

THE CIVIC FEDERATION

Chicago, Illinois  
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I. Introduction

- Good afternoon. Today I'd like to discuss how the Fed is "Pursuing Prosperity for All."
  - When you heard the title of today's speech, I'm sure many you were hoping to find I'd put on your chairs some currency. Unfortunately, the only kind of dollar bills we give out to the general public are the ones that we've shredded (hold up shreds) because they're worn out.
  - I've also brought you some light reading about the Federal Reserve and the state of the economy.
  - Let me take a moment to thank the Board of Directors of the Civic Federation for inviting me here today. Also, I'm glad to see some familiar faces in the room.
- It's a great pleasure to be here at this meeting of the Civic Federation, one of Chicago's oldest and most distinguished organizations dedicated to fostering effective government.
  - It was 105 years ago when Chicago's top business and community leaders formed the Civic Federation in response to the city's widespread social and economic problems following the Depression of 1893.
  - The Civic Federation was particularly troubled by the emerging phenomenon of big city poverty and rising unemployment.
  - The problems of the times were symbolized by the many homeless and impoverished who slept in the corridors of City Hall at night.
  - The turbulence of those times also led to the founding of the Federal Reserve System in 1913.

- What a difference a century makes.
  - Today, we're experiencing an expansion that is about to become the longest in history, and the unemployment rate is at a three-decade low.
  - Back in the late 1800s, the state of our economy was symbolized by bank runs and bread lines.
  - Today, the state of our economy is portrayed by images of parking lots overflowing with SUVs, and downtown housing developments that sell out before there is time to plant a for-sale sign out front.
- How times have changed.
  - What does all this prosperity mean to the average American living here in Chicago? And what do these good economic times mean for those living on the margin in America?
  - Much of popular discussion about the economy tends to focus on images and events related to the more affluent—SUVs and IPOs; high-fashion flip phones and the web in the palm of your hand.
  - There is less discussion about another key benefit of the current expansion the increased opportunity for the previously unemployed and lower-income workers to improve their lives.
  - Historically, these workers are not as well off as the rest of the population.
  - But the current economic expansion has helped many make solid progress.
  - That's one of the key reasons why it's so important to have sustained economic growth rather than the boom-and-bust cycles that characterized the late 1800s and early 1900s.
- Today, I'd like to discuss how the current expansion has affected those on the lowest rungs of the economic ladder and the role the Fed plays in fostering a healthy, growing economy.

## II. Role of Fed and Y2K

- Just by becoming a member of the Civic Federation, you have expressed a desire to foster a higher standard of living for Americans.
  - The Fed shares this desire. As a matter of fact, it is our mandate.
  - The Federal Reserve's broad mission is to foster a safe and sound financial system and a healthy, growing economy.
  - We pursue this mission through three main areas of responsibility.
  - 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.

- Second, we're a bank regulator — we supervise and regulate state member banks and bank holding companies.
- Finally, but certainly not of least importance, we formulate national monetary policy.
- At the moment, like businesses and institutions around the world, one key issue on the Fed's radar screen is Y2K preparedness.

Like all of you, everyone at the Fed is looking forward to watching Y2K move off our radar screen, now that we're confident it won't go blank or be lighting up like a Christmas tree on the millennium weekend.

- In fact, we have been ready for Y2K for some time now, and we're confident that the century date change will come and go with a minimum of disruption.
- All of the Fed's internal systems have been prepared for Y2K since mid-1998.
- 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.
- As a supervisor, we've worked closely with other regulators to review the preparedness of the financial institutions we supervise.
- Regulators have already examined every bank at least twice, and we are very pleased with the preparedness of financial institutions nationally and in our district.
- There is an old saying that a person surprised is already half beaten.
  - We certainly took this to heart, and we're confident that we won't be surprised by anything Y2K has to offer.
  - But sound preparation is only part of the battle.
  - We continue to encourage the public not to overreact.
  - There is still concern that popular misconceptions about Y2K could lead some people to withdraw unusually large sums of money from their bank accounts.
  - For this reason the Federal Reserve has made available to depository institutions more than enough cash to cover any unusually large demands by the public.
  - However, I would like to remind everyone once again 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.

