybody has to do it the same way but having a national point of view about that is really important. I think frankly dealing with the fact that so much of our education policy and frequently so much of our economic and industrial policy is driven by nostalgia. We have to deal with that. I don't know how many conversations I had in office - "you know we need to figure out a way to make the schools the way they used to be when I was in school" and now we keep hearing about "how we need to get that factory back", instead of how about we

imagine what tomorrow is going to be about and drive toward that. I think we have been really, really good about innovation. I think we have not been as good about transition. And that is the human part of it. We figure out how to clean up from the innovation after the innovation has happened, instead of how to make everybody a part of the innovation. The innovators win and everybody else is the consequence. Well there is a way to think of everybody a part of the innovation - we have done it at least once in wartime, you know we had it as a national cause, but there is a way to think about seizing this innovation economy as our own and transition to it as a national cause where the economy grows out to everybody and not just to a few winners. So I do think there is a way to think about a national frame and themes and strategy that then is tailored for local differences and local conditions.

MR. LEONHARDT: There are a few questions in here about politics...

MR. PATRICK: I think in soundbites. I'm

sorry.

MR. LEONHARDT: This audience doesn't want soundbites.

MR. PATRICK: They do want their questions answered.

MR. LEONHARDT: I want to kind of mesh a couple of them together and end on a political question, which I promise will not be whether you are running for President.

MR. PATRICK: Not today.

MR. LEONHARDT: A lot of people are despondent about politics in this country, and a lot of people are particularly feeling that way this morning, after yesterday. What would you say to people about what are the most important things we can do as a country are to get over this feeling that our institutions are coming apart at the seams, to get over this feeling of intense tribalism that we are not to quote you "not even a nation", what would be your advice at this moment overall, maybe particularly for

members of your own party?

MR. PATRICK: I think we have good reason to be despondent. I see what everybody else sees. I don't think we came here by accident or just from November 2016. I think we have been drifting here for some while. I think in a democracy you get the government you deserve. We have accepted the lack of participation or the engineering of low participation for a long time. And I think the one of the good things to have come from this moment, and there might be two actually in politics, there is a tremendous energy among lots of people who have come off the sidelines and have gotten involve. I hope that involvement is not just anger but a positive, a willingness to think in ambitious ways about how to re-imagine our country and our systems and our solutions and not just accept the way things are, not just accept small solutions or no solutions. I think that is exciting. Not everything that I hear, not all the rhetoric is sensible or practical, but I have to

believe at the founding, lots of folks were saying, "lots of those ideas don't seem sensible or practical" but the notion of ambitious, positive, inclusiveness, kind-hearted solutions that bring us all in that lift us all up, are very, very American and very patriotic and I hope that candidates hear that. I hope that my party hears that and I hope that it makes a difference in November of this year and in future cycles.

MR. LEONHARDT: You said there were two positives, what is the second?

MR. PATRICK: I am blending the two. The amount of energy is good and I sense that they are interested in big ideas and not just tinkering around the margins. Maybe I will just say this about my party - I really and I touched on this, we are going to have to have more to say rather than just a perfected critique of the other side. We are going to have to offer a positive alternative and I hope that that positive alternative is about an opportunity agenda a reform agenda and what I have been trying to figure

out or compose as a democracy agenda which is about making participation easier, less reliant on money, more about an active participation. I hope we can build some interest in ways that we can get to know each other again, because frankly we don't know each other in this country anymore, maybe some emphasis on service again is important. Thank you.

MR. LEONHARDT: Thank you.

MR. PATRICK: Good to be with you.

MR. LEONHARDT: Thank you all very much.

MR. SHAMBAUGH: Good morning, I am Jay Shambaugh. I am Director of the Hamilton Project and I will be moderating this first panel on the role of education in strengthening regions. Before we launch into the panel, I want to say a couple of quick thank you's. First to Kristin MacIntosh, our Managing Director who is a huge partner in everything we do here to content to the very last detail of getting these events to go off so I just want to thank her for all she does. Also to Melanie Galarsky who is probably



not even in the room since she is probably trying to make sure everything is running here. She is our Events and Outreach Specialist and it takes a lot to get one of these events to come off and so I want to thank her. Also hopefully you all got when you walked in this book that we are releasing today called "Place-Based Policies for Shared Economic Growth". It is co-edited by me and Ryan Nunn, our Policy Director who you will hear from later. I just want to thank the entire team at the Hamilton Project. It is also a lot of work to put together a book so I want to thank everyone there and just single out Janet Parsons who has been our point person on all things book related for the last few months and Rebecca Portman who did all the design and layout and made sure this actually looks like a nice book when we put all the work into it. So just to very quickly set motivation for what we are going to try to talk about here. Jason covered some of this in his introduction but just this idea that there are very stark gaps across the country. We

did some work in this framing chapter for the book and looked kind of across the bottom 20% of counties and the top 20% of counties across a range of measures. As Jason mentioned, household income is literally half in the poorer counties what it is in the richer counties. The poverty rate is three times as high. Prime Age Employment Rates are 16% points lower in the lower performing counties. For anyone who has studied employment rates across this country, you know that economists have been very, very focused and very, very worried about a slow decline in the Prime Aged Employment Rate especially amongst prime aged males. The fact that it is 16% points different across places is an incredibly large margin of that decline. When you add all these things up you end up with a life expectancy being six years shorter in the poorer performing counties versus in the better performing counties. I think in some ways that the notion that your life is literally shorter brings into sharp relief the extent to which economic and life outcomes

are in many ways dependent on where you are and not just who you are. Jason also mentioned these gaps are not closing anymore so we did some work in the book where we created this economic vitality index and tried to pull together a whole range of measures to see how places are doing. It's just no longer the case that there is much turn in these cases. The places that were in the bottom in 1980 are still in the bottom. Places that were in the top are still in the top, by and large. And that kind of calls into question that idea that these things will sort themselves out, these gaps are there but they are closing. They are just not closing anymore and as mentioned, people aren't moving as much as they used to. And in particular, people aren't moving out of the weaker counties we have found. And when they do move, almost somewhat surprisingly, they move to other weaker performing counties. You are not seeing people move towards opportunity to the same extent that they used to. So I think our motivation for holding this

conference and getting all these wonderful people to come talk to you about these wonderful issues is this idea that maybe this calls for a reexamination of the place-based policies. Mobility is important. Helping people to get to those better performing counties is important but somehow it felt like the answer of "just move" wasn't sufficient and we had to think about what else we could maybe be doing. And when looking at this, one thing that stood out quite a bit was the role of education. The strongest marker for being a poor performing county was a low high school graduation rate. The strongest marker for being a high performing county was a high share of your population with a Bachelor's Degree. So we wanted to then kind of take that as a launching point for this conversation with this terrific panel to talk about the role of education in trying to help these struggling regions and the role of educational institutions as well. We have a terrific panel. You have a program that gives their biographies in detail so I won't repeat all of

it. I will just introduce everyone, starting from my left we have Shawn Kantor who is an Economics Professor at Florida State University and who has done quite a bit of work studying how universities can impact regional outcomes. Rebeca Blank is the Chancellor of the University of Wisconsin right now and she is also a highly regarded economist who has studied poverty, labor, the social safety net and also a former policy maker as the acting Secretary of Commerce and also a member of the Council of Economic Advisors. Louise Fox is the Chief Economist at USAID. She has worked in academia and at the World Bank studying poverty and inclusive growth. And then Stephen Smith is a Professor of Economics in International Affairs at George Washington University where he studies economic development and poverty. So Shaun, I want to start with you. You co-authored a chapter in this book, with Jason Behrens and Alex Whaley, looking at how universities can play a role in helping struggling regions so I just wonder if you

could kick things off by telling us about the proposal and what motivated it and how you were thinking about it.

MR. KANTOR: Sure. There is no doubt that education is important so if you just look at what is going on in the last 20 to 30 years, more educated places are becoming increasingly wealthier relative to other places as you point out. So at the same time, what role can universities play in educating a population? When you look at the data, educational institutions are not a panacea so for all these great places that we think about; Governor Patrick talked about the Boston area. That's a gem in our national collection of entrepreneurial ecosystems that are doing extraordinarily well. Silicon Valley. But for each of those I could name you another place that is not doing well. I live in one. Tallahassee, Florida or Gainesville, Florida. Two major flagship universities, these are not robust economies. So what can we do, thinking in terms of place based policies, say let's

plant a university here and magically make a place wealthier. Just looking at the raw data one becomes rather skeptical and so what we do in our proposal is we go through the various ways that universities might matter. One thing universities do is they teach students, they generate students, but the problem is that more educated people are more likely to move than less educated people. So we talk a lot about mobility here, so for the most part, for all of these places that might be generating lots of students, there are other places that don't have universities that are bringing in all these students in so there is a lot of mobility going on at the higher end of the educational distribution. So thinking that we are just going to magically open up a university and we are going to create this pool of students and businesses are going to come. Unfortunately that is not going to work very well because people are mobile. There are examples just recently of communities making this argument - "we are going to build a university, subsidize a

universities because they are going to train students and then businesses are going to come". Well, we point out evidence that we are fairly skeptical. What universities can do is create a demand for labor, create a situation where they become part of an ecosystem that is going to attract businesses and attract entrepreneurs. So we are more optimistic in that regard. The research that Alex Whalley and I do that when there is a university; they have a causal impact on the non-educational sector. When you expand a university and in particular, expanding the research activities of a university, people are going to end up doing better, it raises their incomes, in particular industries that are more closely tied to what universities do. They use research in their input process or they use technology that is created by universities. Those firms end up doing better when they are nearer to a university and there is something organic that goes on. It is not just universities creating ideas and then they get spun off, there are



talks that go on, informal conversations, businesses that do manufacturing will talk to researchers and try to understand the state of the art so it is very informal sort of mechanism that is happening as well. So how can we leverage that. I think Chancellor Blank will talk about spin-offs that universities can do and how they can generate growth. The thinking that I am doing is something more informal. And so creating opportunity for universities to play a role in this agglomeration economy and the ecosystem that is going to make a place prosperous. So what we propose in our paper that is in the volume is an expansion of the manufacturing extension partnership that already exists, but the way the current program works it is more of a demand base so companies will come to a university and ask for help, it's kind of like on a consulting basis. It's not informal conversations that go on and something will happen organically. "We have a problem, help us solve it". So what we propose is an expansion of that program that currently exists that

is going to bring university researchers to these communities that might take advantage of the knowledge spill overs that can take place that make businesses more productive. Also thinking back on some work on agricultural extension as well, one of the interesting aspects of that program, it not only brought the research out to farmers, out on the frontier, that was going on at the flagship university, but it also brought problems out from the frontier back to the researchers. So there was a two-way street in terms of understanding the problems that were going on. The scientific problems that were going on. We proposed that sort of thing where you are embedding graduate students or post-docs into businesses so they can communicate with manufacturers and can translate state of the art research that is going to impact what these companies are doing, but then also bring back to researchers some of the problems they are confronting that manufacturers are confronting. And one final thing to say is that we all hear about the importance

of data and data science and leveraging computers and the internet so universities are really good at collecting data, analyzing data across disciplines. It's what we do. We see that as low hanging fruit and so just bring researchers from a variety of disciplines and helping businesses understand the data that they have, asking questions and analyzing the data to help answer the questions is a real simple first step.

JAY SHAMBUAGH: Thank you. So, Becky, you have been an economics professor and trying to figure out how to move the economy forward, but now you are also running a large university system so you were kind of our dream person to think about this topic broadly and this proposal more specifically. I am just curious as someone running a large university system, how you see what role a university can play in trying to help struggling regions and move the economy forward.

