FedListens

Perspectives from the Public

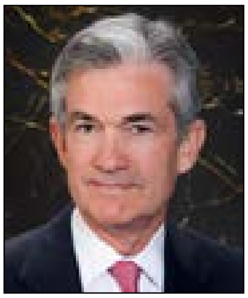
Part of the Federal Reserve's Review of Monetary Policy Strategy, Tools, and Communication Practices

June 2020

FEDERAL RESERVE SYSTEM

CONTENTS

INTRODUCTORY NOTE FROM CHAIR POWELL



In 2019, the Federal Reserve launched—for the first time—a review of the monetary policy strategy, tools, and communication practices we use to pursue our congressionally mandated goals of maximum employment and price stability. Reviews like ours are part of good institutional practice, providing an opportunity to take a step back and ask whether we could be doing our job more effectively. A central part of our review was *Fed Listens*, a series of events held around the country to consult with a range of organizations—employee groups and union members, small business owners, residents of low- and moderate-income communities, retirees, and others—on the effects that labor market conditions, inflation, and interest rates have on them.

Our *Fed Listens* series concluded before the coronavirus (COVID-19) outbreak and its transmission around the world, with tragic loss and tremendous personal and economic hardship here in the United States and in other countries. At the time of the *Fed Listens* events, our country was experiencing the strongest labor market in 50 years and generating employment opportunities for many Americans who had not found jobs readily available in the past. One clear takeaway from these events was the importance of sustaining a strong job market, particularly for people from low- and moderate-income communities. Everyone deserves the opportunity to participate fully in our society and in our economy.

In light of the rapidly changing public health and economic environments, the Federal Reserve held a virtual *Fed Listens* update on May 21, 2020, summarized in the foreword of this report. The remainder of the report reviews the *Fed Listens* events and shares important points that we heard consistently. The lessons we learned were never more urgent than today as Americans navigate through these challenging times. People have put their lives and livelihoods on hold during this public health emergency at significant economic and personal cost. While all of us have been affected, the burdens are falling most heavily on those least able to carry them. The Federal Reserve remains focused on its goals and on laying the foundation for a return to the strong labor market that we saw at the time of our 2019 *Fed Listens* conversations.

Jerome H. Powell

Chair, Board of Governors of
the Federal Reserve System

FOREWORD: *FED LISTENS* COVID-19 UPDATE

The Federal Reserve Board convened an event, "*Fed Listens* Update: How Is COVID-19 Affecting Your Community?" on May 21, 2020, to hear from a number of the panelists who participated in *Fed Listens* events in 2019 about the effects of the rapidly changing public health and economic environments resulting from the spread of the coronavirus (COVID-19) in the United States. The panelists—representatives of workers, education, affordable housing, retirees, small business, and community financial institutions—met virtually with Board members to share their perspectives on issues pertinent to the Federal Reserve's congressionally mandated goals of maximum employment and price stability. A detailed summary of the event appears in Part 2 of this report. Key highlights are summarized here.

Hard-hit Neighborhoods

Low-income neighborhoods have been hit hard by COVID-19, with large job losses and high rates of infection. Jobs may be slow to return, and for workers in service industries that have been significantly affected—travel and dining, for example—some job losses may be permanent. For low-income workers who remain employed, jobs now entail greater demands and riskier working conditions. Adding to these concerns are school closings and an absence of childcare.

Paying the Bills

Many who have been laid off are benefiting now from the one-time stimulus checks and temporary increase in unemployment insurance (UI) benefits enacted in the CARES Act (Coronavirus Aid, Relief, and Economic Security Act). The supplementary UI will end this summer. At that point, it will be difficult for many families to meet their financial commitments—rent, food, utilities, and other payments—if the economic downturn continues and the benefits are not renewed.

Education

Apprenticeship programs for community college students in the Chicago area have allowed those students to remain employed during the COVID-19 crisis and work remotely. The option for working remotely is a privilege and is not widespread in lower-income, largely minority neighborhoods.

Retirees

Older Americans are very concerned about the health aspects of the pandemic and about the risks associated with reopening the economy too soon. They report greater concern about their financial situation than they did before the public health crisis emerged.

Inequality

Panelists expressed concern that the COVID-19 crisis will exacerbate existing inequality, especially for African American and Latinx communities.

Challenges for Businesses in the Food Service Industry

Demand for specialty food items is down even as the consumer grocery bill is higher. Restaurants are changing their offerings to reflect demand for takeout and delivery—including basic foodstuffs—and will need to modify floor space to permit social distancing in the kitchen and dining room. Premium pay is necessary in light of hazardous conditions and the magnitude of the supplementary UI benefits.

Community Financial Institutions

Community development financial institutions and community banks have been successful in helping their borrowers apply for and obtain loans under the Paycheck Protection Program (PPP), which has offered a lifeline for many small businesses. Community financial institutions have also deferred loan payments and made new loans and grants to small business customers.

Financial Stewardship

Community financial institutions are providing assistance and offering financial advice to many small business customers who lack familiarity with banking services, have no experience accessing their bank via the internet, or did not see a PPP loan as an option for them.

PART 1: THE *FED LISTENS* INITIATIVE

In 2019, the Federal Reserve began a broad review of the monetary policy strategy, tools, and communication practices it uses to pursue its congressionally mandated goals of maximum employment and price stability—the so-called dual mandate. The Federal Reserve undertook the review because the U.S. economy appears to have changed in ways that matter for monetary policy. Importantly, the general level of interest rates has fallen in recent decades in the United States and abroad to such an extent that many central banks, including the Federal Reserve, now have limited scope to reduce short-term interest rates when the economy deteriorates. The Federal Reserve undertook a review of its framework for monetary policy in order to consider what policy strategy will best enable the Federal Reserve to meet its dual mandate in the future, whether the existing monetary policy tools are sufficient to achieve and maintain the dual mandate, and how its communication about monetary policy can be improved.

A key component of the review was a series of *Fed Listens* events aimed at consulting with a broad range of stakeholders in the U.S. economy. From February to October 2019, the Federal Reserve hosted 14 public *Fed Listens* events—one at the Board of Governors, one at each of the 12 Reserve Banks, and a System research conference at the Federal Reserve Bank of Chicago.

Although the Federal Reserve regularly engages with a broad range of groups as part of outreach efforts focused on issues affecting specific communities, the goal of *Fed Listens* was for policymakers to engage directly with a range of individuals and groups on issues pertaining to the dual-mandate objectives of maximum employment and stable prices. The process of public engagement helped foster transparency of the review through communication with the general public, thereby enhancing the Federal Reserve's accountability. In organizing the *Fed Listens* events, the System leveraged its existing network of contacts, and the events themselves brought attention to the regular interactions that the Reserve Banks and the Board already have with groups around the country.

This report reviews the *Fed Listens* initiative, providing information about the format of and participants in the events, as well as the points that were highlighted consistently across the events. While many of the concerns raised by participants at the events lie outside the mandate of the Federal Reserve, participants offered insights into the effects that labor market conditions, inflation, and interest rates have on them, in ways that augment policymakers' understanding of the effects of their monetary decisions on these populations.

Structure of the Events

As shown in the table, the formats and participants varied widely across the 14 *Fed Listens* events that the Federal Reserve System hosted between late February and mid-October 2019. Most of the events featured one or more panel sessions with representatives of a wide array of groups and organizations. A couple of the events included academic sessions with paper presentations and discussants. A few incorporated visits to schools, businesses, or both to learn about local initiatives in underserved communities to increase education (in Dallas, Texas, and Camden, New Jersey), combine high school completion with work experience (in Augusta, Georgia), or offer after-hours vocational training to enhance skill levels (also in Camden).

All of the events featured a broad set of participants drawn from outreach conducted specifically for the *Fed Listens* initiative or from the System's existing advisory councils and community networks.[1] The participants represented small businesses, employee groups and labor unions, state and local governments, schools and community colleges, workforce development organizations, housing groups, community development financial institutions (CDFIs), and retirees; in addition, researchers from academia and think tanks as well as financial market economists were included in a few of the events. Many of the participants in the events hailed from organizations representing historically disadvantaged populations or underserved communities.

While members of the community affairs staff at the Reserve Banks regularly interact with such groups as part of ongoing outreach, the *Fed Listens* events were distinct in their focus. At the events, questions posed to the participants centered not only on the effects of monetary policy actions on them and the groups they represent, but also on how they view the relative economic importance of the dual-mandate goals. In many of the panel sessions, participants were asked to comment on current labor market conditions, their interpretation of maximum employment, lending conditions facing their organizations or communities, responses to changes in interest rates, and concerns about inflation. In addition, participants were often asked to compare economic conditions today with those in the past (a few years or a decade ago) and to assess the Federal Reserve's communications with the public. At a few of the events, participants were asked about the distributional effects of monetary policy. A panelist at the research conference in Chicago noted, based on his many years of interactions with the Federal Reserve, that the *Fed Listens* initiative was something "at a different level" in terms of engagement relative to the System's community outreach and research functions.[2]

To highlight the transparency of the review process and the *Fed Listens* initiative, all of the events were livestreamed, with video recordings available soon afterward. Written summaries of the events were posted.[3] All of the events were attended by at least one Board member and Bank president. In keeping with the "listens" framing of the events, policymakers offered only brief introductory or closing remarks, and they sometimes posed questions to the participants.

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[1] In addition, members of Reserve Bank boards of directors were participants in the *Fed Listens* events at the Board of Governors and in New York, Philadelphia, and San Francisco.

[2] The quoted text is from the first panel session at the System research conference in June 2019; the session is summarized in Part 2 of this report.

[3] The Board's website houses a *Fed Listens* page with links to all of the materials, available at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-fed-listens-events.htm. The Federal Reserve Bank of New York hosted three nonpublic sessions under the *Fed Listens* moniker; these sessions were with existing advisory groups and were not livestreamed, although minutes were produced for each session and can be found on the Bank's website at https://www.newyorkfed.org/aboutthefed/fed-listens.

