Opening Remarks
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Good morning and thank you, Dede, for the introduction.

It is my pleasure to open today's presentations. I am delighted to be part of the fifth Community Affairs Research Conference. Before coming to the Fed last year, I spent over 30 years as a professor of economics. So I have been to a lot of research conferences. From that perspective, this is an unusual and rather eclectic group: government policymakers, academic researchers, community leaders, consumer advocates, and financial service providers. So what brings us all together at this research conference?

In very broad terms, I think we all share the same belief – one that Chairman Bernanke articulated very well in a recent talk — namely, that every American should have the opportunity to improve his or her economic circumstance through hard work, saving, entrepreneurship, and other productive activities.

I think all of us also share a common commitment to helping ensure that opportunity exists for all Americans, especially those who are at a distinct economic disadvantage.

But what brings us together here at this conference is a third factor – a shared recognition that in our efforts to ensure opportunity for the economically distressed, we must be guided by accurate information, careful research, and solid policy analysis.

I want to spend a few minutes discussing this last belief because it is one that I hold strongly.

The important role of research in enhancing economic opportunity and development

While the symptoms of economic and financial hardship can be stark and dramatic, the underlying causes are often subtle and complex. Big headlines and graphic news stories are tempting to generalize and may evoke calls for an immediate policy response. But public policy driven by headlines rarely turns out to be good policy. The hard reality is that it takes time and dispassionate analysis to understand the nature and scope of a problem and to develop an effective solution.

Consider a parallel situation in your personal life. You may develop symptoms of some sort of illness and rush off to see your doctor. But you would certainly not want him to prescribe a treatment until he developed an accurate diagnosis. You count on the doctor to run the appropriate tests, draw on his training and experience, perhaps even consult with peers or a specialist, so that ultimately you get the proper treatment. Addressing social problems in a similar way makes good sense.

Today, I believe that research can make a greater contribution to economic development efforts than it could in the past. Over the past several decades, community development efforts have shifted away from creating massive federal programs and toward the activities of community-based organizations and agencies to develop and implement local projects. These organizations have been innovative in their approach to development and have adopted a variety of private sector strategies. As a result, there are more, and more varied, strategies to study. Researchers have richer material from which to learn. Their results will, in turn, better inform organizations and agencies as they refine their programs and develop new ones. Thus, conducting and disseminating good research serves as an important driver of progress in economic development efforts, allowing us to take full advantage of today’s more decentralized approach.

When it comes to devising economic development policies and programs, it is important to remember the goal is to increase the opportunity for people to succeed in our market economy. We must remember that markets are a powerful source of innovation. They foster the development of new products and services in response to participants' demands, creating new opportunities and choices. So our development efforts should not focus on thwarting or overriding the market mechanism. Rather they should focus on taking greater advantage of it. This can be done in two ways. One way is to encourage and support the marketplace as it tries to be more responsive to the needs of people with lower incomes. The other way is to better prepare those individuals to participate effectively in the marketplace.

An example of the first approach – encouraging and supporting market responses – is provided by Robert DeYoung, Scott Frame, Dennis Glennon, and Peter Nigro in the paper they will present in the first session this morning. They find that small business borrowers in underserved areas began tapping into lenders over a much broader geographic area in the late 1990s. The researchers attribute this to a combination of market innovation and public policy improvement. In the marketplace, lenders' adoption of more sophisticated credit scoring techniques gave them greater capacity to reach into low-income areas and accurately assess risks. Meanwhile, on the policy side, changes to CRA's performance standards gave lenders a stronger incentive to do so.

As an example of the second approach - better preparing people to participate effectively in the marketplace - financial literacy programs come quickly to mind.

While there are lots of programs to improve financial literacy, there is relatively little research into their effectiveness. So we actually know relatively little about which approaches are most beneficial.

In that regard, our Reserve Bank has just begun a rigorous long-term study to evaluate the effectiveness of homeownership counseling. Study participants will be randomly assigned to a “control” or a “treatment” group. Then both groups’ financial decisions and actions will be tracked for five years.

We expect to learn a great deal about the effectiveness of counseling programs and perhaps get some new insights that could ultimately help reduce default and foreclosure rates. I hope we will have some results to share with you at our conference in 2013. As I said earlier, good work takes time.

Let me add that no study, including ours, will be the final word on how to best improve the level of financial literacy, if for no other reason than that the array of financial products and services continues to expand. This morning’s paper by Sherrie Rhine, Katy Jacob, Yazmin Osaki, and Jennifer Tescher makes the point: prepaid cards are quickly becoming an important substitute for currency, and they carry fees and features that users should understand.

I should also add that raising people’s level of financial literacy does not ensure that they will be able to take better advantage of the financial marketplace. For instance, the paper by Alicia Robb and Robert Fairlie suggests that positioning African-Americans to raise the funds they need to start up and expand their own businesses may require overcoming discrimination among lenders and helping to build both human and financial capital within the African-American community.

One last comment about the value of research for effective community development. While I am optimistic about the capacity of research to inform and improve economic development policies, I think we need to maintain a healthy degree of humility about our ability to manipulate economic outcomes. Interactions among human beings are complex. A policy that works in one situation may not work in another. And a policy intended to achieve one outcome may deliver an entirely different one – the well-known law of unintended consequences. Again, one of our papers this morning provides a case in point. Robert DeYoung and Ronnie Phillips studied the impact of a legislated price ceiling on payday loans in Colorado. They found evidence that rather than holding the price of payday loans down, the ceiling actually provided a focal point to which payday lenders' prices converged.

The more general point is that people are infinitely creative and adaptive in their pursuit of their self-interest. So we can count on our policy actions generating some surprising consequences. The best we can hope for is that careful analysis of policies beforehand and close monitoring of policy results thereafter keep them to a minimum.

Conclusion: The role of the Fed

At the outset, I said that we all recognize the need to do more to provide good opportunities for those who are economically distressed. We at this conference, and the organizations we represent, have different roles to play in this effort. I want to conclude with a few thoughts about what I see as the Fed's role.

As the nation's central bank, the Fed must focus primarily on the nation's overall economic performance. Our primary mission is to create money and credit conditions that foster stable prices and full employment on a sustained basis. Our primary policy tool, monetary policy, is a relatively blunt instrument. We can expand or contract growth in the overall supply of money and credit, but how different sectors of the economy respond to our policy actions, and in what ways, are not under our control.

I think it is fair to say that the Fed's success in enhancing overall economic performance contributes significantly to the success of more targeted economic development efforts. After all, a strong national economy may not be sufficient to guarantee opportunities for individuals in economic distress, but it is certainly a necessary condition.

In addition to monetary policy, the Fed also contributes to economic development more directly in its role as a bank regulator charged with enforcing the CRA and other fair lending laws. We also contribute directly through our financial literacy and community outreach programs.

Both as regulator and as program provider, the Fed stands to improve its effectiveness by engaging in the kinds of research projects that we are discussing at this conference. Certainly, we at the Philadelphia Fed are committed to doing our share to advance the research agenda. In that regard, I want to thank several of my colleagues at the bank for their support of this conference: Dede Myers and Amy Lempert of our Community Affairs Department, and Loretta Mester and Mitch Berlin of our Economic Research Department, all of whom did so much to put this program together; and Research economist Wenli Li, who presented her work on bankruptcy here yesterday afternoon.

With that, let's get this morning's program underway. I am sure you will continue to find the research presented stimulating and useful. Thank you again for your participation.