MS. BLANK: I am a big believer and

admittedly a biased resource on this, that research universities in particular are absolutely essential for long term economic growth in this country at the macro level. They do two things that are absolutely essential. They are the source of skilled labor and they are the source of innovation and new ideas in basic science. So at a regional level, obviously a research university brings both of those things to the region and that helps. They do a third thing which is not unimportant. They bring a whole bunch of resources in that wouldn't be there otherwise. At the University of Wisconsin in Madison, we bring in about \$1.4 billion dollars a year which is simply the research dollars which is about \$1.1 billion plus out of state tuition is another \$350,000.00. We spend that all in the region. In a place like Madison in Wisconsin that is not an insignificant amount. We sort of do those things just by doing our job. The question is what else we should be doing to generate economic growth. Let me suggest a few things. Clearly there is the

trying to smooth the path to business growth. I am not saying this is something that may or may not happen, it's something that universities need to proactively be doing and working on. Research partnerships, which Shawn talks about, are absolutely essential, particularly as private business does less and less basic research. They need correlations with researchers and want to be in the labs, scanning what's happening out there and taking good ideas back into the company for commercialization. You had got to work to make research partnerships work. Secondly, entrepreneurship programs. We have five certificate or degree programs. The interest in entrepreneurship has never been higher. Our estimate is that there are about 360 businesses that came out of the university that are new startups and using technologies from the university right now. If you look at the ones that came out of the university and didn't stay in Wisconsin, you'd have a substantially larger number and that is important for economic growth. Thirdly you

have got to link businesses with your students, whether that is through internships; whether that is through bringing them in so students get to know them. Wisconsin has this problem is that we have the Twin Cities and Chicago sitting right on our borders and those are huge draws for students. You want to keep students in the state. We are doing a number of things consciously with some of the big employers in the state to make sure that students have connections with them while they are in school. For instance we have increased the share of students from out of state who stay in the state and we are now at 20% of our out of state students staying now. You may say that is not a very high number but realize we are a big university. That is 800 new graduates, highly skilled well-trained, a year, who are staying in the state every year and that adds up over time, who came here for school and probably wouldn't have been there otherwise. That's all about generating economic growth. You also have to ask what is the

responsibility of the university for bringing along particularly lower income populations. There again, universities have to be pro-active, in particularly the public's where part of our mission is outreach to the state and to the community and access. So being involved in partnership and pipeline programs with K-12 is important, working with your two-year school across the state. We have automatic transfer agreements if people do certain things in two year colleges they don't even have to apply to UW Madison, they can come automatically. And then, the scholarship side of this is important. I think one of the really important things here is simple messaging that makes it easy for students and families who don't know much about college that they have a sense of the possibility. So one thing, I will end with an example, one thing we announced last spring is something called "Bucky's Tuition Promise". Bucky Badger is our mascot. Bucky and I do a lot of events together. "Bucky's Tuition Promise" is essentially is a statement that we

worked to get the funding together for this, that if you are in the bottom half of the income distribution in the state of Wisconsin, that means you are from a family whose income is less than \$56,000.00. We will guarantee that if you get admitted into UW Madison we will give the scholarship aid to cover four years of your tuition and fees. Now you still have to pay living expenses, dorm expenses, that is not insignificant, but that message has enormous resonance. It says that "we are going to make it as easy as possible". Of course some people will get more aid than that but it is a statement that you can afford to come and we will work with you. Our biggest problem with this is that we tell people about this and they don't believe us. Doing that type of very conscious and explicit outreach is deeply important if universities are going to be part of the economic growth in a region and in a state.

JAY SHAMBUAGH: Thanks. Just to remind people that we have people walking around with question and



answer cards so they will pass those up to me and I will ask those a little later on. Stephen, I want to come to you next. We asked you to look across a very wide literature and think about what we can learn. When we are thinking about struggling regions in the United States what can we learn from the development economics literature where there is a lot of terrific evidence that a lot of people have been accumulating over the last couple of decades. I am wondering if you could tell us a little bit about the proposal, in particular, the parts where you focus on the education side. People should read the whole thing, it's in the book, but there is a lot of great literature summarized there, but in particular, how you thought about what the literature taught us about how we should be thinking about education policy.

MR. SMITH: Well, first of all, I think the chapter gives some good news that enormous progress has been made in a number of areas; education is certainly one of them, across what

we call the developing world, which is low income, lower middle income, and upper middle income countries. Of course in those countries we are thinking a lot less about getting kids into and graduating from college. And much more in getting kids to continuously enroll and complete through high school in many cases. So that is the focus that I give most with respect to education. In fact if you look at the US data you find many kids who are not graduating from high school. The data is different, depending upon which data series you are looking at, they are very different across states, but it's very common and much more common than in other rich countries for kids to not even finish high school. So with that in mind, I sifted through the evidence from the development economics to see what there was good evidence for, that suggested if we take these policies and these approaches, we can keep kids in school for longer and get them to graduate and

to understand what the effects might be of doing so, so we know how worthwhile this might be. Certainly among the OECD countries, we are one of those that do the least well in graduating kids from high school. There were four approaches that were taken in developing countries that first of all led to some success within education, but also had other benefits for those kids outside of school attainment. This is of course foundational because if we are going to transform lagging regions we have to first think about building up the human capital, the skills, the education, the health and so on, of the rising generation of people in those lagging counties, inner cities and elsewhere. But those included extending the minimum age at which you could leave school, introducing programs to provide better information for families as well as for students of what the benefits were of getting more education, staying in school, graduating. Special

targeted tutoring for students who were lagging, falling behind on their grade level, including activities that can take place in the school itself and finally, financial incentives, in some cases, the students typically for their parents as they meet goals of staying in school longer and perhaps a bonus by actually graduating. For all of these approaches, there is rigorous economic evidence using different methods as appropriate to the problem and the potential for doing research from randomized control trials in many cases to a variety of natural experiments that show that these interventions really can work to get kids to stay in school and to get them to perform better in school and to graduate. They also have shown that there are a lot of other very important benefits, economic benefits like higher income but also many social benefits ranging from being more likely to get married, have a family, have greater happiness over your

lifespan, have longer lifespans, stay out of prison, a whole range of social indicators were also positively affected by each of those four areas. I want to emphasize of course that developing countries, even upper middle income developing countries, are different from conditions found here so these are ideas that come from the literature where there is strong evidence that things have worked well, that we would have to try and experiment with and learn about implementation here, just as these things are tried in different contexts in developing countries. On the other hand, many of these countries are about where we were in about 1960 for example, a bit earlier or a little bit more recent. I think we can learn a lot and it is inspiring to look at programs that have been tried and seen what dramatic success they have had. So the proposal is to look at all of these four areas as policy interventions that might be

effective here, not that these things are not talked about here but we can learn a lot from this. Just one final additional point. The next additional chapter looks at what's worked in the area of nutrition and physical health and mental health and do on. And good health and good nutrition is foundational from the beginning of a child's life to performing well throughout school. That's where we went with that.

MR. SHAMBAUGH: Thanks. So Louise you have both studied and helped shape policy in developing countries so I am curious about your take on where Stephen's proposals are coming from. And also how you have seen developing countries responding to this same challenge of lifting educational outcomes in regions that are struggling.

MS. FOX: Sure, great. First of all, my agency USAID has no role in domestic policy so I am not speaking for my agency. I am really here

in a personal capacity. You know as Stephen has noted, and as many of you know, developing countries care a lot about lagging regions for a number of reasons - some are similar to the US, some are not. They are worried about the fact that these can be the focus of a specific ethnic group can be associated with the lagging region, a mountainous area and believe it or not, mountainous areas are correlated with terrorism. So there are a lot of complex political reasons why developing countries are interested in doing something about lagging regions. The big difference is they are mostly rural. So China is really only developing country that I can think of that has a Rust Belt problem within Northeastern China. Now, one of the things the lagging regions are all trying to and they are looking for a better education system to help them with, is sending their children to the cities to get a better job, so that much greater

mobility, I think shapes some of the education debate. Having said that, many stay there, and one of the programs that Steve talks about, which is the anti-poverty and educational development program most well known in the US is the progressive program that was piloted in the Southern Mexico Chiapas Region which is a very poor region, really a lagging region. Now this rural urban gap in educational attainment is huge. It's on average a 2.5 grade. And I am talking about basic education. It is even more in the lowest income countries, just trying to get more kids in school, through some of the measures that Steve has discussed is important, but I would also say, donors and I would put USAID in that category are increasingly focused on quality. So what we know, thanks to a new data set, from the World Bank that the USAID contributed to, is actually that the test scores between rural and urban areas in developing



countries, the gap is about 12% on average and again its actually worse in the lower middle income countries, the countries that have been able to expand education in urban areas but not in rural areas. Now, so there has been a debate about how much focus we should have on things like the measures that Steve discussed like getting kids into school if the schools aren't very good in the first place. So I think there is an increased focus on the quality of schools and trying to reduce the number of unqualified teachers and also the poor pedagogy practices. And finally an area where there is a lot of focus in developing countries, which I do think is similar to developed countries and to the US, is there is starting to be a focus on school management and effective principals. What are the tools for raising school quality? I have to say there is certainly a big debate in the US about assessment and I am totally unqualified to

comment on that. Certainly donors, USAID included, really think that if we are not doing early grade assessment of reading skills, we are really failing students and so there are a number of donors, USAID, the World Bank, Diffida, a number of donors that are really focusing much more on using assessments, that means tests, as a measure of whether the schools are really teaching anything.

MR. SHAMBUAGH: Great, thanks. Stephen I want to come back to you for just a second to talk about a different aspect of your chapter where you talk a lot about what we have learned in developing countries about the cost of poverty and how we have to think about that when we make policy and how we have to think about that when we make policy to try to help regions where there really is a lot of concentrated poverty.

MR. SMITH: That is a good point so one thing that development economics has focused

on much more in recent years, is the area of behavioral economics. And so there has been a lot of focus on problems of the poor and how those conditions affect them cognitively. Some of the findings are really quite striking. So that for people who are quite smart, have quite normal intelligence, stresses on them lead to lower, measurable intelligence scores, sometime significantly. This has something to do with cognitive tax as behavioral economists sometime call it. In particular often if you don't know where your next meal is coming from, or how you are going to feed your family in the short run or you are hungry as many of the poor here apparently are, then you are inevitably and unavoidably going to be focused on food and this is going to make it difficult to take other steps to get out of poverty. Similarly if you don't know how you are going to pay the loan that is coming due for you or if you have bills that are

piling up. The question is how do I get enough money to do this, to pay the rent, who do I borrow money from to deal with this problem to address that and how will I pay them back. Things become inevitably problems that you are obsessed with and it makes it very difficult under those conditions to take other steps that would be helpful to get out of poverty, even to get off public assistance. So to the extent that programs here in the US can learn from this new information, these new findings about what we can do in response to these problems that would be potentially very helpful. We need to experiment in those areas. Just a very simple illustration is to simplify forms as much as possible to make it as easy as possible to enroll, if you have trouble remembering to enroll your children, let automatic enrollment take place. I think this is one area that has gotten a lot of attention in development economics and perhaps much less in

the US Policy literature.

MR. SHAMBAUGH: Thank you. I would like to come to you Rebecca on this point, less as someone who runs a university, but as someone who has studied poverty in the US in great detail and just think about your views on this specific issue of how do we need to think about places and people struggling with extreme poverty when we try to think about the policies we might be using to help them.

MS. BLANK: If you read Stephen's paper it goes through lots of policies and shows that there is evidence for lots of policies making a difference. The real problem becomes where do you start and what do you do in a world of limited resources and limited energy. The answer to that has to be empirical but that is a hard answer but that is a hard answer to come by. My gut answer is that it is education, health and working on some basic income support and you have

got to start there but that is a debatable point. People who show me evidence otherwise. I think one of the things that I would say and this is a question that the Governor got and didn't quite answer. Do you tell people to leave who have opportunities elsewhere? I think it is very difficult to look in the face of someone who has the opportunity to get out of a very poor area and say "Don't leave because they need you here". I mean that has to be a choice that someone makes and in many cases getting out has to be an option and of course that only adds to the problems of the area itself when you have people of more opportunities leaving quickly and it is one of the real conundrums here how do you make this a place that people want to stay at and work on at the same time that for some number of people leaving is the right answer. Most low income neighborhoods don't want to think about that particular problem.

MR. SHAMBUAGH: On that note beyond education, how we are thinking about struggling regions, I know you have mentioned that this is obviously an issue that developing countries care a lot about for some of the reasons you mentioned, like political instability and issues around that, so beyond education what are some of the steps you have seen them take and you think are either successful or lessons that the US could be thinking about?

MS. FOX: First of all I thought it was interesting that the Governor ducked the question about Amazon, because developing countries have a lot of failure in this area. I would say the least successful policy to combat spatial inequality has to be to move the capital. So when you move it from Lagos to Abuja it does not necessarily combat spatial inequality. And there are a lot of countries doing that, even Indonesia is thinking about it now as well. So that's my

least favorite. So also fairly unsuccessful has been industrial zones in rural areas or near rural areas. The idea being to move the rural economy away from agriculture. The rural economy will move away from agriculture automatically especially as agriculture becomes more commercial, more productive and more mechanized. Meanwhile these zones are far from the port and the logistics and the clusters and they have not solved the fundamental problems of the business environment. Now I think Governor Patrick did talk about transport investments and the externalities of low income countries were understood much better the externalities of transport infrastructure in terms of facilitating flows of information and people as well as goods. So it's not just that building a road helps young people migrate to the city, they then go back home more often and bring new ideas and new approaches and other people who stay have better



linkages. It also reduces the cost of moving goods and services as well. I would say there is one area where I will be very interested to listen to the next panel on the geography of segregation. You do have that problem in low income country cities. I think about that especially in terms of South Africa where the main reason people can't get a job is they actually don't live close enough to the job so it would cost too much for them to get to the job so I think that is an area where I am going to be interested to listen.

