

TEN

Fall 2013

FEDERAL RESERVE BANK OF KANSAS CITY

Inside:

Robert Owen's influence in the Fed's formation

LMI still struggling after the recession

The shadow labor supply

FUNDING TRANSFORMATIONS

Loan pools create investment opportunities for the urban core



TEN

F a l l 2 0 1 3

FUNDING TRANSFORMATIONS

Loan pools create investment opportunities for the urban core 14

Renovation of forlorn urban properties can present fresh opportunities for many communities, but one large obstacle is finding capital to finance this transformation. Some communities are addressing this problem by creating loan pools.

FEATURES



BEYOND THE FEDERAL RESERVE ACT

Robert Owen's influence in the formation of the Federal Reserve 4

Robert Latham Owen sponsored the Federal Reserve Act that President Woodrow Wilson signed into law one hundred years ago this December. Owen's bill authorized the creation of the Federal Reserve System, the United States' first central bank in more than 75 years, including both a government agency in Washington, D.C., and 12 semi-independent regional Reserve Banks around the country.



THE SHADOW LABOR SUPPLY

A marginal attachment to the work force 12

In the wake of the Great Recession there has been a sharp rise in the number of people who indicate they want a job, but are not actively seeking one. These individuals are not considered unemployed because they are not actively seeking work and are not counted in the unemployment rate or the labor force.



JACKSON HOLE

Global Dimensions of Unconventional Monetary Policy20

More than 100 central bankers, policymakers, economists and academics gathered for the Federal Reserve Bank of Kansas City's 37th Economic Policy Symposium in Jackson Hole, Wyo.



SLOW RECOVERY

LMI still struggling after the recession22

Although many Americans have seen financial gains and many have gone back to work since the recovery began in 2009, low- and moderate-income individuals and families (LMI) face many economic obstacles.

IN EVERY ISSUE

1 **PRESIDENT'S MESSAGE**
26 **COMMON CENTS**

29 **ASK AN ECONOMIST**
30 **NOTES**

Reflecting on 100 years of Checks and Balances

Later this year, the nation will mark the 100-year anniversary of the founding of the Federal Reserve System, which was established with the signing of the Federal Reserve Act on Dec. 23, 1913. As we reflect on the role the central bank has played during the past century, we should recall that the System traces its roots to the populist movement of the early 20th century. Additionally, the debate over how to structure the Federal Reserve involved key leaders who represented this part of the nation.

These populist roots are still relevant to monetary policy deliberations nearly 100 years later and help highlight the importance of my current responsibilities as Kansas City Fed president in bringing forward independent views to national deliberations in Washington, D.C.

Populist roots

At the end of the 19th century, it was clear that the nation's monetary system was not working to the economy's benefit, and it was especially ill-suited for farmers, laborers, merchants and wholesalers.

The nation's unstable financial system led to tremendous uncertainty about the value of money. This uncertainty was fueled by the constant threat of a possible financial crisis, which would hit the nation's banks every few years as part of a vicious cycle. In a time when there was no deposit insurance, we can appreciate why these crises were known as "panics," as depositors raced to their local banks hoping they would not be greeted by a closed teller window at the end of the line.

In Nebraska, where agriculture played such a key role in the economy, as it does today,

an attorney by the name of William Jennings Bryan gave a voice to farmers' concerns about the financial system and the problems surrounding the seasonal availability of credit. As a three-time presidential candidate, Bryan helped shape the national conversation about the financial problems experienced by those in the middle of the country. Bryan was a vocal critic of banks and the gold standard, and his famous "Cross of Gold" speech, given at the Democratic National Convention in 1896, cemented his historic reputation as a persuasive speaker and leader on these issues.

While Bryan and others who shared his concerns had ideas about how to reform the nation's monetary system and pushed for what they called an "elastic currency," no significant reform was attempted until after the Panic of 1907.

Much of what has been written about the 1907 panic centers on the activities of speculators in New York City who attempted to corner the copper market with disastrous results. From there, the story shifts to the role of New York financier J.P. Morgan in organizing a private-sector rescue of the nation's financial system.

Perhaps less well-known is the impact the panic had on the rest of the country, including the Midwest. As banks in New York seized up, the flow of money to the rest of the country



stopped. Within weeks, there was no currency available for businesses to pay workers, for merchants to pay their vendors or for borrowers to pay their debts.

Due to the shortage of currency in this part of the country, streetcar workers in the city of Omaha during the fall of 1907 were paid with the nickels customers used to pay their fares. In smaller cities, such as Hastings, Neb., Atchison, Kan., and Guthrie, Okla., informal coalitions of banks quickly organized and issued cashier's checks and other substitutes that circulated as cash throughout their community until the panic eased and U.S. currency began to flow

again. In many places, businesses were forced to close and employees were laid off because there was simply no way to pay wages.

It was clear that this growing nation needed a central bank. By 1912, some lawmakers presented a plan that would place responsibility for the nation's credit and money supply into a single, centralized board consisting of 46 directors who overwhelmingly represented the banking industry. Populists including Bryan, who by this time was serving as secretary of state under President Woodrow Wilson, criticized this approach as giving too much power to financial interests.



Kansas City Fed President Esther George spoke at a luncheon of community business leaders and then spoke with some of the attendees afterward on Sept. 6 in Omaha, Neb. The Omaha Branch of the Kansas City Fed organized the event.

Oklahoma Senator Robert Owen, a banker during the Panic of 1893, generally agreed with Bryan's concerns but recognized the need for a more balanced and representative approach to central banking. For more than a decade, Owen had proposed his own banking reform measures, and as chairman of the new Senate Banking Committee in 1913, he was in a position to introduce a bill that included both a central government board and a regional reserve system to represent differing regional economies and banking needs.

President Wilson and members of Congress debated these issues for months. By late 1913, lawmakers finally arrived at the compromise that created the Federal Reserve System and its structure of a central Board of Governors in Washington and 12 regional Reserve Banks located across the country.

The Federal Reserve reflects the tradition of checks and balances that characterize other important institutions in the United States. The Federal Reserve's designers recognized that the central bank would need a wide range of perspectives when deliberating policy that affects the availability of credit and money in the broader U.S. economy. The regional Reserve Banks provide a clear line of sight into how national policy affects Main Street.

While I consider the Federal Reserve's structure to be a success in terms of the founders' intent, I often read that "too many voices" and the "complex structure" of the Federal Reserve System are confusing to the public. To the contrary, it is important that this representative structure not be disregarded or diminished. This structure and its governance



provides for a diversity of views that are transparent to the public and are reflected in its deliberations about the U.S. economy and its decisions on monetary policy.

**ESTHER L. GEORGE, PRESIDENT
FEDERAL RESERVE BANK OF KANSAS CITY**

The preceding was adapted from remarks delivered during a public address in Omaha, Neb.

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Beyond the Federal Reserve Act

Robert Owen's influence in the formation of the Federal Reserve





Robert Latham Owen's business dealings before the 1890s in Oklahoma helped him accumulate wealth and shaped his understanding of the regional economy. But his experience as a banker—he obtained a charter in 1890 to open the First National Bank of Muskogee—sowed the seeds for his future involvement in establishing a central bank in the United States.

Owen sponsored the Federal Reserve Act in the U.S. Senate, which President Woodrow Wilson signed into law one hundred years ago this December. Owen's bill authorized the creation of the Federal Reserve System, the United States' first central bank in more than 75 years, including both a government agency in Washington, D.C., and 12 semi-independent regional Reserve Banks around the country.

His preference for a quasi-public, decentralized structure for the Federal Reserve came from skepticism about placing too much

control in either a central agency in the capital, or, especially, a small number of Wall Street bankers, which he thought would make the institution unpopular and unfair to much of the country.

Owen generally praised the Federal Reserve's early performance but became a critic in the early 1920s, and again in the 1930s, when its deflationary policies were especially harmful to the agricultural economy of his home region.

Sowing the seeds

Although Owen, a Cherokee citizen, amassed a fortune as a lawyer and businessman, he maintained a strong degree of tribal sovereignty while also allowing for the economic development of the region. But it was during the Panic of 1893, when he was president of the community bank in Muskogee, that he discovered the effect of widespread currency hoarding.



Robert Owen experiences the Panic of 1893 as president of the First National Bank of Muskogee, Okla.



“Money suddenly appreciated in value, so that property measured in money fell in value in some cases to half of its previously estimated value,” he wrote years later. “This enabled thousands of creditors to take over the property of thousands of debtors on a basis that was ruinous to debtors, causing the bankruptcy of hundreds of thousands of people; causing a violent dislocation of business; and throwing out of employment vast numbers of people and inflicting injuries which required years to repair in the industrial and commercial life of the nation.”

The episode brought back memories from Owen’s teenage years when, following the Panic of 1873, “the value of my father’s property was completely destroyed and my mother, from a life of abundance, was suddenly compelled to earn her living by teaching music.”

Owen’s bank survived the 1893 crisis and subsequent economic depression, but thousands of banks and other private businesses around the country were not fortunate.


