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Focusing on Low- and Moderate-Income Working Americans

Remarks by

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I am delighted to be here at the National Community Reinvestment Coalition (NCRC) Annual Conference today, and to be gathered with so many people who have been working for decades to strengthen communities and the integrity of our nation's economic institutions and financial practices. Those of you involved in community development and community reinvestment know all too well the trauma and hardship experienced by low-income communities over the last several years. You know it in a way that is lost on people whose communities have not been so badly battered by these economic storms. That's why I'm looking forward this morning to sharing with you my perspective on the importance of focusing on the situation and prospects of low- and moderate-income working Americans.

In my remarks, I will start by discussing the types of jobs being generated in the current recovery. Certainly, the pace of recovery in employment has improved, but it's important to look at the types of jobs that are being created because those jobs will directly affect the fortunes and challenges of households and neighborhoods as well as the course of the recovery. I will then suggest that we think about how the absence of a substantial number of new high-paying jobs, when combined with changes in the landscape for financial services, affects access generally to affordable, sustainable credit. Finally, I will explore some of the monetary, supervisory, and regulatory touchpoints in which the situation and prospects of low- and moderate-income working Americans can be addressed.

Challenges Posed by Labor Market Conditions

The Great Recession stands out for the magnitude of job losses we experienced throughout the downturn. These factors have hit low- and moderate-income Americans the hardest. The poverty rate has risen sharply since the onset of the recession, after a decade of relative stability, and it now stands at 15 percent--significantly higher than the average over the past three decades.[1] And those who are fortunate enough to have held onto their jobs have seen their hourly compensation barely keep pace with the cost of living over the past three years.[2]

While today's 7.7 percent unemployment rate is a marked improvement from the 10 percent rate we reached in late 2009, it is still higher than the unemployment rate for the 24 years before the Great Recession, a span of time over which the rate averaged about 6 percent. Moreover, the government's current estimate of 12 million unemployed does not include nearly a million discouraged workers who say they have given up looking for work and 8 million people who say that they are working part time even though they would prefer a full-time job. A broader measure of underemployment that includes these and other potential workers stands at 14.3 percent.

About two-thirds of all job losses resulting from the recession were in moderate-wage occupations, such as manufacturing, skilled construction, and office administration jobs. However, these occupations have accounted for less than one-quarter of subsequent job gains. The declines in lower-wage occupations--such as retail sales and food service--accounted for about one-fifth of job loss, but a bit more than one-half of subsequent job gains. Indeed, recent job gains have been largely concentrated in lower-wage

[1] Mean annual poverty rate for all people. U.S. Bureau of the Census.
[2] These dynamics have disproportionately hurt the young, the less-educated, and racial and ethnic minorities. The unemployment rate for those without a high school diploma is 11.2 percent. Among workers age 16 to 19, the unemployment rate is 25.1 percent. Compared with the 7.7 percent unemployment rate for all workers, the unemployment rate among African Americans is 13.8 percent, and 9.6 percent among Latinos.

occupations such as retail sales, food preparation, manual labor, home health care, and customer service.[3]

Furthermore, wage growth has remained more muted than is typical during an economic recovery. To some extent, the rebound is being driven by the low-paying nature of the jobs that have been created. The slow rebound also reflects the severe nature of the crisis, as the slow wage growth especially affects those workers who have become recently re-employed following long spells of unemployment. In fact, while average wages have continued to increase steadily for persons who have remained employed all along, the average wage for new hires have actually declined since 2010.[4]

The faces of low-wage Americans are diverse. They include people of varying employment status, race, gender, immigration status, and other characteristics. Many such Americans are attached to the workforce and are deeply committed to both personal success and to making a contribution to society. For purposes of reference, in 2011, low wage was defined as $23,005 per year or $11.06 per hour.[5]

Today, about one-quarter of all workers are considered "low wage." They are sanitation workers, office receptionists, and nursing assistants; they are single mothers of three who worry: How will I be able to send my children to college? What if my landlord raises the rent this year? Tens of millions of Americans are the people who ask themselves these questions every day.