MR. SHAMBAUGH: Shawn, I wanted to come back to you on one point which is you have kind of fascinating experience given what you study and it shaped by what you study by where you worked at one point. Sometimes we just think we need more research universities because that would be great, that would help these struggling places as people who run universities now have

pointed out to me, "we don't even fund the ones we have, where are you getting the money to drop these new research universities?"

MR. KANTOR: But that said, there is an example of one happening in the last couple decades, University of Merced dropped in the middle of a struggling region when California decided to create another research university.

MR. SHAMBAUGH: And you were there. Kind of on the ground floor and what did you learn from it and how it shaped your ideas about what are the conditions you need for a university be able to help the region that has been placed?

MR. KANTOR: I was in this interesting experiment when California decided in the 1980's that it was facing a student population boom coming in about fifteen years so they were settling to get a new campus built. So if you know anything about the Central Valley of California, its extraordinarily poor

region, some of the poorest counties in the country with very low college going rates. Pretty much all agriculture and not much else going on. They decided to put this university in the Central Valley and the goal was to at least looking at the public relations coming out, to fundamentally transform the Central Valley, get the students to graduate from high school and then go on to college. This attractive magnet is going to bring all these new businesses to this poor area. So I ended up there in 2004. There were no students, no buildings, no nothing. We were just building the thing from the ground up. A crazy thing happened along the way. Most of our students were coming from outside the Central Valley. We had equal numbers coming from the Bay Area and San Diego and LA area, a very small amount coming from the Central Valley and that is still the case today. It is almost fifteen years later and the same situation. Another thing that is happening, students graduate and there are no opportunities for them in Merced or in the

nearby region so they have to go back home to the stronger economic regions in California. This is what got me interested in research universities as a creator of economic wealth is this is supposed to happen at Merced and the big problem was if you plant a university there students can just move, they came from out of the region and they left to go out of the region so it is not really helping in that regard. In terms of the businesses, students have no incentive to stay because there is no opportunity, at the same time businesses aren't going to come because there are no agglomeration forces, there is no ecosystem for them that they are attracted to and the university itself is not this panacea. So I now think of knowledge spill-overs and that is my work. The university is doing all this work but there is nobody there to accept it in the local area and there is nobody in the local area for the university researchers to learn from. So you have all this stuff going on in the university but it's just going on in the university.

One small little point as Governor Patrick talked about Massachusetts and the Boston area, back during the early land grant days in the 1860's, Massachusetts is pretty much the only state that did a very interesting thing and set up the manufacturing aspect of the land grant piece of their university system in Boston, that's MIT and they did the agricultural part out where the agriculture is going on, out in Amherst. So Massachusetts did it right, really early on, you had businesses there that needed this new knowledge that was going to be created and that could actually absorb it productively and also feed back to the researchers and then the agriculture was going on in the Western part of the state. From my perspective Massachusetts got it right very early on. And that did not happen in California. Merced was created for political reasons in the Central Valley but in terms of let's build a university and they will come, it's just not working.

MR. SHAMBAUGH: Great. Thank you. We got

some great questions. I will pitch these questions to one person but feel free to jump in. One of the things I noticed in flipping through this is we have more than one question on the same general topic which isn't surprising because we have been talking on the one hand about universities and on the other hand about high school completion so we got a bunch of questions about what is in between. I am thinking about policies that help better training and what else do they need to get into the workforce after that and what can universities do if it is short of their normal accepting of students and not just working with business but how can they help on the training side and make sure the businesses have the workers they need?

MS. BLANK: It's where systems start mattering because you actually want real correlations between your high school, your two-year schools, your four-year school and your universities. You want to create as much flow across those as possible and as

much as a sense of possibility for an awful lot of low income students; thinking about going to a four-year research university isn't within the realm of possibility. They might think about living at home and going to a two year certificate or someplace else. Once they get there you want them to get a sense of possibility. You have got to have connections all the way through that make it easy and pull people in and that takes really conscious effort and work.

MR. SHAMBAUGH: Stephen you did look at some of these ideas in your work. Are there ways we can be doing better with training and kind of recognizing not everyone is making it all the through all the way to a university. Are there examples that you saw from the development literature that you saw were promising or were worth noting?

MR. SMITH: So again Governor Patrick pointed out that there were opportunities there in the research hospitals and you needed some certificate if not an Associate's degree to be able to do so and his

bottom line is that students needed to graduate from high school. So that if you look at the lagging areas, struggling areas you see a much higher concentration of students who have simply not graduated from high school, who have dropped out. I simply think this is really foundational if you want to reach the poorest in these areas and really bring up the level, especially for people less able to migrate out. So interestingly I had thought about doing a section on the literature showing that training in developing countries had strong impacts and instead found that that evidence is more ambiguous. Fewer studies have been done and the studies that are there are less convincing than these other areas that I talk about throughout the paper. Dr. Fox has done outstanding literature reviews on this very question and brought many of those studies together but unfortunately reach a somewhat similar conclusion. One thing that I do suggest in the paper that is worth exploring is more connections between the private sector in these areas



and those who are still in high school, but are at risk. It can take the form of offering a job if you complete high school and it can be very relevant in some of these areas where there is actually pretty high demand at this moment in time for people who have finished high school but not earlier. One other thing I would like to emphasize. Sometimes in this data we are talking about regions within developing countries. Often these studies are economy wide or at least they are programs that have been rolled out economy wide. So in this regard, it's a country as a whole, say US 1960 level, and if in urban areas there is great disparity in terms of kids staying in school or not. I think we can learn not from the specific regional placed based areas in developing countries, but sometimes learn from those countries as a whole. So, I would leave it at that for the moment.

MR. SHAMBAUGH: Louise, is there anything you want to add on the studies that you've seen or worked on, on thinking about how training beyond high school

education but short of the university can have impacts or not.

MS. FOX: So, the latest study I read, which wasn't in my paper that Steve cited was done by Carolyn Craft in Minnesota, the University of Minnesota, and she shows that in Egypt, people actually earn more money if they don't go to vocational and technical education. Now, that is really a statement about the quality of these programs and there, there is a huge gap with the U.S., in that throughout the school system, including higher education, there isn't enough integration with the private sector and with employers. That means that students leave school really unprepared for the world of work.

Now, I think what Steve was talking about, there are some experimental programs going on in South Africa where employers are starting to work in the high schools at the junior level and the senior level to find kids, support kids, and help them both stay in

school and have summer jobs in the private sector. It may be that in some urban areas in the U.S. where it's still difficult to connect people that finish education with the opportunities. There may be things to learn there.

MR. SHAMBAUGH: Quick comment. If you're going to run a pipeline program, you don't want to start with juniors and seniors in high school. You've got to start it in middle school, because by the time they're juniors and seniors, they're at a point where they're not going to be able to go on in many cases, because they just made choices that - they dropped out essentially.

MS. FOX: No, I agree. I think that the whole career orientation that exists in American schools about fieldtrips aren't just to museums. Sometimes they're to factories and having people come in and talk about that they do at work and things like that. This is unheard of in Africa, unheard of. When I cite the idea that a teenager might have a summer

job in fast food, even though they intend to go on to college and get all kinds of degrees, this is unheard of in Africa. So, you know, the U.S. from that point of view, I think that the U.S. culture that emphasizes that kind of stuff should be celebrated.

MR. SHAMBAUGH: There are a couple of questions here that I think are probably aimed for Shaun and Becky, which is some emphasis so far on the discussion of how the universities are going to help the firms in the area. Right? And try to think of that as trying to create the demand for the high school workers, as you say, and things like that.

So, one of the questions was, beyond what the professors and researchers are doing at the universities, what can the students do? When you've got large universities in areas that are often struggling, are there ways the students there can be in some sense used to help the region around them better?

MR. KANTOR: I do think that one wants to do a number of things inside a university. Classroom learning is only part of it. It's one reason you want people to go do study abroad. It's one reason you want them to do internships, but you also want them to do what I think of as citizenship activities. So we have, and most schools do, very large volunteer activities, and try to use some of our students in our pipeline programs, use them in tutoring programs. Yes, they do a lot of things that aren't involved with the K-12 schools. Particularly for our first gen students and our lower income students, whether they are from rural areas or students of color, they often find it very satisfying to have an opportunity to go back and act as a mentor to younger people. So, we try very consciously to set those opportunities up.

MR. SHAMBAUGH: Shawn, as Chancellor Blank pointed out, students are really interested in entrepreneurship. So, there's that pent-up demand among the students to be involved in these sorts of

activities. So, the problem is, so they might come up with an idea, not to be overly pessimistic here - so they come up with an idea, but the problem they're going to face, let's say, they happen to be in a region that's lagging behind that we're talking about, the eco system isn't there for them to be a successful entrepreneur. So, the venture capital is not there. Perhaps the skilled labor force that they need, the specific technologies they need, aren't going to be in this random location that we're talking about.

I'm just throwing out a hypothetical question. I don't even know if this is the role of universities, but perhaps they could do something, not just fostering this initial enthusiasm among the students, which universities seem to be doing really well right now, but can they create an eco-system for the students beyond - that something can get rooted and then these new business startups will stay. I think the Chancellor can probably answer that better than I can.

MS. BLANK: The answer is obviously yes, but it has to be done with the larger environment with the venture capitalist with the businesses, with th4e people who want to do mentoring. It's the early - think about the idea and how it might be commercialized you can do on campus, but the actual moving to a prototype and moving out to build a business, you've got to do off campus. So, you've got to do this in really close collaboration with the people around you and the environment you are in.

I want to ask a last question of really everyone and I'll do the thing you're never supposed to do, which is I'll ask you a question I have no idea how any of you are actually going to answer. I know lawyers are never supposed to do that. I'm not a lawyer and don't play one on tv. So, I'll ask it of all of you in a sense - how worried are you, when we think broadly about ways to help regions that are struggling, whether it's trying to improve educational outcomes,

using universities other ways? How much do you worry about the last issue that Jason raised, which is that as much as we could get this whole group together and we could spend all day and we could design a set of policies, that we would even think there was a strong evidence base for how it would help and even find the funding for them and all this.

By the time it gets through the process that makes policy, since many of you have worked in the policy making world, that it won't look enough like what we want to design here, that it actually won't be very productive, and that the challenge of place-based policies is the policy part, more than the place-based part. How much do you worry about that or do you think there really are examples and opportunities where we could get this right and we could do things that are productive? I'll start from the far end. Stephen, do you want to hop in?

MR. SMITH: Okay. Sure. So, I think that



there are several policies that we can carry out that primarily encourage people to use mandates that are already there, infrastructure that's already there. All schools are required to educate kids, often to age 20 and so on. If we can use these different approaches, like raising the minimum age, giving better information, different kinds of incentives, tutoring, then we're not asking specifically for new policies beyond that, because we have schools in place, for example.

Now, I couldn't agree more about the importance of raising quality. That's a problem really everywhere in the world, but enrollment and completion is certainly a place to start. Quality is hard to measure. In developing countries, the evidence that I've described has to do with staying in school and completing school there, even though quality may not be great.

Another approach, since again, I was arguing that really foundational to all of what we're talking about is helping the rising generation to reach their potential so that they can help their regions. Again, health and nutrition for the young is very important through high school. We talk a lot in terms of policy about the potential need to expand the expanded Medicare or have programs that have wider reach.

What I talk about in the paper is that there are things we can do to motivate people to take advantage of the existing programs we have, like SNAP, formerly food stamps, WIC, CHIP in terms of insurance, and of course, Medicaid. In states whether expanded or not, the evidence is that there are millions of people eligible from these programs whose families could greatly benefit from them that are not taking advantage of these programs. These are existing mandates.

So, there is a variety of things that you can do to encourage people to take advantage of these

programs. Come back to the case of PROGRESA in Mexico, an event which became a country wide program. Just as they had financial incentives and other incentives for parents to keep the kids in school, they also have strong incentives for families to take advantage of existing health services in that country. The evidence has been very clear that that has raised health and nutrition conditions in those areas.

Even with existing policies and existing mandates, we can take modest and rather cost-effective approaches to get good results. That's basically my take on the literature from developing countries.

MR. SHAMBAUGH: Okay. Luis?

MS. FOX: I guess part of the problem is there's policy in however the law in written and then there's implementation and that's often where the gap is. I think, you know, I was taught as an economist that everything is all about money and now, economists have this subject called behavioral economics which the psychologists think we just stole from them and

rebranded. Maybe they're right. Which says that it's not all about money. I'm thinking about an experiment that was done in the U.S., possibly in Massachusetts, where some teachers got a bonus if their kids did well on test scores or graduated or whatever. Some teachers got training to learn to teach better. Then there was, of course, the control group. The second approach worked much better than the first approach. It turns out that actually people want to do their job and they want to do it better.