Fed Listens Events, February–October 2019

Federal Reserve host (location, if different from that of host) and event month and day	Format	Participants	Questions
1. **Dallas** Feb. 25	Listening session with presentations by community groups Community tour and visit to nonprofit organization and school	Representatives of education, workforce development, senior citizens, food security, transportation, health care, and affordable housing	Participants' presentations prepared on the basis of questions about the labor market, inflation, and interest rates
2. **Minneapolis** Apr. 9–10	2 research panels 2 policy panels 1 community panel	Researchers from academia, think tanks, and the Fed Representatives from Minnesota nonprofits, government, and community organizations	Framing question for research and policy panels: What does the Fed need to know about how different households fare over the business cycle and under alternative monetary policy actions?
3. **Richmond** May 8	1 community panel	Representatives from Goodwill Industries, a community foundation, a food-processing company, and a professional services firm Large audience from a convening of one of the Bank's community-based leadership programs	Questions on effects of monetary policy, the labor market, wage and price increases, effects of inflation on low- and moderate-income households, effects of targeting higher inflation to make up for missing the 2 percent objective, emerging community issues, and Fed communications
4. **Boston** May 13	3 community panels	Representatives of lower-income groups, minority groups, small business, and retirees	Questions on costs and benefits of the current tight labor market, the importance of low unemployment versus stable prices, effects from the long period of low interest rates, costs when interest rates change, and the Fed's success in achieving its dual mandate over the past 10 years
5. **Philadelphia** May 17	2 community panels Visit to business and school in Camden, N.J.	Representatives of lower-income groups, small business, and higher education	Questions on current economic conditions, labor markets, the importance of maximum employment versus stable prices, the transmission of monetary policy to everyday activity, and how the Fed could do a better job

Fed Listens Events, February–October 2019 (continued)

Federal Reserve host (location, if different from that of host) and event month and day	Format	Participants	Questions
6. **New York** May 20	1 community panel	Large number of labor and nonprofit leaders, local government officials, congressional district staff, and regional academics from the Second District Participants from Puerto Rico	Questions on the importance of dual-mandate goals and whether one goal is more important than the other, costs and benefits of running a tight labor market, current labor market conditions, the transmission of monetary policy to the broader economy, and Fed communications
7. **Chicago** System research conference June 4–5	7 research panels 2 community panels	Researchers from academia and think tanks Economists from the private sector Representatives from workforce development, higher education, AARP, CDFIs, small business, and the AFL/CIO	Panel 1 questions on current economic conditions, the labor market, and Fed communications Panel 2 questions on interest rates and the transmission of monetary policy, credit availability, inflation, and Fed communications
8. **Cleveland** (held in Cincinnati) June 21	Final session of large community development conference	Conference attendees asked to discuss two questions by table	What does the employment picture look like in low- and moderate-income communities that you know and/or serve? How has inflation been affecting the low- and moderate-income communities you know and/or serve?
9. **Atlanta** (held in Augusta) July 16	2 community panels Visit to business in Augusta	Representatives from a local manufacturing firm, workforce development, a public school system, a regional bank, a regional credit union, and a local housing authority	Panel 1 questions on current economic conditions, the labor market, inflation, and Fed communications about inflation Panel 2 questions on current economic conditions, the cost and availability of credit, interest rates, inflation, and Fed communications about inflation
10. **St. Louis** Sept. 4	Deliberation on questions by advisory councils, which report back to policymakers	Members of the Bank's advisory councils: Agribusiness Industry Council, Community Depository Institutions Advisory Council, Community Development Advisory Council, Health Care Industry Council, Real Estate Industry Council, and Transportation Industry Council	Common questions on the labor market, inflation, interest rates, and communications and the role of the Fed

Fed Listens Events, February–October 2019 (continued)

Federal Reserve host (location, if different from that of host) and event month and day	Format	Participants	Questions
11. **San Francisco** Sept. 26	1 research speech 1 research panel 2 community panels 1 closing address	Researchers from academia, think tanks, and the Fed Representatives from regional workforce development, government, community organizations, and business	Research speech and panel on benefits and potential costs of a "hot economy"; closing address on income inequality Panel 1 questions on current economic conditions, the tight labor market, and opportunities for advancement Panel 2 questions on how companies and employees have responded to the long expansion and tight labor market
12. **Board of Governors** Oct. 4	2 community panels	Representatives from CDFIs, AARP, small business, manufacturing, gig workers, workforce development, and a community college	Panel 1 questions on the labor market and Fed communications Panel 2 questions on inflation, interest rates, and Fed communications
13. **Kansas City** Oct. 9	1 community panel	Representatives from local business, labor, CDFIs, and low- and moderate-income groups	Questions on labor market conditions, wages and prices, broad economic conditions, and constraints on cultivating improved economic outcomes
14. **Chicago** Oct. 17	2 community panels	Representatives from workforce development, the AFL-CIO, a community college, community organizations, housing groups, and CDFIs	Panel 1 questions on labor market conditions and effects of monetary policy on disadvantaged workers' long-term labor market prospects Panel 2 questions on effects of monetary policy on low- and moderate-income communities' housing and small businesses
Update, Board of Governors May 21, 2020	1 community panel	Representatives from workforce development, the AFL-CIO, a community college, affordable housing, AARP, small business, and community financial institutions	Questions for each panelist on how conditions changed in their communities with the spread of COVID-19 in the United States

Note: CDFI is community development financial institution; AFL-CIO is American Federation of Labor and Congress of Industrial Organizations; COVID-19 is coronavirus disease 2019.

Source: *Fed Listens* event summaries presented in Part 2 of this report.

Takeaways from *Fed Listens*

While the *Fed Listens* events covered a broad range of topics, participants consistently highlighted a few points. First, participants representing underserved communities generally saw the tight labor market in 2019 as offering significant benefits to their constituents—the main one being job opportunities for individuals who had difficulty finding employment in the past. These participants frequently noted that the national statistics were not representative of their own communities, where unemployment rates were still high. More pointedly, some participants questioned the characterization of labor market conditions as "hot" in light of the still high unemployment in their communities. For example, at the Chicago Fed in October, one panelist representing a workforce development agency questioned whether the term "full employment" characterized the state of the labor market for all workers, stating that in some neighborhoods where unemployment is persistently high—between 15 and 17 percent—"it's always a recession."[4] Similarly, participants from Puerto Rico at the New York Fed's event in May characterized unemployment in the territory as "unbearable."[5]

In addition, many participants expressed concern about what would happen to the newly hired in their communities during the next downturn, commenting that these workers would be the first to lose jobs without having had the chance to develop adequate work experience. Participants also frequently mentioned childcare and transportation as critical for sustaining employment, but generally inadequate in lower-income communities. For example, at the Dallas Fed event in February, participants discussed the importance of reliable transportation and proper nutrition in sustaining labor force attachment. At the Kansas City Fed in October, one participant from a workforce development agency saw the incompatibilities in schedules for training, employment, and childcare as the primary barriers that keep many individuals in poorer communities from joining the labor force.

Second, small business owners and representatives from organizations of small businesses and manufacturing firms (National Federation of Independent Business and National Association of Manufacturers, respectively) saw the tight labor market conditions as presenting difficulties in terms of finding qualified workers to fill available positions. Some strategies for bringing workers into the labor force entailed modification of requirements for education or training. These business representatives, along with other participants from workforce development and educational organizations, offered anecdotes about newly developed training programs or specialized curriculums at community colleges tailored to build specific skills for newly hired employees. For example, at the System research conference in June, the president of a large community college system described a partnership with a sizable professional services company that provides employment for students during and after completion of a specially designed associate's degree program. In partnering with the community college, the company had agreed to reduce the education prerequisite for its positions from a bachelor's to an associate's degree.[6] At a site visit to a Camden-based manufacturer that was part of the Philadelphia Fed's event in

[4] The quoted text is from the Chicago Fed's event in October 2019, which is summarized in Part 2 of this report.

[5] Puerto Rico is excluded from the labor market statistics produced by the Bureau of Labor Statistics. The quoted text is from the New York Fed's event in May 2019, which is summarized in Part 2 of this report.

[6] Some participants at the events asked whether the current U.S. education system provides appropriate skills and training, at times questioning the value of a four-year bachelor's degree as compared with a well-designed two-year associate's degree.

May, the firm's management described an after-hours training program that provided employees with an opportunity to earn specialized welding certifications. These certifications could add measurably to the wages that the firm's welders—most of whom did not have postsecondary education—were earning, and the program was seen as boosting loyalty to the firm.

A related strategy that businesses were using to bring workers on board was broadening the set of individuals that they deem qualified for available jobs. At the Richmond Fed's event in May, a representative of Goodwill Industries commented, "As the unemployment rate goes down, employers are forced to look at potential workers they might not have considered previously."[7] A participant at the Boston Fed's event noted that his manufacturing firm was looking for workers in less-common markets and had begun partnering with local prisons to recruit former inmates who had taken STEM (science, technology, engineering, and mathematics) training during their incarceration. The broadening of recruiting efforts to include the formerly incarcerated surfaced at a number of the events, as did the relaxation of drug-testing requirements for some positions. Other aspects of workforce flexibility included encouraging longtime employees to postpone retirement and asking retired employees to return to work.

Third, by and large, business participants did not report raising wages as a means of attracting and retaining workers in what they saw as tight labor markets. Instead, these participants frequently reported having to absorb increased costs associated with training programs, health care, or other benefits. For example, at the St. Louis Fed's event in September, members of the Bank's industry and advisory councils reported that local labor shortages were leading them to offer enhanced retirement and health-care packages, additional vacation days, more generous parental leave policies, college-tuition reimbursement programs, increased flexibility around work schedules and telework, or a combination of those benefits. Panelists at the San Francisco Fed in September spoke of a growing emphasis on workplace culture, claiming that employment conditions and benefits are increasingly viewed as viable substitutes for higher wages.

Fourth, when asked about the effects of changes in interest rates, participants representing underserved populations said the question was not applicable to most members of their communities, because many have limited or no access to conventional credit. Populations in lower- and middle-income communities have traditionally been more susceptible to predatory lending; those with poor credit histories have been precluded from taking advantage of low interest rates. While businesses and CDFIs generally found the low interest rate environment beneficial, representatives of retirees conveyed a more negative view of low interest rates given the reliance of some of the members of their constituency on savings income.

