

For Release on Delivery
8:00 p.m., EDT
June 14, 2001

Housing as an Economic Development Tool

Remarks by

J. Alfred Broaddus, Jr.
President
Federal Reserve Bank of Richmond

to the

Virginia Housing Coalition
The Omni Hotel
Richmond, Virginia

June 14, 2001

It is a pleasure to be with you this evening. Most of the speeches I make deal with national economic outlook and Fed monetary policy, and it is refreshing to have an opportunity to talk about something else. Tonight I want to share a few thoughts with you regarding housing and community development. We at the Fed are very interested in these topics, because both housing and community development involve credit and banks, and the Fed is the federal level supervisor of all bank holding companies as well as a large number of individual banks.

The Importance of Local Economies

Before I turn specifically to housing and community development, though, I thought it might be useful to focus just briefly on the importance of local and regional economies more generally. As I said at the outset, the national economy is job one for me and my colleagues at the other 11 Federal Reserve Banks. But the national economy is really nothing more than a collection of regional and local economies, albeit well integrated local and regional economics. In order to meet my responsibilities as a national monetary policymaker, I need to be very familiar with what is happening locally in our Fifth Federal Reserve District, which includes Maryland, the District of Columbia, Virginia, North and South Carolina, and most of West Virginia.

I get this information partly from published economic reports. But statistics will only carry you so far. To really understand what's happening in the economy, I need to talk to real people operating businesses and coping with the practical challenges of making things happen. So I consult frequently with the boards of directors at our three offices in Richmond, Baltimore and Charlotte, which are made up of private business

people and professionals from around our District. We also have several advisory councils, and I want to highlight the activities of one specific council: our Community Development Advisory Council. Understanding regional economic conditions requires having not only people from different geographical locations on our boards and councils, but also people who represent constituents of different income levels. Our Community Development Advisory Council does that. Members of that council include housing advocates for low- and moderate-income populations, a labor union member, and a state housing official. These members are a bountiful source of information on the economic condition of lower-income and lower-wealth people. I am very pleased that both Greta Harris and Bo Middleton are members of that council. They do a tremendous job for us – so much so that we held our last meeting at the Fed's national headquarters in Washington and invited Alan Greenspan to join us for part of the meeting.

I also gather local and regional information by traveling around our District and meeting with banking, business, and local community organizations. Back in March, I went on a tour with Abdul Rasheed, President of the North Carolina Community Development Initiative, and the chair of the National Congress for Community Economic Development. Abdul is also the chair of our Community Development Advisory Council. We toured Eastern North Carolina, which, as you know was ravaged by Hurricane Floyd several years ago and is still recovering. I was able to see first hand the terrible damage caused by the flood, but also the incredible determination of community organizations, private sector developers, faith-based organizations, and banks to rebuild

their communities. It is just as important for me to be directly familiar with situations like these as it is to know what is going on in the District's industries and financial markets.

A second part of the tour was seeing the great work of local community development corporations (CDCs) that provide housing for senior citizens and for low- and moderate-income individuals. Abdul's organization is an excellent example of how a state-wide intermediary can channel both public and private resources, together with technical assistance, into local CDCs, freeing them from the concerns of funding stability and allowing them to do what CDCs do best – develop their local communities. Abdul's North Carolina Community Development Initiative may be unique in the country. Over the last seven years, his organization has received both direct appropriations from the state, and substantial private sector funding, which has enabled it to invest millions of dollars in more than 20 CDCs working around North Carolina. Abdul's organization has truly mastered the art of public-private partnerships, which are essential to foster sustainable community development.

The Importance of CDCs to Virginia

Let me now shift to Virginia, and share a few thoughts on the importance of housing as an economic development tool. As you all know, the economy has softened considerably over the last year. Twelve months ago, it appeared that the economy was growing *too* rapidly, and that it might overheat. We at the Fed had wanted growth to moderate somewhat, and, as things turned out, it's moderated more than we expected or wanted.

Despite the current slowdown, however, intermediate and longer-term prospects for the U.S. economy are still very bright. And we need to make sure that the

opportunities for growth and prosperity reach *all* neighborhoods at *all* income levels. By that I mean, for local residents, expanded job opportunities; and for local small businesses, enhanced growth potential. We should be particularly determined to see that lower-income neighborhoods and communities share in our economic prosperity, not in the discredited tradition of government programs that perpetuate dependency, but in ways that help low- and moderate-income people actually accumulate wealth.

Because only when people accumulate wealth do they have the financial cushion that lets them overcome crises and help the next generation attain a higher standard of living. Asset and wealth accumulation also make it possible for families to help their children acquire higher education. And that's crucial. As I told the graduating class at Thomas Jefferson High School yesterday, higher education is no longer a luxury but a necessity if one is to succeed and grow in our increasingly complex economy.

Homeownership – as you all know well – is a principal way in which people accumulate assets and wealth, especially in low-income communities. So I salute the Virginia Housing Coalition on its 20th Anniversary for its commitment to fostering affordable housing development in Virginia, and I congratulate the Coalition on its many accomplishments over two decades.

Beyond the Coalition itself, though, I want to recognize and salute the dedicated men and women who work long hours for the community development corporations that make affordable housing and other community development investments and services a reality for low- and moderate-income individuals rather than just a promise. CDCs are major catalysts for economic development in low and moderate-income neighborhoods and communities. They provide that extra level of development that other developers,

for whatever reason, do not undertake. Local CDCs develop and rehab housing, help small businesses grow and prosper, and provide valuable supportive services to local residents. This is vitally important work, and work that many times does not receive the respect it deserves.

