December 2002

Federal Reserve Bank of Cleveland

Answering the Challenges of Creating Economic Opportunity

by Roger W. Ferguson, Jr.

What can be done to promote economic opportunity for all citizens and help communities prosper? Roger W. Ferguson, Jr., vice chairman of the Board of Governors of the Federal Reserve System, discussed this issue when he addressed members of the Commercial Club and the Commonwealth Club at the Commercial Club of Cincinnati on October 10, 2002. This *Commentary* is based on his remarks.

Cincinnati, to an outsider, poses a study of contrasts. On the one hand, it is a region where the economy is diversified, where unemployment rates are low, where a number of Fortune 100 and Fortune 500 companies are headquartered, where markets have performed well, and where population growth has occurred. On the other hand, Cincinnati has its share of urban ills. Many neighborhoods are racially divided, urban schools experience high dropout rates, and central-city residents have migrated to the suburbs. In this regard, the Cincinnati region is not unique; it is quite similar to many other urban areas.

These observations of local concern may not seem consistent with the interests of the Federal Reserve that most of you are familiar with—managing monetary policy, maintaining price stability, and fostering a safe and sound banking system. However, there is another role that you may not be as familiar with, and that role is to help foster economic opportunity and community development. Consistent with the Federal Reserve's economic growth objectives, we advocate efficient markets. Markets function best with good information. By promoting community and economic development, and fair and impartial access to credit, the System facilitates the operation of markets, especially in areas where historically there may have been market failures or imperfections. And by developing educational products and information services, providing technical assistance, and linking people to resources, the Federal Reserve helps financial institutions, community-based organizations, government entities, and the public better understand issues and develop strategies to overcome market inefficiencies that affect low- and moderate-income communities and individuals.

I would like to share my thoughts about some forces shaping community development, namely workforce development and home ownership. Additionally, I would like to link those thoughts with some strategies that I believe can create an environment where people have access to resources that help them move up the economic ladder and achieve financial security and well-being.

Workforce Development

A number of researchers make the connection between the strength of our workforce and our economic future. Businesses need skilled workers who are adaptable and able to produce goods and services for an evolving marketplace. Workers need access to jobs that offer economic security and the financial means to buy homes, educate children, and plan a comfortable retirement. And communities with strong businesses and a well-educated labor force are more likely to be healthy, viable places to live and work.

Over recent decades, the foundation of our economy has shifted from one dominated by the manufacturing sector to one driven by the service sector. Coinciding with the shift from a manufacturing-based to a service-based economy has been significant technological innovation, which has created new opportunities for the workforce, and also new demands—demands for lifelong learning and job training to maintain skills that meet employers' needs.

The changing marketplace carries with it concomitant changes in the educational and training needs of the labor force. For workers, changes in the marketplace mean continuing pressures to obtain new job skills and sharpen old ones in order to remain competitive in the employment market. Data support these trends. For example, employment opportunities that require a college education or other postsecondary training are projected to increase faster than average across all occupations. In 2000, the Bureau of Labor Statistics (BLS) reported that these positions represented 29 percent of all jobs. By 2010, these jobs are predicted to account for 42 percent of projected new employment growth.

It is conventional wisdom that workers, communities, and businesses benefit from increased levels of education and training. In considering the links between education and workforce development, studies indicate that those workers who have the opportunity and take the initiative to further their education find that their incomes are positively

ISSN 0428-1276

correlated with their education. From a community perspective, an educated workforce fosters economic development and contributes to a strong economy as individuals seek to improve their standard of living. And communities that are committed to sustaining solid educational infrastructures are better positioned to meet the ever-changing needs of an evolving market. For businesses, investments in human capital strengthen their organization, improving their capacity to compete in the marketplace.

The importance of the link between an educated workforce and a strong economy notwithstanding, some business leaders report that communities are not always prepared to meet the demands generated by economic evolution. They point to concerns that their communities lack sufficient educational infrastructures, that public education systems sometimes fail to prepare individuals adequately to participate in the workforce, and that schools do not teach the basic skills needed for most twenty-first-century jobs. According to the National Governors' Association, U.S. employers report that they spend $62 billion each year on basic-skills training for their employees and that the workforce lacks the ability to write at basic levels, compute, solve problems, and work in teams. In answer to criticisms like these, public educators have worked to reallocate resources, raise student expectations and promotion standards, upgrade high school curricula, introduce teacher evaluation systems, certify professionals, establish financial incentives, and create school-accountability plans.