Maybe it's kind of the implementation of our education mandate, where we're not figuring out how to help teachers and principals do their job better and maybe we need to be doing more of that. That's certainly the issue of school-based management. School management and effective principals is something that's really being discussed right now in Latin American a lot.

MR. SHAMBAUGH: Great. Thanks. Becky?

MS. BLANK: So, like Jason, I'm a little

skeptical of place spaced policies. We haven't talked at all about the very large number of efforts that all evidence suggests did nothing. You can go through almost every administration of enterprise zones and economic development zones and the research on that just says that maybe we didn't put enough money in them, but these weren't very effective. That makes me skeptical. On the other hand, I think the politics of this, you know, all politics is local, we are going to do place-based policy. We're going to talk about it. We ought to figure out, given that we're going to spend some money on it, how to do it well.

The one thing I think we haven't talked about on this panel is we've been talking about policy. I would say, having - when I was at Commerce, I visited a number of places that had been very successful economic growth stories. The one thing that struck me in all of those places was not just that they did good policy and were smart, but they had a group of people across every domain, business, K-12,

two-year schools, four-year schools, State, County, that sat around the table together and talked and really communicated well. That in that group, there were 3 or 4 very, very effective leaders. That type of leadership and communication and working well together, meant that they could take opportunities that might have been out there for every community and really mobilized them for their community. In that sense, I think to do this effectively does require a lot more than just putting a policy on the table.

MR. SHAMBAUGH: Shawn?

MR. KANTOR: So implicitly in our proposal, we were thinking exactly this. So, our message to policy makers is, please don't spend a billion dollars or more building a new university. It's really not going to do the trick. We just thought about practical ways that you can have some cost-effective means of helping a local community that might otherwise want some grand place-based policy.

Getting a university involved, as you said,

it's part of a partnership. It's part of a team. So, expanding on the current program, the MEP that already exists, that seems to be in our minds a reasonable first step toward let's seeing if something could work with regard to universities. But please don't spend a billion dollars or more building a new one. As the Chancellor can attest, State universities and colleges are struggling as it is financially anyway.

MR. SHAMBAUGH: Okay. Great. We're actually going to ask one more quick round of questions. This being Brookings, there's always lots of things going on. There's a Head of State that's going to be moving shortly. So, we're not supposed to all flood out into the hall right as they're moving. So, I'm going to take an opportunity while we have this great panel. So, I'm going to ask one other set of questions that came out of the notecards. There are terrific questions in here. Thank you.

One of the things we didn't really talk too much

about is Federal policy here. We talked a lot about what universities could be doing. We talked a lot about local school systems and things like this. Starting with Becky and then Shawn, since your proposal is in some sense a way to partner with the Federal government, you could flesh out how you see that happening.

But what could you, as a head of a University system, use more of from the Federal government to try not just for all of your goals, but for the specific set of goals of how the university can help the region around it.

MS. BLANK: Golly. So, from the university point of view, I think this is the question of how do we make sure we provide access to low income students. This is not the place to go into a whole list of how do you change the student loan program. How do you change the FASFA form? How should we be running Pell grants? Those are really important questions,



particularly if you talk about issues of how do you fill out forms. I must say the difficulties we create for people to receive, you know, what is basically Federal aid that large numbers of students should be getting, but is very, very hard often for their families to access.

Providing much greater simplification and making it easier to access that set of programs and for us to work with that set of students.

MR. SHAMBAUGH: Shawn, do you want to describe in a little bit more detail how you see the Federal government partnering with the universities in this proposal?

MR. KANTOR: Our proposal is about research universities and my work thinks about universities, not necessarily State colleges that aren't engaged necessarily in the research enterprise or community colleges. So, I just wanted to mention that first.

What research universities faculty are good at is basic research. Importantly, being close to the

research enterprise is valuable, but it's valuable in its own right. I think that has broader implications for the national economy. In that regard, it's going to help everybody that, let's say, ideas that are created at MIT or Harvard, for example, can easily be translated at Stanford and help the Silicon Valley economy or where I live in Tallahassee.

So, I think from the extent that States are worried about the knowledge that's created locally spilling over and worried about investing in knowledge that they might not be able to capture the benefits, perhaps the Federal government can play that role. And the Federal government does play that role now, but to the extent that States want to think about trying to capture some of the knowledge and helping the local community, that might be more of a Statewide activity. Currently the Federal government subsidizes some of that, but not on a grand scale, to the extent that the Federal government wants to help regions around the country that are lagging behind, and they

were to adopt their idea. They could expand funding for that program and roll it out farther and with more depth and breadth.

But just what universities, again, are really good at is fundamental research. I view that more as a kind of a national objective, a national goal. So, perhaps the government can get more involved in that aspect.

MR. SHAMBAUGH: Steven or Louise, would you get -

MR. SMITH: Yeah, sure. So, another area where development economics has done a lot of work and made a lot of progress over the last, let's say, fifteen to really twenty years now, has to do with the presence of institutions. That is to say laws, rules of the game, as well as norms and the effects that they have on opportunities for future successful economic development, as well as social progress. A key institution that seems to really matter is how inclusive they are and how much they facilitate for as

broad as possible a range of people in the society progress.

So, in this regard, I think, through that lens, it's likely that if the U.S. were examined as if it were a developing country, the way that we finance our local school systems would come up for some attention, namely, it's very difficult to find other advanced countries, I believe, that finance their local schools by local property taxes, which seems almost destined to reinforce the intergenerational transmission of poverty and so on. So, I think that to the extent that the Federal government could be convinced to focus more resources for school systems in lagging areas, that would be an obvious extrapolation from this kind of literature.

MR. SHAMBAUGH: Louise, anything you want to add?

MS. FOX: I guess what I would say, one issue that is really coming to the fore in developing countries is the problem of small fragmented urban

government. So, lots of little jurisdictions that can't get together and get a big enough (inaudible) area or think of themselves as an economic one the way, for example, the greater D.C./Baltimore area does. The role of the Federal government in transport, enforcing that thinking, maybe it could be extended. We talk about the Federal governments in developing countries trying to extend those kinds of incentives and pushes to get those small areas to work together. Of course, it's all the politicians who don't want to lose their job and their power base, et cetera.

It is a problem in the U.S. It is the problem in the San Francisco Bay area for sure. I think there's a whole separate project at Brookings that looks at that whole issue, but I sort of wonder if the Federal government can play a better role on this issue in areas outside of transport to try to get some consolidation of these urban areas to get some economy scale and better governments.

MR. SHAMBAUGH: We have time for one more

question. Okay. Great. One more question then. I wonder if there - really, I'd say about a third of the questions here keep coming back to this issue of how we make sure the training people are getting is matching the jobs they are going to be ready for. I think there is often a sense of the question of to what extent there is a gap between people's preparation and the jobs that are available for them, and what role, both at the high school level and at the college level we need to be thinking about there, and how we can do a better job there, whether it's at the school system level or at the Federal level. Becky, do you want to start there?

MS. BLANK: Let me start in on that. I would like what someone else here said. I think businesses have to be involved in the educational system. They have to be invited in. They have to be involved in career prep. Career prep means something different in middle school and high school than it does for graduate students, but you need to be doing it in

terms of acquaintance with what does this mean and whether Dad's coming in and talking about, or Mom's coming in and talking about what they do. That type of connection is important. Once you get into the technical training, whether that's in high school or whether that's in two-year schools, you have to have very close collaboration because there are too many examples of training people for degrees that nobody wants. Right?

Now, once you get into the four-year liberal arts colleges, that's a different story, because we're not training people for a job. We're training people for career. This is where the argument about why do you have English and Art History and all that, because those are really important long-term understanding skills about the world that people need to know who are going to be out there for careers. So, engagement of this just means something different.

Having said that, I'll say one thing that I think most universities do a very bad job of and that

we're really working on at Wisconsin. I don't know if we're doing it better, but professional schools do a great job of career training for their students. They do a lousy job of career training for their liberal arts majors, which are usually the majority of their students. Right? Because an English student or a math student or a physics student are very unlikely to go out and work in those fields. They are going to take the skills they have and end up in business or law or medicine and so, we are trying to really up our game on career preparation of liberal arts students and put a whole program around that starting in sophomore year, to get people to think more consciously about what will a political science major get me. What have people who have gotten political science majors out of this university ever done. What jobs does it lead to?

Using our alums very consciously as well as local businesses in that, and you know, there's a lot more here that needs to be done in that whole area.



MR. SHAMBAUGH: Great. Thank you. I think we're going to wrap there and take a short break. We'll have the next panel coming up in just five or ten minutes on the impact of structural racism and the history of segregation on regional inequality, which I think is going to be a terrific panel. Please come back shortly. We'll just thank the panelists a great deal for those comments. Thank you. (Applause)

(Recess)

MS. JAN: Hello, everyone. My name is Tracy Jan. I'm a reporter with the Washington Post. I am very honored to be here today with these gentlemen. I actually came to the Post two years ago to write about race and the economy. It's a new beat that I created that's very broad. It covers everything from housing policy to the racial wealth gap. More recently, I was in Ferguson four years after Michael Brown was killed to write about how economic development has been unequal in that area. Most notably that neighborhood in which he was shot and killed has been left behind,

which is not a surprise to a lot of folks. But I am here.

I am going to introduce Bradley Hardy. He is an associate professor of public administration and policy at American University and a Senior Fellow in Economic Studies at the Brookings Institution. He is also a visiting scholar with the Center of Household Financial Stability at the Federal Reserve Bank of St. Louis. His research examines trends and the sources of income volatility intergenerational mobility within the United States, with a focus on socioeconomically disadvantaged families, the same thing I write about. So, this is great. Professor Hardy is the author of one of the papers which we will be discussing.

Professor Frederick Wherry is a sociologist professor at Princeton University, as well as the president of the Social Science History Association. His research focuses on how race and other identities matter in the market place, how individuals make sense

of credit and debt and how some communities but not others can more easily use their cultural traditions to revitalize their neighborhoods. Professor Wherry serves on the community development and research advisory council of the Federal Reserve Bank of Boston, where I used to work, at the Boston Globe, and is finishing a new book on financial citizenship that will be out in April.

So let's get started. The paper is a pretty ambitious document, given that it examines the history of how racist policies have resulted in equality when it comes to housing, education, incarceration rates, political power and even the role of federal assistance. So, I was hoping you can help us connect how this history is still lingering today. Are there current policies that have racial dimensions or implications?

MR. HARDY: Sure. The project, I have to say, was joint with Trevon Logan at Ohio State and John Parman at William and Mary. This paper was

ambitious, and we really had to pull from a whole large body of social science literature. The hope is that the reader comes away wanting to learn more from those disciplines, but what I can say is we found in our research that many of the policies were intentional, particularly historically so. You can think about policies including, but not limited to, red lining. That has had sort of long-term negative consequences for black wealth. You can see that here in the metropolitan area in Washington, D.C., but nationwide. Even public policies that don't have a specific racial dimension but have disproportionately negative consequences for black Americans and other Americans of color. Right?

So those include how we structure local school spending and a lot of the very good causal evidence that actually school spending does positively influence economic and educational outcomes. That, in fact, was somewhat of a puzzle, even 20 years ago, but

some of the new evidence kind of confirms what a lot of us thought we knew, that these sorts of investments matter, or even how the devolved welfare state allocates benefits. It turns out there are differences across race. There has been contemporary work showing that black clients of TANF have tended to be discriminated against, sanctioned at a higher rate. These things add up.

MS. JAN: And even now the welfare to work policy - not welfare to work, but just the work requirements in some States such as Michigan recently is instituting, disproportionately impacting black recipients than white recipients of aid.

MR. HARDY: Sure. And to that point - and I'm sure Fred is going to jump in here also. I think it's important to note that these sorts of public policies may have very clear observable deleterious impacts on black Americans and other Americans of color. It's going to very oftentimes affect that entire metropolitan area negatively. Right? So there

are efficiency implications to have these things designed that don't just affect that one group.

MS. JAN: Right. Right. Good. Professor Wherry, I'd love for you to talk to us some more about how race continues to play out in places that might be surprising to some folk, given that laws were passed fifty years ago to outlaw redlining and other forms of racial discrimination.

MR. WHERRY: Let me just say before - I'm going to open with a little story, but before I open with the story, let me just say that if you haven't read this paper that they've authored, you should do it this week, probably today.

MR. HARDY: Oh, that's very nice of you.