Also, the seven states that would make up the Federal Reserve’s Tenth District, including Oklahoma, were hit particularly hard by the Panic of 1893. Office of the Comptroller of the Currency banking data show that assets of national banks in the seven states fell 25 percent from 1892 to 1893 on a per capita basis, considerably more than the 10-percent drop for the nation.

Moreover, banking assets in the seven states didn’t rise back above 1892 levels until

1899, two years later than in the rest of the country and five years later than banks in New York.

Given the structure of the national banking sector at the time, borrowers relying on rural banks likely had the least access to liquidity needed to fund their operations. This was because these so-called “country banks”

Robert L. Owen
 United States Senator
 from Oklahoma and
 Master-BUILDER of the
 Federal Reserve Act
 has written



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Sen. Robert L. Owen's book about the Federal Reserve was one of many he authored that was advertised and sold nationwide.

1898

Owen visits the central banks of England, France, Germany and Canada to learn about modern central banking.



relied for a good portion of their liquidity on “reserve city” banks, located in larger cities. “Reserve city” banks in turn relied on banks in the three “central reserve” cities—New York, and later Chicago and St. Louis—for much of their needed liquidity.

As a result, when markets seized up, those banks and firms furthest from the central reserve cities, and especially New York, were struck the hardest. Given the rural nature of much of the future Tenth District, this structure generally worked against the region in a crisis.

Also sharp declines in agricultural commodity prices resulting from the depression and the collapse in the silver market hit the region particularly hard.

Push for a central bank

The fallout from the 1893 financial crisis convinced Owen and others in the Midwest that the United States again needed something like a central bank.

The nation had been without a central bank since 1836. The charter of the Second Bank of the United States was not renewed during the presidency of Andrew Jackson, a skeptic of centralized banking power. The nation’s first central bank, formed in 1791 by Alexander Hamilton, also closed when its 20-year charter was not renewed.

In 1898, Owen visited the central banks of England, France, Germany and Canada to learn more about how a modern central bank might work in the United States. While each

institution differed in its structure and overall approach, Owen concluded that each could do something that no institution in the United States had the authority to do: “quickly expand the currency when financial fear threatens the country.”

His published recommendations in 1899 and 1900 suggested future financial crises could be avoided by implementing various aspects of central banking from other countries and adjusting for the specific needs and political realities of the United States.

In particular, he advocated issuing new Treasury notes, to be backed by standard collateral, to expand the currency when needed. He also was an early advocate of some type of deposit insurance. Some of Owen’s proposals were taken up by congressmen, but ultimately were not included in bills at the time.

Early attempt at a central banking system

Although people were concerned about the national banking system, especially after another bank panic in 1907, they disagreed about how to structure a central bank.

Upon being selected in 1907 as a Democratic U.S. senator from the new state of Oklahoma, Owen focused much of his early attention on issues related to central banking. Late in that year and early 1908, he introduced seven bills that sought to reform and strengthen the nation’s banking system, but as a freshman senator in the minority party and from a new

1907

Owen selected as a U.S. senator for the new state of Oklahoma.

1907-1908

Owen introduces several unsuccessful bills to reform and strengthen the U.S. banking system.

state, his bills went nowhere.

Instead of dwelling on his setbacks, Owen signed on with other bills that at least included parts of his proposals.

The key piece of banking legislation resulting from the Panic of 1907 was the Aldrich-Vreeland Act of 1908. The bill introduced a number of banking reforms, including most importantly the establishment of a more elastic currency. The Act also established the National Monetary Commission, to be chaired by Nelson W. Aldrich, to study central banking issues and to propose a new system for the United States.

While Owen appreciated and supported the Aldrich-Vreeland Act's creation of a more elastic currency with adequate protections, he

had several long-standing disagreements with other provisions. In particular, Owen criticized "putting the system in the control of the banks and making the currency difficult of access and expensive."

The National Monetary Commission (NMC) recommended the creation of the National Reserve Association of the United States, an institution similar to what would become the Federal Reserve System, but with key differences.

In addition to plans for better provision of elastic currency, the proposed Association had a regional structure with 15 branches across the country and 46 directors. Four of the directors were to be politically appointed with banks appointing the rest.



Sen. Owen, second from right, was chair of the Senate Committee on Banking and Currency during the 63rd Congress when the Federal Reserve Act was drafted and approved. Photographed attending this undated Committee meeting with two House counterparts were, from left, Sen. James A. O’Gorman, New York; Rep. Charles A. Korbly, Indiana; Sen. James A. Reed, Missouri; Sen. Henry F. Hollis, New Hampshire; Sen. Atlee Pomerene, Ohio; Sen. Owen; and Sen. John F. Shafroth, Colorado. Writing on the back of the photo indicates Rep. Carter Glass of Virginia was also in attendance at the meeting, but is hidden from view by O’Gorman.

1913

Owen becomes the first chairman of the new Senate Banking Committee.

Dec. 23, 1913

President Woodrow Wilson signs the Federal Reserve Act into law, which Owen sponsored.



Owen thought the plan put control in the hands of bankers in New York, where this power could coerce every member bank and large business in America. He wanted the system in the hands of the government and reserve centers dispersed throughout the country.

Many bankers, especially in money centers like New York, objected to handing over responsibility of the banking system and currency to the federal government. Owen, still a director at First National Bank of Muskogee, recognized these concerns but was more worried about power being too concentrated, especially on Wall Street.

Owen's role in the Federal Reserve Act

The debate over the scope of private versus public control and centralized versus decentralized structure at the proposed central bank continued for nearly two more years. In the interim, the national election of 1912 placed a Democrat in the White House and gave the party control of Congress.

As a consequence, the recommendations of the Republican-led NMC were not acted upon although they served as the baseline for ongoing discussions about a central bank. In early 1913, Owen became the first chairman of the new Senate Banking Committee. This position allowed him to lead discussions of

central bank bills in the Senate.

That spring, the new Democratic leaders produced several bills. Carter Glass of Virginia, head of the House Banking Committee, presented an initial central bank bill that kept most of the authority with banks. Owen then drafted a Senate bill, providing somewhat more public control but still a decentralized system. Treasury Secretary William McAdoo also presented a proposal of a more centralized and governmentally-controlled institution.

While some details differ, historians agree that throughout the summer of 1913, President Wilson had several meetings with Glass, Owen and McAdoo at the White House to resolve differences and agree to one central bank proposal.

Wilson preferred a government-appointed board for the central bank, but he initially favored the Glass bill, which was the most popular with bankers.

In the following weeks, however, Owen and Secretary of State William Jennings Bryan pushed for more government control and believed such a bill could pass. Wilson



Dec. 26, 1913

The Federal Reserve Organizing Committee had its first meeting and announced that it would have hearings for the establishment of the Federal Reserve Districts and the locations of the 12 regional banks.

March 26, 1914

President Woodrow Wilson meets with Senators Robert Latham Owen (Oklahoma) and James A. Reed (Missouri), members of the Senate Banking Committee about the possible location of a regional reserve bank in Kansas City, Mo.

ultimately agreed, and a version including more government control was put forward that fall for debate in both houses. After months of sometimes intense debate, the Owen-Glass bill, or Federal Reserve Act, was signed into law Dec. 23, 1913.

Historians have assigned varying degrees of credit to Owen for “founding the Fed” relative to other individuals vital to passing the Federal Reserve Act. In some cases, credit is

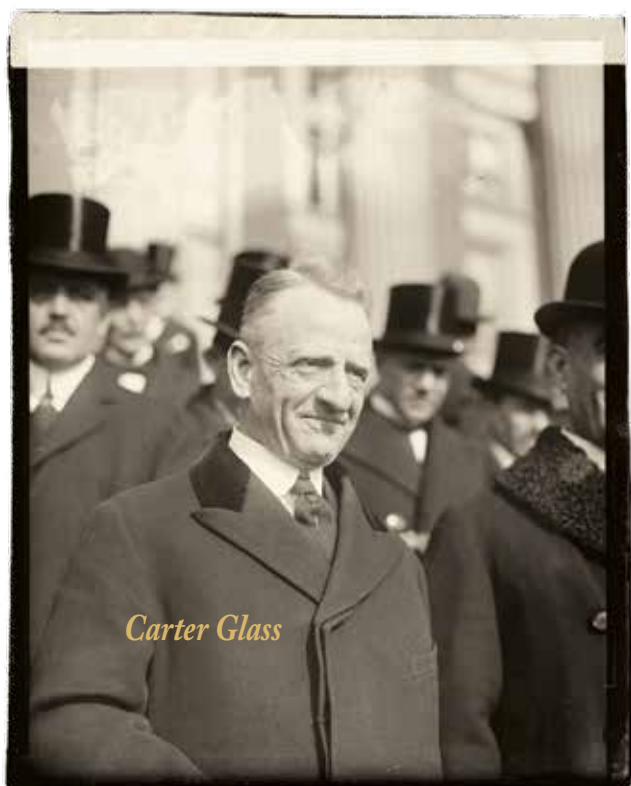
due for their work in positions they had later in their careers.

For more than a decade, however, Owen had consistently preferred a balance between the privately controlled, decentralized institution suggested by Glass, Aldrich and Paul Warburg and the more government-controlled, centralized institution preferred by McAdoo, Bryan and Wilson. Owen’s version, with only modest variation, is ultimately what the Federal Reserve System came to be—12 regional Reserve Banks set up as independent corporations across the country under the general oversight of a government-appointed board in Washington, with the currency an obligation of the government rather than of private banks.