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[3] See National Employment Law Project (2012), "The Low-Wage Recovery and Growing Inequality," *Data Brief*, August, www.nelp.org/page/-/Job_Creation/LowWageRecovery2012.pdf?nocdn=1. These patterns were also observed during the recessions of the early 1990s and early 2000's—the so-called "jobless recoveries"—but not prior to then.

[4] On average, a person's income remains depressed for decades following job loss, and income losses over one's working life are especially severe when the job loss occurs during a recession. See Steven J. Davis and Till von Wachter (2011), "Recession and the Costs of Job Loss," Brookings Papers on Economic Activity, September 12, www.brookings.edu/~/media/research/files/blogs/2011/11/04%20jobs%20greenstone%20looney/2011_fall_bpea_conference_davis.pdf.

[5] See Rebecca Thiess (2012). "The Future of Work: Trends and Challenges for Low-Wage Workers," *EPI Briefing Paper*, April 27, www.epi.org/files/2012/bp341-future-of-work.pdf.

This diverse group of workers faces numerous barriers when trying to access the labor market or advance in their current positions. Many of these barriers were identified in an initiative that the Federal Reserve's Community Development function launched in 2011. Over the course of a year, Reserve Banks across the country hosted a series of 32 regional discussions aimed at examining the complex factors creating chronic unemployment conditions and identifying promising workforce development solutions.[6] The kinds of problems faced by low-wage workers are familiar to all of you and have long been part of the structural conditions of poverty and near-poverty in America.

We know, for example, that location presents thorny challenges for many low-wage workers. Within metropolitan areas, jobs are not spread out evenly and job creation tends to be depressed in low-income communities. As a result, many low-wage workers face long commutes and serious commuting difficulties due to less reliable transportation and an inadequate transportation infrastructure. Moreover, a number of low-wage employees work non-standard hours, exacerbating both transportation and childcare issues, as well as personal health problems.[7]

Traditionally, many workers find jobs through social networks and through personal connections that they have to the labor market. But, because low-income individuals are typically less mobile, more isolated, and less socially connected than other people, they are often left out of the social networks that, in practice, lead to jobs for most Americans.

[6] See Board of Governors of the Federal Reserve System (2012), "A Perspective from Main Street: Long-Term Unemployment and Workforce Development," December, www.federalreserve.gov/communitydev/pdfs/Workforce_errata_final2.pdf.

[7] Ibid.

Addressing These Challenges

Among those responding to these challenges are innovative local practitioners who are implementing programs designed to expand job opportunities for low-wage workers. Consider Impact Services in Philadelphia, an organization that builds relationships with the local business community to better understand their hiring needs and then devises programs that supply those firms with appropriately skilled workers from the community.[8] The National Fund for Workforce Solutions is another example. This organization works with local communities to organize funding collaboratives to support regional industries.[9]

More Recent Challenges for Low-Wage Workers

So progress is being made, thanks to coalitions like these across the country that are working for practical changes at the community level. But the 21st century labor market is increasingly complex; it continues to generate new challenges. For example, growth in sectors such as green industries and advanced manufacturing is creating jobs, but these jobs may demand different skills. Access to reliable information becomes critical for workers who are considering a new job, and must carefully weigh the skills and credentials required by potential employers with the cost of training and the likelihood of gaining employment.

And, more and more, employers are requiring post-secondary credentials. Today, a high school diploma alone is less likely to qualify an individual for a job with a

[8] For more information about Impact Services Corporation, go to www.impactservices.org/employment-and-training.
[9] One of the National Fund's collaboratives is the Southwest Alabama Workforce Development Council (SAWDC). This collaborative is working to address a local skills gap by creating a comprehensive workforce development system for the region. This system includes formal feedback from the business community to the educational system about skills that are in high demand. Educators then develop a curriculum that prepares students to access the local job market. During the National Fund's first five years of existence, it worked with more than 3,000 employers to serve more than 42,000 job seekers and workers across 32 communities. For more information about the National Fund for Workforce Solutions, go to www.nfwsolutions.org.

path toward meaningful advancement. And, as demand for more credentials increases, workers who lack those credentials will find it increasingly difficult to gain upward mobility in the job market.