MR. WHERRY: I said the book. Read the paper.

MR. HARDY: I didn't pay him to say that.

MR. WHERRY: Yeah. I don't accept money for these sorts of things. So, here's the story. Sometimes we see race and we see place, in situations where they

don't belong. One of those situations, there is a researcher at Wisconsin, Rourke O'Brien, and his collaborator, Barbara Kiviat, at Harvard. They sent out these resumes to hiring managers, hiring professionals, over a thousand hiring professionals. One of the questions they were asking by sending out these resumes, is when you control sort of black versus a white applicant, and they have a subprime credit score and everything else is more or less the same, are they likely to be hired and what is the suggested starting salary?

It's at that level of suggested starting salary that we see a big difference. Two resumes equivalent in all other respects, but the black applicant gets the lower suggested starting salaries. When they're sort of digging into this, they're also finding that there's a lot of moralized language around, how you interpret a credit score. What credit scores were supposed to do is get us out of the identity stuff, is what some people think about it,

the identity stuff. Let's get a score. You don't get out of the identity stuff.

Now where is place? So, one of the difficulties with scoring is we that we haven't had a lot of work until recently that's tried to tie sort of these individualized scores to places. There's a recent piece by the Boston Fed author, Anmole Ashota. One of the things he does, he says, "Let's look at neighborhoods and see where the subprime scores are by neighborhood". So, if you're in a neighborhood - some neighborhoods where you already have concentrated disadvantage, you have about half the households subprimatil score. Other neighborhoods, more advantage, were much lower percentage. It's short of a five percent. So what does it mean for a person who is in a locality where every other household has sub prime score or no score at all.

So, part of what we're seeing is the menu of choice.

On the one hand we talk about the choices that people



are making, how do we help people make better choices, but the menu of choice is it is being structured locally. So, you can imagine that if you've got kids, and everybody compares what the other people do for their kids, and if there's some school trip or there's some event - graduations are terrible because you end up spending lots of money, even if you don't want to. If you don't want to spend the money because you're going to have to use a high cost alternative financial service provider, it's very difficult to say that you can't get access to the money when all the other parents can. Your menu of choices is really based on what the other adults in your locality are able to do. You just sort of push down the other information about how much it's going to cost you. You have these situations of disadvantage that even when you come up with something like a score that's supposed to wipe out identity, the scores are being used very differently by virtue of race.

MS. JAN: You're talking about white and

black job applicants with the same credit score?

MR. WHERRY: Same credit score.

MS. JAN: Black applicants are being offered much lower starting salaries?

MR. WHERRY: A suggested lower starting salary. Now, the reason why this study, I think, is important is because we often start to talk about, well, there's probably something happening interactionally, and there may be sort of culturally capital ques that are either sent or not sent at the point of the interview. What this establishes is that we can actually see that there is sort of an initial sort of condition of disadvantage. So, by virtue of status, your starting point is slightly lower and presumably the returns on investment on your work experience and your education are going to be less. If you have a different return on investment for things like education and work experience, then you're going to get a divergence. If you have a slightly lower sort of starting salary to begin with, you're also another

way of divergence. There are different ways in which we are seeing sort of diversion fortunes and for of our sort of technologies that are meant to sort of wipe out identity don't wipe it out. It simply sort of offers up a new tool. This doesn't mean that we shouldn't care about credit scores.

It does mean that we need to think more creatively about how do you help people avoid really high cost service providers in the locales, because one of the other difficulties that people also face is that when they're going to get help to try to get themselves out of financial straits, they're often given advice about you should not have gone for that high cost short term loan. What else were they supposed to do?

The other difficulty is that when sometimes options are offered that are not - they are still high cost but they're much cheaper than what they would have had access to anyway. Sometimes policy advocates say don't do that either. So, sometimes in this push

for economic justice, we're on this course for justice in which no one can really see salvation.

MS. JAN: On the issue of banking recently, the last two years, there's been this push the hash tag bank blank movement pushed by some high-profile celebrities and it's because in many communities there are bank deserts. The only way to get a loan to pay for that field trip is a payday loan. Could you talk a little bit about that? How realistic is it for black banks to be the salvation of communities that otherwise would not be able to get mortgage loans given that certain banks, Wells Fargo, have been fined or have reached huge settlements for charging black and brown communities disproportionately high rates and subprime loans. Is that unrealistic to expect black banks to carry that, especially since their numbers are dwindling?

MR. HARDY: In my own opinion, and I have a particular slice here thinking about income and earnings volatility among many workers, is that, well,

this is something that the U.S. banking and financial system should take on, particularly thinking about the different financial instruments that are available to low- and moderate-income workers. How do we handle things like fees and fines for various types of overdrafts? That's quite a bit of resources being extracted from folks who don't have much to begin with.

So, I'm absolutely sympathetic to the idea that those resources can be kept among some communities and that can have all sorts of positive spillovers potentially, but at the same time, I think the national banks have a roll to play and my colleague, Aaron Kline, at Brookings, has done a lot of work thinking about these sorts of financial tools and how they may intentionally or unintentionally harm people of color and then the working poor.

MR. WHERRY: I've been asked this question, usually in private, because in private, I can sort of apologize for not being a proper race fan, because

it's not a realistic sort of solution.

MS. JAN: Most banks are not.

MR. WHERRY: They should be there, and we should have a variety of options, but for a number of reasons that are outlined in Mehrsa Beradaran's, The Color of Banking book. It's just not a realistic sort of scalable alternative for these communities. The other thing I think, to keep in mind, is part of the spirit of pushing the black banks, I think is the spirit of saying why don't we have more financial services that are co-produced by the community. When we think about the coproduction of commerce, that is in the spirit in which the black bank is offered. We can think about coproduction of financial services that are not based in geography but have sort of geographically placed actors who are trusted community actors who help get those services to people who need them.

Because so much has now happened in terms of financial technologies, we have to move away from some

of these models of the one type of financial service and that's going to fix it for people who have very complicated lives. You have people who often are working more than one job and don't have as much control over their schedules and they're trying to have to figure how they're going to sort of fit in their time to get to a traditional bank. There are a lot of things that are just not realistic for people today who don't have the kinds of predictable schedules that people once did.

MR. HARDY: I was going to say we can talk about specific solutions.

MS. JAN: (inaudible)

MR. HARDY: Yeah. I was joking around. I'm already hot natured so I've got my handkerchief. It's interesting. You can think about specific solutions though. I think that there's opportunities for local public policy officials to push their local firms to do employee assistance funds. There are initiatives now for folks to consider drawing down a day or a

week's pay because there are short term events that come up, you know, doing this once or twice a month doesn't necessarily work for everybody. Right?

I do think that there's a role for financial literacy, but at the same time, I've heard it argued and I'm sympathetic to this, but the poor and near poor are actually great stewards of limited resources and that oftentimes some of these choices, even if it's a particular high interest loan, it's sort of choosing between the best of sort of bad alternatives. I think we can make improvements there. Is that a local problem? Is it a national problem? Well, it's going to happen at the local level.

MS. JAN: I was in Mississippi last December writing about work Federal assistance programs and I was speaking to this woman. She happened to be white, but it was multi-generational poverty. The mother who has grandchildren - so she's a little older - was talking about how pleased she was that this short-term loan program was offering her yet another loan to buy



her Christmas gifts because she was doing so well paying off her first loan that they offered her another one. She was just so please by that and other folks in better financial == more stability, would have been like, whoa, but that is really not the best place, but she really had no other alternative, so that was the product that was geared toward her and she appreciated it, paying a lot of interest on it.

Moving to the subject to Federal assistance, we know that the majority of recipients who get food stamps and Medicaid, section 8 housing happened to be white in this country, as our country is for now predominantly white, the political rhetoric would have you think otherwise, but I want to know from you, given your research on the role of antipoverty transfer programs, can you talk about this a little bit more, especially in the context of policies that are being advanced by the Trump administration?

MR. HARDY: Sure. I would first start off by saying that thinking about transfer policy, income

support policies in the U.S., there is a recent history, including welfare reform, where there has been a momentum for how we think about TANF policy, refundable tax credits, food stamps, and so, one, we have a lot of folks who are employed, but who are employed in sort of relatively low-income jobs. Right? So, they are working with food stamps. They're working with refundable tax credits to make ends meet. These are important supports for folks. So, one is just important across race to acknowledge that the snapshot of the welfare recipient really has to evolve to folks who are out here working. It's not to say that there are not some folks who aren't, but many are and are trying to.

MS. JAN: It was created. The whole program was created for white women whose husbands were -

MR. HARDY: That's right. There's been this evolution. I mean, there's a couple of points, though. Right? One, attitudes vary across individuals and across regions. There has been this history of

sanctioning people of color, causal research done out of Florida, looking at harsher sanctioning policy in welfare. Fast forwarding to your question, I do think there are policies on the books right now, including pushing work requirements onto other social safety net programs. Again, this doesn't necessarily have an explicit racial implication, but a lot of times the devil is in the details. So, what sorts of work supports are you going to provide? What sorts of training and search assistance are you going to provide? Very often times in these Federal bureaucracies that allocate the actual implementation to the localities. That sort of thing can fall apart quickly. I think it is a reason to be cautious. This is a safety net that does a lot of good. It's not that we can't have improvements, but this is something that we kind of have to keep our eyes on, where there are disproportionate impacts that are going to harm many Americans of color and many white Americans, frankly. So, to your earlier point, you know, the

safety net has many white Americans and non-white Americans who benefit. Right? But understanding that legacy of sort of differential treatment, some of which lingers today. There's some good work out of the Urban Institute looking at differences in the allocation of income support and the welfare program. I think a lot of coping issues, including some you've worked on with Christian Seifert and sort of thinking about how families need liquidity. How do we think about that insurance mechanics?

MR. WHERRY: And I will just add that one of my colleagues, Kathy Eden, and a lot of people that she works with, they've looked at the earned income tax credit, and it's important that it is earned for those families in the sense that one of the things that we sometimes take for granted - it's not just what the program delivers, but it's how the program delivers it and what message it sends to people about their self, their worth and about their capacity to make legitimate decisions for themselves and their

families and so, if we're thinking about a model of some of the types of programs that I think seem to work, but have not been location based, but work nonetheless, I'd say the EITC.

The other thing I'll say about locations is while people may be confined to neighborhoods and communities of disadvantage, when someone leaves that community, they don't necessarily leave that community in the sense that when emergencies emerge, they are then called upon by their family networks to sort of provide assistance. While this may sort of then mean that holding income and occupation, education constant, you have then black and Latinics individuals who are going to have a slower rate of aid accumulation because they just have more requests coming in from their networks that cross these community lines. They're still doing okay and they're still able to make up for some of the gaps in the social safety net because much of that safety net is now being privatized and individualized.

MS. JAN: I want to get this in with the audience questions which are quite good. Continuing on this conversation about segregated communities, this audience has a question about food deserts. So, given that historically neighborhoods have been segregated, one impact is lack of affordable quality food availability. This person was talking about Dallas, but when I was in Ferguson, I saw the same thing.

Ferguson is actually a beautiful community. You just wouldn't know it from some of the places that people have reported from. This particular part of it where Michael Brown's grandmother was living and where he was killed have like no accessible grocery store. There are liquor stores where you buy prepackaged food and there is a grocery store you have to drive to, but many people don't have cars. So, can you talk a little bit about how we incentivized business, stores to open in these types of places, because they are after all the businesses?

MR. HARDY: I would just start by saying there's definitely a role you can imagine for local and State government to incentivize this sort of investment. I think that in particular, you also have to think about the nation's effective food assistance programs, right, so you have to talk about these things in concert. One of the things that gets missed here is that providing effective food assistance through SNAF, food stamps has had long term economic benefits. We have, in my view, credible research to know that.

This links to educational performance in the classroom and it's intuitive. If you are sitting around hungry, you're not going to learn as well. You are going to be more stressed out. So, getting back to this issue of food deserts, absolutely, I think there is a lower policy opportunity. Oftentimes usines are going to, in my own opinion, view those investments as costly. How do we build relationships to encourage folks, to take those chances that are

good for the community? How do you even assess the quality within the actual establishment? It's one thing for the business to open up the local grocery store, but can you assess the quality of these good people inside and that's going to matter quite a bit.

MR. WHERRY: One of the other challenges, and this is not an apology for sort of what businesses have not done. But one of the challenges is that when you are in a community where you have not had access to basic groceries, you've had to make some adaptations. When you have a very limited budget and you know that sort of your kids like high carbs because it's going to hold them. Then when someone shows up with lots of things that look a little puffy. Okay. They're organized, and the chickens ran free, a parent cannot take the risk that they're going to put this expensive meal on the table and the children might be full and they might not even eat it. So, there is this dance of both. So, there is already a set of consumptive demands. There is not enough of a conversation about



So, are there ways of tweeting some of these existing conative demands so that it's healthier for kids and so, that a business that comes in isn't simply sort of rolling out from things that would be really desirable for me. Don't tell me it's organic because I don't even know what that is. I'm sort of a kid, but no, don't tell me it's organic because I don't even know what that is.