Owen’s criticism of the Federal Reserve

Owen had a limited understanding of monetary economics, as did others of his day. In hindsight, however, his understanding has stood the test of time better than many. In particular, his view of what the Federal Reserve was supposed to do—provide ample liquidity to avoid deflation and financial distress in times of crisis—and failed to do during the early 1920s and early 1930s is now generally accepted.

The praise Owen and many others had for the nation’s new central bank had soured due to the severe deflation of 1920-21,



Carter Glass

April 2, 1914

Boston, Mass., New York City, N.Y., Philadelphia, Pa., Cleveland, Ohio, Richmond, Va., Atlanta, Ga., Chicago, Ill., St. Louis, Mo., Minneapolis, Minn., Kansas City, Mo., Dallas, Texas and San Francisco, Calif., are designated as the locations of the 12 regional Federal Reserve banks.

Nov. 16, 1914

The Federal Reserve banks formally open at approximately 10 a.m. (EST). The opening date for Federal Reserve banks is nearly five months ahead of schedule due to fears of a possible panic caused by the outbreak of war in Europe.

which devastated agricultural regions of the country. The later deep deflation of the Great Depression, also called into question the main objectives of the nation's central bank.

Owen and others viewed price stability and moderate interest rates as key objectives while most other early Fed leaders preferred to focus on maintaining the international gold standard and the strength of the banking system. This difference led to political backlash from Owen and others.

Unfortunately, while some lessons were learned from the policy mistakes of the early 1920s, Fed officials still had an incomplete understanding of how monetary systems should work. In addition, fear of massive political repercussions, such as occurred in 1921 and 1922, led the Board to make poor monetary decisions. One result was an even greater crisis, the Great Depression of 1929-33.

By that time, Owen had retired from public life and settled into practicing law in Washington, D.C. But his interest in central banking matters had not waned.

In 1935, at age 79, he lent his name to the forewords of two of the many monetary treatises of the period that criticized Fed policy. In these, he offered many of the arguments he had made during the debates leading up to the Federal Reserve Act and during the political backlash from the deflation of 1920-21. He concluded one of the forewords with this summary:

“It should be obvious that when the records of our government disclose that the value of the dollar can be doubled or cut in half in the course of two or three years, there is something radically wrong with our monetary structure, and our laws which permit such a violent variation in the purchasing power of money. Such fluctuations make it impossible for the most prudent of businessmen to make dependable contracts extending over a period of time, and leave the people defenseless against depressions.”

Despite his opposition to Fed policy in the 1920s and 1930s, Owen remained proud of his role in establishing a new U.S. central bank. The copy of the Federal Reserve Act given to him by President Wilson and the pen he used to sign it were among his most treasured possessions.

Just before his death in 1947, Owen presented the pen to President Harry Truman at the White House to have it deposited at the Federal Reserve Board. Owen also participated in ceremonies honoring him at the headquarters of the Federal Reserve Board in Washington, D.C.

This essay was created using the research paper “Senator Robert Owen of Oklahoma and the Federal Reserve’s Formative Years” by Chad R. Wilkerson. To view the paper, go to www.KansasCityFed.org/publicat/econrev/pdf/13q3Wilkerson.pdf.

Oct. 17, 2013

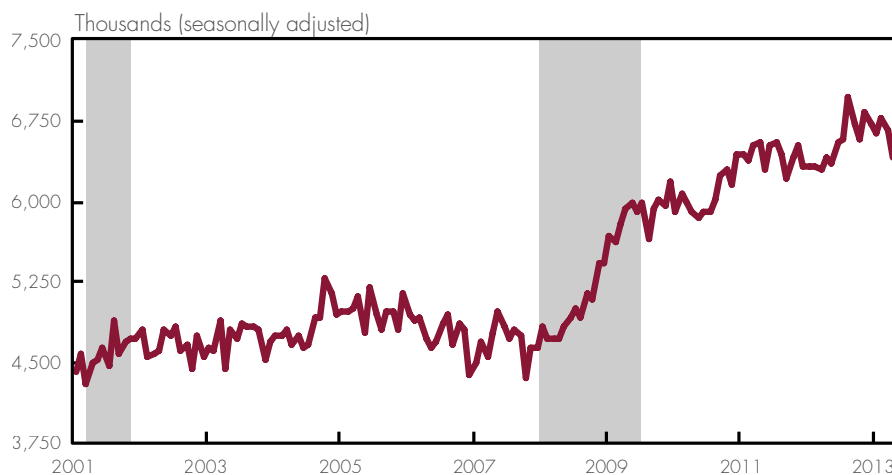
The Kansas City Fed in conjunction with the Oklahoma History Center had an event in October that included the unveiling of a special exhibit at the Center commemorating the history of the Federal Reserve, the Kansas City Fed's Oklahoma City Branch and Robert L. Owen Jr. The exhibit opened to the public Oct. 17. Read the winter 2014 issue of TEN to learn more about the event. For more information about the exhibit, visit www.okhistory.org/historycenter/federalreserve/index.html.



The shadow labor supply

In the wake of the Great Recession there has been a sharp rise in the number of people who indicate they want a job, but are not actively seeking one. These individuals are not considered unemployed because they are not actively seeking work and are not counted in the unemployment rate or the labor force.

Each month the Census Bureau interviews individuals and classifies them as employed, unemployed, and not in the labor force (NLF) based on recent labor market activity. For individuals not in the labor force, the Census sub-categorizes them into those "wanting a job" (NLF-WJ) or "not wanting a job" (NLF-DWJ). Thanks to a survey redesign in 1994 it is possible to consistently track individuals in these sub-groups and thus measure changes in their desire to search for a job.

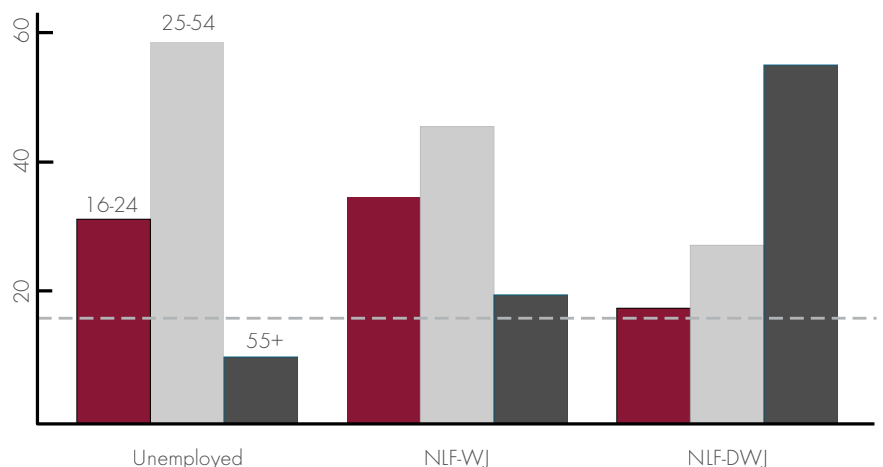


THOSE NOT IN THE LABOR FORCE BUT WHO WANT A JOB

16 years and older

AGE DISTRIBUTION BY LABOR MARKET GROUP

16-55+

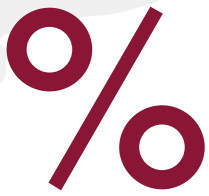


NLF not in the labor force
WJ wanting a job
DWJ not wanting a job

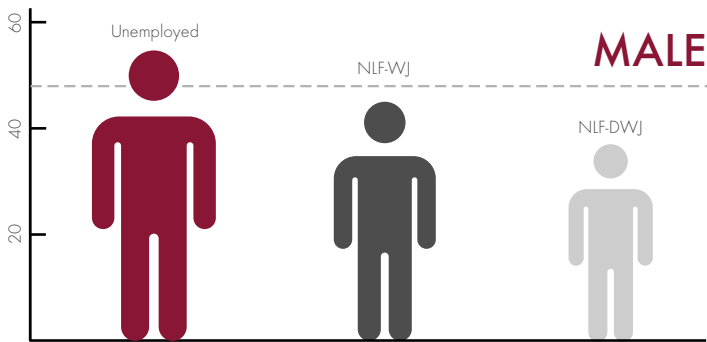
LEGEND

The shadow labor supply swelled through the first few years of the economic recovery and by early 2013 numbered some 6.7 million—nearly 2 million more than before the crisis.

