

COUNCIL FOR URBAN ECONOMIC DEVELOPMENT (CUED)

Chicago, Illinois
July 12, 1999

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- A. Good morning. It's a pleasure to be here today.
- B. This is a great time of year to be in Chicago: by Midwestern standards, the weather's not bad, Sammy is in swinging form, and of course there are those very popular cows everywhere you look.
 - 1. For those of you who haven't seen Chicago's current painted cow exhibit, I understand that there's one right outside the Westin with rather good Chicago cityscapes on the sides.
 - 2. I like the cows, but I must admit that they sometimes make me uncomfortable; the way they just seem to appear out of nowhere when you least expect it reminds me too much of inflation.
 - 3. But the cows are a fun example of the public-private partnerships for community revitalization we've come to this conference to discuss.
- C. I'd like to start off today by telling you a little bit about the Federal Reserve, including a few comments about Y2K.
 - The bulk of my speech will address the importance of public-private partnerships to economic development, in urban areas in particular, and highlight some partnership efforts that the Chicago Federal Reserve Bank is supporting in the Chicago-area.
- D. As most of you probably know, the Federal Reserve's mission is to foster a safe and sound financial system and a healthy, growing economy.
 - 1. To ensure that the central bank is in touch with all corners of the economy, the Fed was created with a system of 12 regional banks.

2. The Chicago Fed serves a five-state area consisting of most of Illinois, Indiana, Michigan, Wisconsin, and all of Iowa.
3. In addition to our head office, we have offices in Detroit, Des Moines, Indianapolis, Milwaukee, and Peoria.

II. Y2K

- A. Obviously, given our role as the nation's central bank, we are focussing considerable attention on Y2K.
 1. First of all, I'd like to reassure you that there is no truth to the rumor that the Fed is stockpiling slide rules, sundials, and adding machines.
 2. In fact, we're confident that the century date change will come and go with a minimum of disruption.
 3. As a nation, we have worked together to meet important challenges in the past. We believe that the public will keep the year 2000 rollover in perspective, realizing it is one more challenge we will meet.
- B. At the Fed we are addressing Y2K at all levels. We have three main areas of responsibility.
 1. First, we're a service provider: we provide financial services such as check processing and electronic payments to depository institutions and the U.S. government.
 2. Second, we are a bank regulator: we supervise and regulate state member banks and bank holding companies.
 3. Finally, but certainly not of least importance, we formulate national monetary policy. We are committed to doing all we can to safeguard the operations of the U.S. financial system; and that's the reason Y2K is so important to the Federal Reserve System.
- C. We've already made significant progress in preparing for the rollover; all of our most important systems are prepared for Y2K and are already in production.
 1. As a financial service provider, we're confident there will be no disruption in our ability to meet the needs of our customers — be they banks or the U.S. government.
 2. As a regulator, we're working closely with other regulators to review the preparedness of the financial institutions we supervise.
 3. Ultimately, it's up to the banks themselves to ensure that they are ready, yet the results of our Y2K exams so far indicate that the vast majority of institutions are making satisfactory progress.

- D. There is an old saying that a person surprised is already half-beaten.
1. We have certainly taken this to heart, and we have no intention of being surprised by anything Y2K has to offer. But sound preparation is only part of the battle. We must also encourage the public not to over-react.
 2. There has been concern that popular misconceptions about Y2K could lead some people to withdraw unusually large sums of money from their bank accounts.
 3. For this reason the Federal Reserve is making available to depository institutions more than enough cash to cover any unusually large demands by the public.
 4. However, I'd like to remind everyone that there is no safer place for your money than where it is, Y2K or not.
 5. Although you may want to have enough cash on hand for the long holiday weekend, remember that credit and debit cards, as well as checks, are expected to work over the New Year's holiday as they would at any other time of the year.
 6. In short, we are confident that the Federal Reserve and the financial system will be fully prepared for the century rollover.