Fifth, there was less discussion at the *Fed Listens* events of inflation than there was of labor market conditions. Participants generally acknowledged that inflation was low and posed few challenges. Representatives of small businesses or business associations emphasized the importance of low, stable, and predictable inflation for planning and decisionmaking. Participants representing the retired or those living on fixed incomes mentioned health-care costs in the context of inflation. For example, an AARP executive at the Board's event in October noted that about half of Americans over the age of 65 live exclusively or primarily on income from Social Security, making price stability especially important for their financial well-being. The relatively rapid increases in

[7] The quoted text is from the Richmond Fed's event in May 2019, which is summarized in Part 2 of this report.

the costs of health care and prescription drugs were noted as a particular concern. In addition, participants at the Cleveland Fed's event in Cincinnati in June and at several other events observed that residents of low- and middle-income communities were particularly sensitive to increases in the cost of necessities such as health care, housing, utilities, groceries, and childcare, which account for the bulk of their spending. As one panelist at the System research conference in Chicago put it, "It's expensive to be poor in America."[8]

When discussion turned to the possibility that the Fed might want to nudge inflation higher—which occurred at a few of the events—participants generally had little understanding for why policymakers would be concerned about inflation running below the Federal Reserve's 2 percent objective. At the Board's event in October 2019, participants noted that work must be done to explain why the Fed would want to achieve somewhat higher inflation, especially to communities that often do not see their wages keep up with prices.

Finally, at most of the events, participants were offered the opportunity to comment on Federal Reserve communications with the public. While they expressed appreciation for the institution's willingness to engage with the public during the review process, participants generally thought the Fed should do more, and on a more regular basis, to reach people around the country. In this regard, the work that community affairs and community development teams within the System do to address workforce development, education, and housing issues was acknowledged as important and valuable. In addition, the research of System economists—whether or not that research bears directly on the dual-mandate goals or on broader economic questions—was seen as contributing important analysis to the public discussion of key economic issues.

A uniform message delivered by participants across the events was that the Federal Reserve should tailor its communications appropriately to different audiences and strive to communicate more clearly and simply with the general public. Participants advised policymakers to avoid using technical jargon, such as "maximum employment and price stability," and instead employ language and reasoning that the average person can understand.

Policymaker Discussions

Following the conclusion of the *Fed Listens* events in October, policymakers considered the views offered at the events together with staff analysis on the distributional effects of monetary policy at their December 2019 meeting. Key points from their discussion were summarized in the minutes of that meeting: Policymakers agreed that the *Fed Listens* outreach efforts had informed their understanding of the goals and tradeoffs associated with monetary policy and had provided highly useful input into their deliberations.[9] Several of them voiced their desire to continue the conversations initiated at the *Fed Listens* events. In addition, policymakers shared their appreciation of the feedback they receive on a regular basis from members of the public, including through the Federal Reserve System's extensive networks of contacts and community outreach efforts.

[8] The quoted text is from the second panel session at the System research conference in June 2019; the session is summarized in Part 2 of this report.

[9] The minutes of the Federal Open Market Committee's December 2019 meeting are available on the Monetary Policy portion of the Board's website at https://www.federalreserve.gov/monetarypolicy.htm.

Policymakers generally saw the feedback from the *Fed Listens* events as reinforcing the importance of sustaining the economic expansion so that the effects of a persistently strong job market reach more of those who, in the past, had experienced difficulty finding employment. Some policymakers pointed to the challenges associated with assessing the maximum level of employment. A few of them noted that the aggregate statistics mask significant heterogeneity in labor market outcomes, while a few others pointed to the continued absence of significant wage and price pressure—traditionally seen as a symptom of a tight labor market—even as the unemployment rate had moved below most estimates of its longer-run level. Finally, a few policymakers raised the possibility that the maximum sustainable level of employment had increased as the U.S. economic expansion continued to draw in workers who would otherwise not be in the labor force.

Regarding inflation, policymakers recognized that segments of the public generally do not regard the fact that aggregate inflation is running modestly below the Committee's 2 percent goal as a problem. Many of them warned about the macroeconomic consequences of not achieving 2 percent on a sustained basis. In particular, if inflation ran persistently below the Committee's objective, longer-term inflation expectations could drift down, resulting in lower actual inflation. With lower inflation, nominal interest rates would be lower as well and therefore closer to zero. As a result, the scope for monetary policy to support the economy in a future downturn through interest rate cuts would be reduced, a situation that would likely worsen economic outcomes for households and businesses.

In light of these considerations, policymakers generally agreed that they need to communicate more clearly to the public their rationale for, and commitment to, achieving 2 percent inflation on a sustained basis and ensuring that longer-run inflation expectations are anchored at levels consistent with this objective. To ensure the effectiveness of these and other communications, several policymakers stressed that the Federal Reserve needs to adapt its communications to various audiences.

PART 2: EVENT SUMMARIES

Federal Reserve Bank of Dallas

The Federal Reserve Bank of Dallas held a *Fed Listens* community listening session February 25 at St. Philip's School and Community Center in southern Dallas. [10] The event was hosted by Federal Reserve Vice Chair Richard Clarida and Dallas Fed President Robert Kaplan.[11]

The neighborhood surrounding St. Philip's, commonly known as South Dallas, is historically underserved and faces many economic challenges (see the box "Community Snapshot"on page 13). These were highlighted during a brief community tour to provide context for the discussion. The tour included a stop at CitySquare, a nonprofit that provides social services, economic opportunity and workforce programs, and affordable housing solutions.[12]

The listening session featured speakers from nonprofit organizations active in the neighborhood (see "Session Speakers" later in this summary). The organizations were selected to represent areas of focus significant to the South Dallas community:

- Education
- Workforce development
- Financial security/older adults
- Food security
- Transportation

[10] Additional information on the *Fed Listens* initiative is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-fed-listens-events.htm.

[11] More details about the event can be found on the Dallas Fed's website at https://www.dallasfed.org/cd/events/2019/19clarida.aspx.

[12] For additional information, see the CitySquare website (https://www.citysquare.org).

- Health
- Affordable housing

Each speaker presented prepared remarks, responding to questions provided by the Dallas Fed. The questions supported the Federal Reserve's review of monetary policy strategy, tools, and communications.[13]

Observations on Jobs, Inflation, and Interest Rates

The speakers offered a number of perspectives that connect with the Fed's monetary policy goals of full employment and stable prices. Reflecting the high unemployment rate in South Dallas, speakers cited the negative effect of unemployment on all aspects of community life—health, nutrition, education, housing, access to credit, and more. Additionally, they emphasized the limitations of employment in South Dallas. Most opportunities there are low-quality, low-wage jobs, they reported, and many employed residents are among the "working poor," struggling to make ends meet on low hourly wages.

Tahvia Merrill of Miles of Freedom elaborated. "It's not good enough to ask if the people I serve have the ability to ask for higher hourly wages," she said. "Taking an individual from $8 an hour to $10 an hour is not going to substantially impact their quality of life."

Concerns about inflation were expressed especially with regard to older adults, many of whom are living on fixed income—often Social Security alone—without savings. For this growing demographic, Steve Benton of the Senior Source noted, stable prices are "crucial." With people living longer, they face more years in retirement on a fixed income, making inflation a threat to their financial viability as their fixed-income buying power declines over time. Moreover, Benton said, seniors experience a higher inflation rate than that of the overall economy because of their higher expenditures on health care.

Other concerns about rising prices related to pressures on housing costs due to encroaching gentrification.

Perspectives on interest rates came from discussions of access to credit and the cycle of debt in this asset-poor community. Credit issues affect housing affordability even in an environment of lower interest rates, Chris Simmons of Cornerstone Baptist Church observed. Many South Dallas residents have poor credit (credit scores of 525 or less) and are vulnerable to predatory lending, accessing loans only at extremely high interest rates.

With interest rates now rising, Shaylon Scott of On the Road Lending suggested, performance on auto loans is starting to deteriorate, placing borrowers further at risk. An individual's credit, once destroyed, can take a decade or more to rebuild, Scott said—noting that some South Dallas residents are still trying to rebuild their credit following the recession.

[13] More details about the review are provided on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.

Community Snapshot

The area of southern Dallas featured (Zip codes 75210, 75215, and 75216) is historically underserved and faces many economic challenges.

- The heavily minority population (60 percent African American and 36 percent Hispanic) has a poverty rate of 37 percent and child poverty rate of 49 percent, with 77 percent of households earning less than $50,000 annually.
- Twenty-nine percent of the population does not have health insurance.
- The unemployment rate is high (10 percent), and education levels are low—35 percent of adults lack a high school diploma, and only 8 percent have a bachelor's degree or higher.
- Homeownership rates are low, and the limited housing stock is aging and deteriorating.

Key Concerns from Session

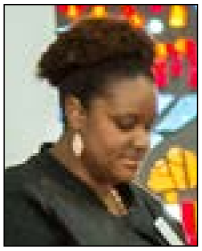
In addition to observations regarding jobs and inflation, the speakers emphasized three key concerns: transportation, location of job opportunities, and the need for investment in the community. Lack of access to affordable, reliable transportation, they noted, impedes access to jobs, educational opportunities, grocery stores, social services, and health care—making it a primary obstacle to economic opportunity, financial security, and overall well-being.

Another issue highlighted was the relative scarcity of jobs in South Dallas. Simmons reported that less than 1 percent of jobs in Dallas are in the South Dallas neighborhood, and few of those jobs provide a living wage. High-opportunity jobs, several speakers noted, are generally located in distant parts of the metropolitan area, necessitating a lengthy commute.

To address the community's economic issues, the speakers pointed to the need for investment in many areas, including education, business development, entrepreneurship, infrastructure, affordable housing, health, and community resources. In particular, investment in building new affordable housing was identified as a critical need—a type of infrastructure, Simmons noted, vital to long-term economic and community health.

Session Speakers

Community Overview/Education



Kellee Murrell, St. Philip's School and Community Center

St. Philip's School provides college preparatory education for grades pre-K through 6.[14] The Community Center provides social services and resources that assist neighborhood families in enhancing their quality of life.

Providing an overview of economic and educational concerns in South Dallas, Kellee Murrell of St. Philip's School identified poverty as the underlying issue.[15] Residents "have the desire to change their community [and] living situation," she said. "But they lack the financial resources and, in some cases, the knowledge and opportunity to move out of their current state."