6.7 MILLION

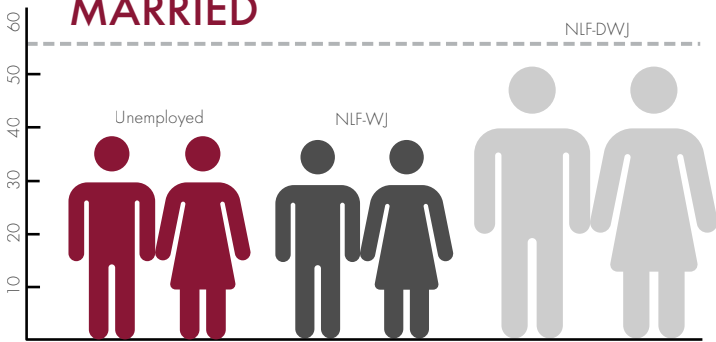


POPULATION BY LABOR MARKET

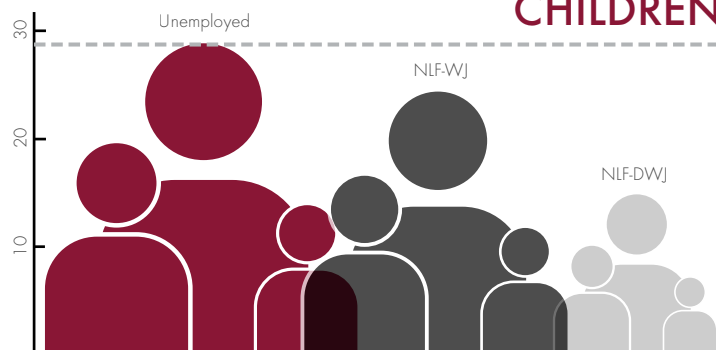


MALE

MARRIED

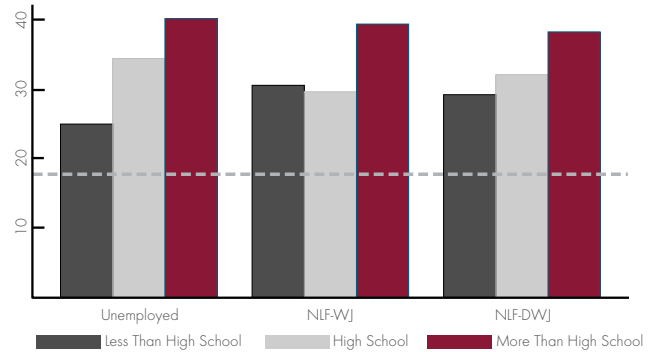


CHILDREN



Percent With At Least One Child Younger Than 18

EDUCATIONAL ATTAINMENT BY LABOR MARKET



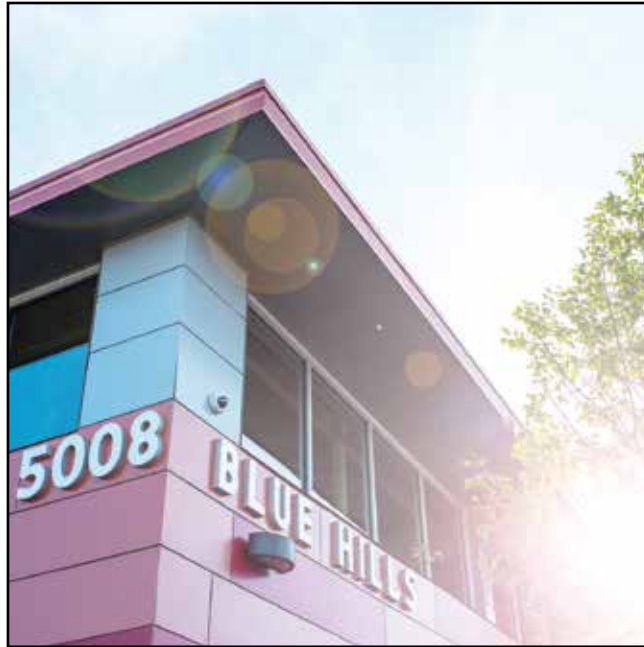
In their recent research, Kansas City Fed Research Director Troy Davig and Economist José Mustre-del-Río, using household level data, studied the flow of individuals in the labor market. They wrote that despite the swelling size of the shadow labor supply, a return of these individuals to the labor force in numbers that would considerably affect the unemployment rate appears unlikely, especially this late into the recovery. The peak in their return to the labor force typically occurs in the first few post-recession years. The recent, post-recession peak of their flow back into unemployment has already occurred, in mid-2010. While another surge back into the labor force by individuals in the shadow labor supply is possible, historical evidence suggests it is unlikely.

To read Davig and Mustre-del-Río's research, "The Shadow Labor Supply and Its Implications for the Unemployment Rate," go to www.KansasCityFed.org/publicat/econrev/pdf/13q3Davig-Mustre.pdf

Funding transformations

Loan pools create investment opportunities for the urban core

Ozell Lincoln, an urban rehabber in Kansas City, teaches teenagers about housing rehabilitation.



Existence of large numbers of foreclosed, vacant and abandoned properties in urban neighborhoods poses community challenges of blight, crime and further deterioration, not to mention the loss of tax revenues.

But renovation of these forlorn properties can present fresh opportunities to create affordable housing, revitalize neighborhoods and help low- and moderate-income residents build personal wealth.

One large obstacle, however, is finding capital to finance this transformation, at a time of federal budget cuts and the appearance, at least, of a decrease in lending by banks still feeling the pinch of the housing market collapse.

Some communities are addressing this problem by creating “loan pools,” reservoirs of funding that can provide mortgages to homebuyers and also loans to small-business rehabbers to acquire and renovate vacant properties.

Loan pools are most often funded by a consortium of banks that invest a proportionate

share of money into the pool, thus limiting their individual risks. The pooled money can also be leveraged with funding from city, county and state governments, and from private investors and foundations.

The money is often managed by an underwriting entity that makes loans to borrowers and pays a return to the lenders, in proportion to their investment.

“Loan pools can provide the resources to assist homebuyers who want to live in urban neighborhoods and create a genesis of new homeownership,” said Jerry Dantzler, director of Omaha 100, a nonprofit organization that since 1992 has managed a loan pool for seven Omaha banks, using the money to revitalize neighborhoods.

Dantzler said the Omaha 100 loan pool has provided nearly 1,000 loans amounting to more than \$58 million in funding. The city of Omaha provides additional funding that can be used by the homeowner for renovation and repair.

Loan pools are finding success in cities



PHOTO BY BOB GREENSPAN

Michael Duffy is a senior attorney for Legal Aid of Western Missouri, and he also sits on the board of Kansas City's Economic Development Corporation (EDC). The EDC has offered to manage a loan pool in Kansas City, Duffy said.

ranging in size from Des Moines to Chicago. A loan pool was recently started with three lenders in St. Louis, and proponents are exploring ways to develop one in Kansas City, Mo.

Need for urban investment

"It's a very exciting idea," said Robert Boyle, president and CEO of Justine Petersen, a community development financial institution (CDFI) in St. Louis, which is acting as the underwriter for a new loan pool that three participating banks have already provided funding for 112 loans.

"We know there are homes available," he said, referring to the thousands of vacant properties that mar the urban landscapes of

cities like St. Louis, Kansas City, Omaha, Oklahoma City and Denver.

Justine Petersen, which has an office in Kansas City, Mo., is one of several CDFIs that have been consulted by loan-pool proponents in that city.

"There are rehabbers that want to purchase the homes and individuals that will buy or rent the properties. "If all these things are true, what's the missing ingredient? It's the capital to make it happen," Boyle said.

A study by Kansas City Fed Senior Economist Kelly Edmiston showed that financing renovation on one urban block can result in a positive ripple effect of investment in neighboring blocks.

New contractor incubator is catalyst for change

In addition, a new study conducted in Cleveland, Ohio, for Harvard University, supports the value of loan pools as an option to induce conventional lenders to reinvest in distressed communities.

Frank Ford, a senior policy advisor for the Thriving Communities Institute in Cleveland, and author of the study, said a common theme in interviews with real estate owned (REO) investors was that “traditional bank credit was nearly impossible to obtain to finance home renovation,” partly due in reaction to prior abuses associated with subprime lending.

Now, Ford said, “it’s worth asking the question whether lenders and their underwriters have over-reacted in the other direction.”

He said community leaders “should engage local lenders in a conversation about finding a middle ground: credit that is based on safe and sound lending, but provides fair and reasonable access to credit for responsible borrowers.”

Lenders have reason to be cautious. Bill Dana, president and CEO of Central Bank of Kansas City, which itself is a CDFI that has long been involved in community development, said reinvestment in the wake of the foreclosure crisis is “fraught with peril.”

Homes have lost so much value that lenders have seen their investments plummet by as much as 80 percent. With values dropping, people are leaving the urban core to buy affordable housing in suburban communities, leaving a doughnut hole of abandoned homes and poverty in the central city.

Dana said developing sustainable urban neighborhoods requires diligent planning, solid underwriting and local government support.

“You have to keep talking solutions but it has to be kick started with some funding from government players,” he said.

Still, he said, “I’d love to be at the table.”

Community collaboration

A collaboration of banks, city and county officials, and community leaders is credited for

What once was a disheveled, abandoned building on a weed-infested piece of land in urban Kansas City is now a sleek, energy-efficient small business incubator for contractors. The incubator, which promises to be a catalyst for neighborhood revitalization, is owned and managed by Blue Hills Community Services, a community development corporation (CDC) that has worked for years in the Blue Hills Neighborhood of Kansas City rehabbing homes or building new ones.

“Building the incubator was a natural extension of what we have been doing here for years,” said Joanne Bussinger, executive director of the CDC.