III. Economy

- A. I'd now like to turn your attention to this vibrant economy and its significance for economic development.
1. Over the past few years of the current economic expansion we've seen a rare combination of robust growth, low inflation and low unemployment. This was certainly true last year and in the first quarter of 1999.
 2. Real GDP grew more than 4 percent last year and we continued that rapid growth during the first quarter.
 3. Although it still looks as though real GDP growth will moderate over the course of the year, our expectations for growth in 1999 as a whole are higher than they were earlier this year.
- B. It was only last Fall that many were concerned that the prospects for sustained growth were threatened by a significant seizing-up of U.S. financial markets.
- The FOMC responded to these developments by decreasing its target for the federal funds rate from 5½ percent to 4¾ percent.
- C. Since then, we've seen a significant easing of financial strains in the U.S., and the outlook for foreign economies has improved.
1. With the U.S. economy growing at a healthy pace, the FOMC decided that at least part of last Fall's easings was no longer necessary.

2. Therefore, the committee voted on June 30th to increase its federal funds rate target by a quarter of a percentage point to 5 percent.
- D. In announcing this action, the Committee noted that it would remain vigilant for any actual or potential signs of inflationary pressures in order to ensure that economic growth continues.
1. The strength of the U.S. economy over recent years is evident by looking at the Midwest. Most of our manufacturing industries, which in earlier days earned us the “Rustbelt” moniker, are running near capacity.
 2. The automobile industry, which is heavily concentrated in this region, reported sales results for the past three months that were the strongest since 1986.
 3. Sales of both new and existing homes in the Midwest have exceeded practically everyone’s expectations, which in turn has kept items such as appliances, electronics, and lawn furniture, selling rapidly.
 4. At the same time, unemployment rates in the region are below the nation’s average and have been for 7 years running.
- E. Why the economy is doing so well and how long our good performance will last are difficult questions to answer. And perhaps ones left for another day considering that, as I understand it, many of you were at a Scotch Whiskey tasting last night. But regardless of whether this boom continues well into the next century, there is no doubt that a window of opportunity has opened for us as a nation.
1. The expansion has created opportunities for both the public and the private sectors to make financial investments in the long-term future of our society.
 2. On another level, the expansion has allowed more of the population to actively participate in the economy.
 3. But our good fortune also presents us with an opportunity to remove barriers to full participation, be they economic, social, or historical.
 4. Without equal opportunity a free market is like a flag at half-mast: a sad reflection of its own potential glory.
- F. Monetary policy has played an important role in our current economic success, but the Fed can only set the stage for strong growth.
- The Fed cannot directly help Americans into jobs. The Fed can’t train the workforce, and it doesn’t build factories. In fact, Fed economists did try to build a widget factory once, but the employees didn’t like it because they only had jobs in theory.
- G. Because growth can only be created by investment in human skills, physical capital, and new technologies, and because the Fed can’t make that investment directly, it falls on the Fed to facilitate that investment ... by creating an economic environment of low and stable inflation.

1. As the 1970s showed, high inflation, especially when it's volatile, disrupts economic efficiency.
 2. Inflation distorts prices, jamming the signals which consumers and investors depend on to make appropriate economic decisions.
- H. The challenge is to avoid holding back the economy, but not to push aggregate demand beyond its limits either.
1. The Fed's ultimate goal is maximum sustainable growth and a higher standard of living, over the long term. The key word here is "sustainable." Short bursts of growth that quickly burn themselves out don't accomplish our long-term objective.
 2. Sustainable growth, on the other hand, encourages firms to make longer term investments, creating more opportunities for employment. Sustainable growth brings new players into the labor market, including those who never had a shot at getting a job or job skills before. And the skills they gain will help them keep or find a job when the labor markets are not so tight.
- I. This is one message that, as community development specialists, I hope you will take back with you to the communities you serve: sustainable growth is the best way to ensure that the benefits of our national affluence reach every corner of American society.
- J. The lower inflation we've achieved has provided the foundation for the strong real growth and low unemployment that are a hallmark of the current expansion. There is no denying it: nationally and here in the Midwest, these are the best of times.
- K. And yet juxtaposed against the extraordinary nature of this expansion, there are still some people who are not yet full participants in the burgeoning economy.
1. There is no doubt that the best way that monetary policy can help most Americans is to create a low inflation environment conducive to growth.
 2. A rising tide truly raises all boats. But that assumes, of course, that some boats aren't tied down, or kept out of the harbor altogether.
 3. Certainly, with labor markets as tight as they are, there is no doubt that the economy would benefit from greater participation in the work force. But there is also no doubt that removing such barriers to participate is one of the greatest challenges facing us as a nation.
 4. Not everyone is enjoying the benefits of our long economic expansion, and it is imperative that we develop initiatives that will bring more Americans into the increasingly prosperous mainstream.
 5. Since the early 1970s the pace of real income growth has slowed and income inequality has increased. In fact, those in the bottom of the income distribution saw virtually no growth in their income after inflation for over two decades, while the top 20 percent have experienced strong increases.