In South Dallas, Murrell said, 94 percent of students are economically disadvantaged. As an educator, she said, the goal is closing not just the achievement gap, but also the opportunity gap and income gap. "South Dallas residents are confronted with the reality that quality jobs are not in their neighborhood. They don't have equal access to opportunities that their wealthier peers have."

Observing that the financial circumstance into which students are born affects their future success, Murrell said, "To improve the livelihood of our children, we have to improve the livelihood of their parents." The greatest need, she said, is investment and restructuring. "The need in South Dallas . . . is the intentional financial investment toward education in order to lift someone out of poverty."

Asked about the greatest constraint on education and economic progress, Murrell identified financing for after-school programs and transportation as critical needs—noting that interventions and instruction are not effective if children cannot get home afterward.

Workforce Development

Tahvia Merrill, Miles of Freedom

Miles of Freedom supports individuals and families affected by incarceration and helps men and women coming out of prison rebuild their lives through housing, employment, and other opportunities.[16]

Observing that Dallas has one of the highest concentrations of poverty in the nation, Tahvia Merrill of Miles of Freedom said the South Dallas community has remained resilient through entrepreneurship, trading goods and services within the community.[17] She noted the question of how to leverage employment opportunities and foster economic opportunity.

South Dallas has both land and a labor force, Merrill said: "185 square miles of prime property" and "tens of thousands of people who are ready, willing, and able to go to work." Citing the need for capital, she noted the difficulty of producing capital in a community that is largely asset poor. "We must work with the people in the community through investments, development, and entrepreneurship to lead to economic growth."

[14] Additional information is available on the St. Philip's School and Community Center website at https://www.stphilips1600.org.

[15] A video of Murrell's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=864.

[16] More details can be found on the Miles of Freedom website at http://milesoffreedom.org.

[17] A video of Merrill's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=1363.

Commenting on the employment landscape in South Dallas, Merrill stressed the need for higher-opportunity jobs with living wages and benefits. "It's not good enough to ask if the people I serve have the ability to ask for higher hourly wages," she said. "Taking an individual from $8 an hour to $10 an hour is not going to substantially impact their quality of life."

She further emphasized that quality employment opportunities should be located within the local community. "We are not going to shift until changes are made in development, in investment, and our residents aren't required to make a one-way, three-hour commute by train and bus to travel 30 miles . . . for a chance at substantial employment."

Merrill called for investment in both the land and the people of South Dallas and for empowering residents to build businesses that would allow and encourage them to spend money in their own neighborhood. Alongside workforce development programs, she said, there is a need to engage corporations and investments, creating opportunities, entrepreneurship, and capital to keep the momentum moving forward

Financial Security/Older Adults

Steve Benton, Elder Financial Safety Center, the Senior Source

As a collaborative partnership between the Senior Source and the Dallas County Probate Courts and District Attorney's Office, the Elder Financial Safety Center helps older adults avoid the dangers of financial uncertainty and exploitation.[18]

Steve Benton of the Senior Source discussed economic and financial challenges of older adults in South Dallas, a key service demographic for his organization, and across the United States, where 78 million baby boomers are coming into retirement.[19] Financial viability and financial vulnerability are gateway issues for their safety and security, he said, affecting where they can live, what they can afford, and whether they have access to transportation and services. He cited four key risks: longevity, inflation, health care, and exploitation.

Explaining longevity risk, Benton said, "The biggest fear of the older adult is, surprisingly, not death—it's running out of money." With people living longer, they face more years in retirement on a fixed income. This leads to inflation risk, as "their fixed-income buying power shrinks as the cost of everything they need to live rises over time."

Further, the inflation rate experienced by seniors is higher than that of the overall economy due to higher expenditures on health care—13 percent of expenditures by Americans over the age of 65, compared with 5 percent for other age groups. Health-care inflation, Benton noted, historically has risen at double the general inflation rate. Due to these risks, he said, price stability is "crucial."

Several factors increase financial vulnerability, Benton said. For seniors in South Dallas, Social Security is often the only source of income. More generally, many baby boomers are entering retirement still owing mortgages, and some older seniors turn to reverse mortgages, which consume home equity, when they need money for basic expenses.

Older adults are also at risk for financial exploitation by scammers, businesses, family members, caregivers, and friends. Citing the example of an 83-year-old South Dallas man who went to a dealership for an oil change and was sold a new car with a "subterranean prime" loan, Benton said older adults are "vulnerable to predatory lending, payday loans, and title loans with extraordinary fees and interest." It is not uncommon,

[18] For additional information, see the Elder Financial Safety Center website (https://theseniorsource.org/elder-financial-safety-center).

[19] A video of Benton's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=1812.

he said, to find 80-year-olds with over $25,000 in credit card debt, able to make minimum payments only, with no hope of ever paying it off.

Asked what percentage of his clients have no savings at all, Benton said, "A majority of South Dallas [seniors] do not have any savings, nothing to fall back on. Sometimes they own their house."

Food Security

Sara Gorath, North Texas Food Bank

North Texas Food Bank is a hunger-relief organization that distributes donated, purchased, and prepared foods through a network of more than 200 partner agencies in 13 counties.[20] It operates a community food pantry at St. Philip's.

The level of food insecurity in South Dallas, Sara Gorath of North Texas Food Bank said, "is one of the highest in our service areas."[21] She identified the neighborhood as a "food desert" with limited access to grocery stores or fresh produce. Many of the food bank's clients, primarily seniors and disabled adults, access most of their groceries at a local convenience store.

In broad economic terms, Gorath said, "here in South Dallas . . . hunger is a symptom of a much larger problem." Many clients face multiple barriers that limit their access not just to food, but also to a wide range of resources, social services, and benefits. This can affect both their health and their economic security, she noted. Transportation is a challenge, especially for people in wheelchairs, she said, and many people lack mobile phones or computers—or even utensils to be able to cook.

"Getting a few blocks just to our pantry down the street can be really challenging," Gorath said. "So knowing that and understanding, we've been able to gather a lot of information about what our clients need and how to better partner with other community agencies to provide wraparound services." Clients coming to the pantry can enroll in supplemental nutrition and other benefit programs, access health education and services, and get referrals to other resources.

Asked the extent to which South Dallas is underserved in terms of food pantries, Gorath said distribution and access are the main issues, citing the need for transportation and awareness of resources. Asked about constraints to expansion, she identified a need for more space, noting that "the need in South Dallas . . . is so large that, just last week, we enrolled 30 new clients."

Transportation

Shaylon Scott, On the Road Lending

On the Road Lending provides vehicle selection assistance and long-term financial mentoring to help low-income individuals and families overcome transportation barriers so they can get to work and avoid predatory lending.[22] It helps people improve their credit and purchase fuel-efficient, reliable cars, financing them through a private-equity loan fund with a low-cost loan.

[20] For more details, see the North Texas Food Bank website (https://ntfb.org).

[21] A video of Gorath's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=2385.

[22] Additional information about On the Road Lending is available on the organization's website at https://www.ontheroadlending.org.

Shaylon Scott of On the Road Lending highlighted the roles of transportation and vehicle ownership in improving the economic situation of individuals and families.[23] Transportation, she said, is "the engine that drives our ability to work, to go to school, to get to the grocery store, to maintain our lives."

The Dallas metro area is geographically vast and expanding rapidly, Scott said, and it has a spatial mismatch—with lower-income families and higher-opportunity jobs in different areas. Mass transit does not serve all of the area, making vehicle ownership important. "We can overcome food deserts . . . employment gaps, lack of access . . . simply if people have a way to get there."

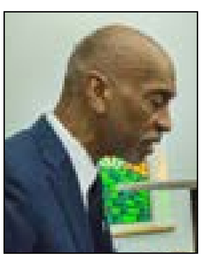
A vehicle can be a key asset for low-income families, she said, if it is not too costly to own and maintain. In South Dallas and similar communities, asset poverty is "a huge barrier." Scott's organization helps people acquire affordable, reliable vehicles and avoid predatory lending—to rebuild their credit and get out of the cycle of poverty and debt. From this perspective, she said, "we are keenly interested in how the actions of the Fed impact access to credit and interest rates."

People in South Dallas who want to buy a car, Scott said, are often vulnerable to predatory lending at "tote the note" lots that charge up to 27 percent interest. Many residents have poor credit (credit scores of 525 or less) and believe this is their only option. In addition, interest rates are rising, and 7 million Americans are 90 days or more past due on their auto loans, she said. "As people's performances are starting to deteriorate, their credit is deteriorating . . . so we need to give them the opportunity to have credit-building loans."

Credit can be destroyed overnight, Scott said, but can take a decade or more to rebuild. In South Dallas, "even though it's been seven years since the recession, we still have neighbors that are struggling to rebuild their lives, their credit." Elsewhere in Texas, people are working to rebuild their credit after Hurricane Harvey. Helping people overcome poor financial choices or catastrophic events, she said, "can save them not just money, but struggle over the lifetime of their loans."

Asked how her organization addresses these issues, Scott said it helps "people traditional banks are unable to help" by providing wraparound services—financial education, coaching and mentoring, and loans through a designated CDFI with a consistent interest rate of 9.75 percent.

Health



Donald Wesson, Baylor Scott & White Health and Wellness Center at the Juanita J. Craft Recreation Center

Baylor Scott & White Health, the largest not-for-profit health-care system in Texas, includes 48 hospitals and more than 800 patient care sites.[24] It operates clinics in South Dallas, including one soon to open at St. Philip's.

Donald Wesson of Baylor Scott & White Health highlighted the distinction between health and health care, emphasizing that health depends on a "health recipe" of three factors: health care, healthy nutrition, and healthy physical activity.[25] Health care contributes only about 20 percent to overall health, with 60 percent contributed by correctable environmental factors such as nutrition and physical activity. The lack of investment in an infrastructure that provides these supporting elements, Wesson said, is devastating to the health of impoverished communities.

[23] A video of Scott's remarks can be found on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=2888.

[24] More details can be found on the Baylor Scott & White Health website at https://www.bswhealth.com/locations/health-and-wellness-center.

[25] A video of Wesson's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=3507.