While these strategies may offer long-term benefits for future entrants to the workforce, today's workers need access to lifelong training to keep their skills current or develop new skills that lead to higher-wage jobs. Community colleges are often seen as playing a critical role in granting access to education. Workers have found that community colleges offer affordable, accessible, and convenient educational systems where they can develop skills leading to employment and promotion opportunities. Business leaders increasingly see community colleges as a gateway to a skilled workforce and have established productive relationships with them to identify skill demands and provide responsive education programs. There is a good example of this type of partnership in Cincinnati. The Cincinnati State Technical and Community College works closely with local businesses on a cooperative education program, and it surveys participating businesses regularly to ensure that course offerings and curricula are relevant to their employment needs.

While many workers, particularly lower-wage employees, need further training and skill development, they also need other work supports to succeed in the labor force. Workers don't always live where jobs are located, and many low-income workers have no easy way to travel between home and work. In addition to transportation assistance, work-support services such as child care and health care coverage are also critical to improving the productivity of the labor force. Without sufficient support systems, many individuals fail to make economic progress and are not able to build wealth or accumulate assets. Employers have found that providing work-support systems helps them keep a competitive edge and contributes to worker motivation and retention.

Efforts to develop the workforce face some disturbing employment trends. Despite our recent history of economic expansion, employment among all young men is lower today than it was in the late 1960s. And a recent study by the Brookings Institution reveals that employment trends, from 1979 to 2000, for young, less-educated black men have been on the decline for over two decades. Only 52 percent of this group of young black males—defined as those who have a high school education and who are between the ages of 16 and 24—are employed today compared with the 62 percent that were employed 20 years ago. In contrast, while the study reported this downward trend for young black men, it noted rising employment trends for young black women and for male and female Hispanics over the same time frame. Researchers cite many reasons for these employment trends among young black males. According to the authors of the study, the problem of declining employment trends among young black males is very much centered in our cities where job opportunities for less-skilled workers have decreased and overall unemployment rates are relatively high. But, while the researchers found that outcomes for young black men are very sensitive to the state of the local economy, the researchers determined that it could only explain part of the deterioration in the employment outcomes of young black men. Indeed, the problem is much more complex than can be explained by economists. The insights of other social scientists may be called for. Whatever the underlying causes, our community leaders need to work with employers to create job opportunities with sufficient reward incentives to encourage workers to choose options that are in their long-term interest.

Here in Cincinnati, several public/private collaborations have been formed that focus on providing resources to improve the quantity and quality of employment opportunities in the region. These partnerships are working toward increasing the number of sizable minority-owned businesses, and they are recruiting new and retaining existing businesses and workers in key industries such as construction and technology.

■ Home Ownership and Community Development

Home ownership is often characterized as the American Dream, and achieving home ownership yields many social and economic benefits for individuals and communities. Owning a home is still the cornerstone of wealth for most households, and it is a proven vehicle for asset accumulation and family stability. In fact, in 1998, half of all homeowners held roughly half of their net worth in home equity. This is no small matter, for home equity provides families with resources to finance their children's education, start a business, trade up to a better home, build assets for retirement, cushion financial shocks, and purchase major goods and services. A 2001 Harvard University study reports that homeowners find that their children are more successful in school, experience lower teenage pregnancy rates, and achieve higher educational levels. Many homeowners also improve their financial literacy through the home-buying process. Homeownership education programs help them to create realistic household budgets, establish and maintain good credit, and develop other basic financial skills necessary for successful home ownership. Survey results consistently indicate that buying a home is among the top motivations for saving. Furthermore, home ownership ranks high as a strategy to stabilize communities, and it is repeatedly recognized as a community renewal strategy.

Communities with high levels of home ownership experience increased tax revenues, more stable neighborhoods, lower crime rates, and higher levels of civic involvement.

This nation has been remarkably successful in promoting home ownership over the past decade. Statistics reported from Harvard University's Joint Center for Housing Studies indicate that the total number of U.S. households owning homes reached a new peak of 72.6 million in 2001—a record 67.8 percent. It is particularly encouraging that the share of home-purchase loans going to lower-income households or households living in lower-income communities has steadily increased. Homeownership rates have also risen among minorities: Census Bureau data show that, between 1995 and 2001, rates among black households increased from 43 percent to 48 percent; among Hispanics, rates moved from 42 percent to 47 percent. Even during economic downturns, the housing sector continues to display remarkable resilience fueled by historically low interest rates, innovations in mortgage finance, and specialized mortgage products.

