

Forefront

New Ideas on Economic Policy from the FEDERAL RESERVE BANK
of CLEVELAND



Experiments in Education: What's Working in Your Town?

INSIDE:
Policy Rules
New Approaches
to Grant Making
Interview with
Karen Dynan



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Forefront
Federal Reserve Bank of Cleveland
PO Box 6387
Cleveland, OH 44101-1387

forefront@clev.frb.org
clevelandfed.org/forefront

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President and CEO: Sandra Pianalto

Editor in Chief: Mark Sniderman,
Executive Vice President and Chief Policy Officer

Editor: Doug Campbell

Managing Editor: Amy Koehnen

Associate Editor: Michele Lachman

Art Director: Michael Galka

Web Designer: Natalie Karrs

Digital Media Strategist: Lou Marich

Contributors:

Dionissi Aliprantis

Jean Burson

Todd Clark

Joan Curran Darkortey

Thomas Fitzpatrick IV

Jacob Kuipers

Dan Littman

Mary Helen Petrus

Special Thanks:

Michael Bordo

Editorial Board:

Kelly Banks, Vice President, Community Relations

Paul Kaboth, Vice President, Community Development

Stephen Ong, Vice President, Supervision and Regulation

Mark Schweitzer, Senior Vice President, Research

PRESIDENT'S MESSAGE

Sandra Pianalto

President and Chief Executive Officer

Federal Reserve Bank of Cleveland



A substantial amount of research is performed at the Federal Reserve Bank of Cleveland. Most of our work is produced in-house by teams of economists and other subject-matter experts, but we also consult outside experts to augment our findings. Our primary

purpose for any research we conduct or review is to support the development of our policy positions. Whenever possible, we share what we've been learning and thinking about with people and organizations outside the Bank. We provide information in the form of speeches, for example, or in any number of the Cleveland Fed's publications, including *Forefront*.

This issue of *Forefront* features the Bank's recent collaboration with the University of Kentucky in convening an economics of education workshop. Several of our economists have a focus in education research, and their associations with other researchers help spread their findings while providing feedback for their own work. This feature article aims to give you a taste of the cutting-edge research that is aiding efforts to advance educational attainment across the United States.

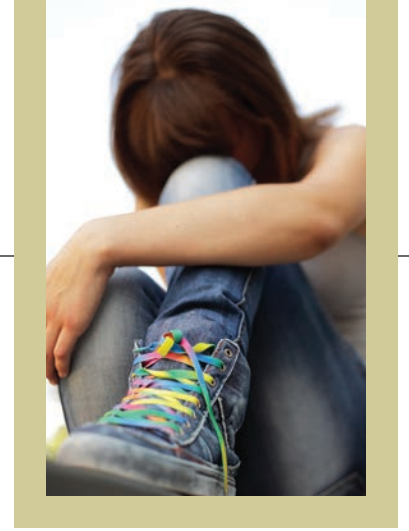
In this issue we also report on the Federal Reserve Bank of Cleveland's involvement with the region's philanthropic networks, an area where our learning is only just beginning. Mary Helen Petrus with the Community Development Department discusses her group's collaborations with foundations and other grant makers across the Midwest. Grant makers are facing tighter giving budgets in the aftermath of the recession and necessarily have become more innovative and focused in deploying their funds. Where the Cleveland Fed can help is in bringing together foundations and public agencies with mutual interests to discuss our research on topics of interest to them.

This issue also puts a spotlight on a group that ordinarily operates out of the spotlight—the Uniform Law Commission. Researchers with the Cleveland Fed have closely followed the Commission's recent efforts to propose a uniform legal framework for handling mortgage foreclosure rules across state lines. The importance of getting the details right when considering different state approaches to mortgage foreclosures, for example, may be a crucial ingredient in the housing recovery. Our researchers are providing input to the process as it evolves.

Our featured interview is with Karen Dynan, vice president and co-director of the Economic Studies program at the Brookings Institution. We invited Dynan to talk with Bank researchers about her work in household finance and macroeconomics. I benefited considerably from her visit to the Bank, and I am hopeful you will have the same reaction to our interview with her.

As you'll see in this issue, in addition to conducting academic research, we spend time talking with educators and policymakers, lawmakers and nonprofit managers, and many more. I always take away something new from these conversations, and invariably their insights provide background for the way I think about Federal Reserve policy. I consider these dialogues an integral part of my job, as they inform my comments around the Federal Open Market Committee table.

The Federal Reserve Bank of Cleveland exists to serve the public interest. As much as we want to share what we know with you, we also want to hear from you. On our website, clevelandfed.org, you can find many resources and key contact information. Please let us know what you think. ■



Homelessness frustrates educational attainment

In 2011, more than 13,000 Ohioans were homeless, an increase of 4.8 percent from 2010, according to the Coalition on Homelessness and Housing in Ohio. Among them were more than 5,000 families with children, an 8.4 percent increase from the previous year's count.

Homelessness used to be thought of mainly as a housing problem. But the growing number of homeless children is prompting a wider range of community institutions and policy-makers to take notice.

The Federal Reserve Bank of Cleveland recently hosted an event to discuss how homelessness relates to a range of issues, including housing, employment, health, social welfare, and education. One of the leading voices to emerge in this discussion has been neither an advocate for low-income housing nor an antipoverty expert, but rather an educator—Eric Gordon, CEO of the Cleveland Metropolitan School District (CMSD).

Speaking at the event, Gordon said he believes that now is the time to address poverty and homelessness as education issues. Almost every one of CMSD's 41,000 students is living at or near the poverty level. During the school year, more than one-third of them will shuttle from homeless shelters to sleeping in cars to doubling up with friends and relatives. These children are living a "bag and go" existence, Gordon says,

which results in high attrition rates and frequent interruptions in the learning process.

A recent audit of CMSD students counted just above 57,000. On an average day, almost one-quarter of them missed school because of mobility; that is, they moved frequently, calling no place (and, by extension, no school) "home." This makes it difficult for students to take advantage of what is offered—good teachers, flexible teaching methods, and mentor-mentee relationships.

Efforts to address this problem are underway. The Education for Homeless Children and Youth program provides school districts around the country, including CMSD, with federal funding to ensure a free and appropriate public education for homeless students. In addition, CMSD forms strategic partnerships with other schools and social service organizations to leverage services and maximize limited resources. One such partnership, with the Cleveland Foodbank, serves a free breakfast and lunch to students, many of whom also receive food-filled backpacks to take home for the weekend.

Project ACT (Action for Children in Transition), one of the district's most successful programs, standardizes the curriculum throughout the district and streamlines the re-enrollment process to help stabilize homeless students' education. The program aims to decrease, or even eliminate, some of the barriers these children face in obtaining a steady education, including failure to meet residency requirement and the lack of adequate school records.

But even with professionals and government officials dedicated to help, the problem of homeless students is only getting worse. Schools need volunteers in the cafeteria and in the classroom. Students need mentors in the business world. And supplies are always welcome. Check with your local school district to discover how you can help.

—Joan Curran Darkortey

Faster payments! Pay! Pay!

Have you ever paid a bill late? Did you pay a penalty? If so, you're not alone. A recent study found that 58 million Americans admit to not paying all of their bills on time, and in 2009 alone, US consumers spent about \$20 billion in late fees on their credit card bills.

But take heart: The number of late payments and associated fees could be reduced if there were a reliable way for consumers to pay bills through banking sites on the day before a bill is due, or on the due date itself.

Such a system exists—in the United Kingdom. The UK's Faster Payments Service, now four years old, allows Britons to initiate payments to businesses and have those payments received, acknowledged, and posted on the very same day; in fact, within an hour or two. These same-day

payments can be used for many purposes, only one of which is making a payment on the day it is due and avoiding a late penalty. Faster Payments Service now carries payments traffic equivalent to 13 percent of all Automated Clearing House (ACH) traffic in the UK.

Wouldn't it be nice if you could make such payments on the same day, here in the United States?

You already can, in a way. US banks offer some services similar to Faster Payments, but not identical. Expedited payment services mainly through banks and card-not-present transactions (paying billers over the phone directly with a credit card) allow some consumers to make same-day payments. Caveats, however, include considerable fees, biller participation, and credit availability—things that can hinder customer use.

The United States has taken a somewhat different path with its payments system than the UK, often to its benefit. But why not an easy-to-use, customer-friendly Faster Payments Service like in the UK? One reason is that the US approach to ACH seeks to gain agreement from all originating and receiving US banks to participate in whatever scheme is adopted, unlike in the UK, where banks were allowed to opt out. Couple that with the reality of cost (the UK's network to support just a handful of banks was quite considerable), and you end up with a lot of complex technology and business issues to hammer out.

Cleveland Fed President Sandra Pianalto, who chairs the Federal Reserve's Financial Services Policy Committee, said in a recent speech she is confident that faster payments are "within our grasp." It's a project that the National Automated Clearing House Association has been working on for several years now, though unlike the UK's system, the US one would also encompass business-to-business payments. The Fed aims to be part of the process, with the ultimate goal of ensuring not only a more efficient payments system, but a more secure one.

How long it will take for the US to implement a faster payments model is not clear. What is clear is that it's not a question of whether, but when. For some of us, it can't happen soon enough.

—Dan Littman

Beware the coaching carousel

On November 4, 2012, the University of Kentucky joined what has become something of an annual tradition in college sports: It fired its football coach.

Just a week earlier, a trio of researchers weighed in on this trend; their results may not hearten Kentucky gridiron fans: "The relatively common decision to fire head college football coaches for poor team performance may be ill-advised," the authors conclude.

A growing body of research suggests that reflexive scapegoating can be ineffective. That's especially true in industries where the gestation period for projects is years in the making, whether it's the development of a championship football team or a blockbuster-generating movie studio.

Moreover, as much as we'd like to assign cause-and-effect relationships to everything, outcomes are often determined by simple chance. (That was the premise of physicist Leonard Mlodinow's 2009 book, *The Drunkard's Walk: How Randomness Rules Our Lives*.)