The 14,168-square-foot incubator, built to LEED Gold standards and also houses Blue Hills’ headquarters, is one of several new developments along Prospect Avenue, one of Kansas City’s busiest, and grittiest, urban roadways.

“This development will provide a catalyst for ongoing transformation of the Prospect corridor and bridge existing residential development and community services in the neighborhoods,” Bussinger said.

While the Kansas City metro area has seen a blossoming of business and science incubators in the last decade, this is the first to focus on serving small business contractors—including construction, plumbing, mechanical and energy professionals—in the urban core.

It may be one of the first of its kind in the nation, said Randy Morris, director of member services for the National Business Incubator Association, which has 1,275 members in the United States.

“Incubators serve the entrepreneurial spirit within a community, creating jobs and creating wealth,” Morris said.

The challenge for many small businesses, however, is that their founders may have the professional talent but lack the knowledge that is necessary to make a company sustainable.

That was the reason Dan Garth, owner of Abraham Mechanical, became one of the first five contractors who is getting mentoring, technical support and business training in the new center. While Garth has run a business since 2003, he said his lack of business savvy stood in his way.

“No one ever sat me down and said, ‘This is what you need to do,’” he said. Now, Garth wants to partner with larger companies and become a source of jobs for urban youth.

“We can bring in young people from the inner city that have the heart and want to learn.” “It’s all about learning and applying yourself,” he said.

For information on the Blue Hills incubator, go to: www.5008kc.org

the success of a loan pool in Des Moines. Since its formation in the late 1980s, the loan pool has financed more than 4,000 single-family homes and 700 multi-family centers with \$257 million in grants and loans.

The Neighborhood Finance Corporation (NFC), a non-profit financial institution, manages and underwrites the pool. "It's a great way for banks to participate in community lending while minimizing their risk," said Holly Olson, NFC's executive director, who spoke at a Kansas City Fed roundtable this past spring.

"What the banks like is that if a loan defaults they are only on the hook for the percentage of their investment," she said.

A majority of loans are provided to homebuyers. But the city of Des Moines and Polk

Challenge of getting started

Loan pools used for the purpose of community development are similar to microloan pools, in which CDFIs act as intermediaries for traditional banks in making small-dollar loans to startup businesses.

But they can pose higher risks. Many purchasers of vacant or formerly vacant properties often have less credit than conventional borrowers. And some of the houses can cost more to fix than they are currently worth.

So it is important that the organization that manages the pool, whether another bank, nonprofit or CDFI, have a financial track record, the capacity to handle the funds and strong underwriting skills, Olson said.

Identifying a creditable intermediary

"These neighborhoods need resources. If that doesn't happen they will continue to deteriorate, and you will have more dilapidated houses and all the other symptoms of blight, including poverty and crime." – Jerry Dantzler, Omaha 100

County also invest up to \$10,000 per loan for renovation by licensed contractors. In addition, neighborhoods can qualify for revitalization money for crime prevention, street improvement and curb and sidewalk repairs.

"This isn't a government giveaway," Olson said. "The purpose is to break down the barriers of people not being able to buy a home."

Jennifer Cooper, vice president and manager of commercial real estate for Bankers Trust in Des Moines, said the loan pool has proved popular. Twelve banks now participate, for which they get Community Reinvestment Act (CRA) credit and positive recognition for helping to improve their community neighborhoods.

"The bottom line is that everyone wanted to get on the wagon here and be involved in this," Cooper said.

to manage and underwrite a loan pool has challenged loan-pool proponents in Kansas City, said Michael Duffy, a senior attorney for Legal Aid of Western Missouri, who also sits on the board of Kansas City's Economic Development Corporation.

Duffy said another challenge is keeping acquisition costs low enough so that small-business contractors can afford to rehab the houses and low-income borrowers can buy or rent them, while allowing lenders to still make a return.

"We want to find funders and administrators that are comfortable with low-value homes," Duffy said. "It isn't an apple pie home-buyer model." Many distressed urban homes are valued at less than \$10,000, but may need \$20,000 or more in rehab work.

Ozell Lincoln, an urban rehabber in Kansas

City, said a loan pool is needed “to provide financing and to fill in the gaps where projects won’t qualify for traditional financing.” He said rehabbers now are often limited to funding projects out of their own pockets.

“The key to the loan pool is to be able to have flexible underwriting standards for the rehabbers to allow them to do more projects, so you don’t have to put all your own money into a project,” Lincoln said.

Several CDFIs have stepped forward in the last year with proposals to take on the task of underwriting a loan pool in Kansas City.

Gateway Community Development Fund Inc. has designed a model that would seek an initial threshold of \$1 million in lender funding. Erica Dobreff, president of the fund, said their model would improve properties block-by-block.

“We believe that financial institutions in Kansas City will welcome the opportunity to participate in the success of urban core neighborhoods with the knowledge that the financial risk is spread over a number of properties,” she said.

Kansas City’s Economic Development Corporation (EDC) also has offered to manage a loan pool. Duffy said the EDC has tentative commitments from the city and other sources to fund a \$500,000 loan-loss reserve. He said the EDC hopes the reserve money will entice lenders to kick in another \$500,000, to create a \$1 million fund.

Mark Stallworth, president of Neighborhood Housing Services, which rehabs homes and conducts homebuyer education courses, agrees a loan pool “is one of a few viable tools” to revitalize the urban core.

But he cautioned that any effort would require homebuyer education and a process to ensure quality work by qualified developers and contractors, rather than by vulture investors just out to make a buck. “There is a lot more to rehabbing a house than adding carpet, a roof and new windows,” he said.

Blue Hills Community Services, a Kansas City Community Development Corporation,

recently opened a new business center and contractor incubator in the urban core for the specific purpose of training and encouraging more contractors (See story on Page 17).

Joanne Bussinger, executive director of Blue Hills, said the incubator provides mentoring, support and technical training, including accounting processes contractors can use to obtain lines of credit. “One of the things we want to do with this incubator is create more urban jobs,” she said.

Dantzler of Omaha said investment in jobs, new businesses and affordable housing are urgently needed to revitalize urban neighborhoods.

“These neighborhoods need resources,” Dantzler said.

“If that doesn’t happen they will continue to deteriorate, and you will have more dilapidated houses and all the other symptoms of blight, including poverty and crime. It’s a vicious cycle.”



PAUL WENSKE, CONTRIBUTING WRITER

FURTHER RESOURCES

For more resources on Community Development issues and topics, visit www.KansasCityFed.org/community

COMMENTS/QUESTIONS are welcome and should be sent to teneditors@kc.frb.org.

GLOBAL DIMENSIONS OF UNCONVENTIONAL MONETARY POLICY

specific forward guidance

quantitative easing

record-low policy rates

global monetary accommodation

large-scale asset purchases

federal reserve bank of kansas city

jackson hole economic policy symposium

august 22-24, 2013



Although the global economic recovery continues, it has been uneven and unemployment remains elevated in many countries. Central banks around the world are still searching for policies to stimulate growth without causing an undesirable increase in inflation.

Many of the new policy actions are unconventional and imperfectly understood. As a result, policymakers and economists continue not only to seek explanations for why the natural rate of interest fell and pushed nominal interest rates near zero in many economies, but also to try to evaluate the efficacy of the unconventional policy actions that have been undertaken.

Unconventional policy actions include targeting record-low policy rates, making large-scale asset purchases, and giving more specific forward guidance. In some cases, these tools rely on new and untested transmission channels

for monetary policy. The pace of the recovery in some countries also has raised questions as to whether the traditional transmission channels may be impaired.

Another concern is that the degree of global monetary accommodation and the amount of large-scale asset purchases have substantially increased the amount of global liquidity. This increase, along with financial market innovation and globalization, has likely affected the magnitude and dynamics of cross-border liquidity flows.

The impact of such flows, however, certainly varies across countries. Countries that are not in a liquidity trap, as is the case with emerging market economies, continue to receive a substantial inflow of capital. These capital flows are often large and can potentially be destabilizing, so they can increase the risk of financial and economic instability in these economies.

The European crisis also has shown that such capital flows create challenges and risks for advanced economies. So, in addition to central banks' seeking out unconventional monetary policy tools to support growth and price stability, policymakers must also remain attuned to managing and mitigating any destabilizing forces, such as those arising from cross-border capital flows.

More than 100 central bankers, policymakers, economists and academics gathered Aug. 22-24 to discuss these issues at the Federal Reserve Bank of Kansas City's 37th Economic Policy Symposium in Jackson Hole, Wyo.

The 2013 symposium, "Global Dimensions of Unconventional Monetary Policy," presented a range of perspectives on the challenges facing policymakers in the economic recovery.

Some of the speakers at the symposium included: Charles R. Bean, deputy governor, Bank of England; Agustín Carstens, governor of the Bank of Mexico; Haruhiko Kuroda, governor of the Bank of Japan; Alexandre Tombini, governor of the Central Bank of Brazil; Frank R. Smets director general, Directorate General Research, European Central Bank; and Christine Lagarde, managing director of the International Monetary Fund.