6. And the problem is not easily solved. Although this expansion is the second longest in U.S. history, not until a few years ago did we see the widening income gap begin to narrow.
- L. The reasons for this trend are a subject of debate among economists. But it's clear that urban economic development efforts can help. As always the solutions lie in lessons learned from past mistakes.
1. My experience working at HUD has led me to believe that government initiatives need to include private sector involvement in order to be effective.
- M. Chicago abounds with examples of successful public-private partnerships. One such partnership that I have had the pleasure of observing for over 20 years, since my early days at HUD, is Neighborhood Housing Services.
1. NHS rejuvenates struggling neighborhoods by helping families buy, rent, or rehab strategically located homes, and by providing access to financial counseling and loans in order to help them keep those homes.
 2. Since its founding, NHS has helped 100,000 Chicagoans directly, and surely hundreds of thousands more who live in neighborhoods that are now thriving thanks to NHS.
- N. In the end it's the private sector that creates wealth.
1. The private sector offers the potential for innovation and flexibility.
 2. But sometimes private sector efforts can benefit from government initiatives acting as conduits to investment and development.
 3. And it is up to the public sector to provide ample opportunities for all Americans to participate in the private sector equally and on fair footing.
 4. And that is what private-public initiatives are all about: innovation, inclusion, flexibility and fairness.
- O. The Chicago Fed has been involved with public-private endeavors for many years.
1. More recently, we've championed a handful of new partnership initiatives that allow us to share our expertise with many Midwestern governmental and private sector growth and development organizations, as well as academic and financial institutions.
 2. For the remainder of my time I would like to discuss three specific examples in more detail.
- P. One such project was the Midwest Assessment project, which was initiated by the Chicago Fed. It's a particularly exciting example of analysts and policymakers from throughout the region working together.
1. By bringing together professionals from a broad range of disciplines, industries, and programs, the Midwest Assessment was an opportunity to look more deeply at the shape and future of the Midwest economy than would have been possible otherwise.

2. The project involved looking at our transformation from being called the rust belt just a few decades ago to our current position as we enter the new millennium as one of the most dynamic regions in the U.S.
3. The project unfolded in six workshops aimed at understanding how much of the Midwest's turnaround was due to the region's efforts to become more efficient, and how much resulted from good fortune.
4. The first such workshop was on urban areas, followed by ones on the role of technology and manufacturing, rural areas, workforce education and training, state tax and spending policies, and the global economy.
5. What were the lessons learned through the Midwest Assessment initiative? Yes, we did benefit from good fortune — the national economic expansion and economic circumstances abroad did work in our favor. But the bottom line is that the Midwest's success over the past decade was due to hard work, initiative, and, above all, perseverance.
6. Our manufacturing firms got a wake-up call from foreign competitors during the 1980s and after undergoing painful restructurings, Midwest firms increased productivity and are now able to compete on a worldwide basis.
7. Understanding what we did right and why it worked is essential to our ability to continue to stay ahead of the shifting fortunes of the global economy.

Q. Another recent public-private partnership, Metropolis 2020, is about applying knowledge and resources from all corners of the Chicago area to planning the future of metropolitan Chicago.

