

**Medal Of Hope Award Dinner
The Organization for a New Equality**

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Thank you, Reverend Washington and thank you to the Organization for a New Equality for this honor. I also want to congratulate O-N-E [Note: pronounced "O"- "N"- "E" not "one"] on your record of advocacy, and your programs to expand economic opportunity.

First, let me say that I am accepting this award not on my own behalf, but on the behalf of all the staff at the Federal Reserve Bank of Boston who believe so strongly in the goals advocated by O-N-E. I was truly fortunate when I came to the Bank to inherit a proud tradition of community activism. Some of the people responsible for that tradition are here tonight: Senior Vice President Lynn Browne, Vice Presidents Bill Spring and Richard Walker, AVP Marilyn Weekes, Paul Williams, Arneese Brown, Anitt Wilkinson, Lillian Seay and Joel Werkema, who gave me a hand with these comments. I'd like them all to rise – they are the real honorees tonight.

As you know, we at the Federal Reserve Bank of Boston are charged with many different responsibilities from supervising financial institutions to contributing to the formation of monetary

policy to providing financial services, and leading many developments in the nation's payments system. But tonight I want to reflect on other issues of great importance to me personally, to the Federal Reserve Bank of Boston, and to O-N-E: issues related to fair access to credit and community development.

As I consider these issues, I want to focus on three lessons we at the Bank have learned in our years of work in these areas. Put simply they are: information counts; use the carrot and the stick, and self help is the best medicine. I'll talk about each lesson and discuss one critical challenge facing all of us – the growth in income inequality and how we can work together to address that challenge.

When I think about the Federal Reserve Bank of Boston's involvement in issues of access to credit and community development, the first lesson is the importance of information. Basic economics teaches us that market forces will operate so as to make credit available at the right price to bankable customers. So why worry about access to credit? The truth is that markets

often do not have the “perfect information” presupposed in theory. There are information gaps and these can lead to problems in credit access. For example, the highly charged issues of redlining and mortgage discrimination in the late 1980s and early 1990s required more information. The Bank undertook research on CRA, and then on the role of race in the discrepancy in home mortgage approvals in Boston neighborhoods.

We were able to close the information gap, to help the parties move beyond the heated charges and counter-charges of that era. Our research showed that something was wrong – somehow, race was playing a role above and beyond economic factors in the mortgage loan approval process in Boston. Some credit-worthy minority borrowers were not receiving mortgage loans and, for lenders, potentially profitable loans were not being approved. But with the Boston Fed’s research on the table, the parties could stop debating positions and begin working together to develop solutions.

Massachusetts’s bankers accepted the thrust of the research findings and, as a group, committed themselves to

reform. With the Boston Fed serving as mediator, the Massachusetts Bankers Association and a coalition of community organizations established partnerships to deal with issues like the availability of basic banking services, creation of affordable housing, and opportunities for minority-owned businesses. I should, of course, mention the role that Ambassador Charles Stith played in helping to get community members around the table for the early discussions that led to these partnership efforts.

One such effort, the Massachusetts Community and Banking Council, has for 10 years served as a forum in which bankers and community organizations learned to trust each other enough to begin working together to solve problems -- to their mutual benefit. We are proud to note that MCBC recently held its tenth anniversary celebration at the Boston Fed.

Recounting these events leads me to a second lesson -- the importance of the "carrot," not just the "stick." Congress passed the Community Reinvestment Act in 1977, and in doing so required the federal regulators of banking institutions (including the Federal Reserve) to assess an institution's record of helping to

meet the credit needs of the communities in which it is chartered.

We examine banks for their adherence to CRA and take this record into account when evaluating an application for a merger or other transaction. That, you might say, is "the stick." And we take that role very, very seriously.

But we have found over the years that "the carrot" is a very powerful tool as well – perhaps even more so. The Federal Reserve Bank plays an important "carrot" role by providing training on credit issues to bankers and consumers; by bringing key parties together; and by encouraging collaboration between financial institutions, their communities, the public sector, and other organizations. Through collaboration, bankers learn more about market opportunities in the inner city. Community organizations and their constituents learn more about banking and the credit approval process. Issues can be addressed. Progress can be made.

And that progress can be profitable. The recent Gramm Leach Bliley legislation which led to the final demise of the barriers between banking, securities operations and insurance

erected in the thirties contained changes to CRA as well. One aspect of the law required the Board of Governors to report to Congress on CRA. That effort showed that the nation's bankers find most CRA-related lending to be profitable. It may not be the most profitable activity banks undertake, but it is not unprofitable, and it is relatively low risk.

