



The Challenge of Concentrated Poverty

So often lately, I find myself in front of an audience speaking in very measured words about the economy and monetary policy. While community development is a topic that may be less visible in the financial press, it is one that is equally meaningful to all of us here. The work that you do - whether in banking, community outreach, public policymaking, teaching, or research - reflects a dedication to bettering the lives of others.

We are here today and tomorrow to examine concentrated poverty - that is, poverty that affects more than 40 percent of people living in a particular region or city - through the lens of community development. I think we can all agree that community reinvestment initiatives have done a great deal to help low- to moderate-income families over the past generation. But we know that there is still a long way to go.

It took a recent catastrophe - Hurricane Katrina - to refocus our nation's attention on poverty. The disaster in New Orleans last year reminded us that even in twenty-first-century America, some people still have limited access to bank accounts, permanent homes, and transportation. Hurricane Katrina and its aftermath have compelled the public and our policymakers to recognize the enormity of poverty in America and to explore public policy solutions to this enduring problem.

In approaching this policy summit, you may be wondering: What is the Federal Reserve System's connection to concentrated poverty? Why does the Cleveland Fed care about this issue?

The fact is that we are committed to the goals of community development. Our Community Affairs program helps us fulfill one of our important public policy mandates - to enforce fair-lending regulations that protect consumers in the financial marketplace. We also believe that understanding the issues behind concentrated poverty will help us better assess overall economic performance.

I will begin my remarks with an overview of the Federal Reserve's role in community development. Next, I will describe more broadly some of the progress made over the past few decades and some of the continuing challenges we all face in addressing poverty. Finally, I will share my thoughts on why I think this type of policy summit can help lead to positive change.

Additional Information

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Please note that the views I express today are mine alone. I do not presume to speak for any of my colleagues in the Federal Reserve System.

I. The Federal Reserve and Its Role in Community Development

Let me begin with some background on the Federal Reserve System and how our work relates to the overall area of public policy that you are interested in: community development.

You are all probably familiar with the Federal Reserve's role in setting our nation's monetary policy. The 12 Reserve Banks also provide financial services to banks and the U.S. Treasury, cooperate with the Board of Governors to supervise banks, and conduct economic research.

Over the past few decades, the Federal Reserve has pursued a broad range of research involving patterns of wealth and poverty. We want to better understand how concentrated poverty affects market efficiency and economic growth. We know that most people who are trapped in poverty cannot participate fully in the labor market or the financial system. So there is good reason, just from a macroeconomic viewpoint, for the Federal Reserve to analyze these issues.

But our involvement actually reaches much further. As part of our responsibilities to promote fair and equal access to credit and to protect the rights of consumers, the Federal Reserve has become involved in community development, especially as the nation's fair-lending laws have evolved over the past few decades.

Congress gave the Federal Reserve a substantial role in the regulation of lending practices through the Truth in Lending Act of 1968. This law was designed to protect consumers in credit transactions by requiring lenders to disclose the terms of credit and the costs associated with borrowing money. As the civil rights movement gained momentum across the nation, Congress quickly moved beyond general consumer protection laws into various antidiscrimination lending laws.

Before these laws were enacted, there was a growing concern that access to credit was not being provided on a fair and equal basis. But now an array of federal and state fair-lending laws have been enacted to safeguard consumers' rights in our financial system, including in home-mortgage lending. In fact, the Federal Reserve has recently intensified its focus on data derived from the Home Mortgage Disclosure Act of 1975.

Another important law is the Community Reinvestment Act of 1977, which we all know as CRA. The Federal Reserve has had a role not only in writing and enforcing the regulations associated with this legislation, but also in studying its effects over time. In fact, Glenn Canner and Robert Avery at the Board of Governors have reported that since the law was enacted, banks have greatly increased their presence in low- to moderate-income communities and have introduced products and services tailored to these markets - while

still making a profit.

Over the years, community reinvestment strategies have certainly benefited people in these markets. By establishing banking relationships, people gain a building block of economic success: access to credit. Of course, access to credit - by itself - is certainly not a solution to poverty. But the wise use of credit enables individuals and families to accumulate wealth, make sound investments, and avoid costly financial mistakes.

In light of all of these initiatives, the Federal Reserve has taken a leadership role in supporting community development. Each of the 12 Federal Reserve Banks has a strong Community Affairs office. This function has grown to encompass applied research, public programs, outreach, and public education in "best practices" for community development practitioners - all with the goal of improving conditions in low- to moderate-income communities. Our policy summit today is part of that education and outreach effort.