Historically, as you know, the community development industry has focused primarily on quality *housing*. But it is now moving into more comprehensive revitalization strategies. While an essential human need, decent housing by itself does not ensure economically sound and healthy environments for families. That's why many CDCs, working in both the public and private sectors, are creating child care centers, business and technology incubators, health care centers, charter schools, and new retail and commercial businesses – most of it in markets where the for-profit sector has not yet uncovered the potential.

CDCs play an especially vital role in developing really *distressed* urban and rural communities. By blending public and private sector capital in targeted real estate efforts, CDCs not only build value in these communities but also provide a foundation for future private-sector investments. And as they build quality affordable housing, supportive facilities and commercial businesses, CDCs reconnect isolated communities back to the economic mainstream of our society, so that neighborhoods and families at a variety of economic levels once again become a viable part of the Virginia economy.

CDCs are working to help people have better housing and new and better job opportunities. Even more importantly, they are working to give people opportunities for long-term success. Today's CDCs are providing the types of support services that many families need to achieve that success. As families become more financially

stable, neighborhoods become more financially stable; and then our towns and cities become more economically competitive in the global marketplace. Community development is good business and good economic policy – as well as the right thing to do for our neighbors.

From an economic perspective, of course, the ultimate goal of CDC activity in a particular neighborhood is to make – at some point – further *explicit* community development superfluous. When a CDC becomes active in a neighborhood – revitalizing its housing and fostering business development – it typically works as a public/private partnership that combines funding from government and foundations with funding from the private sector. Once the CDC's efforts have registered some successes and gained some momentum, however, the project should rely less on public sector funding and more on private sources. An effective CDC program will have set the stage for private sector investment capital that will truly reconnect the neighborhood to the flow of local commerce. The CDC's initial investment of capital, energy, commitment and time will have transformed the community into an economically self-sustaining area that the private sector recognizes has growth potential. In other words, a successful CDC project is one that works itself out of a job. This is what successful community development means to me, and I expect to you as well. And, as you know as well or better than I do, there are numerous examples of CDC efforts that have been highly successful by this criterion.

One other point on this. The ultimate goal of a CDC neighborhood redevelopment project is sustained growth and development funded primarily by private sector investment. But this does not imply full gentrification of the neighborhood or the

displacement of people living in the neighborhood. Obviously, that result would *not* provide quality housing for low and moderate-income people – a major objective of neighborhood and community development. Instead, it would merely displace residents to other neighborhoods. Successful community development in today's world means providing current residents with better housing and better support facilities, but also introducing higher income households and new businesses into the neighborhood. In this way, households of various income levels live in close proximity, in contrast to past public housing projects that typically have isolated low-income families. Successful CDC programs are designed to help ensure this result after the CDC has done its job in the neighborhood, and growth and development are self-sustaining.

The Need for Adequate Resources

Let me shift now to my final point: the level of public resources devoted to neighborhood and community development. In my earlier comments I emphasized the need for the bulk of longer-term community development – what economists like me refer to as "steady state" growth – to come primarily from private sources. But we all realize that public funding, much of it channeled through CDCs, is essential in the start-up phases of particular development projects. We also all recognize that resources for funding public programs are limited, and that difficult tradeoffs must be made in allocating these resources. Public funds obviously are not costless, and there are important competing uses for these funds in such areas as education and health care. But we recognize, as well, that Virginia's economic growth will be hampered unless we have quality, affordable housing for our labor force, and healthier inner-city neighborhoods free of blight. We know that if we have quality affordable housing for our

labor force, if we remove blighted structures to create healthier inner-city neighborhoods, and if we create solid economic bases in our rural areas, we will foster Virginia's economic strength. While I'm not usually in the vanguard of those advocating increased public expenditure, I believe that a persuasive case can be made for expanding the level of Virginia's public resources devoted to community and neighborhood development.

The challenge, as I see it, is for all the players in this field to work together to pursue sound economic policies that support the development of all Virginia communities – urban and rural. In this way, *total* resources available to spur development can be augmented. Beyond this, CDCs, and public and private sector entities involved in community development, might benefit from sitting down and discussing how to work more effectively together to achieve their common objectives.

Perhaps a small group of Virginia's community development leaders could come together and look at other state models, such as the North Carolina Community Development Initiative that I discussed earlier, and explore other ways of assuring steady funding for low-income housing as a catalyst for economic development in our state. The Community Affairs Office at our Federal Reserve Bank here in Richmond has a good track record of helping various groups work through community development issues. We have no silver bullets, but we would be happy to work with you and assist you in any way we can.

Conclusion

In closing, the successes of the past two decades have been made possible largely by the vision and efforts of key leaders from both the public and private sectors.

A particularly important catalyst has been the Virginia Housing Study Commission, which has done a wonderful job creating strategies to address affordable housing issues here in Virginia. For 30 years, the Commission's thoughtful research has provided recommendations leading to sound legislation and financial resources that have helped literally thousands of lower-income families.

Finally, I also want to congratulate again the Virginia Housing Coalition on its 20th birthday. Twenty years is a long time in any business, including community development – maybe *especially* in a field as challenging as housing and community development. The Coalition and its membership have planted seeds of hope for those on the harshest end of the economic spectrum. Your grassroots leadership and your down-to-earth, results-oriented approaches to rebuilding communities have not only transformed neighborhoods over the last two decades, they have also transformed lives. We can all celebrate your accomplishments tonight because truly they have made Virginia a better place to live and work for all of us.

#