- In short, we're confident that the Federal Reserve and the financial system is fully prepared for the century rollover.
- Another key issue on our radar screen is one we hope will stay there for some time to come.
  - And that's the economic expansion that I've promised to discuss today.
- How does the Fed help ensure a healthy, growing economy?
  - The answer to that question is related to what the Fed can and cannot do.
  - The Fed cannot directly create jobs or help Americans find them.
  - The Fed can't train the workforce, and it doesn't build factories.
  - The Fed can only set the stage.
  - Growth can only be created by investment in human skills, physical capital and new technologies.
  - The Fed can't make that investment directly, but it can facilitate that investment... in particular, by creating an economic environment of low and stable prices.
  - As the 1970s showed, high inflation, especially when it's volatile, disrupts economic efficiency.
  - Inflation distorts prices and interest rates, jamming the signals which consumers and businesses depend on to make decisions — decisions on when, where and how much to buy, sell, save and invest.
  - For that reason, the most important contribution the Fed can make to ensuring a sustained expansion is to focus on price stability.
- The challenge for the Fed is to strike the right balance: that is, we must avoid holding back the economy but not fuel aggregate spending beyond its limits either.
  - The Fed's ultimate goal is maximum sustainable growth and a higher standard of living for everyone, 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.
  - Sustainable growth, on the other hand, encourages firms to make longer-term investments, creating more opportunities for employment, the mark of a healthy and growing economy.
- The expansion we've experienced through much of this decade has included a rare combination of robust growth, and both low inflation and high employment.
  - Our low inflation environment has provided the foundation for a sustained period of remarkably low unemployment, which has been below 5 percent for almost three years.

- This extended period has pulled many people into the workforce for the first time, as companies reach deeper into the pool of the hard to employ.
- Why the economy is doing so well and how long this expansion 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.
- Our good fortune has presented us with an opportunity to remove barriers to full participation, be they economic, social, or historical.
- Long, steady expansions greatly benefit America's poorer workers in many ways.
- The last-hired workers are often the first-fired.
- That's why short booms that quickly burn themselves out often do not provide enough time for new workers to get the experience and training they need to stay employed during harder times.
- Long expansions mean long employment spells that give opportunity to those who need it most.
- Extended periods of high stability (such as the one we're currently experiencing) mean that we have many Americans entering the job force who have never before had such opportunities... opportunities to work, to receive training; to invest in their own businesses, homes and families, and to break the cycle of poverty.
- Indeed, the expansion has created opportunities for families and communities alike, and both the public and the private sectors, to make investments in the long-term future of our society.
- That's not to say that there are not many significant problems remaining.
  - But there are also many promising signs.
  - One promising sign is the increase in population in the city of Chicago during the 1990s.
  - Between 1970 and 1990, the population declined in Chicago by 17%. Since then, population growth has edged up to record almost one percentage point gain over the course of this decade. The increased availability of jobs in and around the city is certainly part of the picture.
  - The unemployment rate in the central city has fallen from 9.2 percent in 1991 to 5.7 percent in 1998, mirroring the decrease in unemployment rates in the suburbs.
  - The drop in the unemployment rates in the Chicago area is having an enormous impact on life in the central city, where a lack of jobs has always been a crucial barrier to progress.
- Many of the newly employed are coming off welfare rolls.
  - The national welfare case-load dropped 48% over the last six years.

- Furthermore, 44 percent of the decline between 1993 and 1996 can be attributed to opportunities created by the economic expansion alone.
- The impact of the expansion on the financial well-being of minority Americans is perhaps most dramatic.
- It's especially difficult to gauge how different demographic groups are doing financially across the years.
- That's particularly true these days in looking at earnings alone because so many people are seeking compensation in the form of better benefits packages.
- Nevertheless, the evidence indicates that after years of lagging behind, the earnings of black males after accounting for inflation have been improving especially rapidly during this expansion.
  - For example, the increase in weekly earnings for white males over the last five years has been quite positive, but the increase for black males has been substantially higher.
  - Young minority workers have historically faced the worst job prospects, with unemployment among black youth between 16 and 24 years old well over 35 percent in the mid-1980s.
  - Job prospects for this group have improved significantly with unemployment rates dropping to just over 20 percent in 1998, still disturbingly high but a significant improvement.
- And the picture is also improving in terms of at least one major indicator of wealth accumulation, homeownership.
  - There has been a long-standing discrepancy between the wealth of minorities, many of whom live in central cities, and the national average.
- But according to the Census Bureau for the first time ever, 50 percent of central city residents were homeowners in 1998.
- And that figure has continued to rise this year. This trend is reflected in the significant increase in home ownership by Hispanics and African-Americans.
- Back in 1994, about 42 percent of Hispanics and African Americans owned homes; over the past four years that figure has increased approximately 3½ percentage points—a rapid and sizeable increase.
- It is true that homeownership among white households nationally is also rising and that substantially more whites than minorities own their homes.
- In fact about 73 percent of whites own their homes as compared to about 46 percent of Hispanics and African-Americans.
- But the recent rapid increases among minorities may be the first sign that historically less affluent communities are starting to catch up.