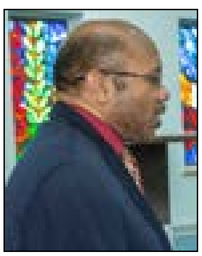
In South Dallas, he said, poverty limits access to all three "ingredients" of the health recipe. Lack of transportation is also an issue, limiting the ability of residents to get to existing facilities in the neighborhood. Solutions to address this include encouraging non-health-care entities to co-invest with health-care entities to provide complementary services and resources in one location.

There are already successful models for this in South Dallas, Wesson said—for example, locating a clinic in a city recreation center. He called for additional investment in these existing models. "This investment will yield improved health in our community that will then allow individuals to contribute to the economic viability of their families, of their communities, and of our city and state."

Wesson cited unemployment as a key economic factor that affects community health. "Unemployment contributes in a mighty way, and . . . unemployment is a real challenge in our community." High unemployment, he said, limits access to employer-based insurance that can finance health care, while also limiting the funds available to purchase health services. Increased unemployment also increases poverty, he said, further limiting access to all of the resources that support health for South Dallas residents.

Asked how Dallas is doing compared with other U.S. cities in supporting the health ecosystem, Wesson pointed to the opportunity to overlay health-care and nutrition services at the city's 43 recreation centers. He reiterated the need for investment, noting interest from for-profit companies that want to reduce absenteeism.

Affordable Housing



Chris Simmons, Cornerstone Baptist Church and Community Development Corporation

Cornerstone Community Development Corporation (CDC) leads community development and revitalization efforts in blighted areas of South Dallas/Fair Park.[26] In partnership with the City of Dallas, Cornerstone CDC has purchased abandoned properties for use in building new affordable homes.

South Dallas has a great need for new, affordable homes, said Chris Simmons of Cornerstone Baptist Church.[27] Describing the housing landscape, he highlighted the effect of population loss, poverty, aging housing stock, and outdated infrastructure.

Since the 1970s, Simmons said, there has been a "hemorrhage" of residents. The population has declined more than 54 percent, he said, resulting in a large amount of vacant land (70 to 80 percent in some areas) and erosion of the tax base. Median household income in South Dallas is below the state average, and median house value is significantly below average, while housing age is significantly above average, with the majority of homes built before 1939.

Economic growth in the region has led to expansion of Dallas's central business district, bringing new interest in purchasing homes in close-in, formerly blighted, and neglected neighborhoods such as South Dallas. But rising costs can push current residents out, Simmons said. "In the name of urban renewal, many people hear urban removal." New, less-affordable development drives up

[26] For additional information, see the Cornerstone Baptist Church website (http://www.cornerstonedallas.org).

[27] A video of Simmons's remarks is available on YouTube at https://www.youtube.com/watch?v=-N988TWC1_o&feature=youtu.be&t=4113.

tax values in the area, he noted, creating challenges for seniors who own their homes but live on tight budgets. Prices of existing homes are also rising.

Credit issues further affect affordability, Simmons said, even in an environment of lower interest rates. Many individuals in the community do not have access to credit, he said, with some entering adulthood with their credit already damaged—for example, due to parents using a child's Social Security number to turn on utilities and then not paying the bills.

Simmons cited the job market as a key factor influencing access to housing for South Dallas residents. "In our neighborhoods, we have very few jobs available that provide a livable wage." Only 1 percent of Dallas jobs are located in South Dallas, he said, and unemployment among residents is high; a 2012 study found a 16.5 percent unemployment rate in South Dallas, compared with 5.1 percent in the Dallas–Fort Worth area. He added that many residents are among the "working poor," who work many hours but struggle to make ends meet.

Simmons advocated a view of affordable housing as infrastructure, vital to long-term economic and community health.

Federal Reserve Bank of Minneapolis

On April 9 and 10, the "*Fed Listens*: Distributional Consequences of the Cycle and Monetary Policy" conference was held at the Federal Reserve Bank of Minneapolis. It was one in a series of Federal Reserve Board of Governors outreach sessions to broadly review the strategy, tools, and communication practices the Board uses to pursue the monetary policy goals established by the Congress: maximum employment and price stability.

It served as the spring conference for the Opportunity & Inclusive Growth Institute, which is headquartered at the Minneapolis Fed.

Board Vice Chair Richard H. Clarida was the keynote speaker, with his remarks titled "The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices."[28]

The framing question for the research and policy panels was presented by Institute Director Abigail Wozniak, who asked: "What does the Fed need to know about how different households fare over the business cycle and under alternative monetary policy actions?"

The conference included research panels each composed of four formal 30-minute presentations by economists followed by 30-minute question-and-answer sessions involving audience participants. After each of the research presentations, two other presenters then focused on related policy issues, also with a half-hour of audience questions.

The first day closed with a dinner speech by Vice Chair Clarida. The second day ended with a spirited panel discussion with a diverse group of community leaders.

What follows are excerpts from the panel participants.[29] A complete report on presentations and the extensive question-and-answer (Q&A) sessions is included in the full conference report.

Conference Agenda

Day One, April 9

Research Panel 1

Context: Trends and Driving Forces in U.S. Inequality

- Fatih Guvenen, University of Minnesota
  The Great Micro Moderation

[28] See Richard H. Clarida (2019), "The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices," speech delivered at "*Fed Listens*: Distributional Consequences of the Cycle and Monetary Policy," a conference hosted by the Opportunity and Inclusive Growth Institute, Federal Reserve Bank of Minneapolis, Minneapolis, Minn., April 9, quoted text in paragraphs 3 and 11, https://www.federalreserve.gov/newsevents/speech/clarida20190409a.htm.

[29] Videos of all of the panels and sessions, along with the slide decks of presenters, are available on the conference webpage at https://www.minneapolisfed.org/events/2019/2019-spring-institute-conference.

- Greg Kaplan, University of Chicago
  Monetary Policy, Markups, and Labor Market Inequality
- Moritz Kuhn, University of Bonn
  Wealth and Income Inequality in America, 1949–2016
- Isabel Cairo, Board of Governors of the Federal Reserve System
  Market Power, Income Inequality, and Financial Instability
- Moderator, Abigail Wozniak, Director, Opportunity & Inclusive Growth Institute

Policy Panel 1

- Aparna Mathur, American Enterprise Institute
  Addressing Old and New Challenges in the Labor Market
- Josh Bivens, Economic Policy Institute
  The Progressive Benefits and Retreating Risks of High-Pressure Labor Markets
- Moderator, Mark Wright, Senior Vice President and Research Director, Minneapolis Fed

Dinner Keynote Address

- Introduction, Neel Kashkari, President, Federal Reserve Bank of Minneapolis
- Richard H. Clarida, Federal Reserve Board Vice Chair
  The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices

Day Two, April 10

Research Panel 2

Heterogeneity: How Different Households Fare over the Business Cycle

- Alisdair McKay, Federal Reserve Bank of Minneapolis
  Household Heterogeneity and Monetary Policy
- Martin Schneider, Stanford University
  Monetary Policy and the Revaluation of Debt
- Hannes Schwandt, Northwestern University
  Long-Term Impacts of Short-Term Fluctuations
- Marianne Bitler, University of California–Davis
  Cyclicality of Our Safety Net
- Moderator, Jonathan Heathcote, Minneapolis Fed

Policy Panel 2

- William Spriggs, Howard University
  Questions I Hope the Federal Reserve Could Answer

- Susan Houseman, Upjohn Institute
  Independent Contract and Informal Work
- Moderator, Alessandra Fogli, Minneapolis Fed

Perspectives from the Community

- Tawanna Black, Center for Economic Inclusion
- Myron Frans, Minnesota Management and Budget
- Michael Goze, American Indian Community Development Corporation
- Sean Kershaw, Wilder Foundation
- Gloria Perez, Jeremiah Program
- Moderator, Lee Schafer, *Star Tribune* (Minneapolis)

Day One: April 9, 2019

Research Panel 1

Context: Trends and Driving Forces in U.S. Inequality

Fatih Guvenen presented findings that, contrary to broad consensus, volatility in individual earnings and in firm employment have both *declined* by about one-third since 1980. This calls into question theories based on the idea that volatility was rising. Moreover, since income *inequality* has increased significantly, the volatility decline means unequal incomes are also more persistent, potentially because new cohorts are unequal when they enter labor markets. Income inequality among 25-year-old males tripled from 1970 to 2010. Cause is unclear; perhaps education. Separate observation: This micro moderation may be linked to well-known moderation in the macroeconomy.

Greg Kaplan discussed his model linking monetary policy, markups, and labor market inequality. He distinguished between "overhead" work (management, marketing, sales, and research and development) and "production" work. *Overhead* work creates new markets or product models, shifting demand curves outward by selling more without lowering product prices. *Production* work generates revenue by moving output along firms' current demand curves. When markups (difference between price and cost) change—through a policy or aggregate demand shock—that shifts demand between these types of workers. Changes in markups thus redistribute income between overhead and production labor. A rise in markups, for example, would reduce the share of labor income going to production workers and increase the share for overhead workers. Importantly, these observations apply equally to monetary and demand shocks. Takeaways: The aggregate effect of monetary policy depends on what workers are doing. And policy shocks have very different effects on consumption and labor income for production- and overhead-intensive jobs.

Moritz Kuhn described the joint evolution of U.S. income and wealth distribution from 1949 to 2016. He noted an unprecedented rise in wealth inequality, driven in large part by asset price changes and differences in household asset portfolios. Equities and bonds are the primary portfolio holdings of the top 10 percent of the wealth distribution; housing is a small portion. The opposite holds for the bottom 90 percent. After the financial crisis, housing prices recovered slowly, but the stock market quickly. So wealth stagnated for the bottom 90 percent of households by wealth and soared for the top 10 percent. U.S. wealth dynamics have constituted a race between the stock and housing markets.

Isabel Cairo elaborated on research, concluding that increased market power in product and labor markets can explain five 40-year trends: declining labor share, rising profit share, rising income and wealth inequalities, rising household-sector leverage, and financial instability. Greater power in *product* markets has far more explanatory strength than in *labor* markets. Cairo also derived policy implications, finding that "carefully designed redistribution policies can be quite effective macroprudential policy tools."