The latest contribution to the issue of firing the coach comes from professors at the University of Colorado and Loyola University Chicago. They looked at data from 1997 to 2010, comparing football programs that replaced their top coaches because of poor team performance with those who kept theirs. Over the study period, about 10 percent of all football schools fired their head coach each year because of disappointing results. It turns out that replacing the coaches of really bad teams has very little effect on performance. And teams with "middling" records, which you might think would give new coaches a good opportunity to improve decent programs, performed worse than those that kept their coaches.

The authors are careful to note that some teams may advance in the standings under new leadership, but, on average, that's not what the data show. ■

—Doug Campbell

Resources



Go to clevelandfed.org/forefront for links to the full paper on firing the coach as well as the ever-interesting blog, *The Sports Economist*, which tipped us to the story. <http://thesportseconomist.com>

Shaken to Their Foundations

Grant makers adjust to tighter budgets with creativity, collaboration, and an increasingly long-term strategic horizon



Mary Helen Petrus
Outreach Manager
and Senior Policy Advisor

In post-recession America, winning grants for community development and social service efforts is more competitive than ever. The challenge is different but equally difficult for the foundations that make the grants.

For a broad range of grant makers, investment income is down and donations are smaller, according to the Foundation Center. US foundations' assets plunged more than 17 percent in 2008, the start of the recession, and gifts to foundations fell by almost 16 percent. In fact, funds from all sources—public and private—are scarcer, and community needs are on the rise.

That's a big problem for front-line responders—community development corporations, food banks, housing counseling agencies—which rely on grants to fund many of their programs and much of their operations. It's also problematic for the foundations themselves, which must identify emerging issues and community concerns, as well as promising approaches for tackling them, with leaner resources than in past years.

Given these developments, the Federal Reserve Bank of Cleveland recently set out to talk with foundations and other grant makers throughout the Midwest. We began the conversation by posing some key questions: How are funders managing and making their funding decisions in tough economic times? What are the potential impacts? What works? What doesn't? With tighter budgets now a given, figuring out the answers and delineating ways to channel resources toward common goals is imperative.

In sum, we learned that grant makers are tightening their belts with innovation, increasing focus, collaboration, and plain hustle.

And intriguingly, we were told of a small but sure shift in the kind of grants foundations are considering. Whereas in past years, grants tended to focus on responding to immediate needs, today there is stepped-up concentration on so-called “strategic” grants, which take on wider problems in multifaceted ways. True, the dollar amounts of grants for strategic efforts account for only a fraction of the overall flow, but even so, the change has the makings of an interesting experiment that could well play a role in the future of grant making.

Community challenges

Ohio has weathered the recession fairly well compared with other states, but funding challenges still have mounted. According to a recent report by the Ohio Grantmakers Forum, total charitable giving in Ohio dropped from \$6.5 billion in 2008 to \$5.9 billion in 2009, a 10 percent decrease. Ohio individuals gave 7 percent less in 2009 than in 2008, after a decrease of 11 percent the year before. Foundation giving, as a component of all charitable giving, decreased by 8 percent from 2008 to 2009.

More than one-third of respondents to the Foundation Center's 2012 Foundation Giving Forecast Survey said they had reduced giving in the past year. Meanwhile, government funding for many social service and community development programs has also decreased. This leaves foundation grantees with fewer resources to operate, much less to deliver programs and services to their constituents.

And the needs of constituents have only grown with the recession and slow recovery. Some foundations have seen an increase in homelessness and hunger. Foundations almost uniformly identify as challenges the quality of public education and its ability to connect with workforce preparedness programs, as well as the disconnect between workforce training programs and the skills required for available and future jobs.

Other challenges vary by region:

- In Springfield, Ohio, funders are concerned about vacancies and real-estate-owned property—foreclosed homes that have gone back into the lender’s hand and often sit vacant for long periods. They are also concerned about dental coverage for low- to moderate-income people because many dentists in the area do not accept Medicaid and local hospitals no longer house dental services.
- Cincinnati funders are concerned about the deterioration of the quality of life in city neighborhoods—the lack of access to quality food, limited public transportation, and fraying infrastructure.
- Pittsburgh funders are concerned about the poverty of growing numbers of households headed by single African-American women. And the list goes on.

Addressing the challenges with different types of grant making

The types of foundations are as varied as the types of challenges regions face. They range from large and small private and family foundations to corporate and community foundations. For instance, the ever-present United Way has lately been balanced in many locations by smaller “giving circles,” in which individual members pool their money and jointly decide on projects to fund.

Foundations are 501(c)(3) charitable organizations whose missions determine their funding priorities and the types of grants they award. Although differences in the foundation world make it difficult to generalize, we observed that foundation grants fall into two general buckets—responsive and strategic.

The larger bucket is made up of responsive grants, which in some cases are awarded to organizations that submit proposals requesting funds for a specific purpose, usually to address immediate or shorter-term capacity, capital, or community needs. Some grants are seed money meant to help organizations start new programs. A small number are unrestricted; in other words, the organization determines the best use of funds. There are also challenge and matching grants and those that contribute to the endowment funds of nonprofits.

Today there is stepped-up concentration on so-called “strategic” grants, which take on wider problems in multifaceted ways.

Many foundations have responded to the economic downturn by trying to do more with less through responsive grant making. To accomplish that, many are directing grantees to engage in “intelligent retrenchment”—to focus on delivering on their core mission and dropping anything beyond that. Funders are also encouraging grantees to share resources, collaborate, merge, find alternative revenue streams, and even to pursue social enterprises.

But increasingly, foundations are looking at opportunities for initiating strategic grants according to the priorities of their leadership or in partnership with other organizations. Foundations make strategic grants, which tend to be long-term, to address their communities’ tough systemic issues. As we traveled Ohio talking with foundations, we noted an uptick of interest in strategic funding and initiatives on the part of community foundations in small towns with big-city problems. The goal is to make a lasting impact.

Keith Burwell, president and CEO of the Toledo Community Foundation, highlights its Overland Park Community Engagement Project initiative. Through it, the foundation invests in neighborhood and residential improvements to bolster the industrial redevelopment of an 111-acre brownfield site that was once home to a Jeep factory. While encouraging new businesses to locate in the neighborhood, the foundation also focuses on training and employment for residents. In addition, the foundation has initiatives on education, human trafficking, and low-birth-weight babies.

Another promising strategic and collaborative initiative, funded by the Dayton Foundation, is Learn to Earn, a program similar to College Promise. It coordinates education providers and nonprofit partners to support children’s readiness to learn by kindergarten and young adults’ ability to earn a living after they graduate.

Many funders are also sharpening their focus with “place-based” or “hyper-local” strategies and investing in the community development and human capital needs of specific neighborhoods. The St. Luke’s Foundation in Cleveland, for example, formerly involved in programs that fell under the broad “human services” umbrella, has decided to concentrate on three issues: urban health, urban families, and neighborhood revitalization.

Another example is the Columbus Foundation–funded Weinland Park Collaborative, a partnership of many agencies and organizations working with residents to improve the housing, safety, education, employment opportunities, and health outcomes in the Weinland neighborhood. Heinz Endowments in Pittsburgh is also using a comprehensive, place-based approach and is committed to multiyear investments in two neighborhoods.

Again, these approaches might best be described as a move toward more strategic, holistic grant making.

Grants that provide food to families are of course crucial, but in the long run, it is more crucial to provide grants to end the root causes of hunger, such as poverty, joblessness, and neighborhood decay.

A good example of strategic grant making at its best is Living Cities, a partnership of 22 funders and financial institutions that supports efforts to better the lives of low-income individuals, the cities they live in, and the systems that affect them. The Living Cities Integration Initiative recently awarded the Cleveland Foundation close to \$15 million in grants and loans to support wealth-building programs and residential and commercial development in the University Circle neighborhood. The Integration Initiative's focus on Cleveland and four other cities is based on the notion that a multipronged, long-term, place-based investment will yield the strongest results. A local example is the Fund for Our Economic Future, a 16-county collaboration of funders and other partners working to advance Northeast Ohio's long-term economic competitiveness through strategic grant making, research, and civic engagement.

Even though the dollar amounts going to strategic investments remain a small part of foundations' total giving, the subtle shift could signal a big change in the way they operate. Grants that provide, say, food to families are of course crucial, but in the long run, it is more crucial to provide grants to end the root causes of hunger, such as poverty, joblessness, and neighborhood decay. In the case of the Overland Park effort, for example, the tradeoff is to reduce geographic scope in the interest of making a larger impact in a single area.

Impact — it's about connecting the giving

The boomlet in strategic grant making wouldn't be possible without foundations' effort to be more collaborative than in years past. For example, late last year, five Ohio foundations joined with Grantmakers in Health to award funds enabling the Ohio Department of Health to hire a grant writer who secured \$1 million for the Prevention and Public Health Fund Coordinated Chronic Disease Prevention and Health Promotion Program.

"Today, there are more ways for people to exercise their philanthropic impulse," says George Espy, president of the Ohio Grantmakers Forum (OGF). "Until recently, most philanthropy was conducted through foundations and by bequest. Now there are more living donors than ever before." For this reason, and because of the increasing numbers of giving circles and individual philanthropists, foundations need to be better at connecting with each other and with other funders.

That's the premise behind the OGF's new education initiative, in which foundations jointly leverage funds to educate public officials about the impact of current state law on students' performance. OGF and many foundations comment on tax policy that could adversely affect charitable giving, such as capping the charitable deduction and not renewing expiring provisions of the IRA charitable rollover.

Established in 1984, the OGF is a membership organization of foundations, corporate contributions programs, and other Ohio philanthropists. It is one of 33 staffed regional associations of grant makers in the United States. Ohio has more than 3,000 foundations, most of them independent rather than corporate or community organizations.

The OGF's membership of about 200 foundations has combined assets of close to \$11 billion, and it awards more than \$735 million annually—70 percent of all grant making in the state. In addition to organizing events and programs, the OGF is active in policy, advocating on behalf of its members and educating them on the potential impact of state and federal policy issues on philanthropy.

It's through connecting and sharing information that collaboration happens. A case in point was a September 2012 meeting in Toledo convened by the Cleveland Fed and the Ohio Grantmakers Forum and hosted by a regional network of Northwest Ohio Funders. At the national level, the Funders' Network is a group of foundations concerned about sustainability, land use, and community impacts. The group sponsors events and organizes working groups of funders for shared learning on timely topics.