The Federal Reserve's Community Affairs offices are also working with the Board of Governors on a multiyear project focusing on concentrated poverty and its effect on community development. The group is now collecting data, studying trends, and investigating the outward migration of concentrated urban poverty. We hope to bring new insights to the public policy debate over the coming years.

II. Addressing Poverty: What Has Been Accomplished - What Remains to Be Done

So here we are in 2006, nearly 40 years after the fair-lending laws first made their appearance. What has been accomplished in reducing poverty over the past generation, and what still remains to be done?

By the late 1990s, poverty rates had fallen close to their historical lows. However, census data indicate that overall poverty has actually inched higher from 1999 to 2004. You will hear more about that trend this afternoon. We also know that income inequality has worsened, and there are increasing concerns that income mobility - one of the cornerstones of the American dream - is decreasing. And although concentrated poverty appears to have declined somewhat in recent years, part of that decline was caused by the geographic dispersion of poor people rather than by an actual reduction of poverty itself.

Recent economic research has also verified what we have all been reading and observing lately - Americans with weaker job-market skills have not benefited as much from the growing U.S. economy as have other Americans with higher-level skills. Economists call this "skill-biased technical change." People who lack the skills needed to keep up with changes in technology cannot take full advantage of the benefits of the growing sectors of the economy. If lower-skilled Americans fall further behind, the result will be increased income inequality and, ultimately, greater poverty.

Despite these trends, we can learn from some recent experiences that will help us focus on the most promising places to expend our energies to combat poverty. Through the Federal Reserve's research and outreach, we have been learning where different approaches can

lead to better outcomes.

At the Federal Reserve Bank of Cleveland, our research staff has helped us to understand that human capital is every bit as important as physical capital in driving innovation and income growth. That has led our Bank to sponsor forums on the economics of educational attainment and to conduct studies on the links among education, innovation, investment, and economic performance.

Our Bank has also taken part in new research that aims to find a more comprehensive measure of economic trends in Northeast Ohio. This is the "Dashboard Indicators" project, which collects detailed information about the economic performance of the region, including poverty rates, to better focus regional economic development efforts. You will hear more about this project in just a few minutes.

Data will be critical in any effort to overcome concentrated poverty. Chairman Ben Bernanke expressed this idea well in a recent speech: "Both government policymakers and community-development organizations need the 'reality check' that hard data can provide. To know whether our policies and programs are delivering the desired results, we need to be able to measure inputs and outcomes, program by program and community by community. Better information increases accountability and promotes good governance in both the public and the nonprofit sectors."

I could not agree more with the Chairman's comments. And indeed, throughout the Federal Reserve System, we have been taking an active role to uncover the hard data that will lead us to the priorities of better accountability and better outcomes.

III. How This Policy Summit Can Lead to Positive Change

We know the questions that must be answered: How can we strengthen workforce skills? How can we reduce income inequality and help promote the American ideal of income mobility?

Answers to those questions can begin to emerge from policy conferences like this one. I am proud that the Federal Reserve can serve as a facilitator for your analysis and collaboration.

Our conference agenda has brought together experts from across the nation who can explore the complex details of concentrated poverty, and who can suggest ways to overcome it. We are privileged to have with us as our keynote speaker Dr. William Julius Wilson - a nationally recognized expert on urban poverty - who will discuss some of the root causes of poverty.

In your discussions here, both today and tomorrow, I encourage you to be bold in your thinking, to challenge assumptions, to envision not what has been but what could be.

Some will say that the problem of concentrated poverty is insurmountable. Confronting the dilemmas of wealth and poverty may, indeed, be the one of the most difficult challenges of our

generation. But let's step back and ask ourselves: What kind of society will we leave to the next generation? One that is rigidly stratified by economic class? Or one that allows for income mobility, permitting individuals and families to rise as far and as fast as their own talents will take them?

Even when the policy answers to these problems are identified, mobilizing the public to pursue them will require tremendous efforts. Yet throughout our history, each generation has faced challenges involving such fundamental social questions.

A great American lawmaker of the nineteenth century, Daniel Webster, once reminded the nation of the task ahead: "Let us develop the resources of our land, call forth its powers, build up its institutions, promote all its great interests, and see whether we also, in our day and generation, may not perform something worthy to be remembered."

Webster's comments are just as relevant for us today. In our day and generation, our nation enjoys material wealth in a measure that Americans have never before known. However, we know that not everyone shares those advantages. There is no better time for bright, talented, and motivated people to dig in - to grapple with the enduring issue of poverty amid plenty - and to fulfill a task that will truly be "worthy to be remembered."