Contingent Work

Many employers are looking to make the employment relationship more flexible, and so are increasingly relying on part-time work and a variety of arrangements popularly known as "contingent work." This trend toward a more flexible workforce will likely continue. For example, while temporary work accounted for 10 percent of job losses during the recession, these jobs have accounted for more than 25 percent of net employment gains since the recession ended.[10] In fact, temporary help is rapidly approaching a new record, and businesses' use of staffing services continues to increase.[11]

Contingent employment is arguably a sensible response to today's competitive marketplace. Contingent arrangements allow firms to maximize workforce flexibility in the face of seasonal and cyclical forces. The flexibility may be beneficial for workers who want or need time to address their family needs. However, workers in these jobs often receive less pay and fewer benefits than traditional full-time or "permanent"

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[10] See P. Steven Berchem (2012), "Structural Shift?" *Staffing Success*. American Staffing Association,www.americanstaffing.net/statistics/pdf/AmericanStaffingAnnualAnalysis_2012.pdf. This article cites U.S. Department of Labor, Bureau of Labor Statistics (2012), "Employment, Hours, and Earnings From the Current Employment Statistics Survey (National)," August 4.

[11] In a 2011 McKinsey Global Institute U.S. Jobs Survey of 2,000 employers of all sizes and in all sectors, 34 percent of employers indicated that they expect their companies to increase temporary and contract workers over the next five years. See James Manyika, Susan Lund, Byron Auguste, Lenny Mendonca, Tim Welsh, and Sreenivas Ramaswamy (2011), "An Economy That Works: Job Creation and America's Future," McKinsey Global Institute, June, www.mckinsey.com/insights/employment_and_growth/an_economy_that_works_for_us_job_creation.

workers, are much less likely to benefit from the protections of labor and employment laws, and often have no real pathway to upward mobility in the workplace.[12]

Many workers who hold contingent positions do so involuntarily. Department of Labor statistics tell us that 8 million Americans say they are working part-time jobs but would like full-time jobs.[13] These are the people in our communities who are "part time by necessity." As businesses increase their reliance on independent contractors and part-time, temporary, and seasonal positions, workers today bear far more of the responsibility and risk for managing their careers and financial security. Indeed, the expansion of contingent work has contributed to the increasing gap between high- and low-wage workers and to the increasing sense of insecurity among workers.[14]

Flexible and part-time arrangements can present great opportunities to some workers, but the substantial increase in part-time workers does raise a number of concerns. Part-time workers are particularly vulnerable to personal shocks due to lower levels of compensation, the absence of meaningful benefits, and even a lack of paid sick or personal days. Not surprisingly, turnover is high in these part-time jobs.

Access to Credit

The economic marginalization that comes with the growth of part-time and low-paying jobs is exacerbated by inadequate access to credit for many working Americans. Ideally, people chronically short of cash would have access to safe and sound financial institutions that could provide reliable and affordable access to credit as well as good savings plans. Unfortunately, many working Americans have no practical access to

[12] See U.S. Department of Labor and U.S. Department of Commerce (1994), "Section Five: Contingent Workers," in the final report of the Dunlop Commission on the Future of Worker-Management Relations, www.dol.gov/_sec/media/reports/dunlop/section5.htm.
[13] See U.S. Department of Labor, Bureau of Labor Statistics
[14] See U.S. Department of Labor and U.S. Department of Commerce (1994).

reasonably priced financial products with safe features, much less the kind of safe and fair credit that is available to wealthier consumers.