Working groups aim to enhance funders' knowledge of best practices in different areas and to influence policy. Because their interests are aligned, a number of Reserve Banks have participated in meetings convened by the Foundation Network's working group on restoring prosperity in older industrial cities.

"It's important that networks have means for connecting," says Espy. "It's a means for more effective philanthropy and a way to make a bigger impact on issues."

Metrics — determining need and measuring success

You can't manage what you can't measure, but for grant makers, measuring is easier said than done. It takes a long time to see improvements, so metrics must look at the long horizon. Grant makers are undertaking several efforts for improving their metrics to better reflect the new way of strategic grant making.

For example, many community foundations, United Ways, strategic grant makers, and others interested in effecting long-lasting change have developed new methods for determining funding priorities and evaluating success. The United Way of Central Ohio created an agenda for community change around 10-year "Bold Goals" for education, income, health, and neighborhoods. This agenda guides funding decisions and measures progress toward the "Bold Goals" against pre-determined "leading indicators."

The United Way of Allegheny County, Pennsylvania, employs a similar model called Community Impact, which focuses on three key areas: helping children and young adults to succeed; providing financial stability for families; and assisting the most vulnerable populations. The collective-impact approach has been used by community foundations to engage a variety of stakeholders in a common agenda that addresses needs such as public education reform, economic development, and job creation.

Even with well-thought-out strategies, however, determining success and evaluating effectiveness is a tricky, expensive, and fluid business. Outcome measures can be defined for strategic grant making, but they are difficult to develop for responsive grants. All measures depend on the grantee and the specific project or initiative, and foundations are constantly reassessing the relevance of the benchmarks they've given grantees to meet. As community needs change, foundations alter the way they evaluate success, so the metrics are ever-changing.

If grant makers hold nonprofits accountable for performance, who holds grant makers' feet to the fire? Oversight of foundations occurs at both the federal and state level. All nonprofit private foundations are required to file annual reporting forms with the IRS, providing information about mission, programs, and finances. At the state level, the charitable-law section of the Ohio Attorney General's Office provides oversight to ensure that funds are spent in the public interest. Foundations also have self-policing mechanisms through board oversight or composition. The boards of public charities are often made up of public officials who must answer to their constituencies.

Future prospects

The recession's real impact on grant making is only beginning to be felt. Grant making sometimes trails the market by two or three years because decisions are based on returns on investments and earnings in prior years. In 2011, foundations gave an estimated \$46.9 billion; after taking inflation into account, their contributions decreased slightly from 2010. According to projections based on the Foundation Giving Forecast Survey, grants in 2012 will remain unchanged at best, and will likely increase only modestly in 2013.

The lessons learned in lean times are vital. Looking toward the future, collaborations — among grantees and among grant makers — hold much promise for informing public policy by answering the question, what works? And increasingly, grant makers are showing confidence in the potential payoffs from strategic grants.

At the Cleveland Fed, our plan is to continue the conversation by working with and informing local, regional, and national foundations on community and economic development issues. As more grant makers collaborate with one another and other agencies on projects of mutual interest, they may learn ways to effectively and efficiently align private and public resources, particularly when it comes to strategic grant making. This type of alignment may seem elusive to practitioners, but a heightened awareness of common interests and funding decisions is at least a first step toward promising synergies. ■

Resources



For more information, check out the Ohio Grantmakers Forum at www.ohiograntmakers.org

Behind the Scenes, Little-Known Group Works to Harmonize Foreclosure Rules



Thomas J. Fitzpatrick IV
Economist



Mark Greenlee
Counsel

States' rights are considered as American as mom and apple pie. But most agree that on some issues, uniformity across state lines is crucial. For both businesses and consumers, consistency in state laws can help reduce costs (as with a firm trying to comply with varying and contradictory statutes) and improve decisionmaking (as with a person understanding his consumer rights).

Over the years, a big part of the job of preserving the delicate balance between state and federal powers has fallen to a low-profile but enormously important group of state-government-appointed lawyers, judges, and legislators. Collectively, they are known as the Uniform Law Commission (ULC). Since its formation in 1892, the ULC has prepared more than 250 uniform laws for possible adoption by the states. Its most prominent accomplishment is the Uniform Commercial Code, which governs scores of commercial transactions and contracts in most states.

Now, the ULC is taking on the mess that is the foreclosure crisis.

In June of this year, the ULC's Drafting Committee on Residential Real Estate Mortgage Foreclosure Process and Protections met for the first time to discuss drafting an "overlay" to state laws governing the foreclosure process.

It's an interesting intersection of commercial and property law. States have traditionally guarded property law very closely. Given the inertia that is built into the legal system — where precedent tends to rule the day — the challenge of bringing some uniformity to the practice of foreclosing on mortgages in different states is substantial.

The 24 topics discussed at the Committee's first meeting can be grouped into three categories: alternatives to foreclosure, borrowers' rights in foreclosure, and the mechanics of foreclosure. All three could affect consumers in major ways, which makes it all the more disappointing that the initial round of comments drew fewer consumers' voices than one would optimally want in drafting policy.

1. *Alternatives to foreclosure* include loan modifications, short sales, deeds in lieu of foreclosure, and relocation assistance (also known as Cash for Keys programs). Many states have established foreclosure mediation programs in which these options are discussed. During mediation, the lender may agree to modify the terms of the loan to allow the borrower to remain in the house, or, when that is not possible, the borrower and lender may settle on a graceful exit. The devil is in the particulars of each state program. Some involve judicial supervision; others allow borrowers to opt in or out of the programs. The Committee plans to address how these programs should fit into the foreclosure process. The consumer impact is clear: Mediation may determine whether the borrower stays in her home, walks away, or is forced to leave — no matter which state the house is located in.
2. *Borrowers' rights* raise a number of issues: What kind of notice should borrowers receive before foreclosure? A newspaper listing? Regular mail? In-person delivery? Should the borrower's right to cure or re-instate a defaulted loan be addressed? If so, how? How should courts be involved in the confirmation of foreclosure sales? How should post-sale redemption work? From the consumer's perspective, the way notice, cure, confirmation, and redemption issues are addressed may affect the amount of time and money spent on courtroom wrangling.

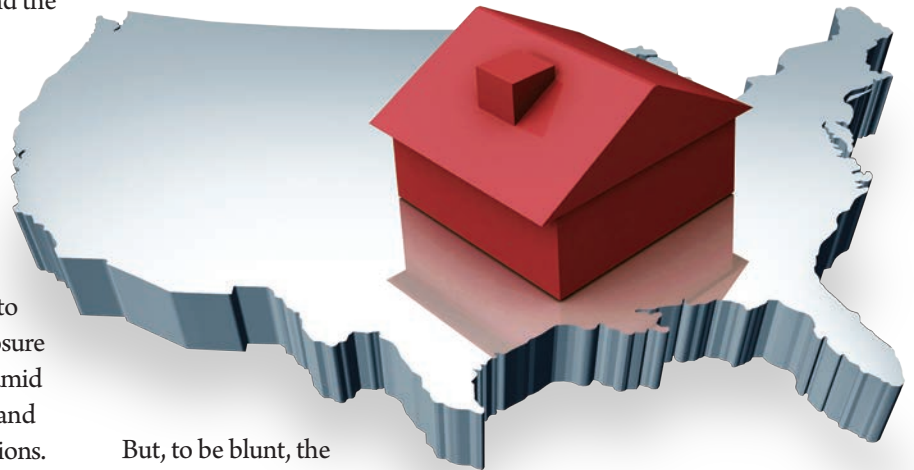
3. With *foreclosure mechanics*, the consumer impact isn't as immediately obvious. For example, the question of who can commence a foreclosure and whether that person needs a complete chain of assignments to foreclose seems at a glance to lack a consumer angle — until you realize that many borrowers raise these issues as defenses against foreclosure. This is an issue we know about today primarily because of the “robo-signing” scandal that led to sanctions from the Federal Reserve and a general settlement between the largest servicers and the attorneys general of 49 states.

Questions over who can initiate foreclosures have prompted discussions on whether the uniform law should create or prepare for a national electronic mortgage and note registration system. The current version — the Mortgage Electronic Registration System (MERS) — has been controversial, in part because of confusion over whether it should be able to commence foreclosure proceedings. Since the foreclosure crisis began, use of MERS has substantially declined, amid criticism from consumer and community advocates and court orders barring MERS from filing foreclosure actions.

But that is not to say that a national electronic registration system would not have value. Rather, it highlights the importance of improving the legal infrastructure for transferring mortgages and notes. A new system, operated by a trusted intermediary with the right incentives for compliance with the law, may improve market efficiency. This, in turn, may benefit both lenders and consumers by providing certainty about who has the right to collect payments and foreclose on real estate collateral.

Fast-tracking vacant and abandoned housing through the process is another foreclosure mechanism with divergent implications for consumers, depending on where they live. That's especially true in cases when the home is vacant and abandoned; borrowers and neighborhoods don't benefit from a long and protracted foreclosure process, and neither do lenders. But fast-tracking is not uniformly available or easy to secure. Lack of fast-tracking can harm entire neighborhoods because vacant and abandoned properties decay and are vandalized during the lengthy foreclosure process. On the other hand are legitimate concerns about the potential for improper use of expedited foreclosures, perhaps when a property has not truly been abandoned by its owner. The Committee must consider these issues as it crafts the uniform law.

There are many additional, more technical aspects of the foreclosure law that the Committee is still determining whether or how to address, all of them important to different stakeholders in the realm of housing finance and ownership. The Committee is in the early stages of the process. As it decides on its approach to the issues, a model law will be drafted and eventually presented for adoption by the full ULC; then the process of introducing bills in the individual states will start.



But, to be blunt, the process needs more input.

Approximately 60 people attended the first ULC meeting, including representatives of large residential mortgage originators, government-sponsored enterprises that purchase residential mortgages, financial institutions' trade associations, banking regulators, state attorneys general, and consumer advocates. But consumers were under-represented, and that needs to change.

