

Interview» Mark Schweitzer, economist and head of the Denver branch of the Federal Reserve Bank of Kansas City

High schools may hold key to easing poverty

Q: As a transplant from Cleveland and an economist, what are your early impressions of the local economy?

A: There is a lot more growth out here than what you see in the Cleveland area. This is an area where incomes have done particularly well. Colorado is one of the higher per capita income states. That is a great position to be in.

Q: You have researched poverty. What do you consider to be the root causes of income disparities?

A: We tried to look more deeply at what was holding people back. There are a lot of factors. There is a very strong correlation from the 1960s onward that places with higher high school completion rates have lower poverty. High graduation rates could be a solution to poverty.

Historically, older people were more likely to be poor, those over 65. That turns out to no longer be true. As a demographic group, that is the least poor group in our economy.

Q: How would you advise policymakers interested in reducing poverty in Colorado and the region?

A: From an income growth point, everybody points to higher education. But if you are thinking about lower-income populations, we still have a lot of people not finishing high school. Finishing high school is great at reducing the risk of poverty. It has to be a primary goal of government to get their high school graduation rates high.

Q: In 2000, you served as a senior economist with the Bank of London. How did subprime mortgage problems in the U.S. trigger a bank run at Northern Rock in the U.K. far worse than anything we've seen here?

A: They don't have an equivalent subprime market in the U.K. On the other hand, from the time I was there, I was surprised by some of the financing you could get in the U.K. for mortgages. Funding arrangements that Northern Rock used turned into a problem specific to that institution. But it was not disconnected in that people were scrutinizing their investments.

It has been alarming how connected world finances really are now. As an



Mark Schweitzer, a transplant from Cleveland, served as a senior economist with the Bank of London before coming to Denver. *John Prieto, The Denver Post*

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economist, we recognize that we have been enjoying lower interest rates than we would have without a lot of international financing coming into this country for the last several years. Now we have seen a retraction of that.

Q: Are you seeing any signs that the regional banks the Fed supervises are at risk from the housing downturn?

A: When you talk to bankers, they are saying their credit conditions haven't changed much. Some are looking at it as an opportunity to regain the market share they had lost to nonbanks. There is no problem getting a conforming mortgage. We are watching and following some of the ways mortgage lending practices could affect our economy.

I visited with the Colorado Homebuilders Association, and they are facing a very serious downturn. Eventually, we will see a recovery in construction.

When that will exactly happen is still pretty uncertain.

Q: Do you foresee lasting damage to low-income households that took out subprime loans?

A: I have been out to visit with groups. I went to a foreclosure meeting in Green Valley Ranch. There is no question there are people being hurt. But our credit system is pretty flexible. Over time, people will be able to correct their situation. We are looking at the misfortune of house prices declining. On the other hand, price declines mean greater affordability.

Q: What are your key duties as head of the Denver branch?

A: My key responsibilities are collecting information and providing support for the monetary policy side of the bank. I will also do research that is relevant to this region. My research has tended to focus on long-run factors that produce income in the economy. Income growth that lasts for years and years is important. I'm real interested in the growth in the high-tech industries in the Front Range and how does that prosperity in the Front Range spread beyond.

Edited for length and clarity from an interview by staff writer Aldo Svaldi