

President's Message

On a light-rail tour of the East St. Louis area, President William Poole asks the guide a question about redevelopment along the train's route.



The Fed Lends a Helping Hand—and Sometimes a Push

If you were to poll the citizenry about what the Fed does, most would probably say something about setting interest rates. Others might be familiar with our role in supervising banks. A smaller minority might have heard about our third main responsibility, that of providing financial institutions with check processing, electronic funds transfers and similar services—just like the “real” big banks do. I’m betting, however, that few would venture to say that the Fed is involved in revitalizing our inner cities.

But that was the goal of the St. Louis Fed in organizing a conference on this topic last fall in East St. Louis, Ill., long the poster child for cities in distress. More than 150 people from around the country gathered to talk about housing, jobs, financial education, reuse of abandoned industrial sites and similar needs in East St. Louis and other distressed urban areas. Similar efforts have been undertaken by other Federal Reserve banks, with the focus just as often being on the needs of rural areas.

When people find out that the Fed does such things as organize community investment fairs and research the credit needs of the Mississippi Delta, they sometimes ask why we don’t flex our muscle more where help is needed the most. Why don’t we create money just for cases like East St. Louis? Why don’t we lower interest rates for those willing to invest in such areas? But such approaches don’t work, as other central banks have learned. Relying on national monetary policy, we couldn’t stimulate the economy in East St. Louis without overheating it in surrounding

areas that are already better off. Even if the Fed pumped reserves into the banking system in the East St. Louis area to lower rates there, that money would quickly be gobbled up by bankers and brokers elsewhere, who would take advantage of the rate differential to make a profit. Rather than try such tactics, the Fed believes that if it sticks to its main goal—of keeping inflation low and stable—everybody’s boat will have a better chance of floating a bit higher.

This limited role doesn’t mean the Fed has little interest in community development. As the recent conference demonstrates, the Fed brings lenders and investors together with neighborhood activists, foundations, government agencies and others to try to find ways to get needed projects off the ground. For leverage, the Fed has the Community Reinvestment Act of 1977. This law tells federally regulated financial institutions that if they want approval to buy, sell or expand, they must have a track record of providing credit access to all parts of their com-

munity, including low- and moderate-income areas. CRA doesn’t force banks to throw away money on such projects, but to find a way to make them profitable. It can be done—even in East St. Louis, as can be seen in the recent construction of a hotel, community center, strip shopping center and several hundred townhomes.

Through its Community Affairs Offices, the Fed provides a host of other assistance in this vein: from workshops on building wealth, to “how-to” manuals for community developers, to research by economists on what works and what doesn’t.

If you’ve got other ideas on how we can help foster development in your community, please contact us at communityaffairs@stls.frb.org.

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