Experts who work with these laws every day know the pragmatic impact that changing a single word can have: A “may” becomes a “shall”; an “and” becomes an “or.” In the Committee's future meetings, more expert input from all viewpoints would be extremely useful in ensuring that the proposed draft makes sense for all stakeholders. In fact, the Committee has specifically called for more consumers to weigh in on the proposed “overlay” to state laws governing the foreclosure process. Not only will a broad spectrum of voices help produce a better proposal, but state legislatures are more likely to adopt laws that have been vetted by all parties. ■

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During the drafting process, the Committee holds open meetings at which it solicits citizens' input and feedback. Sign up to follow this Committee and be notified of future meetings at <http://uniformlaws.org/Committees.aspx>

What Is the Taylor Rule and What Is It Good (and Not Good) For?



Forefront talks to the Cleveland Fed's Todd Clark, vice president of macroeconomics and monetary policy.

The Taylor rule is not exactly a rule, but it is a useful tool to help economists and Federal Reserve officials think about how they should conduct monetary policy. *Forefront* talks to the Cleveland Fed's Todd Clark, vice president of macroeconomics and monetary policy, about the Taylor rule's ins and outs.

Forefront: The Taylor rule, named for economist John Taylor, says that central banks should change interest rates based on movements in inflation and how far the economy is performing from its potential. I've heard that in practice, the Taylor rule encourages policymakers to "lean against the wind." Do you think that's an accurate description?

Clark: Yes, I think that is an accurate characterization of the spirit of the Taylor rule and other rules like it. To achieve its long-run goals of price stability and maximum employment, the Federal Reserve needs to move the target for the federal funds rate in a systematic way in order to stabilize economic activity and inflation. The Taylor rule conveniently boils things down to just two indicators: inflation relative to target and the level of economic activity relative to the economy's potential.

Forefront: What does the Taylor rule (generally speaking) prescribe if growth is going gangbusters and inflation is ramping up?

Clark: As the economy expands above its potential and inflation rises above target [the Federal Open Market Committee's (FOMC) objective is 2 percent], the Fed should raise interest rates. Conversely, as the economy contracts below its potential and inflation falls below target, the Taylor rule prescribes lower interest rates. In both cases, the Fed would be leaning against the wind. The Taylor rule provides a quantitative prescription for how much leaning is needed by drawing on the historical behavior of Federal Reserve monetary policy.

Forefront: Do FOMC members walk into their meetings expecting to strictly follow the prescriptions of the Taylor rule?

Clark: To be clear upfront, I have never surveyed FOMC members on this question. That said, I feel comfortable saying I don't think FOMC members — current or past — view a policy rule like the Taylor rule as something that needs to be precisely followed. Rather, the rule serves as a convenient guidepost by providing an effective summary of the past behavior of monetary policy. Also, in theoretical models, the rule tends to work well (compared to other possible rules) in stabilizing the economy. Some FOMC members have explicitly described the Taylor rule that way in public comments.

Forefront: *One could argue that precise adherence to a policy rule would undermine the need for the FOMC in the first place, and that this would be a good thing, inasmuch as it would make monetary policy decisions less vulnerable to short-term political pressure. Conceivably, a computer could set monetary policy by following the Taylor rule.*

Clark: Yes, but at any time, the FOMC may have good reason to depart from the guidepost due to economic circumstances being more complicated than can be captured by just the economic activity and inflation indicators included in the rule. Financial conditions are a good example. Due to financial conditions being unusually good or bad, the FOMC might have reason to keep interest rates above or below the prescriptions of the Taylor rule.

Forefront: *What was the Taylor rule telling the Fed in the years before the financial crisis? That is, some have argued that if it had closely followed the Taylor rule, the Fed would have raised rates sooner and faster, perhaps heading off an asset bubble. Do you think that's a fair characterization?*

Clark: One of the things that evaluations of the pre-crisis period highlighted is that different versions of the Taylor rule, each with some merit, can sometimes yield fairly different policy prescriptions. John Taylor himself has pointed out that his original, simple version of the rule calls for short-term interest rates that would have been significantly higher in the pre-crisis period than they actually were. Others have pointed out that some versions of the rule imply interest rate settings reasonably close to the actual course of monetary policy during the pre-crisis period. These other versions of the rule are thought by some to have advantages,

The contrast between the United States and the United Kingdom provides a very simple indication that monetary policy was not the driver of the boom and bust.

such as basing the rule setting on forecasts of economic activity and inflation instead of past values, in order to make policy as captured by the rule looking forward, as it is in practice. These other versions of the rule also take account of the fact that at the time policy decisions are made, they have to be made on the basis of the preliminary data measures available at the time, not the revised measures available much later in time.

Forefront: *Okay, but what do you think?*

Clark: Overall, personally, I think Chairman Bernanke's January 2010 speech to the American Economic Association made a persuasive case that the bulk of the evidence suggests that the course of monetary policy in the pre-crisis period was broadly consistent with Taylor-type rules and that other factors were the primary drivers of the bubble that eventually burst. To me, at least, the contrast between the United States and the United Kingdom provides a very simple indication that monetary policy was not the driver of the boom and bust: The UK experienced a housing boom and bust similar to the one in the US, despite having higher interest rates in the pre-crisis period.

Forefront: *If the Taylor rule is a useful guidepost for FOMC members, how would you describe its usefulness to economists in general? How do you use the Taylor rule—or any policy rule—when preparing economic forecasts, for example?*

Clark: The Taylor rule is useful to economists in the same general way it can be useful to FOMC members, especially for modeling. Any economic model used for forecasting or other types of macroeconomic analysis has to include an equation that describes the behavior of monetary policy. This equation usually relates the federal funds rate to a handful of economic indicators, covering economic activity and inflation. That equation doesn't have to follow exactly the form of a Taylor rule, but it will have the same kinds of properties. In particular, the equation for the federal funds rate will reflect systematic responses of monetary policy to economic activity and inflation. In my own modeling, I find the specific form of the Taylor rule to be helpful because it is so simple and familiar to many. Being able to refer to the Taylor rule greatly simplifies explaining to others the behavior of monetary policy in the model. ■



Recommended reading

For more on the Taylor rule, read "Gaps versus Growth Rates in the Taylor Rule" by Charles T. Carlstrom and Timothy S. Fuerst at www.clevelandfed.org/research/commentary/2012/2012-17.cfm

"Policy Rules in Macroeconomic Forecasting Models" by Todd E. Clark at www.clevelandfed.org/research/commentary/2012/2012-17.cfm



Speech

For the full text of Chairman Bernanke's January 2010 speech to the American Economic Association, visit www.federalreserve.gov/newsevents/speech/bernanke20100103a.htm



The Illustrated Economics of Education

The typical American city has become one big lab for education experiments.

Charter schools compete with public schools. There are voucher programs in Milwaukee and teacher evaluations in Los Angeles (and in scores of communities in between). The stakes are high—the country’s global standing depends on the quality of its human capital and its capacity for innovation and economic growth.

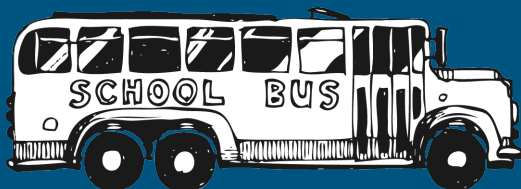
Just as every industry requires effective R&D to prosper, so too does the education system. But ideas need to be tested. New programs change lives—for teachers, parents, and, most importantly, for children. We are still in the learning stage for many new efforts.

As educators and policymakers try out new approaches, economists make progress on the all-important question of what works. Earlier this year, the Federal Reserve Bank of Cleveland and the University of Kentucky hosted a two-day workshop, the Economics of Education. A panel of economists presented analyses of a cross section of some promising reform efforts.

The upshot of these studies is that figuring out what works is complicated. Sometimes, ideas that seem so intuitively sensible can have unintended results. For example, some efforts to create smaller schools have drawn controversy in recent years. Everything else being equal, smaller schools might seem like a perfect solution, but changing the size of schools might also change the caliber of the teaching staff and the composition of the student body; forced moves might also have disruptive effects on students. The fact is that many factors are at play in determining educational outcomes.

Education reforms are serious business and important to get right. The research summarized here only hints at some of the pitfalls reformers may encounter.

—Doug Campbell

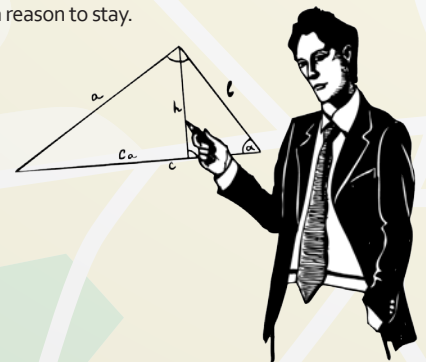


Distributing Teachers across School Systems

The University of Kentucky’s Tom Ahn asks how school systems can keep a good mix of teachers in every school, instead of concentrating too many high-quality teachers in some schools to the detriment of others.

Ahn tried to figure out how mobile teachers really are in the relatively rigid, seniority-based labor market for teachers, and how much discretion principals have in hiring the best ones. Another way of thinking about it: How can policymakers slow the hemorrhaging of good young teachers who accrue human capital at underperforming schools and transfer to high-performing schools when their skills would most benefit the students they taught earlier?

Ahn concludes that keeping “good” teachers at “bad” schools means changing the characteristics that make schools bad. That may involve the mix of teachers, of course, but it also may depend on the mix of students as well as the building, resources, and curriculums. To keep “good” teachers, you have to give them a reason to stay.



How Teacher Accountability Programs Can Backfire

Tying teacher compensation to student outcomes (particularly test scores) is a proven technique for improving teachers' performance, but it is no panacea. Teachers could have incentives to game the system to their benefit.

Hugh Macartney of Duke University gets at this conundrum by investigating how fifth-grade teachers in K-5 schools perform compared with their counterparts in K-6 and K-8 schools. According to the theory of rational economic behavior, fifth-grade teachers in K-5 schools will put no lid on their effort to help students achieve high test scores. After all, they needn't worry that the high bar they've set will matter in their school the following year, when their students will have moved on to a new school. The result is known as the "ratchet effect."