- The increase in incomes and wealth in America's poorest communities is having a very real impact on the quality of life.
  - According to a U.S. census report on poverty, the poverty rate for children in 1998 fell below 20 percent for the first time since 1980.
  - The poverty rate for African-Americans in 1998 was at its lowest level since 1959, the earliest year for which these statistics are available.
  - Although it is always difficult to say whether higher incomes lead to higher educational attainment or vice-versa, it is now the case that 25- to 29-year-old blacks have the same high school graduation rate as whites in the same age range.

## V. MCAP and SECAP

- Despite all this good news, there is still much to be done.
  - The Fed's main mission is to work at the macro level and implement monetary policy that fosters healthy growth with price stability.
  - Monetary policy is a blunt tool with a broad impact on the overall economy.
  - It doesn't have the ability to directly focus on specific economic sectors or geographic areas.
  - However, the Fed does have the ability to work at the micro level by acting as a catalyst in initiating a variety of public-private sector partnerships aimed at reducing barriers and encouraging investment and development.
- One project of which the Chicago Fed is very proud is the Mortgage Credit Access Partnership, which we helped launch in 1996.
  - The goal of MCAP has been 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.
  - By working with over 100 partner organizations from the public and private sectors, MCAP has made meaningful steps toward ensuring that financially and otherwise qualified individuals not be denied home ownership.
  - Chicago Fed research suggests the recent increase in homeownership is only partly explained by the expansion; fair lending and programs like MCAP are also having an impact. Moreover, MCAP has created a network of industry professionals involved in the home purchase process and is working with them to reduce discrimination.
  - MCAP has also tackled the high rates of foreclosure and abandonment that can devastate Chicago area neighborhoods.
- Another effort of which we are very proud, and which we helped launch just this past fall is called SECAP, the Small Enterprise Capital Access Partnership.

- SECAP will help bring vital small business credit to communities throughout Chicago, focusing on the traditionally underserved businesses such as those owned by minorities or women, or those located in low-income areas.
- Specifically, SECAP's goal is to make sure that all small businesses have fair access to the credit, capital and other resources they need to succeed.
- SECAP will do this by identifying real and perceived barriers and working to eliminate those barriers.
- This type of effort pays dividends for years to come as an increase in business and home ownership in any city can have all sorts of positive benefits.

## VI. Conclusion

- In conclusion, I believe we live in a better America than that of even a decade ago. And that is because today, more Americans than ever have the ticket to opportunity: a job.
- What makes America in 1999 different from the America of 1899, or even 1989?
  - More Americans are full participants in the economy.
  - Not because they needed a job and so someone gave them one out of charity, but because the jobs needed them.
  - The Fed's focus on achieving low inflation has resulted in the sort of healthy economic environment that fosters longer expansions.
  - And a long expansion is a marvelous thing.
  - Every extra month of growth has an enormous impact on opportunity.
  - Only during a long expansion do the hardest to employ get jobs and hold them long enough to gain valuable experience and training, and start to realize their potential.
- The key point I'd like to emphasize is the impact of the numbers I've discussed today on people's daily lives and aspirations.
  - The great Supreme Court Justice Louis B. Brandeis said: "A profession is comprised of a body of knowledge, a substantial portion of which is derived from experience."
  - I believe he is right, but if you think about it, what he said is true of any job.
  - Like a profession, having a good job gives you a useful body of knowledge, much of it derived from experience.
  - That experience and the values and self confidence that it promotes can never be taken away from you.

- More Americans today than at any other time in our history have had the opportunity to gain that sort of work experience.
- And we are all better for it, regardless of what the future holds in terms of the changing shape of the economy, and the ups and downs of the business cycle.
- Once you have worked, you know what a precious gift it is.
- You have a foundation on which to create greater opportunity, for yourself and for others.
- And in the end, this is the spirit that is essential to achieving a healthy, growing economy for many years to come.