This leads me to a third lesson -- the realization that the parties that are directly involved almost always do the best job of finding solutions to the challenges affecting them. Put another way, we have found that it is almost always better to "help people help themselves," rather than attempt to impose solutions from afar.

An example involves the Bank's recent efforts to encourage economic development in low-income areas. In September, 600 opinion leaders and practitioners came together at a conference we sponsored, to share "best practices" on the role of faith-based organizations in economic revitalization and wealth-creation in low-income areas. We are very pleased to have played a role in the dissemination of the presenters' state-of-the-art perspectives

on this topic. The conference participants took this information back to 35 states and several foreign countries.

These three lessons focused as they are on bringing every part of the community together, to eliminating information gaps and helping people to help themselves form the foundation for what we at the Bank have learned over the years. But will these lessons be sufficient to address the challenges of the future? In particular, will they be enough to ensure that everyone benefits from the nation's growth? While things may be slowing a bit at present, we continue to be in the midst of very good economic times. The U.S. economy has been growing steadily since 1991 – by now the longest expansion in recorded U.S. economic history. Unemployment rates are around their 30-year low. And because we have been vigilant in our attention to inflationary pressures, real personal incomes for workers have increased.

As many of you know, however, income inequality has been a growing problem in the U.S., beginning in the 1970s. In other words, the difference in earnings between those at the upper and lower ends of the income distribution has increased markedly.

The Federal Reserve Bank of Boston's 1998 annual report delved into the current research on this troubling phenomenon. I should note that we have begun to see those at the bottom of the income distribution beginning to make gains, after years of stagnation, and this is good news.

Nonetheless, the phenomenon of U.S. income inequality is troubling. Ever wider gaps between rich and poor will make putting those lessons we've learned to work harder and harder. Addressing income inequality is at the heart of issues we're now facing at the Bank and in our communities; issues related to economic literacy, the quality of public education, and incumbent worker training.

Like O-N-E, the Boston Fed believes that the successful participation of all citizens in the economic mainstream is of vital importance to our society. Of course, that participation is contingent in part on understanding the economic and financial fundamentals. At the Boston Fed, we have placed increased emphasis on economic literacy in our outreach programs and many of these programs have been successful. We've also

helped support consumer education programs like the MCBC's "Don't Borrow Trouble" campaign which is an important tool in addressing the problem of predatory lending.

But economic literacy, even if we could achieve it on a broad basis, is not enough. To succeed in an increasingly global and high tech New England job market, workers need both a solid secondary education and post secondary training as well. And this is not just a matter of workers succeeding – everywhere I go in New England employers tell me their businesses could grow faster – and they could create even more jobs – if only they could find more qualified workers.

Education is critical to reducing income inequality, and education is vital to creating the workforce needed to continue this country's strong rate of economic growth. Thus, it is in the interests of both the private and the public sector to address the question of improving public education. This private/public sector effort is not just "nice to have", it is a "need to have."

Massachusetts has begun to address this in many ways. Standards-based education reform is playing a key role. Say what

you will about the MCAS tests, there is no doubt that the standards embodied in these tests are the only fair way to address the deficiencies in many of our public schools.

Undoubtedly, some adjustments will have to be made to be fair to all high school students as 2003 approaches, but I for one believe that adhering to standards will gradually provide the needed impetus to improve the quality of secondary education in all schools.

What about education on the job and after school?

Increasingly, studies show that lifelong education and training is necessary to success in our rapidly changing world. The Workforce Investment Act makes important changes in how the federal government funds workforce education, but the truth is that overall federal funding is diminishing. Increasingly, we need to look to the same private/public partnerships that are the cornerstone of education reform to create a system of workforce development. A dispersed set of programs must be pulled together statewide and successful efforts brought to scale. Here in Boston, school-to-career is successfully linking the schoolroom

and the workplace; and the one-stop career centers offer training opportunities. But we need to understand what works best and find ways these successful programs can serve more workers.

In sum, we at the Boston Fed have learned a lot in our years of involvement in issues related to community development. We've learned the necessity of closing information gaps, of using the "carrot" of collaboration, and of helping people to help themselves. But challenges remain – and no challenge is greater than that of addressing the root causes of income inequality. That is the challenge that faces us all as we work together to make a better future.

Thank you once again for this incredible honor.