

ECONOMIC AND COMMUNITY DEVELOPMENT CONFERENCE

Brookfield, Wisconsin
September 17, 1999

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Rebuilding our Communities through Economic Development

I. Introduction

- A. Before I begin I'd like to say how delighted I am to be here in Milwaukee and to discuss community development.
 1. I know I'm not alone in considering Wisconsin a model of what partnerships can accomplish for the betterment of both urban and rural communities.
 2. Even CRA has its roots in Wisconsin: it's hard to believe that it's been over 20 years now since Wisconsin Senator Proxmire sponsored the Community Reinvestment Act.
- B. Many of our guests today represent agencies that reflect the exceptional nature of Wisconsin's partnership programs.
 - For example, Viroqua [vir-OH-kwa] Chamber Mainstreet, has been featured in the Wall Street Journal and Smithsonian Magazine for their successful efforts to keep their town's main street bustling.
- C. Some of you may also have an acquaintance with Social Compact, which is represented here today. Social Compact has led the way in researching spending patterns of low-income urban communities.
 1. Before Social Compact came on the scene, there was a great deal of misinformation about the economic potential of such areas. Traditional data collection techniques failed to reveal the economic reality of many of these communities.
 2. Through exhaustive study, Social Compact developed data that low-income communities do in fact have more than enough buying power to support retail and service establishments.

- D. In my comments today, I am going to address the importance of public-private partnerships to economic development, in urban areas in particular. I will also highlight one partnership effort that the Chicago Federal Reserve Bank is supporting in the Chicago-area as well as a model public-private partnership program here in the Midwest. But let me start off by telling you a little bit about the Federal Reserve, including a few comments about Y2K.

II. Y2K

- A. 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 the southern two-thirds of Wisconsin as well as most of Illinois, Indiana, and Michigan, and all of Iowa.
 - 3. In addition to our head office, we have offices in Milwaukee, Detroit, Des Moines, Indianapolis and Peoria.
- B. 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 absolutely 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.
- C. At the Fed we are addressing Y2K at all levels. Nationally, the Fed has three main areas of responsibility.
 - 1. First, we're a service provider: we provide financial services such as check processing and electronic payments to commercial banks and the U.S. government.
 - 2. Second, we are a bank regulator: we supervise and regulate state member banks, bank holding companies and branches of foreign banks.
 - 3. Last, but 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, that's why Y2K is so important to the Federal Reserve System.

- D. We've already made significant progress in preparing for the rollover; all of our most important systems are ready for Y2K and are already being used on a daily basis.
 - 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 commercial banks or the U.S. government.
 - 2. And we're confident that the banking system will be ready too. Regulators have already examined every bank twice to check for Y2K readiness and we've found the 99% of banks are making satisfactory progress.

- E. 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 more than enough cash to cover any unusually large demands.
 - 4. However, I'd like to remind everyone that there is no safer place for your money than where it is, Y2K or not. 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.
 - 5. 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, and both low inflation and low unemployment.
 - 2. Growth has been driven by unusually strong consumer spending, and our expectations for growth in 1999 are even more positive than 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.
 - 1. The FOMC responded to those developments by decreasing its target for the federal funds rate from 5½ percent to 4¾ percent.

2. Since then, we've seen a significant easing of financial strains and continued tight labor markets in the U.S., and the outlook for foreign economies has improved.
 3. With the U.S. economy growing at a healthy pace, the FOMC decided the degree of easing required to address the global turmoil of last fall was no longer consistent with sustained, non-inflationary growth.
 4. Therefore, the Committee twice increased its federal funds rate target by a quarter of a percentage point to the current level of 5¾ percent.
 5. In a related move, the Board approved a quarter of percentage point increase in the discount rate to 4¾ percent.
- C. 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 "Rust Belt" moniker, are running near capacity.
1. The automobile industry, which is heavily concentrated in this region, reported sales results for the past three months that were the strongest since 1986.
 2. 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.
 3. At the same time, unemployment rates in the region are below the nation's average and have been for seven years running.
 4. Wisconsin's economy has led the way in the Midwest in recent years with strong growth and low unemployment. For example, Madison's unemployment rate of 1.3 percent in July was the lowest in the nation for a metro area.
- D. Why the economy is doing so well and how long our good performance will last are difficult questions to answer. 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.
- E. Monetary policy has played an important role in our current economic success, but the Fed can only set the stage for strong growth.

