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Remarks

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Large Group Presentation of Recommendations Meeting
Access to Capital Initiative

Friday, June 19, 1998
8:00 a.m. to 11:00 a.m.
The R. W. Gillespie Conference and Education Center
Key Bank
Cleveland, Ohio

[Ruth Clevenger will introduce you at the end of the program. Your remarks should take about 10 minutes.]

Introduction

- Thank you Ruth. Good morning, everyone.
- This is indeed a happy occasion. All of you deserve applause and congratulations. We can justifiably celebrate the achievement of having fashioned several specific recommendations for improving access to capital for small businesses.
- I'm not here to comment on all of the recommendations. As I read through the draft report, I was delighted to see that what has been done is consistent with the Initiative's overall philosophy. Of course the ultimate success of your efforts depends on things that happen next. The FRB Clev. is committed to continuing to work with you to ensure that what you have done creates a lasting legacy here in NE Ohio as well as serves as a model for others throughout the country.

Overall Philosophy of the Initiative

- Solutions developed are superior to programs designed in nations', or even states' or provincial capitols. Even when problems are national or even global in scope, enduring solutions are discovered by local initiatives.

Many of you are no doubt aware that senior Federal Reserve and Treasury officials are in Tokyo this week to suggest ways to fix the Japanese economy. Other officials are or have been in other places such as Korea, Thailand, Russia, and elsewhere offering advice; it has always seemed to me that if we are smart enough to fix foreign economies, we ought to also be smart enough to find ways to improve our own cities and neighborhoods.

So, while Washington is focussed on global econ. problems, you all have been doing things that will have a much more certain effect on NE Ohio

- The impediments that hamper access to capital by creditworthy small businesses are primarily a result of what we do, ~~and~~ fail to do, in northeast Ohio.
- So responsibility for finding ways to remove those impediments also lies in northeast Ohio.
- It's preferable to have the people who are affected work on identifying problems and solutions.

- They have first-hand knowledge.
- By participating, they will have buy-in -- commitment to implement what they recommend.
- The best, most viable solutions will be those that increase efficiency -- that improve the functioning of the local market for capital, and thereby improve the functioning of the local economy.

Knowing that this project has been underway, it has been of special interest in recent months for me to hear bankers complain that ~~the~~ "everyone already has all the credit they need" [? - ease policy]

Yet, as you all know, there are a lot of people who feel frustrated because they perceive that there is nowhere they can go to get financing.

This kind of disconnect between potential lenders/investors and potential borrowers/entrepreneurs means there are significant information or search costs on the part of both. To an economist, we have potential for a "win-win" situation; it means that making someone better off does not require making someone else worse off; reducing search costs makes markets more efficient and makes both

Improving Efficiency

- One important way of increasing efficiency is, in economists' jargon, by reducing the cost of information.
 - For the small entrepreneur who needs capital, it is such things as the cost of finding a willing lender, and the cost of learning how to apply for credit. The real cost is the time involved, because that is time away from running his business.
 - For the capital provider, the cost of information is the time involved in finding creditworthy borrowers and the time involved in reviewing both good and bad credit applications.
- What I find most exciting about the recommendations put forth this morning are the several proposals for reducing "the cost of information."
 - Making it convenient for borrowers to learn about the process of obtaining capital.
 - The Access to Capital Network. And Internet access to that network.
 - The mentoring idea.
 - Joint advertising by business service providers.
 - Etc.
- When information is cheaper, borrowers and lenders can afford to get better information and so they can make better and quicker decisions about where and whether to borrow and lend.
- An engineer might describe this as removing sand from the gears.

Criteria for Judging Success

- enduring legacy.*

 - It may be years before we know whether this Initiative has ^{*created an*} ~~been~~ ~~successful~~. I can suggest three criteria that we might use in the future when we look back on this project:
 - First, was there real follow-through on specific recommendations?
 - Implementation is the next step.
 - Today's event is something like commencement in school or college. In an important sense, the real work still lies ahead. Ideas about Access to Capital need to be transformed into realities.
 - Second, was our "community network" permanently improved?
 - I'm not referring to the proposed Access to Capital Network. I'm talking about the network of working relationships that have developed in recent months among those of you who have been involved in this Initiative.
 - Will those relationships, that community network, remain? Or will they atrophy?
 - If the lines of communication that have been opened during the course of working on this Initiative stay open, then our community will be better equipped to solve other problems and grasp other opportunities in the future.
 - I think some of that happened in the Cleveland Residential Mortgage Credit Project. But it's too soon to know with the Access to Capital Initiative.

- Third, was the “process” that has moved the Access to Capital Initiative to its present phase -- the generic process through which stakeholders in northeast Ohio have identified problems and solutions -- was that process transferred and applied in other cities?
- That happened with the Cleveland Residential Mortgage Credit Project, which has served as a model for similar projects in several other cities.

Conclusion

- I'd like to conclude with some thought about the path to civic improvement. Many years ago, poet Henry Wadsworth Longfellow wrote the following lines:

“The heights by great men reached and kept,
Were not attained by sudden flight,
But they, while their companions slept,
Were toiling upward in the night.”

- Successful people like yourselves recognize the truth of those lines. And they apply to cities as well as to individuals. Cleveland will not achieve perfection through “sudden flight.” But we are not “sleeping” and expecting conditions to improve by themselves. We are not “sleeping” and hoping for the best. Rather, we in this room and many others in the community, with efforts such as the Cleveland Mortgage Credit Project and the Access to Capital Initiative, are in the best civic spirit engaged in the “toil” that, bit by bit, improves the functioning of our business and financial system. These are the kinds of efforts that will help our city “reach and keep great heights.”
- All of us can be proud to have been, and to be, associated with these efforts.
- Thank you.