"As we continue to move forward with the economic recovery, the symposium provides an environment for attendees to present insights and exchange ideas about important economic issues," Kansas City Fed President Esther George said. "Our Bank has been honored to host the symposium for these many years, and its success is due to the contributions of all those who participate."

To read the proceedings, including papers and commentary for this year's economic policy symposium and previous symposiums, visit KansasCityFed.org/research.

Economic Symposiums

2013	Global Dimensions of Unconventional Monetary Policy
2012	The Changing Policy Landscape
2011	Achieving Maximum Long-Run Growth
2010	Macroeconomic Challenges: The Decade Ahead
2009	Financial Stability and Macroeconomic Policy
2008	Maintaining Stability in a Changing Financial System
2007	Housing, Housing Finance, and Monetary Policy
2006	The New Economic Geography: Effects and Policy Implications
2005	The Greenspan Era: Lessons for the Future
2004	Global Demographic Change: Economic Impacts and Policy Challenges
2003	Monetary Policy and Uncertainty: Adapting to a Changing Economy
2002	Rethinking Stabilization Policy
2001	Economic Policy for the Information Economy
2000	Global Economic Integration: Opportunities and Challenges
1999	New Challenges for Monetary Policy
1998	Income Inequality Issues and Policy Options
1997	Maintaining Financial Stability in a Global Economy
1996	Achieving Price Stability
1995	Budget Deficits and Debt: Issues and Options
1994	Reducing Unemployment: Current Issues and Policy Options
1993	Changing Capital Markets: Implications for Monetary Policy
1992	Policies for Long-Run Economic Growth
1991	Policy Implications of Trade and Currency Zones
1990	Central Banking Issues in Emerging Market-Oriented Economies
1989	Monetary Policy Issues in the 1990s
1988	Financial Market Volatility
1987	Restructuring The Financial System
1986	Debt, Financial Stability, and Public Policy
1985	Competing in the World Marketplace: The Challenge for American Agriculture
1985	The U.S. Dollar - Recent Developments, Outlook, and Policy Options
1984	Price Stability and Public Policy
1983	Industrial Change and Public Policy
1982	Monetary Policy Issues in the 1980s
1981	Modeling Agriculture for Policy Analysis in the 1980s
1980	Future Sources of Loanable Funds for Agricultural Banks
1979	Western Water Resources: Coming Problems and the Policy Alternatives
1978	World Agricultural Trade: The Potential for Growth

The background of the entire page is a monochromatic orange-tinted image of a city skyline. The skyline is composed of various building silhouettes, some with distinctive architectural features like domes or spires. In the foreground, there are silhouettes of trees and a street lamp. At the bottom of the image, there is a large, artistic watercolor splash or ink blot in shades of orange and white, with vertical drips extending downwards.

SLOW RECOVERY

Survey shows LMI group still struggling after the recession



Although many Americans have seen financial gains and many have gone back to work since the recovery began in 2009, low- and moderate-income (LMI) individuals and families continue to struggle.

The LMI population is defined as those with income below 80 percent of an area's median income. In the past, economists lacked sufficient and reliable data to measure and analyze the LMI population's economic conditions. In 2009, the Kansas City Fed launched a new source of LMI information: a quarterly survey of organizations that provide services directly to LMI individuals and families in the Tenth Federal Reserve District.

Other Federal Reserve banks followed with similar surveys, providing more key information on LMI conditions in the United States.

The survey questions focus on five issues related to the financial conditions of the LMI population: availability of jobs, affordable housing, access to credit, the overall status of individuals and families, and the level of demand on services provided by survey respondent organizations.

Economists use the answers to measure change from one quarter to the next instead of static assessments of current conditions.

A hard road traveled

Although percentage of incomes for U.S. families in all sectors have not returned to pre-recession levels, inflation-adjusted income for LMI families in 2011 is 85.5 percent of what it was in 2001—the lowest among all population groups.

In 2011, families in the LMI distribution groups earned \$48,000 or less annually. More than 30 million of the 78.6 million families nationwide in 2011 were classified as LMI and the family income threshold for LMI status varies significantly across the United States.

The recession was at its deepest point when the LMI survey began and most respondents reported decreasing job availability. In the second quarter of 2009, two-thirds of survey respondents reported that jobs were less available than in the previous year.

Marcos Martinez worked in agriculture in Nebraska when the recession began. He's always worked hard to make ends meet, but needed his wife's income to make it all work.

When his wife, Marisol, lost her job in the food industry, things got tough.

“My work was seasonal and the jobs that were once available in the off-season dried up or there were dozens of people trying to get one job,” he said. “And many of the jobs, neither of us qualified for—we don’t have college educations.”

Marisol found a part-time job cleaning houses, earning less than half of what she did as a full-time employee.

“That’s all there was,” Martinez said. “It allowed us to put food on the table, but our dream of owning a home for our children vanished. We’re just surviving.”

The only option for most LMI families is to rent—either due to income or poor credit history—and the increased number of people losing their homes to foreclosure in the recession and recovery caused rental vacancies to decline. Landlords have not only raised rental rates, but have become more selective in choosing tenants. Many survey respondents reported an increase in calls from constituents seeking help with landlord-tenant issues.

In Martinez’s case, his income, not credit history prevented him from buying a home.

“We tried to save money for a down payment, but we spent it making ends meet.”

According to the latest available data from Home Mortgage Disclosure Act reports, 33.9 percent of conventional home-purchase loan applications were denied for low-income borrowers in 2011, whereas only 21 percent of applications were denied for moderate-income borrowers and 10.7 percent for high-income borrowers.

Although the couple has found better jobs in the past year, the new incomes are not enough to qualify for a mortgage loan.

“But we’re doing better than some people we know,” he said.

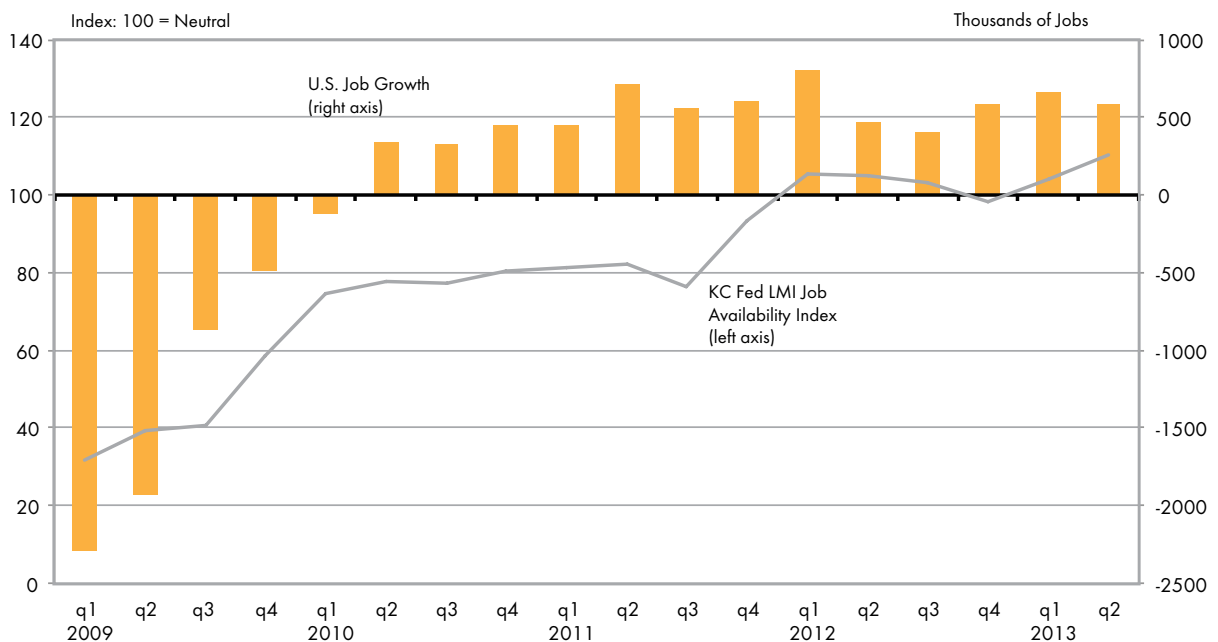
The combination of extended unemployment and low housing vacancies has led to an increase in homelessness among the LMI population, survey respondents said.

Compared with the population at large, LMI individuals and families often face additional hurdles, said Kansas City Fed Senior Economist Kelly Edmiston.

In particular, they were disproportionately affected by the preceding 10-year pattern of low employment growth in the lesser-paid, low-skill occupations. Higher-paid, higher-skill occupations, however, grew substantially, Edmiston said.

As the economic recovery continued in 2012, many new jobs became available in the

U.S. JOB GROWTH AND THE LMI JOB AVAILABILITY



retail and services industries. These were the type of jobs LMI workers qualified for; however, these low-paying jobs lacked opportunities for advancement, survey respondents said.

Also, job retention is tough. Survey contacts suggest a strong need for basic job training among LMI workers and think this training could mitigate some of the labor problems among the LMI population.

Seeking assistance

Laurie Harvey, executive director for the Center for Work, Education and Employment (CWEE) in Denver (see photo, Page 23), said the demands and needs of LMI individuals and families interconnect.