By contrast, fifth-grade teachers in K-8 schools will respond (again, in theory) by putting in less effort so that the continuing students won't have set as hard a target for the upper-grade teachers. As Macartney puts it, "a strong performance today makes it more difficult to reap a bonus tomorrow."

Macartney found some evidence that this theory is validated in practice—with distortions from average test scores of between 12 percent and 22 percent. Granted, there are plenty of other reasons that might explain what the data show. The lesson is that whatever structure is in place, it's important to think through how people might respond. What works in a K-5 school might not in a K-8.

Why Charter Schools Open When and Where They Do

Charter schools have emerged as a force in urban areas, where underperforming schools are legion. They are publicly funded but are independent of school districts. In theory—and often in practice—their flexibility in teaching methods makes them good alternatives for many families.

The amount of public funding that charters receive depends on the number of students they teach, so potential entrants into the charter market must think carefully about the size and quality of their pool of potential students and which neighborhood to open in, among other factors. Maria Marta Ferreyra of Carnegie Mellon University took an unvarnished look at how the proprietors of charter schools decide when and where to open, and how households choose them. Her study area was Washington, DC, between 2003 and 2007. The most important of Ferreyra's many conclusions may be that some charters are better than others, not because of their outstanding curriculums or staff, but because of the choices they made before opening. Charters are shaking up education through innovation and competition, but it's crucial not to conflate a wise entry choice with an effective curriculum or teaching staff.

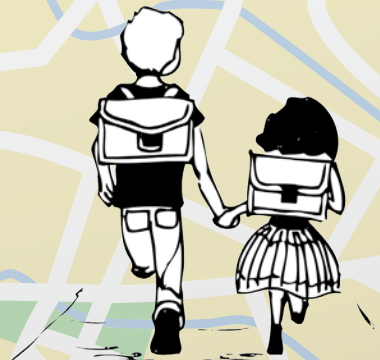
Do High School Teachers Really Matter?

That is the title of a provocative study by Northwestern University's Kirabo Jackson. The prevailing wisdom in the economics of education is that teachers matter quite a bit. A body of literature points to teachers as the most important factor in determining students' success.

But Jackson noted that this conclusion is based on studies of elementary school teachers, while high school students are exposed to different teachers, tracks, and classmates. So "students who take Algebra 1 with Mr. Smith may take physics with Mr. Black, whose teaching has a direct effect on algebra scores." The consequence of this and other sources of bias is that student outcomes depend on more than one teacher or factor. Jackson's methodology tries to account for "track treatment effects." He looks at Algebra 1 and English 1 students in North Carolina and finds that the teacher makes only a slight difference in algebra test scores and almost none in English scores. The nettlesome implication for policy-makers is that it is very hard to distinguish between the effects of teachers and those of the tracks or peer groups to which students are assigned. If high school teachers are compensated according to the same evaluation formula as elementary school teachers, then Jackson's research suggests that someone will be mismeasured. In the end, we all pay for that misappropiation.



Charter Schools



It's Not *Whether* to Go to College—It's *Where*

On average, college graduates earn more than non-graduates, and graduates of elite schools make more than graduates of non-elite ones. But that's not the end of the story. Where students of different abilities decide to attend is really important. Would it be sensible for a student of relatively low ability to attend an elite school if accepted? There's no straightforward answer.

A sophisticated examination of how college quality affects post-graduate earnings is provided by Rodney Andrews, of the University of Texas–Dallas, and his co-authors. Instead of examining the average effect of college quality on earnings,

the authors look at the distribution of returns, drawing some compelling results from data on public colleges in Texas.

For example, a student in the bottom 10 percent of their class at University of Texas–Austin enjoyed a college premium of about 2.7 percent, but the premium was almost 32 percent for someone in the 97th percentile. This suggests that the lower-ability student might have made better use of college and earned more by attending a different school.

The policy implications apply mainly to guidance professionals: It's important to consider a student's background and likely career path before advising which school to attend.

Underlying Reasons for Dropping Out

We don't want students giving up on college because of money problems, social difficulties, or lack of encouragement from parents or mentors.

The University of Western Ontario's Todd Stinebrickner homes in on one of the leading non-financial explanations for dropouts—that students discover how well they are likely to perform only after entering college and studying for a while. Some may find their courses harder than they'd expected. Stinebrickner's major contribution is disentangling whether students drop out because they find out about low future wages or because a school is really unpleasant. As it happens, 60 percent of dropouts are associated with the unpleasantness factor.

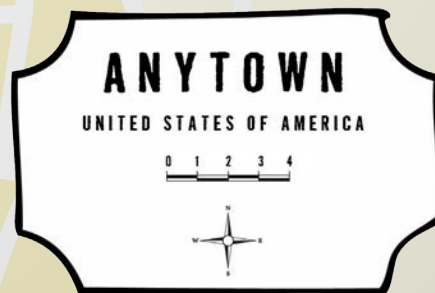
A big policy implication is that schools could and should do more to help students bounce back from a bad semester, because many students could do substantially better just by toughing it out. We want students to drop out only for sound reasons, and finding out that college is hard does not qualify.



Neighborhood Effects

Where people live affects a whole range of outcomes, including educational attainment. In the mid-1990s, five cities participated in Moving to Opportunity, a major effort to improve people's living situations by giving housing vouchers to low-income families. The goal was to help them move to better neighborhoods, and it was assumed that better education outcomes would be among the many improvements for these families' children. Unfortunately, the results did not bear that out. In fact, the program had neither very positive nor very negative effects on learning performance.

Building on their previous work, the Cleveland Fed's Dionissi Aliprantis and Francisca Richter argue that it's not that "moving" programs don't work; it's that Moving to Opportunity, in particular, mainly succeeded in letting some people move from very bad neighborhoods into only slightly better ones. It's still plausible that a more even distribution of students (measured by their families' incomes) among schools would lead to better outcomes. Bottom line: Neighborhood effects exist and are still worth studying.



Recommended reading

For the full text of papers presented at the UK–FRBC workshop, go to <http://gatton.uky.edu/Economics/2012Workshop/>

Why Can't Some States Balance Their Budgets?



Jean Burson
Policy Advisor, with **Jacob Kuipers**
Research Intern

With the recovery slowly taking hold, now is a natural time for state and local governments to begin getting serious about shoring up their battered finances. The 50 states face varying degrees of fiscal difficulty. A few of them managed to come through the Great Recession without incurring budget shortfalls, but many have piled up more debt on budgets that were already groaning under the weight of chronically underfunded pensions.

What accounts for these differences among states, and why will some have a harder time getting their affairs in order than others? In many, limited budget tools hamper lawmakers. In others, the reasons have been institutionalized into their constitutions and policies. In some states, a polarized political climate bedevils budget reforms. In various combinations, these forces may hamstring policymakers who could otherwise respond quickly and efficiently. At the same time, some states seem to keep their finances in balance smoothly and consistently.

Against that backdrop, we present a primer on how these different forces may combine to affect policymakers' ability to respond to a fiscal crisis—and why some states may weather fiscal storms better than others.

Force no. 1: Budget tools

Many states keep rainy day funds to offset unexpected budget deficits. These funds vary in size, but most states set aside about 5 percent of annual expenditures, an amount that is often insufficient to address a serious crisis. Several states have adopted restrictions to prevent frivolous spending, such as requiring a supermajority vote (more than 50 percent) to release funds; limiting the amounts that can be disbursed at one time; or imposing unrealistic requirements for replenishing the fund. A rainy day fund may sound like a good idea, but the restrictions just mentioned can delay or even prevent tapping the fund when it is most needed. The lesson here is that states must strike a balance between restrictions that preserve the funds during surplus years and those that limit their use during deficit years.





On this front in particular, independent fiscal agencies — nonpartisan, publicly funded organizations like the California Legislative Analyst’s Office or New York’s Legislative Finance Committee — can give state officials objective fiscal and policy analysis and guidance. This increases the likelihood that officials will recognize problems early enough to seek an effective solution, preferably before they must tap rainy day funds. Fiscal agencies are most effective when they are appropriately funded and truly independent and enjoy a solid reputation with the media and the general public. In times of crisis, they can be a state government’s best friend.

Force no. 2: Institutional requirements

Most states have constitutional requirements for balanced budgets, but how a balanced budget is defined and how well requirements are enforced can vary greatly. Some states are barred from carrying deficits into the following fiscal year or issuing debt to finance a deficit. Others require only that shortfalls in their operating budget are corrected, but allow deficits to pile up in other parts of their budgets, like pension funding. In fact, the pension problem is a prime reason why some states are in their current budget predicaments, while others have closed budget gaps more effectively.

Balancing a budget in times of economic strain would be hard enough in itself. But several states must also clear the hurdle of a supermajority voting requirement for legislation on taxes and appropriations. While intended to safeguard against abuse by one party, this requirement can also result in deals in which earmarks are promised to gain additional votes that ultimately increase the budget burden. Supermajorities in practice have proven less than optimal for many states.

Another institutional force is at work in states where budget-related legislation must be approved by the public. Of course, gaining voters’ approval for budget-related legislation requires a significant investment in time and resources to inform the public and put the issue on the ballot. Even then, the risk that voters will not approve new taxes remains, reducing a state’s flexibility in responding to fiscal stress. Likewise, in states with tax and expenditure limits, state officials have less flexibility in responding to changing public needs or complying with expenditures imposed by federal mandate.

Old policy hands would be especially useful at times like these, but their numbers have been depleted by term limits, another institutional effort to reduce the influence of special interests. What’s sacrificed here is experience, which deepens elected officials’ knowledge of complex legislative processes such as budget development. First-time legislators, however, often rely on the advice of career administrators or even special interest groups that may not share the views of the legislator or the voters who elected her.

Finally, some states have institutionalized the use of voter referendums, which empower citizens to enact legislation through statewide ballot initiatives. Although special interests could potentially drive the process, these referendums can be an effective channel for voter-enacted changes. Often, referendums are a means of imposing requirements, like those we have cited, on the state. Still, it’s important to recognize the possibility that voter referendums could limit a state’s flexibility in responding to a fiscal crisis. Almost half of the states have a voter referendum process, but they vary widely in the frequency with which they use it.

