ASSOCIATION FORUM OF CHICAGOLAND

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Pursuing Prosperity for All

Good morning. It's great to be here. I appreciate the opportunity to come here to discuss the Federal Reserve and the economy. An important part of my job as head of the Chicago Fed is to increase public awareness of how the economy works. Unfortunately, most Americans don't have a lot of knowledge of the Federal Reserve System. In fact, I have had to explain to people, on more than one occasion, that the Federal Reserve is not a national bird sanctuary. Nor a game park. Nor a branch of the U.S. military. And it is most definitely not the congressional wine cellar. You, of course, know that the Fed is our nation's central bank.

Public awareness of the Fed's role in the economy has increased in recent years. We credit Alan Greenspan, who now gets the kind of attention that past generations reserved for teen idols. And yet, beyond Alan Greenspan, there is a lot more we'd like the public to know about the Fed and how the economy works.

Our mission at the Fed is to foster a safe and sound financial system and a healthy, growing economy. Today, I'll spend most of my time discussing the Fed's role in fostering healthy economic growth, specifically the importance of achieving sustained growth. But first let me take a couple of minutes to provide some brief background about the Federal Reserve. The Fed pursues its 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 banks and bank holding companies. Finally, but certainly not of least importance, we formulate national monetary policy.

The Chicago Fed is one of 12 regional Reserve Banks. We serve a five-state area consisting of the northern two-thirds of Illinois as well as most of Indiana, Michigan and Wisconsin, and all of Iowa. We have a head office in Chicago as well as check processing centers in Des Moines, Indianapolis, Milwaukee and Peoria, and a branch in Detroit.

Most people tend to think of monetary policy as a process that begins and ends in Washington, D.C. But it's also a regional process that includes the presidents of the 12 Fed Banks. Each of the Fed Bank presidents participates on the Federal Open Market Committee, the Fed's main policymaking group. I alternate each year with the president of the Cleveland Fed as a voting member. But all 12 Fed presidents attend each FOMC meeting and take part in the discussions regarding monetary policy, regardless of their voting status. As part of the policymaking process, we need to stay in touch with people living and working in the region we represent to supplement statistical data with up-to-the-minute information. That's one of the advantages of the Fed's regional system. Having FOMC participants located outside the Washington beltway also helps to keep the Fed insulated from the short-term political pressures that can emerge during the policymaking process. In short, the Fed's regional system allows it to get a better feel for the latest economic developments and helps it focus on policy, not politics.

Today I'd like to start by discussing the Fed's focus on monetary policy, in particular. The title of this speech is "Pursuing Prosperity for All." In one sense, I've taken that title very literally as you should have found on your chairs some currency, courtesy of the Chicago Fed. Unfortunately, the only kind of dollar bills we give out to the general public are the ones that we've shredded because they're worn out. I've also brought you some light reading about the Federal Reserve and the state of the economy.

As some of those materials explain, the Federal Reserve was founded during one of the more turbulent times in U.S. history. It was a period quite different from today. Before the Fed opened its doors in 1914, the U.S. had experienced a series of boom and bust cycles for several decades. There had been frequent economic crises, and expansions were too short lived to repair the damage done to peoples' lives. Here in Chicago in the late 1800s, there were widespread social and economic problems, like 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 in the worst years around the turn of the last century.

What a difference a century makes. Today, we're experiencing an economic expansion that has become the longest in our country's history, and the national unemployment rate is near 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.

What does all this prosperity mean to the average American, the people served by the associations represented here today? 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.

I think it's safe to assume that all the associations represented here today desire a higher standard of living for Americans. The Fed shares this desire. As a matter of fact, it is our mandate. So how does the Fed help ensure a healthy, growing economy that will raise Americans' standard of living? 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. If all the world is a stage, as Shakespeare said, then the Fed's role in the economy is not as a direct participant, an actor or even the director. The Fed is more of a stage manager, working behind the scenes to do everything it can to make sure that there is a successful production. Growth can only be created by investment in human skills, physical capital and new technologies.

While, the Fed can't make investments directly to create growth, 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: 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. 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 of low unemployment has pulled many people into the workforce for the first time, as companies reach deeper into the labor pool.

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 decade, 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. Extended periods of growth, 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.

That's not to say that there are not many significant problems remaining. But there are also many promising signs. For the next few minutes, I'm going to discuss some of the trends we've seen in regard to lower-income workers and the disadvantaged in urban areas, specifically here in Chicago. As you will see, the numbers do indicate that the expansion has made a substantial difference in the lives of poorer Americans.

One promising sign on the local level is the increase in population in the city of Chicago during the 1990s. For four decades that population was in decline. From 1990 to 1999, however, Chicago's population increased 0.7 percent. The increased availability of jobs in and around the city is certainly part of the picture.

There is also good news to be found in changes to the unemployment rate. The unemployment rate in the central city fell from 9.2 percent in 1991 to 5.4 percent in 1999, 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 by almost 50 percent between 1993 and 1999. A good portion of that improvement 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, both here in Chicago and nationwide. 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 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, while the increase in weekly earnings for white males over the last five years has been quite positive, the increase for black males has been substantially higher. Young minority workers historically have 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 1999, still disturbingly high but a significant improvement.

One area where we have seen little improvement is the so-called wealth gap. There has been a long-standing discrepancy between the wealth of minorities, many of whom live in central cities, and the national average. And the gap between assets owned by whites and assets owned by non-whites, continues to be very large. To be specific, according to a recent Federal Reserve study, the median net worth for Hispanic, African-American, Asian and other minority families was less than one-fifth that of non-minority families. This is a far greater discrepancy than we see when we're talking about income or employment. One reason for the continued wealth gap is the lack of minority participation in the stock market — a situation that could be helped by doing more to educate consumers on how to invest savings wisely.

That said, according to that same Fed study, the rate of participation in the stock market for non-white families is increasing. The share of non-white families that own stocks has doubled from 1989 to 1998, albeit off of a very small base of 4.4 percent. The picture is also improving in terms of another major indicator of wealth accumulation — homeownership. According to the Census Bureau's Current Population Survey for 1998, for the first time ever, 50 percent of central city residents were homeowners. And that figure has continued to rise over the last year. This trend is reflected in the significant increase in homeownership by Hispanics and African-Americans.

Back in 1994, about 42 percent of Hispanics and African Americans owned homes; over the past five years that figure has increased approximately 9 percent — 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 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.

Increases in incomes and homeownership in America's poorest communities are having a very real impact on the quality of life. According to a U.S. Census report on poverty, the percentage of children living in poverty in 1998 fell below 20 percent for the first time since 1980. The percentage of African-Americans living in poverty in 1998 was at its lowest level since 1959, the earliest year for which these statistics are available.

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 that the Chicago Fed is very proud of is the Mortgage Credit Access Partnership, which we helped launch in 1996. 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. 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. As part of this effort, 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. This joint initiative between lenders and community groups has resulted in more than a hundred families in the Chicago area being able to work out a plan to pay their mortgage and avoid losing their home.

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, focussing 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 results in many positive benefits that have a ripple effect throughout a community.

In conclusion, I believe we live in a better America than that of even a decade ago. Today, more Americans than ever have the ticket to opportunity — a job.

What makes America in 2000 different from the America of 1899, or even 1989? More Americans are full participants in the economy. Not because they needed a job and 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.

It's important to emphasize the very real impact of the numbers I've discussed 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." He is right, and 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.