Working Americans have several core financial needs. They need a safe, accessible, and affordable method to deposit or cash checks, receive deposits, pay bills, and accrue savings. They may also need access to credit to tide them over until their next cash infusion arrives. They may be coming up short on paying their rent, their mortgage, an emergency medical expense, or an unexpected car repair. They may want access to a savings vehicle that, down the road, will help them pay for these items and for education or further training, or start a business. And many want some form of non-cash payment method to conduct transactions that are difficult or impossible to conduct using cash.

Products and services that serve these core financial needs are not consistently available at competitive rates to working Americans. Those with low and moderate incomes may have insufficient income or assets to meet the relatively high requirements needed to establish a credit history. Others may have problems in their credit history that inhibit their ability to borrow on competitive terms.

Many workers simply may not have banks in their communities, or may not have access to banks that actually compete with each other in terms of pricing or customer service. There is a growing trend toward greater concentration of financial assets at fewer banks. In my mind, this raises doubts about whether banking services will continue to be provided at competitive rates to all income levels of customers wherever they may live.

According to a study of bank branch locations published by NCRC in 2007, there are more persons per branch in low- and moderate-income census tracts than in moderate- and upper-income census tracts. While branch-building has been on the rise, indications are that the increase in the number of bank offices has not occurred evenly across neighborhoods of varying income.[15]

In fact, a significant number of low- and moderate-income families have become--or are at risk of becoming--financially marginalized. The percentage of families earning $15,000 per year or less who reported that they have no bank account increased between 2007 and 2009 such that more than one in four families was unbanked. Families slightly further up the income distribution, earning between $25,000 and $30,000 per year, are also financially marginalized: 13 percent report being unbanked and almost 24 percent report being underbanked.[16]

This combination of economic insecurity and financial marginalization has incentivized more low- and moderate-income families to seek out alternative financial service providers to meet their financial needs. Some of the providers they find, such as check-cashers and outfits furnishing advance loans on paychecks, can lead unwary workers into very deep financial holes.

In light of these challenges, I ask questions that have been asked before: What can economic policy do to reduce unemployment, economic marginalization, and the financial vulnerability of millions of lower-income working Americans? There is no simple cure to these conditions, but government policymakers need to focus seriously on

[15] See National Community Reinvestment Coalition (2007), "Are Banks on the Map? An Analysis of Bank Branch Location in Working Class and Minority Neighborhoods," March, www.ncrc.org/images/stories/mediaCenter_reports/ncrc bank branch study.pdf.
[16] See Federal Deposit Insurance Corporation (2012), "2011 FDIC National Survey of Unbanked and Underbanked Households," September, www.fdic.gov/householdsurvey; and Brian K. Bucks, Arthur B. Kennickell, Traci L. Mach, and Kevin B. Moore (2009), "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, v. 95 (February), pp. A1–A55, www.federalreserve.gov/pubs/bulletin/2009/pdf/scf09.pdf.

the problems, not simply because of notions of fairness and justice, but because the economy's ability to produce a stable quality of living for millions of people is at stake. Our country cannot achieve prosperity without addressing the powerful undertow created by flat wages and tenuous financial security for so many millions of Americans.

The Role of Monetary Policy

So how can the Federal Reserve address these challenges? Let me start with monetary policy. Congress has directed the Federal Reserve to use monetary policy to promote maximum employment and price stability. The Federal Reserve's primary monetary policy tool is its ability to influence the level of interest rates. Federal Reserve policymakers pushed short-term interest rates down nearly to zero as the financial crisis spread and the recession worsened in 2007 and 2008. By late 2008, it was clear that still more policy stimulus was necessary to turn the recession around. The Federal Reserve could not push short-term interest rates down further, but it could--and did--use the unconventional policy tools to bring longer-term interest rates such as mortgage rates down further.