Q&A

Questions following these presentations concerned how these models would affect policy decisionmaking; policy implications of empirical findings on wealth distribution and market power; the importance of including labor as an asset affected by monetary policy; looking more carefully at how inequality is measured, especially among lower-earning or lower-wealth households; considering labor share as a business cycle indicator; valuation of self-owned businesses as capital or human capital; whether excessive focus on markups and market power distracts from other potential mechanisms of inequality; and clarifying the distinction between production and overhead work activity.

Policy Panel 1

Aparna Mathur spoke of challenges in the current labor market, noting that broad improvement in the aggregate employment picture hides significant heterogeneity. Blacks, Hispanics and Latinos, the very young, those 20 to 24 years old, and the disabled still experience high unemployment rates. Older workers are doing far better, but, as they retire, the problem will be to increase participation by others and make growth inclusive. Challenges include worker–job mismatch (skills, geography, and racial discrimination); boosting women's labor force participation; assimilating those formerly incarcerated; and addressing barriers like residential segregation, lack of education and social networks, and opioid abuse. Declining male labor force participation is a particular concern. Policy should address skills, training, segregation, mismatches, education, and incarceration. Boosting income for low-wage workers through safety net programs is also critical.

Josh Bivens spoke about high-pressure labor markets—the idea that higher economic growth improves job markets, especially for the least advantaged. He described the "progressive benefits" of high-pressure labor markets: faster wage growth for low- and middle-wage workers, erosion of racial gaps in employment-to-population ratios and hours worked, and potential declines in poverty. Moreover, potential risks of high-pressure labor markets, particularly inflation, are retreating: There is less "tinder" in productivity and wage growth, unemployment, and labor bargaining power. This scenario suggests absence of strong Phillips curve dynamics and that policymakers should pursue tighter labor markets to improve wage growth and promote more inclusive growth.

Q&A

Questions focused on whether macroeconomic policy might be more effective than eliminating structural barriers from a cost–benefit standpoint, the role of structural barriers and macro policy in persistence of earnings shocks, possible asymmetry in the demographic effect of unemployment rate shifts, obstacles to apprenticeship programs in the United States, the possible link between the rise of the natural rate hypothesis and anti-inflation bias, the effect of relative pay trends in manufacturing, and whether informal labor arrangements have fragmented the labor market and weakened labor's bargaining power.

Dinner Keynote Address

In his remarks, Vice Chair Clarida outlined the purpose of the Fed's review of its monetary policy strategy and the reasons for the ongoing *Fed Listens* series of events across the System. He said: "With the U.S. economy operating at or close to our maximum-employment and price-stability goals, now is an especially opportune time to conduct this review. The review of our current framework will be wide ranging, and we will not prejudge where it will take us."[30]

Day Two: April 10, 2019

Research Panel 2

Heterogeneity: How Different Households Fare over the Business Cycle

Alisdair McKay discussed research on differences in monetary policy effectiveness over time. Current research—and central bank operations—assumes that past interest rate actions do not influence the power of current or future policy actions. McKay's research suggests that durable goods purchases upend this conventional belief, showing that monetary stimulus does not *create* demand, but rather *accelerates* it, shifting purchases from future to present. History of rates, then, matters, current rates matter more than future rates, and demand is less sensitive to stimulus during recessions. "There are reasons for a central bank facing an effective lower bound (on interest rates) to keep its powder dry."

Martin Schneider described research on interaction of monetary policy and revaluation of debt. When inflation lowers the real value of debt, wealth effects are good for borrowers

[30] See Clarida, "The Federal Reserve's Review," in note 28 (quoted text in paragraphs 3 and 11).

and bad for lenders. Monetary policy thus redistributes household wealth. If the Fed announces a higher inflation target, for example, it affects long-term debt more than short-term. Quantitatively, this hurts older, rich households and benefits young and middle-aged middle-class households because they hold sizable mortgage debt, and future inflation lowers its value. There are eight moderate but persistent changes in macro aggregates because gains and losses do not cancel one another.

Hannes Schwandt spoke about research showing that business conditions when young adults enter the labor market have strong, persistent effects on their health, employment, and earnings. A 1 percentage point increase in the unemployment rate when entering the labor market would immediately cause a roughly 4 percent drop in earnings, fading out only gradually. Nonwhite and least-educated workers suffer larger earnings and employment losses than white college graduates; there are increasing effects on mortality after age 35; and negative wage effects reappear in midlife, along with adverse family formation and fertility outcomes.

Marianne Bitler discussed her research on cyclicality of the social safety net, particularly the EITC (earned income tax credit). The EITC is the most important antipoverty program for children, reducing poverty rates by over 6 percentage points. SNAP (Supplemental Nutrition Assistance Program) is important, while TANF's (Temporary Assistance for Needy Families) reach is minimal. Research found that the EITC provides countercyclical protection for married couples with children but is weakly pro-cyclical for single filers with children. When compared with food stamps, TANF, and UI (unemployment insurance), the EITC is the least responsive to business cycles. Thus, the EITC provides an automatic stabilizer for married couples with children, but not for single parents with children, and it is less cyclical than other safety net programs such as UI, TANF, and SNAP.

Q&A

Questions concerned the effect of consumer durables on the timing of monetary stimulus, the quandary of monetary policy redistributing to the poor and middle class but possibly causing contraction through different spending propensities, clarifying channels from recessionary labor markets to bad life outcomes, buffering inequality via taxes and transfers, preferred policy responses to the next downturn, the symmetry of consumer durable purchases to expansion and tightening, the effect of forward guidance on assets affected by *long*-term rates, the labor supply effect of safety net programs, avenues to improve EITC take-up or boost benefits, the effect on labor outcomes of state economic conditions, and education enrollment and mobility responses to unemployment.

Policy Panel 2

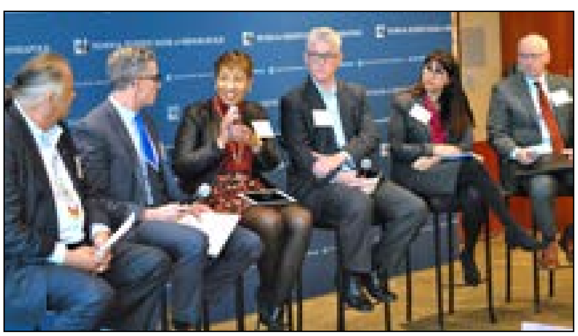
William Spriggs challenged the Fed to answer the question: Does inequality hurt economic growth? The OECD (Organisation for Economic Co-operation and Development) and IMF (International Monetary Fund) have said it does. "If inequality hurts growth, then we do have to worry what policies at the Fed exacerbate inequality." He then discussed issues deserving greater attention: correlation between wage–productivity gap and rising household debt, rising share of finance in GDP (gross domestic product), and rising compensation in the financial sector. He further argued that there is a relationship between financial-sector compensation and the wage gap, and that the Fed has a role in this because it has a voice in and some authority over compensation and concentration of the banking sector.

Susan Houseman spoke about shortcomings in current research on the prevalence of informal work and independent contracting. She noted that alternative work arrangements have a bearing on monetary policy in light of debate over diminished strength of the inflation–unemployment relationship. Such arrangements may indicate slack in labor markets; to assess this, it is important to measure the full set of work activities an individual undertakes. Two current studies that probed deeply into informal work suggest that it is more prevalent than indicated by the Current Population Survey and that people in such situations are concentrated in vulnerable groups: youth, minorities, low income, and likely to be under financial stress. "Development of consistent, high-quality time series on contract and informal work would help . . . policymakers to better understand the degree of slack in labor market."

Q&A

Questions centered on whether improving safety nets or creating economic opportunities is more beneficial, what the Fed should do to improve average employment outcomes, measuring the economic importance of rental and sale markets like Airbnb and eBay, time trends in informal work, the most important indicators of inequality, whether inequality growth is a chicken–egg causality dilemma, a "right" level of inequality, and the significance of downtrends in new business starts.

Lunch Panel: Perspectives from the Community



This panel of Minnesota foundation, government, and community leaders placed a reality-based punctuation mark on the conference's research and theoretical conversations. Citing higher unemployment among people of color and various housing, health-care, and childcare needs for low-income families, members of this panel expressed hope that the Federal Reserve was indeed listening and could develop research that translates into action to positively affect the constituents of their struggling communities. The panelists expressed some concerns that research focused on the macroeconomy or broad trends and so missed important exceptions to other trends that characterize life in some communities. However, some also expressed new appreciation for the Fed's concern for a diverse set of communities as well as the policymaking challenges it faces.

Federal Reserve Bank of Richmond

On May 8, the Federal Reserve Bank of Richmond held a *Fed Listens* community listening session. This session was part of a broader effort within the Federal Reserve System to review the strategy, tools, and communication practices the Fed uses to pursue the monetary policy goals established by the Congress: maximum employment and price stability. At *Fed Listens* events throughout the country, the Fed has heard from community members, specifically, on how monetary policy affects them.[31]

The event was hosted by Governor Lael Brainard of the Federal Reserve's Board of Governors and President Tom Barkin of the Federal Reserve Bank of Richmond. The audience included 100 alumni of two of Virginia's key community-based leadership programs, Lead Virginia and Leadership Metro Richmond. The audience represented community and business leaders from across Virginia.

The event began with a brief introduction to the Fed's dual mandate by Renee Haltom, a regional executive of the Richmond Fed. Governor Brainard then described the Fed's review of monetary policy strategy, tools, and communication practices. She noted that the Fed wants to make sure the way it conducts monetary policy is keeping up with the way the economy is changing.

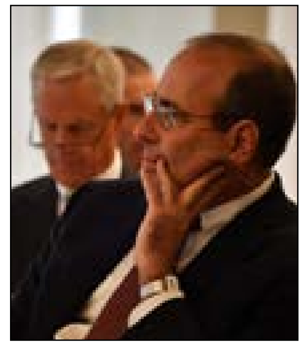
She shared two changes, in particular, that together represent a "new normal" for the U.S. economy. The first feature is a low interest rate environment that is expected to continue due to fundamental features of the economy. Low interest rates present a challenge to traditional monetary policy in that there is less scope to cut interest rates if the economy were to encounter adverse developments. The second feature of the new normal is that inflation does not seem to move as much with economic activity or with employment as it has in the past. This "flatter Phillips curve" has some positive implications; for example, it means that labor markets can strengthen a lot without touching off a bout of inflation, and it means labor markets can pull in workers who may have been sidelined during the recession. However, one risk of the flatter Phillips curve is that it may be more difficult to boost inflation up to the Fed's 2 percent objective on a sustainable basis over time.