“They need a job to pay for food, housing and basic needs,” she said. “The cost of those needs keep increasing, but finding a job with the income to match cost of living is sometimes difficult.”

CWEE provides assistance mostly for single parents. Part of its job training includes furthering a client’s education, such as earning a GED or job certification.

“And some of them go on to earn an associate degree,” Harvey said. The higher the degree of education, the better potential the client has of obtaining a higher-level job.

Clients are finding work and improving their situations, Harvey said, but their options for affordable housing, transportation, childcare and other needs remain limited.

“After the recession, we’re not seeing as much generational poverty—clients who come from a family that had a history of struggling with poverty,” Harvey said. “Many of our new applicants were once in the workforce and their unemployment has run out, or they were right out of high school, and due to the economy, couldn’t get a job. We didn’t see this type of person in the past.”

Changing landscape

Although the composition of the LMI population changed little along racial, ethnic

or educational lines throughout the recession and recovery—that is, average educational attainment remained low and minorities remained disproportionately represented—the economic crisis did lead to a compositional change of another kind, Edmiston said.

According to LMI survey responses, significant numbers of traditional middle class families have entered the ranks of LMI population. In many cases, a growing number of the clients seeking assistance from respondent organizations is requesting such assistance for the first time, which partially explains the continued increase in demand for basic services.

What’s needed?

Edmiston says extended relief for the LMI population, much like the rest of the nation, depends on significant growth in the economy and employment opportunities. There are, however, many opportunities for policymakers to increase the financial success of LMI individuals and families.

Chief among these options are programs aimed at increasing the development of the LMI workforce through additional education and training. Efforts to raise financial literacy also will be important, along with initiatives aimed at expanding the availability of affordable housing and access to credit at reasonable rates.

FURTHER RESOURCES

“The Low- and Moderate-Income Population in Recession and Recovery: Results from a New Survey” By Kelly Edmiston. www.KansasCityFed.org/publicat/econrev/pdf/13q1Edmiston.pdf.



Preparing Kids for Their Life's Road Trip

Michele Wulff is a former public school educator of 30 years and a 2007 recipient of the peer award "Excellence in Teaching Economics." As an economic education coordinator with the Kansas City Fed, she works to heighten financial literacy throughout the seven states of the Tenth District.

Remember being asked the age-old question "What do you want to be when you grow up" during your formative years? Did the career you aspired to then change as you made your way through elementary, middle, high school and even college? Kids today may have even more difficulty choosing an occupation as additional career opportunities have evolved and expanded in our complex world. So how do you prepare them for one of the most critical life decisions they will make?

Because the most fulfilling careers are based on interests that individuals are passionate about, start with a discussion on professions that connect with kids' interests. If they love to build, investigate the career choices of architect, construction worker or carpenter. If they enjoy helping others, discuss teaching, nursing or counseling. If they are into technology, explore the jobs of computer programmer, technician or software developer. If your child dwells on a dream of becoming a ballerina or a pro hockey player, don't dismiss their aspiration. Instead, point out related career areas, such as dance instructor or coach. Try our Career Interest Assessment (CIA) on Page 30 to get your child on the road to possible career fields.

Share your own world of work by inviting them to visit your workplace and observe your job in action. The national "Take Our Daughters and Sons to Work Day" is an excellent opportunity for them to learn and

explore. See if other relatives or friends might be willing to show or tell them about their daily work routine as well. Kids can get the feel of different work environments and decide if they have an interest in pursuing those fields as a result.

Widen their scope by increasing their exposure to professions they may not be familiar with. Read age appropriate books on a variety of occupations with your child, and discuss successful people in various fields that they've seen in the media. Use the Kids.gov website listed in the resources section to watch "Career Spotlight" clips of various jobs. Try the website career games to pique their interest. Your goal should be to open up their world to new job possibilities.

Many high schools have a career counselor, whose role is to introduce students to occupations and give information regarding job possibilities. Find out if your child's school has this service and make an appointment with your child to discuss their potential job options, based on skills that have been assessed. Then act on the counselor's recommendations and continue the discussion at home.

When your child seems serious about a particular career, it's time to use the "road trip" analogy. Tell them that learning and training for a career is like preparing for a road trip. The family wouldn't start out on a trip without knowing where they were going and how to get there. So the child should begin by gathering facts about their career, including the skills necessary, work requirements and salary level. Before leaving on their adventure, the family would prepare by filling the tank with gas. So the child should pursue the appropriate education and training to fill their "tank" with knowledge related to the chosen career path.

What about roadblocks and detours along the way? The child should be ready to take a new road if their career travel plans are upended through financial issues or a change of heart.

As your child nears the end of the educational path for their future profession, urge them to look into internships in their job field. This work-related experience is invaluable, both as a resume builder and a taste of the real world of work. And often an internship can lead to a real job offer.

Above all, make sure your child is aware that the learning doesn't stop once they've been hired. They should be prepared for continuing professional education and on-the-job training to learn new job techniques and keep their skills sharp. Because industries are constantly changing, they will need to be flexible and adapt to new trends in their field as they travel their life's road trip.



Financial Education Resources

The Kansas City Fed is committed to promoting economic and financial literacy and greater knowledge of the Federal Reserve's role by providing resources for teachers, students and the public. Visit our website at KansasCityFed.org for more information.

Federal Reserve Resources

"The Money Circle" Theme 2, Lessons 1 & 2

These lessons discuss career education, training and income potential. Students research a chosen job to learn qualifications and salary, then weigh the costs and benefits associated with choosing this career. They also explore the concept of standard of living as it relates to income potential. For ages 14-18. Look under the high-school level classroom resource section at KansasCityFed.org/education

"Barbie in the Labor Force"

This lesson looks at the occupations of women historically, using a timeline that notes the introduction of Barbie career dolls from 1959-2012. For ages 14-18. (www.stlouisfed.org/education_resources/barbie-in-the-labor-force)

Career Website Resources

<http://kids.usa.gov/jobs/index.shtml>

This website is kid-friendly and matches interests and hobbies to possible careers. It includes "Career Spotlight" clips and information from the Bureau of Labor Statistics. For ages 10-18.

<http://www.pacareerzone.org/>

This website highlights "job families" of related careers, listing training levels, possible college majors, projected openings and salaries. For ages 12-18.

<http://www.knowitall.org/kidswork>

This website is set up as a virtual community workplace to explore jobs. Virtually visit a hospital, theater and other businesses to discover the jobs involved and hear real people explain their careers. For ages 10-18.

Fiction Books

"The Berenstain Bears: Jobs Around Town" by Stan and Jan Berenstain
The bear cubs explore a variety of jobs in bear country as they begin to consider their future careers. For ages 4-8.

Nonfiction Books

"A Day in the Life" series: The Kids' Career Library

From architect to zookeeper, this series explains career options using real people and their experiences. For ages 8-12.

"Teens' Guide to College and Career Planning" by Peterson's

A guide to help teens make decisions regarding education and careers that best suit their skills, needs and wants.

Take the CIA Challenge!

Wondering how to decide on your future career? Try our **Career Interest Assessment (CIA)** to see where your talents, skills and interests might lead you in choosing an occupation. Check off the activities in each category that you would enjoy.

Real World Activities

- Repair a car
- Arrest lawbreakers
- Build furniture

Social Activities

- Teach children
- Be a hospital volunteer
- Make people laugh

Investigation Activities

- Do math problems
- Perform science experiments
- Learn about environmental problems

Business Activities

- Sell goods and services
- Take charge of a project
- Be the boss of other workers

Artistic Activities

- Design clothing
- Write a story or play
- Act in a performance

Everyday Activities

- Organize a work area
- Balance a budget
- Operate business machines

Now match the activities you checked with careers in that field.
Good luck in your career exploration!

Real World careers: mechanic, firefighter, police officer, chef, carpenter, military

Social careers: counselor, teacher, social worker, nurse, minister, comedian

Investigation careers: computer programmer, doctor, pharmacist, scientist, engineer, mathematician

Business careers: business owner, manager, sales person, travel agent, real estate agent

Artistic careers: musician, artist, photographer, author, actor, interior designer

Everyday careers: administrative assistant, accountant, banker, computer technician, dental assistant

(Checklist adapted from the Career Interest Program Prentice-Hall, Inc. 2001)



What are the challenges to assessing the labor market?

Kansas City Fed economists Craig Hakkio and Jonathan Willis say that one challenge in assessing labor market conditions is that each month a variety of data are released that may yield mixed signals on the health of the labor market. Using a broad set of data, they construct two key measures of labor market conditions that gauge the level of labor market activity and the speed of improvement. Together, these measures show there has been notable improvement, but two more years of similar improvement will be required to return labor market conditions to historical averages.

How far are labor market conditions from historical averages?

During the recent recession, the level of labor market activity fell to its lowest point over the past two decades. It gradually increased during the first three years of recovery. And since September 2012, it has been increasing at a faster rate. Despite these steady gains, the level of activity is still about one standard deviation below its historical average. Over the prior two decades, the level was higher than it is now 79 percent of the time.

How rapidly are conditions changing compared to the past?