1. Almost 80 percent of the nation's population and 77 percent of Midwest's population now lives in metropolitan areas, compared to less than half the population at the beginning of this century.
2. But while the economic strength of these areas has surged ahead over the 20th century, the public policy undergirding these metro area economies has in many cases become more fragmented and less supportive of economic growth than it could be.
 - For example, there are over 270 municipal governments in the Chicago area, each making land use and development decisions that are uncoordinated yet affect the entire area.
3. There are, of course, many advantages to decentralized systems. But there are also many unfulfilled opportunities to enhance overall wealth creation through cooperative partnerships.
 - In particular, more effective transportation systems and land use patterns could be created through a coordinated effort that includes all Chicago communities as well as both public and private parties.
4. Metropolis 2020 is perhaps the most high profile of such recent long-term planning initiatives.
 - Sponsored by the Commercial Club of Chicago, the Metropolis 2020 Plan suggests how we can address the infrastructure needs the region will face in the year 2020.

- The plan was developed with a partnership of business, government, and academic involvement, including the Chicago Fed.
 - The study is broad in scope and detailed in approach, looking at roads, rails, airports, and parks.
 - It also addresses the policy frameworks that shape the metropolitan area including education policies, economic development, taxation, and land use.
5. Metropolis 2020 is a partnership that was initiated by Chicago's very active and locally committed corporate and civic community.
- The Commercial Club has a long history of having sponsored similar efforts including the 1909 Burnham Plan, which resulted in the dedication of most of Chicago's 26 miles of lakefront to public parks and recreation.
 - But Metropolis 2020 is also a partnership that involves all the major actors in the Chicago metropolitan area. Perhaps most exciting, it has already successfully made the transition from idea to implementation.
 - A funded organization is up and running and staffed by directors drawn from business, nonprofits, academia, employee organizations, and the government sector, including the offices of Mayor Richard Daley and Illinois Governor George Ryan.
 - Importantly, given the newer fragmented nature of metropolitan government, the project also includes the participation of the suburban councils of mayors and county officials.
- R. But partnerships don't have to be on a large scale to make a significant difference.
1. Another project of which the Chicago Fed is very proud is the Mortgage Credit Access Partnership, which we launched in 1996 with six other partners from both the public and the private sectors.
 2. The goal of MCAP is to ensure fair and consistent treatment for all homebuyers in the Chicago area, regardless of where they choose to live, their race, ethnicity, or gender.
 3. By working with over 100 participating organizations, MCAP has made meaningful steps toward ensuring that financially and otherwise qualified individuals not be denied home ownership. Moreover, MCAP has created a network of industry professionals involved in the home purchase process.
 4. Among its accomplishments, MCAP has introduced an explicit non-discrimination provision to Illinois Appraiser License law and another amendment that requires fair housing training for all licensees.
 5. MCAP also tackled some very difficult issues not directly related to the home purchase process.
 - One is the destabilizing effect of high rates of foreclosure and abandonment in Chicago area neighborhoods.
 - As you might guess, lower income minority communities are the ones most impacted by this problem. Rather than simply pointing fingers and suggesting what others might do, two non-profit MCAP participants created the Foreclosure Intervention Program.

- With financial assistance from the City of Chicago, HUD, and seven financial institutions, the program has kept well over 100 households out of foreclosure.
 - It is our belief that MCAP has made and continues to make a difference in the Chicago area. And we believe this difference will have lasting effects.
- S. As with monetary policy, the key to urban development is taking a long-term perspective.
1. In a recent newspaper review, the “Cows on Parade” public art project was credited with “engaging communities.”
 2. That is exactly the sort of quality that all public-private partnerships must share if we want economic development to work in America.
- T. The Chicago Fed will continue to do its part, not only as it relates to ensuring a sound economy, but also by acting as a catalyst for development initiatives on the micro level.
- We will continue to sponsor workshops, foster partnerships for improved community development, and provide the private sector with the sort of information it needs to help close lending gaps faced by community development projects.
- U. The Chicago Fed is committed to extending a hand to all potential partners in economic development.
1. We are always looking for creative ways to meet the economic challenges faced by residents of the Midwest.
 2. I encourage those of you who are not involved to become involved in your own home states ... and those of you who are already contributing to look for new ways to make partnerships part of sustainable solutions.