Governor Brainard discussed two possible strategies for achieving the Fed's inflation objective in this new normal: Make up for past misses on inflation by holding interest rates lower for a longer time than the Fed otherwise would, or consider averaging inflation over the longer term

[31] Additional information on the *Fed Listens* initiative is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-fed-listens-events.htm.

to evaluate price stability. Governor Brainard finished by saying that these *Fed Listens* sessions will help provide necessary perspectives on how different citizens are affected by economic expansions and recessions, how different communities experience and view monetary policy, and what facts should inform Federal Reserve policymakers as they consider the consequences of monetary policy.

The listening session featured panelists from two nonprofit organizations and two businesses and was moderated by President Barkin. Each panelist briefly introduced themselves, described how the work of the Federal Reserve broadly affects their sector, and then responded to questions posed by President Barkin. Later, there was a chance for the audience to ask questions of the hosts and panelists. The panelists were



- Sherrie Armstrong, president and CEO, Community Foundation
- Tim Davey, principal, Timmons Group
- Shawn Smith, director of workforce development, Goodwill of Central and Coastal Virginia
- Bobby Ukrop, chairman and CEO, Ukrop's Homestyle Foods

The panelists began with broad observations on the effect of the Federal Reserve's monetary policy on their constituents, customers, and communities.

In their opening remarks, the panelists offered a number of perspectives that connected with the Fed's monetary policy goals of full employment and stable prices. Sherrie Armstrong from the Community Foundation shared that the Fed affects her business in at least two ways. First, much of the foundation's focus is facilitating philanthropy in the community, and how well the economy performs has a direct correlation with the level of charitable giving. Second, the foundation focuses on educational attainment, workforce development, and affordable housing, and monetary policy touches each of these areas.

Tim Davey from Timmons Group, a professional services engineering firm, shared several ways in which the Fed's mandate affects his sector and its customers. He pointed first to how full employment presents a challenge in terms of finding labor—as is currently the case for many professional services firms. The limited availability of labor in a full employment environment poses a challenge to growing both geographically and in market share. Second, many of the firm's clients are in the real estate development business, where access to capital is an important determinant driving the level of activity. Third, he noted that the construction industry is currently booming in central Virginia and the region. Though overall inflation is subdued, prices related to construction are rising at a much faster rate. Finally, he noted that a trend driving all three perspectives is strong population growth in this region of the country, along with an overhang from insufficient construction in the past to keep pace with this population growth.

Shawn Smith, from the nonprofit Goodwill of Central and Coastal Virginia, noted that his organization utilizes a social enterprise model: As people donate to Goodwill stores, Goodwill translates that money into opportunities to support programs that help people find jobs. Many of the people they help have barriers to work, ranging from low educational attainment to cognitive issues. He said that a stronger labor market benefits their clients, as they are often at the bottom rung of the ladder—in a good economy, they are often left behind, and in a recession, they are the first to be laid off.

Finally, Bobby Ukrop of Ukrop's Homestyle Foods, a food preparation firm whose products are sold to regional and national grocery store chains, noted that the firm is strongly affected by wages. He reported that while his workers earn $10 to $14 per hour and many have to work second jobs, he cannot raise wages because the company cannot easily pass on price increases to its customers. This is because the firm's products are viewed as commodities, and grocery stores are under pressure from changes in consumer behavior, specifically around competition from new online sellers. At the same time, he cited challenges in finding and retaining good employees, who are needed to maintain high-quality food standards and who also must be willing to work at the facility, where the ambient temperature is around 45 degrees.

With unemployment at a 50-year low of 3.6 percent, can it go lower, or are we about done?

Smith compared the tight labor market to picking teams in gym class—the people he works with often are lower skilled and the last to be picked, and as the unemployment rate goes down, employers are forced to look at potential workers they might not have considered previously. For a lot of the jobs currently available, the people looking for work do not have the appropriate skills. Many end up in a cycle of finding lower-level jobs and second jobs in order to get by. So while there are opportunities presently, they are not necessarily opportunities that will provide everyone with a sustainable lifestyle.

Ukrop said that unless wages rise, it would seem difficult to find additional workers. His best pool of workers are sometimes relatives of his current employees. Many are first-generation Americans with a strong work ethic and desire to work. Too often, he finds that potential employees do not want to work too hard or work in the cold.

Davey said that right now, any worker in the professional services sector has many options on where to work. He described low unemployment and competition for workers as a "thumb on the scale" potentially limiting growth in that sector. At any given time, his firm has 50 or 60 openings (of 600 total employees) fueled by growth or turnover, and the latter is prevalent now because workers have many choices.

The next step, then, is to bring more people into the labor force. How can we do that? What barriers are you seeing to doing so?

Armstrong said that there is a sense of urgency on this topic now within the Richmond region, and the community needs to take a systematic approach to workforce preparation and development. In Virginia, employers cannot find qualified workers for all of the open jobs.

Davey shared that economic development teams are engaging with universities and community colleges as a solution to the current shortage of workers, as was the case with making the economic argument for bringing Amazon's HQ2 to Virginia.

Armstrong identified GO Virginia as a catalyst for convening a lot of different leaders in various areas of the state. She noted that the effort is often focused on higher-paying jobs, with additional efforts needed to create opportunities for all employees in Virginia.

Smith noted that more is happening with community colleges to promote certificate programs in various fields, but that many of these potential workers need "soft skills," guidance on basic practices such as résumé writing and interviewing, and wraparound services to improve their ability to navigate the life complexities that often lead to loss of employment. He said Goodwill works with its clients to deliver these skills and also stays with them in their first year of employment to help them stay in their jobs.

Ukrop mentioned that J. Sargeant Reynolds Community College has a new culinary program that trains people in the food industry. He also mentioned a new grocery store in Richmond, The Market @ 25th, that employs 100 workers from its own neighborhood, but he said that mission-oriented establishments also need to find a way to compete with larger chains to survive.

What, if anything, is preventing employers from raising wages to bring people in off the sidelines or to draw workers from competitors?

Davey indicated that his company has increased wages, and he noted that a firm must also sell the value on the other end to its customers. He shared that while wages are an important element of his firm's recruitment and retention strategy, the company also focuses on strengthening its culture to attract employees.

Ukrop said employers need to start to look at innovative benefits for their workers. He identified one Charlotte, North Carolina, company that offers a "learn to swim" program for employees and their families. He suggested that "side benefits" are often the reason people stay in their jobs; it can make employees feel the employer is looking out for their best interests. He also remarked that "if you can't raise your prices, it's really hard to raise your wages." He said his company cannot change product standards and has limited control over prices or wages, and so it is looking at benefits. He said larger businesses seem to have "lost their heart" in caring for their employees.

Smith remarked that Goodwill employs the very people the organization helps. Goodwill starts its workers at $10 per hour, which Smith said is not a living wage, but it comes with programs and other services to move employees forward in their careers so they can earn more outside of Goodwill.

What is stopping firms from trying to push through price increases to customers?

Davey stated that his company has had no choice but to increase prices, but, along with those price increases, Timmons has implemented increased customer service levels—to better connect with customers' businesses to illustrate the importance of quality staff to shared success. He also noted that continued projects with an existing client can be more profitable than new projects with new clients, so teaching engineers "soft skills" that strengthen business relationships can be helpful. He feels that "culture" is important on the customer side as well, because customers hire firms for reasons other than price.

Armstrong remarked that the nonprofit sector is a very viable part of the economy in that it is generating income and creating jobs. However, the fact that its chief funding source is philanthropy creates a mindset that its services should be provided very cheaply—even though its chief product is its skilled labor. That pressure makes it difficult to attract qualified people. She also noted the effects of technological disruption. The proliferation of online retail creates a "get it now" expectation, and foundations have to compete with donor-advised funds that charge only a 2 percent fee. Organizations like hers need to determine how to charge for what they do while attracting and compensating the right employees.

Are panelists feeling inflationary pressure in input prices?

Ukrop said he has faced rising input prices; for example, he noted that a single major fast-food chain heavily drives the market price of chicken breasts, and this has a direct bearing on his company's profitability because chicken breasts are used in many of its products. He observed that egg prices are down, packaging prices are up, and the rest of the commodity prices have been stable. He noted that companies like his that are viewed as producing commodities must be innovative—finding either more workers or more markets for their products, for example—by finding innovative ways to differentiate their products to customers.

Davey observed that after years of hardship, the construction industry is affected less by input price inflation and more by opportunity cost: Demand is so strong that contractors, from carpenters to plumbers to suppliers, do not have to take a job unless they stand to earn a healthy profit. Consequently, construction costs have risen 7 to 8 percent each year for the past few years, which is starting to delay certain development projects because a good developer is only going to move forward when the numbers, including financing, work. For the construction sector, he anticipates an extended period of growth because pricing is so favorable right now that both suppliers and subcontractors are profitable. He said owners are waiting a little longer on projects, but when they see prices are not coming down, they redo their project pro forma and proceed anyway.

Ukrop mentioned the Navy Hill project, a 10-block development effort in Richmond that includes a large affordable housing component, as an example of the extraordinary amount of construction going on in Richmond. He noted that these offer opportunity for extended growth and for economic improvement for people at the lower end.

What are the panelists hearing from low- to moderate-income households on the effect of inflation on them?

Smith stated that a slight increase in prices makes a difference to the people he works with because of their financial vulnerability. He said they are particularly sensitive to changes in gasoline prices and see little value in a well-performing economy and booming stock market.

Ukrop observed that hardworking people are resilient; they will work to help themselves.

How would targeting higher inflation for several years to "make up" for missing the target rate in the past few years play out for the community?

Davey said that it made sense. In the construction industry, predictability and reliability are more important than "low" costs because of the long investment horizon of real estate projects.

What is the effect on households and businesses of the Fed having moved its target interest rate from near 0 percent to 2.4 percent over the past several years?

Ukrop said his employees have been affected, and many borrow from their 401(k) plans. He noted that people at the lower end are not very financially resilient.

Davey reiterated the importance of predictability of rates to those in the construction industry. Rate hikes make money competitive, which he feels has been extremely healthy for almost every customer of his involved in project development or construction, and that helps his business grow.

