



Community Development by the Numbers

I am very pleased to join Paul in welcoming you to the 2012 Policy Summit on Housing, Human Capital and Inequality, organized by the Federal Reserve Bank of Cleveland. The Policy Summit brings together civic leaders, researchers, community practitioners, elected officials and funders, to learn from one another, to hear from national experts, and to gain knowledge from both our successes and our failures.

This year's Policy Summit marks our 10th year of organizing the event, and I am proud to say that it has grown from a mostly local conference held in our Bank's auditorium to a much-anticipated regional and national event that requires a much larger physical space. For those of you who have attended previous Summits, I thank you for your continuing participation; for those of you who are new to the Policy Summit, you are in for a great learning experience.

The focus of this year's Summit is on identifying effective strategies and programs to strengthen and rebuild communities, with a special emphasis on taking a holistic approach to community development. We will take a close look at what researchers have learned from their analysis of various programs that have been implemented over the years to provide better housing opportunities, educational outcomes, and workforce experiences in our country. We will also hear from the people who have the responsibility for allocating funds and running programs—people who may want to be guided by research and studies of best practices, but who also have to deal with financial, political, and administrative realities along the way.

Today I will begin by reviewing the Federal Reserve's roots in community development, and how our thinking about community development has evolved over time. Then, I will describe in a bit more detail why we at the Federal Reserve Bank of Cleveland are now taking a more holistic view towards community development. Finally, I will highlight how the ideas shared at this year's Policy Summit will help all of us more effectively tackle the hard work of rebuilding our cities and neighborhoods.

As always, the views I express are mine alone and do not necessarily reflect those of my colleagues in the Federal Reserve System.

Evolution of Our Thinking on Community Development

Let me turn, then, to the evolution of the Federal Reserve's involvement in community development. Most people, when they hear "Federal Reserve," think about our role in monetary policy, interest rates, and maybe banking supervision. Indeed, Congress has

Additional Information

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given us a mandate to pursue maximum employment and stable prices. But many of you here today also know that through the Community Reinvestment Act, Congress has directed the Federal Reserve to promote fair and equal access to credit, especially to those who live in low- and moderate-income neighborhoods. The Community Reinvestment Act was enacted in 1977 in response to complaints that some banks were redlining low- and moderate-income markets from receiving the vital banking services that were available to more affluent communities. Over time, the Federal Reserve's scope has expanded to include small business lending, financial literacy, homebuyer education, and other issues and services that banks and residents in underserved communities were struggling to address. We worked largely with banks, neighborhood housing organizations, and fair housing advocates.

To augment the Federal Reserve's field work in low- and moderate-income communities, in the early part of the last decade, the Federal Reserve began to sponsor what has turned out to be a regular series of conferences on community development topics. These conferences reflected the approach taken by the Federal Reserve in all of our work, which is based on objective research, factual analysis, and broad public input. My Bank's contribution in this area was our very first Policy Summit, as I mentioned, held in 2003. Our agendas have addressed affordable housing, payday lending, small business access to credit, the special needs of rural communities, financial literacy, and the unbanked, to name a few.

You might hear that list and think that not so much has been accomplished in all these years, because so many of these topics remain relevant today. The fact of the matter is that these are daunting issues, they have evolved over time, and they will not be easily addressed. However, they are issues that we must confront. And as we tackle them, we must be willing to incorporate new evidence of what works and what doesn't, based on research and analysis.

I believe we can add value in confronting these issues through our Policy Summit, by engaging researchers, practitioners, and all of our stakeholders on issues that affect our communities, counties, cities and country. We provide this forum as one avenue for learning about current research and finding comprehensive solutions for our shared challenges. The Federal Reserve Bank of Cleveland is uniquely positioned to bring together people with a diverse range of experiences, vantage points, and opinions about these problems and how to respond to them. Our Policy Summit has evolved in a way that we hope will continue to provide value to each of you as you go about the work of strengthening our communities.