Force no. 3: Political environment

Ah, politics — a necessary but often cumbersome part of our democratic process. The balance of power between political parties can strongly influence the effectiveness of state government. The notion that a balance of political power between factions inevitably leads to legislative gridlock is often false. Split legislatures can make effective decisions based on robust political debate and a comprehensive representation of the electorate. On the other hand, crises often call for rapid responses, and having one political party in control can increase the likelihood of decisive action. Under the pressure of a fiscal threat, this can be preferable to letting two equally powerful parties duke it out.

While fringe organizations are part of the democratic process, they can reduce bipartisanship and make it more difficult for states to reach compromise on fiscal issues. These organizations' potential influence on subsets of the voting public could encourage legislative gridlock. They cannot be ignored, and they can really get in the way.

The solution? You. Ultimately, it's up to voters to tell their representatives what they want. High levels of voter participation that encourage elected officials' accountability can either offset or contribute to gridlock, depending on which segments of the voting population are most engaged (e.g., if only senior citizens show up at the polling place, then only their views will be reflected).

A path forward

In a fiscal crisis, state officials must always make difficult and unpopular policy choices. For some states, the choices are especially hard. The budget tools available, the underlying institutional infrastructure, and the current political environment all weigh on policymakers.

Ultimately, it's up to voters to tell their representatives what they want. High levels of voter participation that encourage elected officials' accountability can either offset or contribute to gridlock, depending on which segments of the voting population are most engaged.

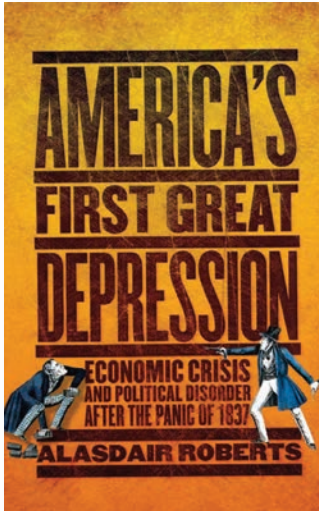
But these obstacles are by no means insurmountable. History suggests that policymakers, especially those backed by an informed electorate, can successfully navigate their states' political infrastructure and use the tools available to bring their finances in balance. The first step is to proactively consider how different factors might interact in the midst of a financial emergency. In fact, it might make sense to remedy some of them now so that we needn't do so when the next crisis arrives. ■

Recommended reading



For an in-depth analysis of states' rainy day funds, see McNichol and Boadi, "Why and How States Should Strengthen Their Rainy Day Funds," Center on Budget and Policy Priorities, February 2011, at www.cbpp.org/files/2-3-11sf.pdf

Book Review



America's First Great Depression: Economic Crisis and Political Disorder after the Panic of 1837

by Alasdair Roberts
Cornell University Press, 2012



Reviewed by
Daniel Littman
Economist

The financial crisis that began in 2008 has enriched our vocabulary, even as it has impoverished the millions of people who were laid off in the last few years. Old terms were revived and new terms coined to describe the causes and consequences of the crisis, terms like *asset bubble*, *financial innovation*, *sovereign debt crisis*, and *deregulation*.

But the Great Recession was not the first of its kind in the United States, nor was its vocabulary novel. In a new book about the Panic of 1837, America's most severe antebellum financial collapse, Alasdair Roberts, a professor at Suffolk Law School in Boston, shows the parallels between our current predicament and that of our ancestors 175 years ago. The old axiom, "those who cannot learn from history are doomed to repeat it," has seldom been more apt.

The *asset bubble* that precipitated the 2008 downturn arose in the US housing market. In the 1830s, the *asset bubble* was land prices throughout the United States, but especially in the new states and territories west of the Appalachian Mountains. In the mid-1830s, land prices in rapidly growing locales such as Milwaukee, Chicago, St Louis, and New Orleans were rising at rates comparable to home prices in Tampa; Orange County, California; Phoenix; and Las Vegas in the early 2000s.

In 2008, the *financial innovations* that helped swell the bubble were synthetic mortgage-backed securities and credit default swaps. The *financial innovation* that helped inflate the 1830s land bubble was a spectacular expansion in the number of state-chartered commercial banks, with their minimally supervised issuance of banknotes. All US banks at that time, save the Second Bank of the United States (the nation's second central bank; the Federal Reserve is the third), were state chartered. And nearly all of the banknotes in circulation were the obligations of those banks.

In 2008, a *sovereign debt crisis* began among members of the European Union, including Greece, Spain, and Portugal. Defaults of US cities, like Stockton, California, also occurred. The *sovereign debt crisis* of the late 1830s involved the default and, in most cases, the repudiation of debts incurred by the governments of states like Michigan, Louisiana, and many others. These states had been profligate in issuing bonds during the 1830s to finance such internal improvements as canals, railroads, and opera houses, projects that became unaffordable when prosperity turned to panic.

Finally, it is widely accepted that either *deregulation* or failure to vigorously regulate new activities like the derivatives business (including credit default swaps) played a key role in the recent crisis. In the 1830s, too,

deregulation helped fuel the crisis. This deregulation came in the form of the Jackson Administration's decision to oppose rechartering the Second Bank of the United States. The Second Bank's national network had acted as a brake on the uncontrolled banknote issuance of state-chartered banks. Deregulation was also reflected in the federal action of moving the Treasury's funds out of the Bank of the United States and into a large number of so-called pet banks scattered around the nation.

The beauty of Roberts' book is that the reader can see the entire arc of the 1837 crisis, from beginning to end, in a historical context—something that studies of the 2008 event will lack for many years to come.

The 1837 panic and the subsequent depression seem to have had some permanent effects on banking and national economic policy that stay with us today. Among these long-lasting consequences are most states' closer supervision of banks and banknote issuance (state banknote issuance ended in the 1870s), states' greater efforts to continually balance their budgets year-in and year-out, and the assumption (starting in the 1840s) of a greater federal role in shaping economic policy.

While it is true that all financial crises have certain elements in common, the parallels between pre-industrial America's 1837 financial crisis and that of our own time are particularly strong. The beauty of Roberts' book is that the reader can see the entire arc of the crisis, from beginning to end, in a historical context—something that studies of the 2008 event will lack for many years to come.

Roberts nicely combines narrative history with analysis. His book is accessible to both the expert and the novice in economic history. Highly recommended. ■

A portrait of Karen Dynan, a woman with long, wavy brown hair and blue eyes, smiling slightly. She is wearing a dark jacket over a grey V-neck top and a necklace with black beads. The background is a blurred residential street with houses and trees under a clear sky.

Interview with Karen Dynan

The fate of the economic recovery, we are often told, rests in the hands of American households. If they are confident, they will spend and invest, boosting growth. But if they remain uncertain and anxious in the aftermath of the financial crisis, they could hunker down and take the economy with them.

Which way will households go? There are few better authorities on that question than Karen Dynan—although she will be the first to tell you that there is no straightforward answer.

As co-director of economic studies at the Brookings Institution, Dynan spends much of her time thinking about the interplay between the wider economy and US consumers. A prolific author, her contributions are well known in the academic world of household finance,

her papers having appeared in publications that include the *Journal of Economic Perspectives* and the *American Economic Review*. She has testified before Congress, published articles on how the household debt overhang holds back consumption, and written for the *Washington Post* and the *Financial Times* on issues ranging from Federal Reserve policy to myths about Black Friday (myth number 2: Sales on Black Friday make or break retailers' holiday shopping season).

Mark Sniderman, the Cleveland Fed's executive vice president and chief policy officer, interviewed Dynan on November 9, 2012. She was visiting Cleveland to discuss her research and views with Bank economists and senior leadership. The following interview has been edited and condensed.

Sniderman: *I want to start by asking you a little bit about being an economist. When did you first know that it was the career for you and, along the way, what have you learned about the profession?*

Dynan: I discovered the field of economics in college. I'd always been good in math and sciences and statistics, but I really wanted to do something to help people. When I took my first economics class I knew it was right for me because it gave me a chance to use my skills, but also it provided a wonderful way to help people by affecting public policy. That was really what whetted my appetite.

Later, after college, I went on to become a research assistant at the Federal Reserve Board, working on monetary policy, and that was just such a wonderful experience, being able to learn about monetary policy, understand the ways in which it affects the economy. So that is when I decided to go to graduate school to become an economist.

Now, in terms of what I've learned along the way—and I'm still learning—the number-one lesson is that economics is really hard. The world is a complicated place and when you're given your formal training, you're often told to describe the world using these very simple and stylized models. The entire Federal Reserve System might be described by the letter *p* for prices and *m* for money. But you know, as I've gone on to work in policy and particularly as we have lived through this financial crisis and tried to use policy to respond to the crisis, I've learned that the world is far more complicated. There are constraints and incentives that people and businesses and financial institutions face that are far more complicated than any economic model will tell you. You have to think about all these things as you are setting policy.

Sniderman: *Your having answered that question that way makes me nervous to ask you the next one, because I'm giving you just a few minutes to deliver a very complex analysis. Coming through the worst financial crisis since the Great Depression, what do you think we have learned and should have learned? And what are the lessons for public policy and for economics?*

Dynan: It was a period when some pretty big mistakes were made and there's lots of blame to go around. The roots of the financial crisis were in the fact that too much risk was being taken. Too much risk was being taken by households. Too much risk was being taken in the financial system by financial institutions—banks, investors. Regulation didn't do what it was supposed to do. It didn't recognize the risks as they were building up.

Things might have worked out okay if the housing bubble hadn't burst, but in fact it did burst. And that caused a lot of these risks to come home to roost. People suddenly found themselves with mortgages they couldn't sustain. Financial institutions found themselves exposed to losses that they didn't expect because they didn't understand how much risk they had been taking.

Sniderman: *What's your take on the way that we as a nation have responded to the crisis legislatively?*

Dynan: I think that it's pretty clear what direction we needed to move in. We needed to move in a direction that put in place a regulatory system that was better able to protect people and protect financial institutions from excessively risky behavior. We've redesigned regulations and, yes, the laws are complicated. That's not surprising—the financial system is very, very complicated. Nobody wants unnecessary and burdensome regulations. I think the regulatory community understands that. But the challenge is going to be how to get the right amount of regulation, given

how complicated things are. A lot of it is still being worked out. They're still studying exactly how we should implement these laws. And I think that's very appropriate, given how hard the problem is.