Fed policymakers intend to keep interest rates low for a considerable time to promote a stronger economic recovery, a substantial improvement in labor market conditions, and greater progress toward maximum employment in a context of price stability. Both anecdotal evidence and a wide range of economic indicators show that these attempts are working to strengthen the recovery and that the labor market is improving.

Nonetheless, and again, the millions of people who would prefer to work full time can find only part-time work. While the Federal Reserve's monetary policy tools can be effective in promoting stronger economic recovery and job gains, they have little effect on the types of jobs that are created, particularly over the longer term. So, while monetary policy can help, it does not address all of the challenges that low- and moderate-income workers are confronting. That said, the existing mandate regarding maximum employment requires policymakers on the Federal Open Market Committee (FOMC) to understand labor market dynamics, which obviously must include an understanding of low- and moderate-income workers.

Regulatory and Supervisory Touchpoints

In addition to monetary policy, the Federal Reserve's regulatory and supervisory policies have the potential to address some of the challenges faced by low-income communities and consumers. The Federal Reserve is required by law--by virtue of the Bank Holding Company Act--to approve various applications, such as mergers, acquisitions, and proposals to conduct new activities. This statutory review requires an explicit consideration of public benefits and the effects of the proposed transaction on the convenience and needs of the communities to be served. This assessment is, as many of you know, a critical opportunity for community input and analysis.

Indeed, as people with their feet firmly planted on the ground in communities across America, you probably remember James Q. Wilson's theory of "broken windows" in community policing: Move in quickly when vandalism and disorder first start to appear--even if it is only a broken window or graffiti on a stop sign--or else face losing the whole neighborhood as disrespect for the law rapidly spreads.[17]

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[17] See George L. Kelling and James Q. Wilson (1982), "Broken Windows: The police and neighborhood safety", *The Atlantic*, March 1, www.theatlantic.com/magazine/archive/1982/03/broken-windows/304465.

The “broken windows” strategy is every bit as compelling when it comes to addressing the disorder that comes from sloppy practices by financial institutions. If banking practices are undermining the ability of the economically marginalized to become financially included and to access the credit they need in an affordable way, regulators must move in quickly to stop the disorder and repair the broken windows of financial intermediation.

Bank supervisors should be prepared to respond to the earliest signs of trouble by requiring operationally challenged banks to address problems quickly and completely. If corrections are made, then the regulators can move on. If not, then the regulators need to escalate enforcement.

Swift and decisive corrective action is not always how federal bank regulators have responded to broken windows in the past. In my view, for example, regulators’ response to the rampant, long-running problems in loan-servicing practices at large financial institutions was not swift and was not decisive. The point is that federal regulators must listen carefully to community input and analysis in order to keep track of where windows are breaking and how they are being broken. And they must carefully study and take responsibility for analyzing comments provided by organizations such as the NCRC when considering the public benefit of an application. Both the exam process and the application process must be strengthened as key venues for federal regulators to incorporate the voices of affected communities; I'd like to see us revise and strengthen these processes to include the analysis in these voices.

The Role of Business

Now let's shift back to the private sector. In particular, to the question of whether businesses can be competitive in the current marketplace and still provide a pathway out of poverty for their employees. The Hitachi Foundation recently set out to answer this question by identifying firms that provided upward job mobility for their employees. They found that the identified employers showed noteworthy consistency in how they train and educate workers, develop career ladders, and craft supportive human resources policies and other motivators. They also found some evidence to indicate that the companies benefited from strategic and financial returns while their lower-wage workers also benefited from increased earnings and career advancement.[18,19]

"Anchor institutions," such as hospitals and universities, which are firmly rooted in their locales, can also be powerful engines for job creation in their communities. Anchors may include cultural institutions, health care facilities, community foundations, faith-based institutions, public utilities, and municipal governments. These institutions have the potential to generate local jobs through targeted procurement purchases of food,

[18] For more information about The Hitachi Foundation, go to www.hitachifoundation.org/index.php.