MS. JAY: Well, in this neighborhood, and I'm guessing again, all the liquor stores took EBT and food stamps, that you could buy things with that milk. They sold milk. There was a convenience store gas station, QuikTrip, that had burned down during the protest and that's where a lot of the people in those developments went to shop. They missed that. Right now it's this really nice urban league center. It's a community center, but some of the people in the community are like, "We want to get our medicine; we want to get our milk". Beyond that, they might (inaudible). There is a food truck that goes in a

couple times a week and they do accept food stamps. They sell fresh vegetables, but what's a more permanent solution?

MR. HARDY: You know, along Fred's point, I would just kind of piggyback and say, we also have at a national and subnational level, kind of start to acknowledge the realities of many working poor and near poor families, including but not limited to families of color, but it transcends race ethnicity, but these are folks who are working one, one and a half jobs. They are incurring high transportation costs, both monetarily and timewise. So, that food consumption is increasingly occurring out of the house or on the run. So, they're stopping by some of these places. This is just every day reality. A nice Hamilton paper a few years back by Jim Zilliak looking at this issue, modernizing how we think about food access and food assistance is going to be important.

MS. JAN: This is another really great question that we probably won't be able to address

fully in our time, but how should we think about forces like gentrification and nimbyism when attempting to address the issue of segregation?

MR. HARDY: I want to respond to this. I will give it to you first because I just finished talking, if you want it.

MR. WHERRY: Okay. I'll let you go first.

MR. HARDY: Well, okay. So I've got new work with a Brookings Fellow here, Marcus Casey, where we sort of examined the evolution of neighborhoods since roughly the Johnson appointed Kerner Commission on civil unrest. It's the 50<sup>th</sup> anniversary of the Kerner Commission. You know one of the things we find is, on the one hand, there's been a decline in sort of explicit forms of racial discrimination. Yet black neighborhoods have had some improvements, but there's wide gaps across the usual suspect socioeconomic measures. At the same time, some of that divestment, some of that urban flight has also provided opportunities for neighborhood change, for

gentrification, those values of homes fell down. These are places close to the City center, quite desirable. I think that, one, this is a huge issue. Two, combatting it really does bring to mind an actionable policy. We have a former HUD secretary here and here in the D.C. metro area, you've got housing assistance oversubscribed. Right? And you think about the housing costs and the idea that this is taking such a big bite out of the household balance sheet. I think for many households, you know, neighborhood change, gentrification, has its own social ramifications, but on a practical basis, my own view is that you just want somewhere that's convenient to be able to access job opportunities. Right? And maybe I'm telling two turfs of a story here, but that takes investments. Right? That's maybe where a local policy does take, in my view, Federal resources, Federal investment.

MR. WHERRY: This here is an admission. I think I'm a gentrifier because I moved to Harlem a few years ago and I split my time between Harlem and

Princeton. Harlem is a place that is undergoing gentrification. Some segments, some of the areas where there has been protection, is if you were in a really big building that I would not consider attractive but a really big public housing building, you're probably okay. If you are in one of the sort of more attractive which is most of the housing stock, you're not so okay. What they've done is they have transformed some of those into mixed income units. Now, if you get to return to your mixed income unit and so, part of - I think they were very good - we joke that the nice little old ladies, they got to go back to their unit because I think that just would have looked really bad. A lot of people did not. In other areas, there were public defenders in the community discussing sort of the strategies of the landlords to just get people out because suddenly, your elevator doesn't work for a couple of days in the winter. Then they had to shut off the boiler for a couple of days at a time. Then they start slipping

notes under your door. "Don't you want to go back and visit your family in the south? We'll give you a pack of money and put you on a bus". This is sort of the experience. One of the difficulties is that, of course, a lot of amenities have come into the community, but one of the other things that we've noticed is that as amenities come into the community and as the housing stock greatly appreciates, there is a recent paper by Goldstein and Social Forces and a co-author. One of the things that also increases is police presence to protect those investments.

One of the things that we take for granted is just as sort of the amenities are coming in, and I've seen this from the window. There was a party that had spilled out into the sidewalk. I looked to my left and I see - not to stereotype, but three levels of women in their yoga pants, because they were all wearing yoga pants, on three different floors. They are all on the phone. Suddenly the police are swarming. Then they sort of - to contain a party

where there was nothing, as far as I could tell, was happening except they were lots of teenagers and they all looked like me. So, this is one of the things that it's hard to sort of reconcile.

On the one hand, I love the neighborhood and I'm glad I'm there. On the other hand, I know that sort of having my unit appreciate has also sort of brought the neighborhood more amenities, more police presence and has pushed a number of people out with no sort of plans for sort of what you do with them.

MS. JAN: Right. And also the opposite of that, with HUD grants, for example, you have to be able to use them to not perpetuate segregation and when certain groups try to do that, there are other powerful liberal groups that don't want them there, like in Houston, for example. It is a big, big issue. We only have about five minutes left. I'll go on to another question. This was brought up earlier, but it wasn't quite addressed in a different panel, the question of opportunities on legislation and how that

could potentially help revitalize the stressed communities. To what extent could race hamper the success of opportunity zones.

MR. HARDY: Boy, that's a tough question. I don't know that I'll answer that question completely, but what I will say as a social scientist, right, the public policy is going to do what it tries to do, but we're trying to understand human behavior, and so, people in the U.S. are sorting on demographics including race and educational attainment. There's been several studies including those by Putnam and others showing that people in the U.S. are increasingly sorting on these dimensions and so, you could think about local maps where you see, you know, parental education, racial characteristics, and you can kind of predict home values and what's more or less desirable. I certainly think that, you know, public policy has to kind of reckon with that. I will say, and I don't know that this is an elegant seg, but there was another comment in the last panel that I



just wanted to briefly touch on, which is that local policy, be it opportunities on or otherwise, well, you know, you have institutions, for example, the higher ed institutions, that are situated in communities nationwide. I do think there's a role to play there, for example, in bringing leaders together. I think one of the comments from Chancellor Blank was that we need people who will build bridges to communicate to the private sector, the educational institutions, and government. I think back to my hometown of Durham, North Carolina. One such leader who is doing this work, thinking about education, work force and employment, was a guy, Phail Wynn, who ran the community college in Durham and then worked with Duke University. You think about the value of Duke in terms of being one of the largest employers in Durham. That alone has an economic benefit, but how does Duke interact with the Durham area with respect to housing and investments, in terms of economic development. So, having people who can provide that bridge, I think

there's opportunities there. You can think about that as local policy. How that relates to opportunity zones, maybe that's beyond the scope of what I can comment on, but there's local opportunities there.

MR. WHERRY: Yeah, I think the only caution I would offer is too often in a community of color, especially if it has had sort of a history of suffering, when investments come in, sometimes community members have a very different idea of what they want to do in their communities, and they're getting push back from it from the outside by saying that sort of thing won't work in that kind of place. So, there is a way in which the history of place can sometimes diminish the types of investments that come in or put restrictions on what you do once it arrives. So, that's my own - that's my sort of way of trying to understand how structural racism, how sort of a sense of hierarchy inserts itself in a moment in which judgments are made, and in a moment of placing the value of different types of investments are being

assessed.

MS. JAN: Right. And that's exactly what happened in Ferguson, like the people who are trying to redevelopment that community. I mean, half these apartments are empty. It's not like you're displacing anyone. There's no one in half the apartments, but there are some people who live in the neighborhood, and some of them feel like what they wanted to see happen is not what the developers want to see happen. Developers need to make something work economically or there's financial incentive for them. Thank you very much for your time today. (Applause)

(Recess)

MR. NUNN: Thank you all for being here. I'd like to just start off the panel right up and introduce the panel, and then tell you a little bit about what I'd like to discuss on it. So, we're going to be talking about federal investments to drive local growth.

I'm Ryan Nunn, the Policy Director for the

Hamilton Project. So, I'll start by introducing the panel.

Starting to my left, Shaun Donovan is the Senior Strategist and Adviser to the President on Allston and Campus Development, Harvard University. Shaun was previously the Director of the Office of Management (inaudible) and before that, the Secretary of HUD.

To Shaun's left, Tracey Gordon is a Senior Fellow with the Urban-Brookings Tax Policy Center. Previously she was a senior economics at the Council of Economic Advisors and she has done valuable research in a variety of topics related to state and local public finance. She is also the author of one of the Hamilton Projects policy proposals that you can find in our book.

Finally, to Tracey's left, Maurice Jones is the President and CEO of the non-profit Local Initiatives Support Corporation, or LISC. He has also served as Virginia's Secretary of Commerce and Deputy

Secretary at the U.S. Department of Housing and Urban Development.

I think you'll find that we really have an ideal set of people here to talk about these two proposals and the larger set of issues that they address. So, we do have two really interesting proposals, one of which is written by Tracey Gordon, which focuses on federal grants to states and how they might be modified. The other proposal is by David Newmark who is not here. That one is much more fine-grained in the sense that it focuses on neighborhoods and problems of concentrated poverty. So, because David is not here, I'm going to just give you a really quick outline of that proposal before we start with the panel.

David begins by discussing the challenges he sees for place-based policy, talking about areas of very concentrated poverty in the United States. If you define extreme poverty as he does by looking at areas that have at least a forty percent poverty rate

at a very local level, you find 6.2 million people living in those places, more than 4,000 areas of extreme poverty, mostly clustered in the Midwest and the northeast. So, what David then does is discuss a body of research that has evaluated the place-based policies that have already been implemented over the preceding decades. He's quite skeptical about those policies, finding that in general they have not been cost effective. He identifies problems that make place-based policy very difficult to implement related to low skills, to inadequate infrastructure, and crime, among other problems. So, that's David's assessment of the problem. Then he actually goes on to propose a way of reconfiguring our place-based policy that he thinks would work, that he thinks benefits from what we've learned about these policies that have not worked as well.

So, he proposes a job subsidy program called Rebuilding Jobs Subsidies that retains the traditional goal of this kind of place-based policy and that it is

subsidizing hiring and job creation, but it has a few elements that he thinks will allow it to do better than we have done in the past. One is that the work is specifically tied to improving the area in which the residents live. The other element is that it would target people who are initially residents of the neighborhood. The third element is that it focuses really on skill building and on helping those who are targeted to get to a long-term career success in the private sector.

So, the way this would work, it's a two phased program. It would start with an 18-month period during which the job would be fully subsidized and would be provided by a local non-profit working in partnership with sometimes national level non-profits. After that phase, in the second 18-month phase, the job would be fifty percent subsidized and would be a private sector job. So, the idea is that those non-profit jobs transition to private sector jobs and that skill building is happening throughout the process.

That's a very quick tour of David's proposal. I really recommend that you read both proposals in the book. I think that they're fantastic. I'd also like to remind you, as with previous panels, please do start writing your questions down on the notecards, and those will be collected.

Now, I'd like to turn the discussion over to Tracey Gordon. So, Tracey, your proposal aims to comprehensively reform the way that federal grants are distributed across states. Can you just tell us what problems you see there and sort of how your proposal addresses them?

MS. GORDON: Thank you. Thank you so much for having me here today. It's a real pleasure to be on this panel with people who, and people in the audience who have actually run public programs and can tell me where I've actually gotten it right and where I've gotten it wrong, but this proposal started from the observation, much like Henry Paul said in talked



about the troubled asset relief program, that we've got this seven hundred billion dollar bazooka and why don't we use it.

So, people typically talk about place-based assistance, and some of the merits and demerits of these policies as much as the morning discussion has talked about, but overlooking the fact that we have this \$700 billion apparatus that injects about 3.5 percent of GDP into the economy, and there are ways that we can make it work better. So, (inaudible) have looked at this concept of fiscal capacity or the gap between what states could raise in revenue if they were to tax their resources at nationally representative rates and what they would have to spend to reach national averages, given their economic and demographic conditions. So, some places just have more workloads for public programs. They've got more lower income people who are going to call on public programs. They've got more kids to educate. We adjust for those kinds of factors as well as the cost of

labor and basically find that most states have a gap in the revenues that could be available to them, not what they're actually taxing, but what they could tax, regardless of political decisions and what they would have to spend to look like the rest of the country.