1. The Fed cannot directly help Americans into jobs. The Fed can't train the workforce, and it doesn't build factories.
- F. 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.
- G. 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.
 3. 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.
- H. This is one message that I hope you will take back with you: Sustainable growth is the best way to ensure that the benefits of our national affluence reach every corner of American society.
1. 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.
 2. There is no denying it: nationally and here in the Midwest, these are the best of times.
- I. 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. A rising tide truly raises all boats. That assumes, of course, that some boats aren't tied down or kept out of the harbor altogether.
 2. Removing barriers is one of the greatest challenges facing us as a nation. So it is important that we develop initiatives that will bring more Americans into the increasingly prosperous mainstream.
- J. Since the early 1970s the pace of real income growth has slowed and income inequality has increased.
1. 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 experienced strong increases. And the problem is not easily solved.

2. 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.
- K. 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. I worked at HUD back in the 1970s and that experience has led me to believe that government initiatives need to include private sector involvement in order to be effective.
 2. The Midwest abounds with examples of successful public-private partnerships. One such partnership which I have had the pleasure of observing for over 20 years, since my early days at HUD, is Neighborhood Housing Services.
 3. As many of you are aware, there is a very active and successful NHS agency right here in Milwaukee. 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.
 4. Since its founding, NHS has helped hundreds of thousands of Midwesterners, directly, and surely many more who live in neighborhoods that are now thriving thanks to NHS.
- L. As a regional institution with a mixture of public and private features, the Chicago Fed is in a unique position to facilitate public-private partnerships in the Midwest.
- We've championed a number of new partnership initiatives that allow us to share our expertise with many Midwestern governmental and private sector growth and development organizations.
- M. Many of the Fed's activities in this area are related to its responsibilities for the Community Reinvestment Act or CRA.
- CRA was passed by congress to help ensure that financial institutions meet the credit needs of their communities, particularly low-and moderate-income neighborhoods.
- N. Just this week we've launched a new voluntary initiative called SECAP, the Small Enterprise Capital Access Partnership. SECAP will help bring vital small business credit to communities throughout Chicago.
1. Specifically, SECAP's goal is to make sure that all small businesses in the region have fair access to the credit, capital and other resources they need to succeed.
 2. SECAP will do this by identifying real and perceived barriers and helping to eliminate those barriers.
- O. Clearly there is evidence that there are significant differences between the amount of credit flowing

to lower-income communities as compared to middle- and upper-income communities. But the data also indicates that there are investment opportunities in low-income areas that could narrow the gap.

- P. SECAP can make these investments happen by addressing problems in how business in these areas interact with their lenders and vice-versa.
1. For example, many business owners need to know about organizations that can help them put together the sort of repayment plans valued by loan officers and underwriters.
 2. SECAP can also help lenders understand the concerns many businesses have over fairness in lending.
- Q. In short we know SECAP will work because it's about practical solutions based on greater understanding, and not a finger pointing exercise. Ultimately, we are confident that by working with practitioners in the small business arena, we can create an atmosphere where innovation can flourish.
- R. Certainly there is no shortage of great ideas in which to seek inspiration here in Milwaukee. Milwaukee abounds with successful public-private partnerships.
- The Wisconsin Women's Business Initiative Corporation, for example, is a multi-faceted group that has risen to the challenge of providing education, technical assistance, and access to capital to women, minorities and low-income residents of Wisconsin.
- S. WWBIC (Pronounced Wi-Bick) manages over \$1.5 million of loan funds, along with training and development components that help promote and support emerging or existing entrepreneurs.
1. Wisconsin banks are key to WWBIC's success. They provide technical assistance and referrals.
 2. In fact, in many cases, WWBIC's partner banks will make participation loans for WWBIC clients.
- T. WWBIC is one of three organizations in Wisconsin that will participate in a new SBA Express program in conjunction with Bank One.
1. SBA Express allows Bank One and other participating banks to offer "fee-for-service" programs to organizations such as WWBIC who counsel and develop entrepreneurs who would be SBA users.
 2. This allows non-profit organizations to make money, and it provides participating banks with "credit-ready" small business loan customers.
 3. Thanks to the partnership between WWBIC and key lenders here in Wisconsin, small businesses in Milwaukee's Target Area have access to credit and other forms of assistance that will help them move forward.

IV. Conclusion

- A. In conclusion, I'd like to reassure you that 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.
- B. 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 you to take full advantage of this gathering to find new ways to make partnerships part of sustainable solutions in your communities.