



Boston's Poverty-Fighting Rosengren Pushes Activist Fed Vision

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January 23, 2015

It's not the kind of place you'd expect to run into a central banker. Just north of downtown Boston, Chelsea is 2.5 square miles of urban grit known for its history of poverty, crime and corruption.

Yet as Chelsea has dug itself out of a 1991 bankruptcy under a cleaned-up city government, Eric Rosengren, president of the Federal Reserve Bank of Boston, has become a familiar face. "I saw him so much I asked if he was running for city council," jokes former City Manager Jay Ash, now the state's secretary for housing and economic development.

Rosengren's relationships grew out of his deep involvement in a Boston Fed program to fund local anti-poverty projects in Massachusetts. His dedication to the effort, unusual for a senior Fed official, has the sympathy of Fed Chair Janet Yellen, who visited Chelsea in October. It reflects a vision of a central bank that's not limited to interest-rate policy and financial regulation, one he's prepared to defend in the face of congressional critics who'd rather shrink the Fed's reach. "It's the same with monetary policy, supervisory policy, financial-stability issues," Rosengren says over lunch at a Legal Seafoods restaurant in Boston. "We're public servants. The goal is to make the public better off."

Policy Dove

The son of a biology professor and school social worker, Rosengren, 57, is one of 12 Ph.D. economists on the 17-member Federal Open Market Committee, the Fed's policy-making body. He's among members Fed watchers call doves, who'd prefer to keep interest rates lower longer to spur job creation.

Rosengren will be a voting member next year, when according to Fed forecasts the committee will already have embarked on its first rate-raising cycle in almost a decade.

On regulation, he's a leading voice for expanding the Fed's reach at a time when it's under attack in Congress for burdening financial firms with rules. At a Boston conference in January, he argued for more policing of non-bank financial firms and entities such as money-market mutual funds, where the Fed has no direct authority.

That view stems, in part, from Rosengren's experience in September 2008 when the collapse of a single money fund, the \$62.5 billion Reserve Primary Fund, helped freeze global credit markets. The Boston Fed, with Rosengren at the helm, took the operational lead on an unprecedented bailout facility that helped restore liquidity by buying debt from money funds at face value.

Successful Intervention

Peter Crane, head of money-fund research firm Crane Data LLC, called the facility "the single most successful government intervention during the financial crisis."

Rosengren says the scare convinced him the Fed shouldn't hesitate to act in a crisis.

"We saw what the abyss looked like," he says. "If there are problems, we should try to address them regardless of whether they're directly in our bailiwick."

He extends that philosophy to community development, where the Boston Fed has a record of activism dating back to Frank Morris's tenure as president from 1968 to 1988. Rosengren has elevated it further.

"He certainly is more liberal and more activist" than other Fed presidents, says Hank Gemery, one of Rosengren's economics professors at Colby College in Waterville, Maine, where he studied as an undergraduate and now serves as a trustee. "But his positions are derived from analysis. If the analysis calls for action in other areas, he's perfectly willing to say so."

Helping Homeowners

Soon after Rosengren became president in 2007, as foreclosures were mounting, the Boston Fed began organizing "mortgage events." These brought together homeowners struggling to make loan payments with mortgage servicers, encouraging the latter to renegotiate terms and help keep people in their homes.

More than 4,000 showed up for a 2008 event at Gillette Stadium, home of the New England Patriots. Lines formed out the door.

The response, Rosengren says, helped alert the Fed to the depth of the problem. The stadium event taught him something else.

"In the parking lot, the handicapped area was filled first," he says. "It highlighted that a lot of the foreclosure problem was tied to people who had bad outcomes, like health or other problems."

To Michael Anderson, a graduate school classmate at the University of Wisconsin in Madison, that's classic Rosengren.

Intellect and Heart

"Eric was the kind of guy who noticed when someone was hurting, and it spurred him to engage," he said. "I've long been impressed by both his intellect and his heart."

The Boston Fed's Working Cities Challenge, a competitive grant-making program, grew out of research by economist Yolanda Kodrzycki aimed at identifying what cities that had recovered from a collapse in manufacturing had in common. Rosengren and his colleagues found an answer in Winston-Salem, North Carolina.

"No matter who you talked to -- the mayor, business leaders, the non-profits -- they all had a common vision of where they wanted Winston-Salem to go 10 years down the road," Rosengren says.

What followed in May 2013 was an invitation to 20 Massachusetts cities with below-median family income to compete for grants to assist low-income residents. One ironclad requirement: Local business, government and non-profit leaders all had to be on board.

Return on Investment

"We weren't looking for the people with the greatest need, but the people with the greatest probability of success," Rosengren says. "We wanted a return-on-investment model."

While the Boston Fed kicked in no cash, through September it had contributed \$1.2 million in-kind, according to consulting firm Mt. Auburn Associates. Rosengren also played a key role in fundraising.

Esther Schlorholtz, director of community investment at Boston Private Bank & Trust Co., said her firm decided to donate to the project after hearing Rosengren speak about it.

"It was a good sales pitch," she says. "He talked about Yellen's interest in this. He was particularly passionate."

The program awarded \$1.8 million to six projects, including \$225,000 for Chelsea as it works to help residents find jobs, housing and educational opportunities.

Yellen's Visit

Yellen visited non-profits participating in the Chelsea project in October before opening a conference on economic inequality at the Boston Fed.

While in Chelsea, she listened to the success stories of local residents who found jobs and stabilized troubled lives. Yellen asked whether local employers are hiring more.

Working Cities will begin a second round in Massachusetts, then move to a second New England state, according to Boston Fed spokesman Thomas Lavelle.

Other regional Fed banks are looking at the model, he says.

The idea of the Fed replicating Working Cities across the country doesn't inspire everyone. Mark Calabria, director of financial regulation studies at the Cato Institute in Washington and a former Republican congressional staffer, praises Rosengren as an economist. But he's skeptical of the philosophy that drives Rosengren to expand the Fed's reach.

“I’d rather my central banker just be a central banker,” Calabria says. “I don’t want to dismiss his view that the Fed can play a positive role in community development, but so many other institutions are tasked with that. It reinforces this belief that the Fed is the fixer of all things.”

Curbs on Fed

That echoes the view of many Republicans on Capitol Hill, including Calabria’s former boss, Alabama Senator Richard Shelby, who has voiced support for so-called “audit the Fed” legislation that would subject the bank to a review by the Government Accountability Office, a watchdog of Congress.

“I used to think they don’t need to be audited, but I think I was wrong,” says Shelby, who becomes chairman of the Senate Banking Committee, with jurisdiction over the Fed, as the Republicans take control of the Senate.

Rosengren is unfazed: “We’re a creature of Congress. They can always decide to make changes.”

Nor is he worried about justifying his work. His efforts, he says, flow naturally from the Fed’s capabilities, and what the Fed learns along the way feeds back into better monetary policy and regulation.

The financial crisis showed that financial stability is tied to what’s happening in low-income communities, he says.

“If you want the Fed to understand Main Street, you can’t do it by only talking to bankers, and people talk to you because you have something to say and because you can actively engage with them.”