Now, federal grants go a long way to closing those gaps, but gaps remain in about half of all states. That's not surprising because the way that our federal grant system works, it's not really meant to equalize differences in fiscal capacity. Oftentimes we have to have money to get money. So, there are maintenance effort requirements there, matching requirements, things that were put in place to try to avoid gaming or in some cases, things that are sort of political like small state minimums or hold harmless requirements. So, in addition, you have grant formulas. I think we've talked about in some of the panels previous to this, that are just out of step with current economic and social realities.

So, community development block grants are awarded based on the age of the housing stock, which in a place that's gentrifying actually could be a positive attribute. You have highway grants that have a lot to do with how much states contribute to the highway trust fund and not necessarily the condition of the roads or the roughness, as another Hamilton Project paper has proposed. So, this proposal suggests we can do better than what we are already doing. We can make federal grants more reflective of local conditions in terms of need for federal money, for example, switching the federal matching rate formula from per capita personal income to poverty. So, a place like D.C. and a place like Connecticut have the same per capita personal income, but the poverty rate is twice as high in D.C. as Connecticut, looking at the cost of providing services, like labor, and also looking at fiscal capacity, and there are various ways you can do that, and then I also proposed making a provision of

the Recovery Act the automatic increase in the federal matching rate permanent.

And there are various ways you can do that. The way that I proposed has to do with looking at sustained decreases in the employment rate, and basically turning on this program when half of all states are experiencing that over a four-month period and then there are questions about what you would actually provide to these places. There have been proposals to make the aid conditional on changes in wages and salaries. When you would turn off the aid, how you would make sure that states are not substituting the money for their own objectives and not this national goal of equalizing or getting the economy way to full steam. So, there are all kinds of questions about sort of timing and targeting and how would insure that federal objectives are being met, but I don't think that mean we shouldn't do it. We've learned a lot from experience, including the Recovery Act. I hope this proposal can start a conversation

about that.

MR. NUNN: Great. Thank you. I'd like to turn next to Shaun and we'll get back to the specifics of your proposal, Tracey, but I guess what I want to ask you is, what is it about the U.S. in 2018 that necessitates this sort of proposal, whether David's or Tracey's. What do you think first when you're considering place-based policies?

MR. DONOVAN: So, first, just at the very highest level and maybe going back to Jason's framing initially. I think one of the things that excites me about bringing this group together on this subject now and this sort of urgency of in 2018 why place based policies matter is that I do think we have an emerging body of research that really confirms in a way that we haven't been able to before, not just that places are different and people are sorted into those places, but that those places actually impact opportunity for families. Take exactly the same person. They live in different zip codes and they have different life

chances.

Along with that, the sort of use of big data or the technology tools is allowing us to move from just analysis of those problems to designing solutions in a way that we haven't been able to before. I think we are at an exciting moment to think about place-based policy.

The other thing may be a little bit more darkly is that I think we are going through a geographic and economic change in the country that Jason also referenced, which is profounder than I think most of us realize. Maybe to be provocative, I would argue, and the Kerner Commission was just raised. Fifty years ago, if you look at what the Kerner Commission recommended, and frankly if you look at most of our social policy in the U.S., it was largely designed around the urban problem, around this challenge of poverty concentrated among primarily African Americans in our central cities. Just to personalize this, I grew up in New York City. I went

to the Howard Cosell, Ladies and Gentlemen, the Bronx is Burning game. I remember more broadly this prediction that we are watching the death of American cities. In fact, what we are seeing is quite the opposite, where increasingly in a knowledge-based economy, talent is gathering mostly in our central cities. It's not just places like San Francisco and New York that are increasingly the gateways to opportunity, but it's successful small and midsized cities as well.

The problem with that is primarily through the mechanism of housing costs, we are locking a huge number of people out of economic opportunity in the country. I think many of you have referenced, Jay and others, we're seeing less physical mobility. We're seeing less economic mobility. We're seeing a greater sorting of people in places. That has all kinds of economic consequences. It has racial consequences. It has political consequences. I would suggest that not just in the U.S., but around the world, we're seeing

economic polarization that is very much related to this geographic polarization. And I think in a lot of ways, if we look around the world, we're becoming much more like the rest of the world in the way that our urban patterns happen. If you think about places like London and Paris, if you think about Africa, you have poverty largely concentrated outside of the cities. Maybe to be even more provocative, if you think urban ghettos are bad, try suburban and rural ghettos where it's a two-hour trip to get to work, where capacity to help those folks is even lower than it is in most of our larger cities. So, I think we have ahead of us, an ERA, because I don't think this is temporary, where these challenges are place-based policies are actually accelerating a little and become more and more intense. So, that's one framing point.

A second would be that I think Governor Patrick made a very important point, which is that we've had these historic fights. I went to policy school and learned



about do we have people based or place based. I do think it's a false choice, not just because you need both but that the two are highly interrelated. If you think about, for example, Russ Chetty's work that shows the importance of helping people move using vouchers to hire opportunity neighborhood. If you don't have place-based policies in those places that allow units that can be affordable to voucher holders, you're never going to be able to help those people. So, this combination of people in place based policies, I think it also points out and we're expending a lot of time today on the places that are most disadvantaged, but I think we need to be talking more about what are the place based policies in the places where economic opportunity is concentrated and is growing, and whether that's inclusionary zoning or a whole range of other anti-gentrification strategies, so that a traditionally black center city neighborhood that is gentrifying, how do you make sure that not just that current folks can stay, but that

you don't have notices saying, "Move back south" and actually succeeding in that, but also how do you make sure that future generations of low income folks that don't have opportunity can move in. That's really the way over long-term neighborhood dynamics change.

I think we have to think in balanced ways about place-based policies for disadvantaged places and play space policies for places that have growing advantages. So, long winded wind up, but just to finish, I would really say, as a federal - I worked in local government as well. I ran housing in New York, but from the federal perspective, I think it's really important to think about kind of four levers in place-based policy.

It is important to remember that we are a federalist system. I used to get together with my counterparts in other countries, in Europe or Africa, the Asia's, and many of them I was incredibly jealous of the powers they had. "You know we just passed zoning codes for the entire country" or "we'll change

the building code". We have to remember that we have a federalist system where everything belongs to the states unless Congress specifically says the feds can do something about it. I think that means money is obviously our largest lever and how we've set formulas for that money, what conditions we set on it, but I think we do forget often that there are a few other ways that the federal government can make a big difference in place-based policy.

One, I think, and it's been touched on, but I want to be more explicit about it, is coordination. And I mean that in a couple of different ways. First of all, there are, as Tracey has pointed out in her paper, billions of dollars of funding that go into places. We don't often think of them as place-based policies, but they are. And yet, the federal government does a terrible job of helping or even not getting in the way of local places coordinating around that.

Take a simple example. We know that

infrastructure investments, transit, et cetera, can be transformative, but if you don't, when you put in a metro stop, change the zoning, coordinate housing investments, you can first of all end up with minimizing the economic benefit of that, but if you also don't think about the increase in land values and land prices that are going to come with those investments, you may actually end up pushing out the very people you want to benefit for opportunity. So, that's an example of ways to coordinate.

I also think that there are ways that we can make sure, to go to Becky's point she made earlier, which I thought was really important, is that so much of the success of place-based policies is dependent upon the right leadership and coalitions on the ground. I think we could do more in the federal government, and we tried to in the Obama administration, to make sure that the right people are at the table, that low income people and minorities are represented at that table, that there is real

coordination that is happening, and that there is a successful strategy. The federal government shouldn't dictate that strategy, but we should be able to require that that happen.

I think that takes me to a third point, which is accountability. We, at the federal level, can help create a requirement for metrics and outcomes, a requirement for research to ensure that there are accountabilities.

Then a final point is capacity building. One of the things I constantly saw around the country is local places that would say I want an economic development strategy. I want to work for strategy, and by the way, I have this great idea. It was as if nobody else in the United States of American had ever tried that strategy. They were isolated on their own trying to figure out how to design it. And yet the federal government is in a position where we have seen people

trying to implement strategies all over the country but do very little. We tend to talk one direction from Washington, which is to tell communities what to do as opposed to listening to communities and thinking about the networks that you can create and spreading those best practices, helping to build capacity to implement. All of that is something that I think the federal government, we often overlook as a powerful tool in terms of creating success in place-based policies.

MR. NUNN: That is, I think, really helpful framing for both of these proposals, and I want to return to a number of the themes that you've touched on. But first, I want to ask Maurice a question that is really more about David Newmark's proposal, which I think features a skill building element that in some ways works like an apprenticeship. I wonder if this is something that you think would work in places of concentrated poverty and how could organizations like your own play a role in that?

MR. JONES: Well, first, thanks for letting me here. I was looking for something to disagree with my boss on, but I didn't find a whole lot. I will come up with something.

Look, I think that the notion of helping folks find work in the private sector is a team sport that certainly local non-profits and local government and the federal government and the private sector can work on and it can be beneficial for the places that we're working in. But it by itself won't have significant impact on the places that we're talking about, because if unless you are at one and the same time helping folks get into jobs and helping them with housing issues and transportation issues, financial literacy issues, and all these other issues that they need to be good workers, getting folks into work is just not going to do it. All right? So, I don't have any disagreement with that. That is one component though of what needs to be a much more holistic approach to be helpful to the communities and the

people in those communities that we work with.

The other thing is, look, you need to help people get a credential that is marketable. So, just focusing on getting into work and not focusing on a credential that helps that person get into work and then constantly have a credential and experience that makes them marketable for higher and higher wage jobs is not going to be of as much service to the people that we're talking about as we want it to be. So, apprenticeships have always assumed that you are not just getting work, but you're also getting a credential while you're getting work skills. So, whether that's a welding certification or whether that's a coding certification or whether that's working toward a 4-year degree or 2-year degree, it is important in this day and age, and I would submit in our country it will continue to be important, that that individual is both getting work experience and a credential that is marketable. So, I think you've got to pair all of that, but the biggest piece for me is



work alone is not the solution. It is a part of the solution. No question about it, but the folks that we work with are wrestling with a more - their lives are more complicated. If they don't have child care, if that single mother doesn't have child care, all the work you put in front of her won't matter if she can't get her child cared for. She won't be at work. She'll be caring for that child. If you can't give her or him a transportation option that doesn't take two hours both ways, she won't be on time. So, you have to approach this in a much more holistic way for the communities that we're working in, for this to be a true solution. You need a strategy here, just like you need a strategy for any business. That would be what I would add to it.

MR. NUNN: I think your point is very well taken and I wonder, given the range of problems that David's proposal aims to address, does it help to focus on the partnership between the local non-profits and the national non-profits. I mean, I wonder if in

some of the places where you have extreme concentrated poverty, if there might not be the capacity amongst the local non-profits to kind of address this wider set of issues and can organizations like LISC and other national non-profits do something there, recognizing that certainly this is one piece of a larger policy effort.

MR. JONES: The answer to that is yes, although I say the bigger opportunity is what the federal government or what the public sector can do to leverage better relationships between the non-profit world and the for-profit world. That's really the role that I think the federal government is best at, is how it can intervene to create incentives for the for-profit world to work more closely together. The best apprenticeships frankly are when non-profits are doing the pre-apprenticeship work for the large for-profits that have many more jobs. It's preparing people to get into their pipelines. That's probably the role when you think about segregating the jobs to be done.

It is probably the case that the non-profits can play a better role in the pre-apprenticeship space and the for-profits actually can play the better role in the apprenticeship space. The question is what government can do to make that relationship sustainable and economically viable on both cards. That's what I would tell you is the more promising route.

MR. NUNN: Thank you. That's helpful. I want to now kind of pivot to a broader question that I think it touches both of the proposals and I think it's important to talk about. I'm interested in the political economy of place space policy more generally. It has been discussed to some extent by Jay and by Jason. Whether at the local or the state level, the allocation of these federal investments is presumably always going to be, at least in part, a political question. Are there ways to insulate the proposals like Tracey's from these political considerations? And, I guess, even taking a step back, is that even a sensible sort of objection to

have to sort of want to insulate these? So that is a question for anyone who would like to.

MS. GORDON: Can I?

MR. NUNN: Please.

MS. GORDON: I feel like there's this sort of textbook response to that, and then there's the practical response. So, the textbook response is that moral hazard is a problem. We have these ways of dealing with it from individual transfer programs which are tagging and are deal mechanisms. So, tagging is basically, you conditionate on something that people can't change, an observable characteristic that's immutable like age, disability, blindness. Then ordeal mechanism is you make it really, really hard to get benefits, so that if you want to get benefits, you have to really show that you need them.

So, I have argued that the Recovery Act kind of mimics those and the Department of Transportation kind of chortled when I said that in terms of ordeal mechanisms dealing with the federal government. But

there were parts of the aid that were conditioned on things like unemployment rates which you can't influence if you're a governor, whereas your budget is very much under your influence and even your tax system is under your influence in terms of your exposure to more volatile sources of income.