As I indicated a few minutes ago, our own thinking about community development, and our Bank's ability to support it, also has evolved over time. In addition to field work, we began initial research efforts that were focused narrowly on programs designed to promote fair and equal access to credit, especially in low- and moderate-income communities. Our research examined lending patterns in neighborhoods to see if banks appeared to treat communities differently. We also evaluated whether the Small Business Administration's loan guarantee programs promote job growth in low-income areas (and we found that they did). In addition, we studied and shared information on research that was done to determine the effectiveness of various programs designed to help low-income families climb their way out of poverty through savings and financial literacy programs.

While work on these topics was progressing, our Bank's Research Department also began to pay closer attention to the factors that

drive improved standards of living in regions and states. The results of their research point to the importance of educational attainment in promoting better outcomes for children and stronger economic growth for cities and regions. In the early part of the 2000's, we began to learn about the work of Nobel Laureate James Heckman and his research on the value of public investment in preschool education. The work of Heckman and others demonstrates that investments in children, especially children from low-income households, are among the most socially profitable public investments. Put another way, education has societal value. Here is another example: In 2006, the Federal Reserve Bank of Cleveland published a study that looked at economic growth in the 50 states during the previous 75 years. The results of the research are clear - the two main drivers of income growth are education and innovation. The research shows that regions with a more educated workforce and higher rates of innovation saw their incomes grow significantly faster over longer periods of time.

The research that we and others have done on education has convinced me that communities and regions will not see their living standards rise without having an ample share of residents who have good educations and strong workforce skills. Affordable housing and fair access to credit, as important as they are, are simply not sufficient to ensure strong communities. The benefits of an education extend beyond what it can do for a person; higher educational attainment benefits communities both economically and socially. Regions with higher educational attainment are more productive, resulting in higher incomes, a key measure of economic well being, and higher growth. This link between education, incomes and economic performance has been shown to be especially important for the economic health of cities and metropolitan areas. Cities with a highly educated population are more productive and better at developing and exploiting new knowledge and technologies, and they have been more flexible in adapting to economic change. In other words, education *is* economic development.

The Importance of a Holistic Approach

As our thinking has evolved to look at education not just in terms of skill-building, but more broadly as a key component in healthy communities, there has been an evolution toward a more holistic view of community development. We have come to understand that the issues affecting us - education, housing affordability and availability, wealth-building, labor markets, and individual health and well-being, among others - can no longer be viewed separately and discretely, but must be taken together as parts of the ecosystem that we call "community." Reflecting this much broader agenda, what we used to call the Community Affairs function in our Bank is now called Community Development. However, the mission remains the same: we continue to work as a partner and a resource to business and civic leaders in tackling all of these issues by acting as a bridge to connect financial institutions, businesses, non-profits, and government agencies.

The evolution in our thinking at my Bank has both built on, and contributed to, the body of knowledge on healthy communities. Throughout our evolution, we have relied on solid research from others who are engaged in this work to educate us and inform our next steps. And we have learned a great deal from research that takes a holistic approach - and a fact-based approach - to determining the factors that really matter in neighborhood development.

I can illustrate this point by citing an ambitious program implemented by the U.S. Department of Housing and Urban

Development (HUD) in the late 1990s. The program, which was called "Moving to Opportunity for Fair Housing," or "MTO," was a 10-year research demonstration that combined tenant-based rental assistance with housing counseling to help very low-income families move from poverty-stricken urban areas to low-poverty neighborhoods. The goal of the MTO project was to develop more effective strategies for improving the health and behavioral characteristics of recipients of tenant-based housing assistance in metropolitan areas throughout the nation.

The program was designed to have five public housing authorities in Baltimore, Boston, Chicago, Los Angeles, and New York City administer HUD contracts under which randomly selected experimental groups of households with children received housing counseling and vouchers that had to be used in low-poverty areas. Regular checkpoints to evaluate the program were part of the process and consisted of an interim evaluation a few years into the program and a final evaluation more than a decade after MTO began. As you can see, MTO was a very carefully designed project.

As it turned out, the results of MTO were much less pronounced than anyone expected. The results show that housing mobility can provide families in poverty with access to a better neighborhood, but the MTO experiment showed mixed results on a range of outcomes such as health, safety and educational attainment. Many of the MTO families who moved to low-poverty areas still did not have access to high-performing schools or good job markets. MTO showed us that changing one's neighborhood is not a panacea for reducing poverty; people need to be connected to the social fabric of their neighborhoods and not feel isolated within them.