Despite these successes, there is still an enormous and persistent gap—26 percentage points—between whites and nonwhites that own their homes. Also, disadvantaged households are concentrated in the core of deteriorating central cities, where reinvestment is costly and investors are few. Furthermore, although in some cities the pace has slowed recently, housing prices continue to rise. In thirty-four of the nation's 50 largest metropolitan areas, home prices have risen an inflation-adjusted 30 percent or more since 1997. This has been beneficial for those who already own their homes, but challenging to potential low-income buyers who struggle to save for down payments and qualify for a mortgage.

Closing these homeownership gaps and managing affordability issues will require sustained efforts. One frequently reads about the challenges faced by federal and state governments as declining revenues and straining budgets force cutbacks in spending. Advocates for community development and affordable housing express concern that government funds for housing assistance programs and social safety nets are decreasing. This has resulted in a growing need for the public and private sectors to work together creatively to design programs to meet the needs of the nation's lowest-income families. In many inner cities, financial institutions, local governments, secondary-mortgage providers, and housing advocates have united to develop innovative products, expand financing options, identify funding resources, and ensure that borrowers have access to financing on the best terms for which they qualify.

Realizing the importance of home ownership, Cincinnati has worked to create affordable housing opportunities in its neighborhoods. Recent partnerships with the city and with area banks have provided new funding vehicles to promote home ownership in neighborhoods such as Over-the-Rhine, West End, and Pendleton.

■ Local Strategies for Creating Economic Opportunity

I indicated at the beginning of these remarks that I would describe and summarize some of the information linking workforce development and housing to strong, vibrant communities. I also promised to leave you with some strategies to consider as you work to bring sustained growth and prosperity to all areas of your own community.

The Federal Reserve's community development efforts have focused on strategies, some of which Cincinnati organizations are already employing, that appear to be effective over time:

- Develop collaborations among community-based organizations, financial institutions, secondary-market originators, and government officials to increase homeownership resources, identify new sources for mortgage finance, develop innovative home mortgage products, and create new financing mechanisms to further increase homeownership rates for underserved markets.

- Connect residents with financial resources that help them to accumulate assets, acquire basic financial literacy skills, and find programs that reward their savings initiatives. Today I had the opportunity to visit one such program, SmartMoney Community Services, which provides financial services and economic education to residents of Over-the-Rhine and other Cincinnati communities.

- Collaborate with public-sector and community-based organizations to create and execute comprehensive community development programs that improve neighborhood quality, neighborhood stability, affordable housing, workforce development programs, and worker support systems.

Admittedly, these strategies are too difficult for a single neighborhood, business, government body, or community organization to address. However, communities have achieved great things by pulling together business leaders, entrepreneurs, elected officials, educators, and interested citizens to find solutions that strengthen and revitalize their communities. As I stated earlier, Cincinnati leadership has already initiated a number of partnerships to address the city's challenges, so many of these strategies are ones you have already employed.

It is commendable that this city has chosen to unite in seeking solutions to address many of these issues and to embrace new ideas to effect positive change for all of its citizens. The strategies followed in Cincinnati for creating economic opportunity can serve as models for other communities who are watching your transformation.

Roger W. Ferguson, Jr., is vice chairman of the Board of Governors of the Federal Reserve System.

The views expressed here are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System, or its staff.

Economic Commentary *is published by the Research Department of the Federal Reserve Bank of Cleveland. To receive copies or to be placed on the mailing list, e-mail your request to* 4d.subscriptions@clev.frb.org *or fax it to* 216-579-3050. Economic Commentary *is also available at the Cleveland Fed's site on the World Wide Web:* www.clev.frb.org/research, *where glossaries of terms are provided.*

We invite comments, questions, and suggestions. E-mail us at editor@clev.frb.org.

Federal Reserve Bank of Cleveland
Research Department
P.O. Box 6387
Cleveland, OH 44101

Return Service Requested:
Please send corrected mailing label to the above address.

PRSRT STD
U.S. Postage Paid
Cleveland, OH
Permit No. 385