In contrast to the level of activity, the measure capturing the rate of change in labor market conditions has been well above average for some time. This is important because an above-average rate of change is necessary to promote recovery in the labor market. This measure of the rate of change has had an average value of 0.77 since September 2012. Prior to that date, the speed of improvement in the labor market exceeded this level only 14 percent of the time.

When will the labor market reach historical trends?

For the level of labor market activity to reach its historical average, the speed of improvement needs to remain well above average. Calculations show that for every month in which the rate of change measure is one standard deviation above its historical average, the level of activity measure rises 0.05. Thus if the rate of change remains at its post-September 2012 average pace, the level of activity will reach its historical average in about 27 months, or in September 2015.

In an alternative calculation, focusing only on the level of activity measure, if that measure continues to rise at its average rate of increase since September 2012, it will reach its historical average in about 24 months, or in June 2015. By either method, the level of activity measure is likely to reach its historical average during the summer of 2015 if recent trends continue.

BY KEVIN WRIGHT, EDITOR

MACRO BULLETIN

The new e-newsletter, Macro Bulletin, offers snapshots of the Kansas City Fed's latest macroeconomic findings and perspectives on national economic conditions and issues related to monetary policy. For more on Hakkio and Willis' research and to sign up to receive the Macro Bulletin, go to www.KansasCityFed.org/publications.



Notes from around the Tenth District

Kansas City Fed partners with caucuses to promote financial understanding

The Kansas City Fed continued its partnerships with the Cleveland Fed, the Congressional Black Caucus (CBC) and the Congressional Hispanic Caucus Institute (CHCI) this year to provide financial education to nearly 400 minority high school students in Washington, D.C.

More than 140 high school students from the Washington, D.C., area participated in a daylong seminar on Sept. 19 at Trinity College. Students learned about banking basics, credit, entrepreneurship and college preparation. The session included a tour of the nation's capital and remarks from U.S. Congressman Emanuel Cleaver and Kansas City Fed President Esther George. The seminar is part of the Youth Leadership Summit that takes place during the CBC's Annual Legislative Conference.

On Sept. 30, representatives from the Kansas City and Cleveland Feds developed and presented financial education materials to 250 high school students from 20 Washington, D.C., area schools. The financial education

workshop, which was part of CHCI's Ready to Lead program, focused on the importance of educational attainment and financially preparing for college.

"Providing young people with this financial information is just one way we fulfill our roll in assuring stability for the nation's financial system," said Krissy Young, vice president and public information officer, Federal Reserve Bank of Kansas City. "Reaching students at this stage in their college and career planning equips them to make financially responsible decisions now and in the future."

These financial education programs are just one way the regional Federal Reserve Banks promote financial education across the country.

For more information about resources available for students, parents and teachers, visit www.federalreserveeducation.org or www.frbfinancialmgt.com for the website developed specifically for the CBC and CHCI sessions.



Fed experts reach out to Tenth District communities

Throughout the fall, Kansas City Fed economists and officials conducted the annual Economic Forums around the region.

The forums provide an opportunity for the Kansas City Fed to offer a regional and national economic update to business leaders and hear directly from those leaders about their communities.

Speakers at the forums included Kansas City Fed President Esther George, Director of Research Troy Davig, Senior Vice President Craig Hakkio, Oklahoma City Branch Executive Chad Wilkerson and Denver Branch Executive Alison Felix.

The Kansas City Fed has forums in District states on a rotating basis. This year, the forums were in eight locations in two of the District's seven states:

Oklahoma City, Okla.
Grand Junction, Colo.
Clinton, Okla.
Durango, Colo.
Pueblo, Colo.
Denver, Colo.
Tulsa, Okla.
Durant, Okla.

The Tenth District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico.

For updates on the regional economy, go to <http://www.KansasCityFed.org/research/regionaleconomy/>

Nathan Kauffman to lead Omaha Branch

The Kansas City Fed has named Nathan Kauffman assistant vice president and Omaha Branch executive. In his role, he will represent the Kansas City Fed throughout the Omaha region, manage the Kansas City Fed's relationship with its Branch Board of Directors, maintain an active research agenda in regional economics and serve as the local coordinating leader for internal Branch activities.

Kauffman joined the Omaha Branch office as an economist in 2012 and he looks forward to expanding his responsibilities in his new role.

"I enjoy adapting research to things people find relevant and useful," he said. "As Branch executive, my interaction with our boards of directors gives me a different perspective of the work and projects that are being undertaken in our region."

Kauffman, who has a Ph.D. in economics from Iowa State University, has conducted and published research on a number of topics related to the agricultural economy, including commodity market analysis, agricultural policy, rural finance, international rural development and agricultural trade. His strong agricultural background will play a key role as he develops long-term strategies for the Branch.

Kauffman, along with Regional Affairs and Supervision and Risk Management staff at the Omaha Branch, provide important agricultural banking information to the Federal Reserve System.

Kauffman also spearheaded the Kansas City Fed's 2013 Agricultural Symposium, *The Shifting Nexus of Global Agriculture*, in July.

Learn more about the Kansas City Fed's regional research at www.KansasCityFed.org/research/regionaleconomy/



Kansas City Fed delivers economic understanding to elementary students

As part of the Federal Reserve Bank of Kansas City's centennial programming, it has launched a new economic education project called "Jay Flies Through 10-J," through which students will meet Jay the Eagle and learn how to report what's going on in their economies.

Teachers who participate in Jay Flies Through 10-J will receive a free stuffed Jay Eagle, along with a lesson plan and resources that encourage students to learn about their region. Jay "visits" their classroom and community, and students illustrate pictures and write letters to the Bank reporting what Jay learns about the local economy and geography. Classes will select a letter and illustration to submit to the Kansas City Fed's economic education team, which will post the submissions online with others from the region.

"We are pleased to further extend economic education into the elementary school classroom with this project," said Krissy Young, Kansas City Fed vice president and public information officer. "Through early engagement, we hope to provide today's youth with the necessary tools for long-term sound financial decision making."

Learn more about Jay Flies through 10-J at <http://jayflies10j.kcfed.org>. To see all the projects Jay the Eagle has been involved in, visit <http://kansascityfed.org/education/aboutj.cfm>.



The following banks in the Tenth Federal Reserve District are celebrating one, five, 10, 20 or more years as Federal Reserve members in October, November or December.

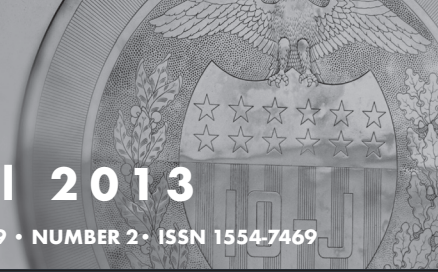
Bank of Versailles	Versailles	Mo.	94
First State Bank of Newcastle	Newcastle	Wyo.	83
Grant County Bank	Medford	Okla.	73
Stock Exchange Bank	Caldwell	Kan.	73
Fidelity State Bank & Trust Co.	Dodge City	Kan.	70
Farmers State Bank	Pine Bluffs	Wyo.	47
Bankers' Bank of the West	Denver	Colo.	33
Citizens State Bank & Trust Co.	Ellsworth	Kan.	33
Citizens Bank & Trust Co.	Ardmore	Okla.	22
First Bank of Chandler	Chandler	Okla.	20
Morris State Bank	Morris	Okla.	20
Bankers' Bank of Kansas	Wichita	Kan.	1
Lawson Bank	Lawson	Mo.	1
FNB Community Bank	Midwest City	Okla.	1
Wyoming Community Bank	Riverton	Wyo.	1





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The Federal Reserve System

Congress created the Federal Reserve in 1913 to bring financial stability after a number of banking panics. It is the nation's third central bank. The first, established in 1791, and the second, created in 1816, were each operational for 20 years. In both cases, its charter failed to be renewed and the banks closed.

With the Federal Reserve Act, Congress sought to create a central bank the public would be more likely to support by making it "decentralized" with more local control. This new structure was designed to overcome one of the primary weaknesses of the previous central banks: public distrust of an institution that many felt could potentially be under the control of either government or special interests. The new central bank is a network of 12 regional Federal Reserve Banks, located throughout the country and under the leadership of local boards of directors, with oversight from the Board of Governors in Washington, D.C., a government agency.

The Federal Reserve is considered to be independent within government and broadly insulated from political pressures. While members of the Board of Governors are nominated by the president of the United States and confirmed by the Senate, the Federal Reserve's regional structure, including local boards of directors and advisory councils, ensures that views from a broad spectrum of the public nationwide contribute to the central bank's deliberations.

President Woodrow Wilson signed the Federal Reserve Act on Dec. 23, 1913, and the 12 regional Federal Reserve Banks opened on Nov. 16, 1914.

The Federal Reserve Bank of Kansas City

The Federal Reserve Bank of Kansas City and its Branches in Denver, Oklahoma City and Omaha serve the Tenth Federal Reserve District, which encompasses Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. As a part of the Federal Reserve System, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing other services to depository institutions.



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The views and opinions expressed in TEN are not necessarily those of the Federal Reserve Bank of Kansas City, the Federal Reserve System, its governors, officers or representatives.

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To learn more about Jay Flies Through 10-J
or to sign up a classroom, visit <http://jayflies10j.kcfed.org>.