If you think of credit supply as a pendulum, we had swung way too far in one direction, in the direction of easy credit during the lead-up to the financial crisis. And now we've swung way too far in the other direction.

What you're looking for is a balance. You're looking for the right amount of regulation, such that credit can still flow and people and businesses can still enjoy the benefits of credit while being protected against the worst abuses associated with credit and reducing the exposure of the system to the kind of meltdown we saw during the financial crisis. That is going to be a hard balance to achieve. And I think regulators need to study the problem, they need to try to work out the solution, but they also—after we've put in place the solution—they need to continue to study the problem. They need to see whether we've gone too far. They need to be ready to be responsive to that.

Sniderman: *Are there aspects of all the regulations that have been put in place that even today you would look at and say, gee, maybe we've imposed too much red tape or too many complications?*

Dynan: I think in many senses it's too early to know. What we do know is that, if you think of credit supply as a pendulum, we had swung way too far in one direction, in the direction of easy credit during the lead-up to the financial crisis. And now we've swung way too far in the other direction. Credit is still very hard to get and that's holding back the economy.

Karen Dynan

Position

Vice president, co-director of economic studies, and Robert S. Kerr Senior Fellow at the Brookings Institution

Former Positions

Economist and staff adviser at the Federal Reserve Board

Senior economist at the White House Council of Economic Advisers

Visiting assistant professor at Johns Hopkins University

Education

Harvard University, PhD in economics

Brown University, AB

Selected Publications

“Is Household Debt Overhang Holding Back Consumption?”

Brookings Papers on Economic Activity, Spring 2012.

“How We’re Doing as Debt Fears Rise,”

The Brookings Institution and the *Washington Post*, May 23, 2010.

“Changing Household Financial Opportunities and Economic Security,”

Journal of Economic Perspectives, November 2009.

Now, we don’t know exactly why. We don’t know if lenders don’t want to lend because of the normal caution that comes with a weak economy or whether it has something to do with the new regulations. That’s something that we’re going to have to study over time. There’s also the whole issue of the uncertainty about future regulation. The Dodd–Frank law is still being implemented and there are parts of it that still require the details to be written down. I think it’s very hard for financial institutions to design their lending strategy until that’s all worked out.

Sniderman: *There are differences of opinion among some economists about how to think about regulation. There are some who—to paint the extremes here—say that all we need for markets to work effectively is transparency and disclosure; you want to provide good instruction manuals and provide warnings and tell people how to use these products, but after that it’s caveat emptor. You don’t get into this nanny state with consumers. Other people have the view that people in certain instances are just going to make bad choices. You should prohibit certain products; you should prevent people from harming themselves by outlawing and regulating. Have you formed any views about that tradeoff?*

Dynan: One important lesson that we’ve drawn from the financial crisis is that there are real limits to people’s capacity to process information. The fact of the matter is that managing one’s finances is really complicated.

It’s complicated even for people like me with training in economics, and I’m married to an economist [Douglas Elmendorf, director of the Congressional Budget Office]. I know how complicated these decisions are. I think it’s been a real lesson that we shouldn’t just emphasize providing information.

During the run-up to the financial crisis, people signed on for mortgage products that I’m sure had ample paperwork describing what the payments would be and how the payments might adjust as, say, interest rates moved. But I think we’ve seen evidence that many people didn’t really understand that that’s what they were signing up for. What this tells me is that it’s not just about providing a lot of information; it’s the type of information you provide.

So we really need to think about designing simple, low-cost products that are easily understood by a wide range of the population. I also think we can learn from behavioral economics. Oftentimes when people don’t have the time or ability to understand a complicated financial situation, they take cues from their peers, or from their employment, or even from what they’re seeing on TV. That’s taught us that it’s very important how you set up the defaults of any kind of situation. We need to think harder about what the baseline offering is, because I think people will take that as a piece of advice that, yes, this is a good financial product.

Sniderman: *One of the other things that has come up in the aftermath of the financial crisis is a rethinking of housing finance. With the government-sponsored enterprises Fannie Mae and Freddie Mac scaling down, how do you think about what we should be doing with housing policy?*

Dynan: Let me start with Fannie and Freddie. The financial crisis illustrated that our pre-crisis housing finance system—which was dominated by Fannie Mae and Freddie Mac—really had severe deficiencies that ended up leading to too much risk in the financial system. In thinking about how we should reform these entities, three principles come to mind.

First of all, I think we need explicit and limited government guarantees for mortgage loans. In the old system, the guarantees were implicit and essentially provided a subsidy to Fannie and Freddie that incentivized them to take on too much risk. So I think we need to move towards guarantees on loans that are explicit and priced to correctly reflect the risk of the underlying loan.

The second principle that I think we need to keep in mind is that securitization really needs to move back into the private sector. Fannie and Freddie have been in conservatorship since 2008, which essentially means that the government has been doing all of their activities, both securitizing the loans and guaranteeing the loans. While I think the government should continue to be a guarantor of certain loans, the securitization activity really should move back into the private



In the period leading up to the financial crisis, the mistake was that people thought they could build assets effortlessly by just waiting for their homes to appreciate.

The equity is not locked off; you can still get at it through a refinancing transaction, but it takes some work to get at it. I think that actually could be very useful for households that have trouble saving because they have trouble planning or they have self-control problems.

Over the longer run, I think that means we need a system that not only emphasizes homeownership but also puts weight on creating good rental housing for households for which homeownership is not the right choice.

Sniderman: Recently you've looked at this deleveraging process that's under way. I wonder if you can talk about that a little bit. How far along in the deleveraging process might households be?

Dynan: We have seen considerable deleveraging for the nation as a whole. If you look at household debt for the entire economy, relative to income for the entire economy, you can see that that ratio has fallen back to its level as of 2003. So it sounds pretty good, but I think it's very important to look beneath that aggregate figure and see what's going on for different types of households. As it turns out, the deleveraging has been concentrated in certain groups.

sector because the private sector is going to be more efficient at it and is more likely to innovate in ways that save money. And when it moves back, we need to move it back in such a way that there's not just one or two institutions dominating the whole market, because in that situation you would end up with entities that were too big to fail, which would lead to excessive risk-taking.

Sniderman: *The status quo.*

Dynan: Right. The third principle is that we need to get a plan in place as soon as we can. Not that we need to move to the new housing system as soon as we can — the housing market is still in a lot of trouble and maybe it's right for the government to have such a large role right now. But we need to get the plan in place, because right now the situation we're in is kind of housing finance limbo. It's very difficult for lenders to go about their activities making mortgage loans when they don't know what the future mortgage finance environment is going to be. It makes it very hard for them to make loans today, and it makes it hard for them to strategize about the future.

Sniderman: *I think we've seen in other realms, as with the Basel accords, when they set these new standards, they typically give these long phase-in periods. I think you're saying, let's give people a flight path to where we're headed and a time frame.*

Dynan: Yes. I think it would make it easier for everyone to plan, to know where we're headed.

Sniderman: *What are your thoughts about the scale of this? You said we should let securitization become private, but the guarantee system could remain public. Would there be more limited types of guarantees to all forms of owner-occupied housing?*

Dynan: One question that's still under debate is whether we need these guarantees in order to have 30-year, fixed-rate mortgages. If you look across countries, for example, the 30-year, fixed-rate mortgage mostly

is a product that's seen in the United States. Some people would argue that is because we have these guarantees on mortgages. So maybe that's an argument for having guarantees. More importantly, we need to have the capacity to do enough guaranteeing so that we can keep credit flowing if the mortgage market seizes up again.

I also think the guarantees should be limited. One of the biggest problems we had was that the risk wasn't priced correctly in the run-up to the crisis. Pricing risk is very hard. If you want to price risk correctly, you need to keep the situation as simple as you can. I think we're going to want to limit these guarantees to simple, transparent mortgage products with clearly defined parameters.

Sniderman: *It's commonplace for people to say that we had too much emphasis on owner-occupied housing leading up to the crisis and now we should support a more balanced housing system between rental and owner-occupied. Is that sensible or not?*

Dynan: I think it's very tough to know what the right level of homeownership is for our country. The experience of the past few years suggested that there are certainly limits to how far you want to push it. At the same time, I think there are clear benefits of homeownership. The evidence suggests that putting down roots in a community can benefit the whole neighborhood. On top of that, a benefit of homeownership is that homes still represent a form through which consumers can build assets. I want to qualify that very carefully. In the period leading up to the financial crisis, the mistake was that people thought they could build assets effortlessly by just waiting for their homes to appreciate. We learned that that was a very bad assumption.

But I do think homeownership can help a household build assets through a more traditional financing model, where you have to make a down payment and where you have to make payments that pay off principal, so that you're building equity in your home.

One group would be the people who defaulted on their mortgages. They had loans that proved unsustainable and they defaulted on those loans so they no longer have that debt any more. Those households have managed to do quite a lot of deleveraging. There's a sense in which those households are in a better financial position today as a result. They don't have the burdensome debt obligations that they were finding so hard to sustain. That's probably a plus for their situation. That's not to say that they came by it costlessly. In many cases, they lost a home, they were displaced from their community, and, going forward they're going to have limited access to credit, which is going to make it hard for them to get through periods when their income is temporarily disrupted. But, when all is said and done, these households did deleverage very dramatically.

Another portion of the decline in household debt in the nation as a whole has to do with reduced new borrowing — people just not taking out loans that they otherwise would've taken out. There are probably two things contributing to this. One is that people don't want to borrow much when the economy is weak because they don't want to spend much when the economy is weak. So some part of it has been by choice. But another part of it has been forced upon households. Lenders are being super-cautious right now. We can look and see they are requiring higher credit scores and better documentation of income than they did prior to the financial crisis.

For many of those households, consumption is below what it otherwise would be. But the good news is that as credit conditions ease, we'll probably see households' consumption rise, which would be a good thing for the economic recovery in this country.