[19] While the common perception may be that businesses do not invest in employee training, a survey by the American Society for Training and Development indicated that employers committed $172 billion in 2011 to employee training. See American Society for Training and Development (2011), "2011 State of the Industry Report Shows Increased Spending, Commitment for L&D," December 20, www.astd.org/Publications/Blogs/ASTD-Blog/2011/12/2011-State-of-the-Industry-report-Shows-Increased-Spending-Commitment-for-LD. This investment, however, traditionally funds the highest-educated and highest-paid employees. The Hitachi Foundation has suggested that considering a reallocation of even a small portion of these funds toward frontline workers would offer benefits to both employers and employees. As an example of these employer practices, right here in our backyard, the Community Foundation for the National Capital Region piloted the "Career Navigators" program with three hospitals in Maryland's Montgomery County and one in the District of Columbia to help employees navigate a pathway to better jobs with their current employer. These hospitals concluded that investing in training and education for top-performing, entry-level staffers in positions such as housekeeping, food service, and patient transport could provide a pipeline for the skilled employees that the hospitals would rely upon in the future. Employees receive support with literacy and college-readiness training, career coaching, and scholarships. The program also helps hospitals document internal career pathways and train the human resource staff to serve as career coaches. Throughout these efforts, the participating hospitals have reported enhanced employee engagement, reduced errors, and improved performance.

energy, supplies, and services from local businesses. This can be a substantial, positive development in the local economy. [20]

The Evergreen Cooperative in Cleveland, Ohio, is an example of a network of worker-owned businesses, launched in low-income neighborhoods, to support local anchor institutions. The cooperatives were initially established to provide services to local hospitals and universities that had agreed to make their purchases locally. This model is effective because it capitalizes on local production, and because it forges a local business development strategy that effectively meets many of the anchor institutions' own needs.[21]

Role for Community-Based Organizations

Clearly, the challenges facing low-wage workers are multi-faceted and complex. In addition to the challenges that workforce development and community organizations have addressed for years, structural changes in the economy heighten obstacles, make the stakes higher if we fail to conquer them, and, therefore, require new levels of openness and creativity by policymakers. You are the ideal audience for this message because you know how to link federal policymaking with economic empowerment.

NCRC has grown to an association of more than 600 community-based organizations that promote access to basic banking services to create and sustain affordable housing, jobs, and vibrant communities for America's working families. Community-based organizations like many of those represented in this room will need to

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[20] See Ted Howard (2012), "Owning Your Own Job Is Beautiful Thing: Community Wealth Building in Cleveland, Ohio," in Nancy O. Andrews and David J. Erickson, eds., *Investing in What Works for America's Communities* (San Francisco: Federal Reserve Bank of San Francisco and Low Income Investment Fund), www.frbsf.org/publications/community/investing-in-what-works/howard.pdf. See also Gar Alperovitz (forthcoming April 2013, Chelsea Green), What Then Must We Do?

[21] The success of the "Cleveland model" has spurred new efforts in places as diverse as Amarillo, Texas; Atlanta; Pittsburgh; Richmond, California; and Washington, D.C. See Ted Howard (2012).

consider how to work with low-wage workers to bridge information gaps by expanding workers' networks, providing legitimate information, and identifying new job opportunities.

But finally, the pressure that community-based organizations exert on financial regulators must continue. Access to credit is an enduring challenge, and the obstacles and problems--all the "broken windows" you see on the block--must be reported and explained. They must be understood by the federal policymakers who are responsible for enforcing our country's laws and regulations in the realm of access to credit; by the federal policymakers who engage in the conduct of monetary policy; and by the federal policymakers whose actions contribute to the shaping of the landscape for financial services in this country. Your voices--whether you are reporting, documenting, monitoring, analyzing, proposing, or even protesting--must be heard. Your voices are crucial to alerting policymakers to the significant developments and emerging trends in the nation's communities that must be confronted--and confronted in a swift and decisive way--if we are to make prosperity a national agenda that touches every American.

Thank you.