That part of the increase in Medicaid that was tied to swings of unemployment, I think, was a very good step. You could even go bigger and make it tied to your nearest neighbor's unemployment. You could make it tied to a regional measure. So, there's lots of ways you can take it out of the hands of governors in terms of whether or not you get this additional federal aid. Then the reporting requirements that came with the Recovery Act, I have been told a million times by people who were involved, were not supposed to be an ordeal mechanism, but you could argue that that sort of had the effect of not only increasing transparency in a way that I think we should continue to do in federal government, but

reducing some of these incentives to apply for stuff if you didn't really want it.

Now, the practical consideration that I've had after my very brief stint in federal government, thanks to Jason who's sitting right there, is - and I've heard you say before too that what we really want is to give money to places that are low resource, high capacity. From a practical standpoint, I just don't know how you identify those places. I worry that we can do something with a big splash in a place like Detroit where we had six cabinet secretaries show up and coordinate non-profit and for-profit aid and continue to sort of play sort of a bully pulpit kind of a role, mobilizing local philanthropy for that matter, but what about a place, for example, like Puerto Rico, where even before the storm, you didn't have the same kind of local philanthropy. You didn't have the same anchor institutions. You didn't have the same legal framework to help that jurisdiction get out of bankruptcy.

So, just when it comes to actually figuring out how to apportion limited dollars, how do you decide, based on the issues like social capital that you really would like to reward, but are hard to observe, hard to measure, and hard to be unbiased and very transparent about.

MR. NUNN: We could spend a whole day on that.

MS. GORDON: I'm thrilled. Let's do it.

MR. DONOVAN: Let me just step back for a second and maybe even slightly disagree with my former colleagues, Jason and Becky, on this issue of the skepticism about place-based policy to begin with, because it is absolutely true that, you know, we have examples of failure in place-based policy. We've got a lot of examples of failure in other policy as well, because the mortgage interest deduction is a poorly designed policy to actually encourage homeownership. It doesn't mean we question tax policy itself. I do

think the political reality as you said, Becky, is that politics will dictate that we do have place-based policies and so we ought to figure out how to best design them. I do worry more about the other thing that Jason mentioned, which is scale, that so often we're playing at the margins of these problems with what we think of as place based policies and so, one of the things I really like about Tracey's paper, is to point out that the most important place-based programs are ones we don't even think about as place based. I think a lot of our focus ought to be on - going back to something I said earlier - how do we actually make these large grant programs, even benefit programs, more sensitive to the differences between places and more effective in working together. So, the idea, for example, of automatic stabilizers or other things is really important in creating that sensitivity.

I also will agree that politics are a huge problem here. I'm not saying they're not. I'm just



saying it's true for just about every policy we make. So, I think a couple of ways to attack that - one is really thinking about how you minimize opportunities for politicians to make trouble on these. So, a mechanism like an automatic stabilizer does that. Right? You don't have to go to Congress and get increases when something happens because you're immediately at a local level. I look at the west coast. San Francisco is a good example. There are shooting themselves maybe just not in the foot, but in the face in terms of their housing crisis because of the policy they have where every single building essentially has to go through zoning individually. Whereas, a place like New York, you could rezone a whole neighborhood and have zoning that's as of right. So, you don't introduce as many opportunities to vote down a project in a way that really hurts your ability to construct more housing, for example. And so, that's one kind of lever to think about.

Another is really using the federal

government's capacity to be the bad guy with state and local government on focusing resources. What do I mean by this? It is absolutely a political truth that the peanut butter strategy will prevail, meaning that if you give a grant with no accountability, you'll generally see a mayor say well, I'm going to give a little bit to every council member and we'll sort of spread it around a community. I think it's been pretty clear that that is the least effective strategy for actually starting to make substantial change and that instead, if you could have a coordinated strategy that really focuses on the places of greatest need, that is most likely to be impactful, but often, federal government with state government or state government with local government has to create accountability mechanisms to try to focus resources and development strategies more effectively.

Then as I said earlier, I think there are ways to require better process at the local level, whether it's through things like affirmatively

furthering fair housing that ensures that a locality has a strategy to make sure there's racial equity as an outcome for these kinds of grants, things like that. Lastly, just to go to your question about a place like Puerto Rico, I certainly would not advocate giving a hundred percent of resources to places that have high capacity. Right? In fact, I think your proposal is right, that most resources should be dictated on need. What I would say is, I think where there are specific kinds of efforts which we tend to think of as more place based, right, enterprise zones or choice neighborhoods or grants like that, where really, you're trying to demonstrate a leading edge innovation around this, that's where I think you need to look for high capacity.

At the same time, we should be investing more at the federal level in capacity building. Right? So, the issue isn't we're not going to give hurricane aid to Puerto Rico. What I think is important is to make sure that there's a very clear strategy in

funding for capacity building for those places. We shouldn't ignore them. On the other hand, we shouldn't ignore the problem that if we just give them money, it will likely not be successful if the capacity is not there to use it effectively.

MR. JONES: Just a quick note on the politics piece of this, look, it's just going to be there. Right? What we really need is something analogous to a loan loss reserve. Right? So, we have enough cushion in these programs to take account for the bad decisions that are going to be made, just like banks need loan loss returns for the bad decisions. Now, that's a wild idea, but that's basically - I can't remember who the poet was who said, we sort of sit around dreaming of systems that are so perfect that people don't have to be good. There is no system like that. People have to be good. So, what we are ultimately hitting on is the ability of us to get good people in the right decisions in public policy levels at both federal, state and local. We've got a lot of

work to do on that, but that's ultimately what you're talking about. There is no system, and we need the politics piece of it because the politics piece of it has also saved a lot of places from being overlooked because people had the power to advocate with their local government and governors, et cetera. So, it's a mixed bag.

MR. NUNN: While we're talking about the politics of this, there is something that struck me, and I see echoed in at least one question from the audience. It's that Tracey's proposal - it bypasses a lot of the skepticism about place space policies in some interesting ways. In particular, I would think that folks across the ideological spectrum might be able to agree that simply maintaining the level of state and local spending and the relative role of state and local governments in our public policy, that doing that during a recession is something we could agree is a valuable objective.

I guess I wonder, is this your experience? Are

proposals like yours, Tracey, received in this way, or no?

MS. GORDON: No.

MR. NUNN: Okay.

MS. GORDON: I mean, so I worked at the local level and the state level and the federal level and there are sort of these things that basically you forget where you came from. At the state level, people feel like you can't trust mayors. At the federal level, they feel like you can't trust governors. But I think there was this emergency with the Recovery Act where the idea was you just had to get money out the door. So, a little known fact about the Recovery Act - well, I often say the biggest misconception - a lot of people have misconceptions about it, that it didn't work, et cetera. I think the micro evidence shows that it worked. There is micro evidence that shows that it worked. But it was misunderstood, and one of the big ways it was misunderstood is the idea that it was mostly federal.

Half of every spending dollar flowed through, if not to state and local governments. About a quarter of every spending dollar went to state and local governments for budget stabilization, but people said this is a bailout. It's not going to do anything. States will profit. They got themselves into this mess. That sort of thing, even though their reserves were at a very high level before the recession, nothing could have prepared them for revenue losses on the order of thirty percent as happened in California in a matter of months between September and December of 2008.

So, I think that federalism is, as you say, on the positive side, it can be a bipartisan issue because surely everybody agrees that we should have a well functioning intergovernmental system where services are provided at a high level of quality and people are getting what they need and yet, also it is a bipartisan issue in the sense that when states are not doing what people want them to do at the federal

level, they say you can't trust those people.

So, the federal government basically does a lot of hard work raising revenue. It's easier for the federal government to raise revenue through the income tax because people can't necessarily leave to avoid taxation, whereas at the local level. Certainly they can at the state level to a lesser degree. They can, as well. So, the federal government has an advantage when it comes to raising revenue. They oft4en recognize that state and local governments have an advantage when it comes to spending it, but they don't really like the idea of feeding that control once they've done the hard work of raising the revenue. To me, that seems like an inescapable issue, but I wonder if you'd disagree.

MR. DONOVAN: I agree. I would also add to that that just more generally the politics of trying to be counter cyclical, of trying to spend more when things are going badly is hard. Jason feels this pain, having sat through the economic crisis. Frankly,



the politics of not just the Recovery Act but TARP and all the different things that we did were brutal. If you remember, Rick Santelli, the CNBC anchor who was on the floor of the Chicago Mercantile Exchange, who started the Tea Party Movement in some ways by saying do you want to support those losers' mortgages? Right? There was an enormous amount of anger and continues to be about spending more in times when families are struggling and it's harder to raise taxes and so I do think that this is something where Tracey's idea in other ways that we can make sure that we are building into the system a counter cyclical way to help people in places that struggle in hard times is a really, really important thing.

MR. NUNN: So, I guess I wanted to pivot now. We've been talking a lot about the interaction of state and the federal government. I wanted to talk and one of the audience members wanted to talk about the way that the kinds of subsidies that David Newmark proposes can catalyze private investment. So, the

interaction of the public sectors work with the private sections. This is specifically for you, Maurice, but also for anyone else.

MR. JONES: I think that is the big opportunity with respect to his work is, or his proposal is, how you can use these public subsidies up front to actually catalyze the private sector stepping in and making it sustainable. So, that's the point I was trying to make, is the real opportunity is to have a system that helps the private sector see an economic incentive to actually invest its dollars alongside the public sector or in sequence. So, the notion that you would spend eighteen months subsidizing, in his proposal's case, a person's actual employment that would produce skills that that private sector employer would see as marketable, and then that private sector employer, if you will, coming in and still having a fifty percent subsidy for the next eighteen months is, I think, the way you get to scale.

Again, the point that I wanted to make

though is

from the prospective of that individual, there's more work to be done. I want that individual to walk away with skills and a credential. I want that individual to also be financially literate, so they have an even stronger muscle to wrestle with the debts that they're going to probably have to get a hold of to really become net cash positive. I mean, at the end of the day, it's those things you need to do for that individual to build wealth. Right? And jobs are one part of it, but just one part. But, yes, I think the biggest opportunity here is how you use a proposal like this to ultimately make a partnership between the public sector and the private sector that the private sector really is ultimately responsible for and sees an incentive for making it sustainable and scalable. Otherwise, it's a project that ends.

MR. DONOVAN: I think he's exactly right. The word I would use is, how do you think about these investments as being catalytic, so that it's a

relatively small amount of money that can then help to create a market in the long run. I think one way to think about it is that, you know, what you're trying to do is subsidize initial investments in a way that you start to change the market. This is certainly true if you think about the way places work. This was my point earlier about spreading money like peanut butter. It's generally more effective to say I'm going to think about a place where I can really make a significant investment and start to do something large enough to change the local market and then that has spinoffs if the market starts to - values rise or other things.

I think one of the other key things we often miss is, you know, the private sector is made up of people with lots of misperceptions, biases, ways that they see communities, particularly poor communities, that aren't necessarily right. So, what I often have thought about in designing policies to try to sort of catalyze market impact is, rather than the government

doing something itself, how do you get the private sector in trying something and actually figuring out, hey, there's an opportunity here, whether it's the grocery store we were talking about earlier, what you often find or the person that they hire from a neighborhood that they might not have hired before, is that an eighteen month job isn't just to build skills for that person. It's actually to build a different perception from the boss at that company that, hey, this is a person who actually works hard, you know, and so that's at a microscale. At a larger scale, you think about FHA insurance, which is something that HUD has. We were often thinking we would go in, rather than HUD building a project itself, if we could guarantee a loan where a private developer is coming in, you're then changing that private developer's perception hopefully about that market and starting to change other people's perceptions about it in a way that can catalyze markets as well.

MR. JONES: I know our time is up, but let me

tell you for me the other piece I like about it. At the end of the day, the private sector goes where talent is. The most important economic development asset is talent. So, if you've got a large-scale way to produce marketable skills in a neighborhood, the chances that you will be able to attract an employer to invest in that neighborhood rise dramatically. It is perhaps the biggest opportunity of his proposal, is that it is one of these talent preparation proposals that if you can do it scale, actually can change the market in the neighborhood, can actually show employers that you know what, I've got workers here who can do the work. That's the most important asset I need.

MR. RYAN: Well, thank you. I think we're actually at a big of a hard stop here because another of our heads of state is trying to come into this room. I have a bunch of questions and would love to lead -

MR. JONES: Politics interrupts again.

MR. RYAN: I know. I'd love to go on for another half hour, but unfortunately, I think we need to conclude. So, thank you so much. (Applause)

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ANDERSON COURT REPORTING  
500 Montgomery Street, Suite 400  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190