The last group of households I think about are those highly leveraged households that didn't default. Those are the people who ran up a lot of debt prior to the financial crisis and so have high debt obligations. On top of that, many have seen their home prices fall dramatically, which has put many of them underwater with their mortgages. I've researched this group of households and it looks to me that unless you defaulted, you probably haven't made a lot of progress deleveraging. You just haven't found a way to really pay off that debt very aggressively, such that the distribution of leverage for the highly leveraged households is pretty similar to where it was a couple of years ago. These households have spending that is very constrained by their situation. And that's the group of households that we need to worry about and we need to think about what we can do to help.

Sniderman: *If you go back to the earliest part of the financial crisis, knowing what you know now, are there things we might have done differently, or is it still pretty elusive and difficult to think about solving?*

Dynan: The government put certain programs in place to try to prevent foreclosures and also to mitigate the costs of foreclosures. Those programs have helped many households. At the same time, we've still seen millions of foreclosures and many households that are under severe strain trying to make their mortgage payments. That's creating hardship for them and hardship for their communities. I think the policy response didn't meet expectations in terms of how much it would help get us through the housing crisis.

Sniderman: *In the earlier days of the crisis, there were some voices calling for much more expansive and innovative kinds of programs. Do you think those things would've worked?*

Dynan: Of course, it's hard to say for sure, but there are some things we do know. Some programs, at least in their early form, had flaws. It turned out that mortgage servicers faced constraints that people who designed loan modification policies didn't really understand. That really limited the degree to which they could modify mortgages to make them more sustainable for borrowers. I also think that the earliest forms of the program were limited in their scope. Much of the thinking that went into the government's largest mortgage modification effort occurred before we saw labor markets deteriorate. Those programs helped people in certain situations, but they actually were not targeted towards people who needed a very large amount of help over a short period, as a homeowner who has lost her job might. So the programs fell short in that way.

Sniderman: *Looking ahead, we have some demographic changes: Our population is getting older. Most studies say households are not very well prepared for their older years. It seems to be difficult to figure out, from a financial-education point of view, how to get households to do better financial planning and increase their savings. Do you have any insights about that?*

Dynan: The issue of saving is really important. We know that for the nation as a whole, personal saving is up from where it was prior to the crisis. But again, it's a question of how that is spread out. Is that increase just a few households doing a lot more saving, or is it broadly spread across the population? We don't have the kind of data at the household level to answer that question because the data sources you would use are usually released with a lag, so we can't look at them yet.

But if you look at earlier studies and you think about the anecdotal evidence that's out there, it's clear that a lot of households don't have the savings they need to live as comfortably in retirement as they would like to, or simply the savings they would need to buffer disruptions to income, to allow them to sustain spending if suddenly their income drops. So I think there's good reason to be concerned about parts of the population not saving enough.

What you do about it from a policy perspective is a hard question. Financial education is tricky. There is not great evidence about what you can do to really move the needle to get people to prepare adequately for retirement and to make sure that they have enough savings so that they're financially secure. But I'm actually a fan of programs like the automatic IRA idea, which is that you would require businesses of a certain size that don't have a retirement plan to automatically create a retirement account for their employees, unless the employee opts out. So the employee doesn't have to participate, but the company is creating a default and effectively providing some advice to its employees about what would be good from the point of view of their financial security. I'm a fan of that.

For the lowest-income households, I am very intrigued by programs that provide some sort of match to incentivize saving. If households do a certain amount of saving, either the government or some other source will match their savings in order to incentivize them to do yet more saving. I think those ideas are very interesting and we should be piloting and studying these sorts of programs.

Sniderman: *Is it just that society has changed or is there something different about the saving habit?*

Dynan: The issue of a cultural shift is a really interesting one, and people love to tell the story that our grandparents lived through the Great Depression and were enormously thrifty ever after.

We haven't seen that kind of thriftiness in today's generation. We see people much more focused on keeping up with the Joneses. That said, we don't have great evidence as to whether a cultural shift might be occurring. Certainly a lot of people are now asking whether, having lived through what we lived through over the past few years, we'll see renewed interest in thriftiness for the folks that faced a lot of hardship.

Sniderman: *Speaking of our nation's ability—or inability—to plan ahead, what are your thoughts about the fiscal crisis? What should we be thinking about there?*

Dynan: One thing that's been a source of frustration for monetary policymakers is that the steps they've taken have been constructive for the economy, but they're by nature limited. They can't support the economic recovery by themselves. They need fiscal policy to play a role as well. The challenge there has been designing steps that will support the economy over the short run but contain debt and deficits in the longer run; if you take the first part and not the second part, you create a lot of uncertainty about what the future holds, which will hold back the economic recovery. I think we've seen a lot of dysfunction in Washington that's stood in the way of making smart fiscal choices. I hope that we'll be able to overcome that.

Sniderman: *Part of your career was working for an economic policymaking organization [the Fed] and you had a career partly as an academic, and now you're at what's popularly called a think tank. How does working as an economist differ in these settings, and what kind of satisfaction do you get and what challenges do you find in these places?*

Dynan: Universities are the traditional career choice of economists, and I think they are a great place to engage with students and to pursue research in an incredibly intellectually rigorous environment. But I do think that anyone who is very interested in policy should consider working for a government

agency or for the Federal Reserve System. Besides the generally rewarding aspect of public service, these institutions are places where you really can have a direct influence on the policy leaders who are making important decisions, and that can be very rewarding. That's certainly what I found when I was working for the Federal Reserve Board just after I left graduate school.

I think we've seen a lot of dysfunction in Washington that's stood in the way of making smart fiscal choices. I hope that we'll be able to overcome that.

I would say that think tanks also play an incredibly important role in the policy sphere. You don't have the direct connection with policymakers, or as much of a direct connection as you would at a government agency or the Fed. But the activities and the research that is done at think tanks are incredibly important.

One big difference for me now is that I come into contact with a far broader range of people as I do my research. I spend time talking to business leaders, to people who work at consumer groups, and to people who work at international agencies, and also I spend time with the general public. I think this kind of exposure has led me to understand far more about how the world really works than I had previously. That's been very good for my research. It means that my research offers a perspective to policymakers that they're not necessarily going to get from inside their institutions. ■



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Karen Dynan's homepage
www.brookings.edu/experts/dynank

Anna Schwartz: A Remembrance

The economist Anna Schwartz died this past summer at the age of 96. Known best for her collaborations with Nobel laureate Milton Friedman, Schwartz also co-authored many works with other researchers, including several at the Federal Reserve Bank of Cleveland. One of her final efforts, which she co-authored with the Cleveland Fed's Owen Humpage and Rutgers University's Michael Bordo, will be published in 2013.



Michael Bordo
Visiting Scholar

I could go on forever about Anna Schwartz. She made major contributions, not just in monetary history, but in monetary economics in general. The top money and macroeconomics people hold her in the highest regard, as do monetary and financial historians.

Her career began in the 1940s, when she started doing research at the National Bureau of Economic Research (NBER). Her first book, *Growth and Fluctuations of the British Economy 1790–1850*, written with Arthur Gayer and Walt Rostow, was published in 1953. Anna and her co-authors applied the NBER methodology to business cycles in the first half of the 19th century; she was instrumental in putting the data together. This was a major book and a vital piece of economics history.

Of course, the things we remember best today are her works with Milton Friedman, with whom she co-authored three major NBER books. The first was the monumental *Monetary History of the United States 1867–1960*, which revolutionized our thinking on US monetary history. The part of the book that is best remembered is chapter seven, “The Great Contraction, 1929–1933.” The message of that chapter is that the Great Contraction was not caused by a collapse of investment or a long-lagged response to the imbalances of World War I. It resulted from a collapse of the money supply, which in turn was largely explained by the Federal Reserve’s mistakes in the 1930–33 period. During that time, the Fed failed to act as lender of last resort to offset a series of banking panics.

The other two NBER books with Friedman, *Monetary Statistics of the United States* (1970) and *Monetary Trends in the United States and United Kingdom* (1982) have less resonance today but became key building blocks of modern monetary economics. In addition to the three books, Anna wrote a number of articles with Friedman, including “Money and Business Cycles” in 1963, which was important in showing the link between monetary shocks and economic recessions and recoveries.

Besides her work with Friedman, Anna wrote many other seminal articles and books, including a 1973 paper on the history of inflation; an NBER book, *The International Transmission of Inflation*, with Michael Darby, James Lothian, and Alan Stockman (1983); and, in 1986, a thought-provoking paper on real versus pseudo-financial crises. She served as director of the US Gold Commission (to study the feasibility of returning to the gold standard) in 1982 and was among the founding members of the Shadow Open Market Committee (an independent group that examines Fed policy). She was one of the prime monetarists, after Friedman retired, right in the thick of it with Karl Brunner and Allan Meltzer in critiquing Fed policies.

Many people think that Anna should have received a Nobel Prize, and maybe she would have if times had been different. When Friedman got the prize in 1976, she wasn’t mentioned, though she was a powerful force in monetary history and in the major books they wrote together. Of course, Friedman didn’t get the prize just for monetary history. But in terms of her contributions to monetary economics, I think she has many of the markers of a Nobel laureate.

What I remember most about Anna is how much she loved her work. Her whole life was organized around going to the office. She officially retired from NBER when she was 65, but she didn’t stop working until she was 93. She went into NBER every day when she was in her 80s and 90s, and she still put in a full eight-hour day.



DAVID SHANKBONE

She just didn’t stop. She loved being involved in economic research and the policy game. It was her passion—it drove her, even in her later years. Without that extreme intellectual vitality, I don’t think she would have lived as long.

In her later years, she went to a lot of trouble to come into the office and work there for hours, answering her correspondence and working on papers and the book with Owen [Humpage] and me. She was involved in the deliberations of the Shadow Open Market Committee up until she couldn’t travel any more.

Yet she was a balanced person. She had a great family—four kids, many grandchildren and great grandchildren, and they used to come into New York to see her often. She had season tickets to the Metropolitan Opera, which she loved; she rarely missed a performance. She was a very active person in other dimensions as well. She always had a few novels going, and especially liked Anthony Trollope. She was on top of what was going on in politics and economic policy everywhere in the world. She read the *Wall Street Journal* and the *New York Times* each day, picking up every little detail. She never missed a beat. ■

—as told to Doug Campbell

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