The point is that MTO had a significant effect on guiding HUD's thinking about what constitutes success in housing policy. In a nutshell, HUD now thinks more broadly about how neighborhoods function, and the role that neighborhoods have on the health of residents and their ability to get a good education and to find jobs. MTO has caused HUD to recognize that their approach to housing was a siloed one, and that they have to work more cooperatively with other agencies, such as the Department of Health and Human Services and the Department of Education.¹ This is a lesson that should be taken to heart not just at the federal level, but at all levels of community development.

The MTO results telegraph the basic message that neighborhoods are really complex physical and social systems with components that are closely interconnected. This way of thinking about neighborhoods also has had a significant effect on the Federal Reserve Bank of Cleveland's research agenda. My Bank's Research and Community Development staffs have a number of studies underway that focus on neighborhoods in urban areas, including studies that relate directly to MTO.

The research that we and others have been doing builds a body of evidence that, over time, looks holistically at community development and leads to knowledge about what works and what doesn't. This research also provides insights into what the next generation of public policies and programs should be. In addition, new programs should be designed in ways that will produce credible data for further research and learning. If we fail to develop programs in a manner that allows us to test and learn as we go, and to make adjustments based on those learnings, we risk forfeiting scarce and precious resources. We must end programs that fail to produce the results we expected, because the cost of failure is too high. If we don't, we forever lose the opportunity to deploy those resources toward alternative programs with better outcomes.

This Year's Policy Summit

So now, I hope you understand how our thinking at the Federal Reserve Bank of Cleveland has evolved from one that was somewhat narrowly focused, to one that takes a more holistic approach. I hope you also understand how that evolution has resulted in us providing this Policy Summit as a forum for sharing research and ideas in order to identify characteristics of healthy neighborhoods and strategies for building strong communities. This year's Policy Summit agenda is designed to reflect the holistic approach and evolution in thinking that we have been experiencing.

We begin this year's event with a session on the shifting landscape of economic development, to reflect on the latest thinking about workforce development programs; rebuilding neighborhoods anchored by large-scale institutions such as universities; and balancing community investments in both physical and human capital. Tomorrow morning, we will hear from several public officials in our region, the chief executives in their jurisdictions, who are always expected to do more with less. We also have a session that features scholars who have spent their careers evaluating efforts to reform our education system. Our closing speaker, journalist Alex Kotlowitz, will share what he has learned about the challenges of achieving lasting improvement in disadvantaged neighborhoods. In between these common sessions will be many smaller sessions on specific topics such as education, housing, wealth building, and labor markets. Throughout the entire Policy Summit, we will stress the importance of using evidence to evaluate the effectiveness of public policies, and in designing new public programs.

In closing, as we work to rebuild our communities, I hope that we don't fall into the false trap of thinking that we must choose between developing our physical places or developing our human capital. I urge you to think not "people *or* place," but rather "people *and* place." They have to go together. Although I consider human capital to be our nation's most valuable capital, I also know that if neighborhoods are not desirable, people with skills will leave. To retain existing residents and attract new ones, our communities need to offer good schools, access to transportation and core services like grocery stores, safety and green spaces. Communities that can attract residents with the skills to earn good incomes should see an increased demand for housing and, in turn, neighborhood revitalization.

On this 10th anniversary of our first Policy Summit, let me again say how important these programs have been to the evolution of our research and approach to the very real issues facing our communities. I sincerely hope our Policy Summits, with their wide range of topics and speakers, will continue to be beneficial to you and your organizations.

We have learned there are many voices and initiatives that should be shared, and we are delighted to serve as a convener and a catalyst that brings individuals together to exchange ideas and provide best practices.

All of us at the Federal Reserve Bank of Cleveland stand with you, ready, able and willing to do the work of promoting prosperity and financial stability in our neighborhoods and across our country.

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1. <http://blog.rwjf.org/publichealth/2011/12/15/housing-policy-is-health-policy-newpublichealth-qa-with-huds-raphael-bostic/>