Smith said many of the people he works with are unbanked, so changes in interest rates really do not affect them directly.

Armstrong indicated that she sees the effect on housing. Higher interest rates, coupled with rising house prices, make it difficult for lower-income or younger people to enter the housing market, which creates or perpetuates wealth gaps.

Ukrop noted that the rising cost of private education, at both the secondary and college level, has started to make the option unaffordable for the middle class.

What are the panelists seeing as emerging community-related issues that should be on the Fed's radar?

Smith said a real concern is the "benefits cliff" that occurs because many government subsidies are based on earnings—as income rises, a worker can lose benefits. For example, if the typical cost of childcare per child is $25 per day, then that equates to $500 per month, or $6,000 annually. An employee who receives a $1 per hour wage increase, amounting to $2,000 per year, may risk losing that $6,000 benefit, which would actually leave them worse off. This keeps low-income workers from taking jobs with higher wages and, in some cases, keeps them from seeking better opportunities.

Armstrong echoed that benefits cliffs are an issue and asserted a need for policy change. It is not that low-income workers do not want a better job, she said; rather, it is sometimes not in their financial best interest to make the change.

Ukrop said wage garnishment is an issue, and anytime there is a related change in policy, employers have to deal with a mountain of paperwork. The process is too complicated and may keep employers from providing wage increases for their workers.

How can the Federal Reserve do a better job connecting with the public and communicating our mission and the Fed's actions?

Davey said it is important to understand how monetary policy trickles down to the household and how it affects areas of the country that are not as economically healthy. The Fed should educate the business community and the public on what works well and explain what challenges exist.

Armstrong said the Richmond Fed has been good about building relationships and communicating to the region it serves. Further, she stated that its reports, research, and data are good, but she called for the Fed to play a larger role in helping to shape solutions. She noted that the Fed has good resources, knowledge, and data—such as its historical work on early childhood education—but this is not widely understood in the community, and she suggested that it is important for the Fed to provide this type of thought leadership. She also noted that community partners do not always think to bring the Fed in.

Ukrop mentioned the Greater Richmond Partnership as an example of an organization that is able to maintain connectivity with the business community. It is important for the Fed to reach out and connect with the people doing business.

Summary of Audience Q&A

I have not heard anyone today mention entrepreneurship. How can we take these lessons and bring them to the evolving entrepreneurial economy in the Richmond area?

Davey remarked that monetary policy is relevant to entrepreneurs since the segment relies on private capital initially and then lending in the long term for businesses to be sustainable. Successful entrepreneurs along with the Richmond Fed can help educate and inform new would-be entrepreneurs in their own backyard.

Ukrop observed that a $15 hourly wage rate does not mean total compensation, because on top of that, businesses have to pay a 7.5 percent employment tax.

I grew up in the 1970s where there was no money and rapid inflation. My father always told me that we need some level of inflation because people are willing to pay for some price increase if they can get a pay raise. Is that a correct way to think about the value of having low but stable inflation?

President Barkin said that was a reasonable way to think about it. A similar concept could be applied to senior citizens who want a decent return on savings accounts.

A questioner noted that Davey endorsed the value that predictable inflation holds for the business community. He asked Davey to share his perspective on the prospect of the Fed allowing inflation to occasionally rise to "make up" for periods of too-low inflation—would that constitute less-predictable policy in a way that would not be good for business?

Davey responded that expectations would have to change in such a world. Understanding how those changes affect his firm's customer base would probably be most important. He remarked that as long as population growth locally remains strong, private developers, commercial developers, and municipalities will have customers. Provided that remains the case, the sector could adjust its business model to changes in Fed strategy.

An audience member commented that with the current low unemployment rate—and considering that many workers need wraparound support to address family circumstances, substance abuse, or low skills—efforts to bring people into the labor market can be scaled by sharing projects that have been proven to work rather than each community piloting new ones.

Armstrong said the community benefits from being organized and not addressing issues in a fragmented manner. It is important to coordinate with different entities so all citizens can benefit from the growing economy. For example, she pointed out that Smith's organization is working to bring many service providers together in central Virginia. Community organizations need to connect to a bigger strategy to help individuals go where they want to go, she said.

Ukrop described the great work that organizations such as Caritas do to help bring individuals back into the labor force. But sometimes a person will go through programs and still face a hurdle, such as failing a drug test, and those can be difficult cases.

Can the Fed influence immigration policy?

President Barkin responded that the relevance of the issue to the Fed comes through the relationship of immigration to the economy's long-term growth potential, which is driven in part by an increase in the number of people working. He said that this can be achieved through one of three ways: fertility, which takes a long time; legal immigration, for which numbers are higher than they were 10 years ago; and bringing people off the sidelines, the subject of much of the discussion at the event.

Governor Brainard recalled that the Fed undertook nontraditional monetary policy actions during the financial crisis and Great Recession. She asked the panelists if they cared about how the Fed does its job and the tools it is using, or if they cared just about the outcomes, such as low inflation and healthy employment.

Davey answered that in the construction sector, predictability is the most important thing. He noted that his firm's clients interact with lending institutions, not the Fed, and currently have a lot of choices because banks are hungry to make loans. He said that in construction, it comes down to prices and terms: Control the price and you can agree to any terms, or control the terms and you can agree to any price. Those factors are much more important to his customers than any tools the Fed is using.

Ukrop agreed that uncertainty is the bigger concern for businesses.

I have heard that there is a possibility of a recession in 2021. Are the panelists expecting that?

Davey responded that every customer is reading different barometers, and that it depends on the predictability of Fed policy. He also noted again that continued regional population growth has been a healthy sign. In all, his customers generally feel good about conditions through 2022.

President Barkin remarked that long upturns in the economy are not unheard of, but this has been one of the longest in our history. However, Australia has had several decades of expansion, so it is not the case that we are "due" for a recession simply because of the length of our expansion.

He noted that it is hard to have a recession when unemployment and interest rates are low and financial markets are relatively stable. At the same time, outside risks are always possible—event risk has driven the past couple of recessions.

Davey asserted that it is helpful for the Fed to say that publicly, because it may be comforting to people making decisions about business two or three years from now.

Armstrong stated that her foundation is investing $800 million in community assets to grow endowment and return. She observed that investors do seem to worry that the economy is going to "turn," which is hard to square with the economy's strength. This disconnect is ameliorated somewhat by the fact that she takes a long-term view in terms of managing investments.

In areas of the country where population is actually declining, what are the issues? How are conditions different in the Rust Belt compared with the Sun Belt? How have weather events, such as flooding in the Midwest, affected areas differently?

President Barkin noted that the Federal Reserve is a System of 12 regional Reserve Banks, and the presidents of each Reserve Bank track developments in their region and share those when they convene to make policy. He responded that in rural areas and small cities, there are issues with declining population and jobs moving out. This is a complex, multicausal issue that the Richmond Fed has been studying.

Governor Brainard echoed that a consistent theme in all regions of the country is that some rural areas are really struggling.

An audience member noted that transportation to work is an issue in many rural areas. He shared that his company, a security consulting company, invests in employees' transportation with them so the employee has skin in the game. His firm also partners with community colleges for criminal justice degrees, a faster training route than working 20 years as a security officer before entering law enforcement. Another thing his firm does is give employees decoration for special skills, such as being trained in a drone unit. In all, he noted that wage increases are not everything, and it can be effective to differentiate and incentivize people who are high performers.

There has been lot of talk about the low unemployment rate. The federal minimum wage has been at $7.25 for some time, while a "living wage" would be much higher. Does the Federal Reserve have any hand in the conversation over minimum wages, and does a higher minimum wage tie to inflation?

President Barkin responded that the Fed does not have a direct hand in that conversation; the minimum wage is set by cities or states based on their labor markets. He commented that the labor force has been tightest at the entry level, which is where wages have risen most, independent of government action.

The final audience commenter mentioned a Stanford University project on "collective impact," a model that brings together different sectors to solve long-term community issues. The individual gave kudos to the Fed and to the panel for holding a discussion along the same lines.

Federal Reserve Bank of Boston

The purpose of the *Fed Listens* conference was for Federal Reserve policymakers to gather feedback from a wide range of stakeholders on the Fed's approach to monetary policy. This conference and similar events at other Reserve Banks across the country are an important external-facing part of the review of the Fed's monetary policy strategy, tools, and communication practices that the Federal Reserve is conducting in 2019.

The Boston Fed conference on May 13 gave representatives from various groups and communities in New England the opportunity to present their views to Fed policymakers on how well the Fed is fulfilling its dual mandate of stable prices and maximum sustainable employment. Accordingly, conference participants shared their perspectives on the effects that interest rates, inflation, and the labor market have on their demographic cohorts and communities.

The conference was divided into three panel discussions. The panel for the first discussion comprised representatives from organizations that focus on underserved populations. The second panel included small business owners, entrepreneurs, and labor leaders. Representatives from various demographic groups formed the third panel. Moderators posed a number of questions to each panel, many of which were asked of all panels. This summary highlights the discussion points prompted by each question, and it includes an overview of the responses to two surveys related to the conference that were conducted by the Boston Fed.

Question 1: What are the costs and benefits of the current tight labor market?

Most of the panelists representing underserved populations and different demographic groups agreed that the tight labor market was generally beneficial. However, some panelists noted that while the national unemployment rate is near historic lows, the unemployment rate remains relatively high in minority and low-income communities. Panelists also emphasized that, in addition to unemployment, *under*employment and low wages are serious problems, particularly in places where the cost of living is high, such as Boston. Some panelists expressed a concern that wages are not rising at the rate they would have expected, given the overall tight labor market. Still, for these groups, the overall benefits from the increase in jobs outweigh the concern about low and slowly rising wages.

Small business owners from all of the panels focused on the challenges posed by the tight labor market, primarily the difficulty of finding and hiring qualified employees. One panelist from a manufacturing company described attempts the company has made to address this issue—for example, by partnering with the local prison and creating a program that trains and recruits former inmates for employment.

Question 2: Regarding the dual mandate, how do you view the relative importance of low unemployment versus stable prices?

The representatives for underserved populations agreed that in their communities, sustained low unemployment is more important than low inflation, though they were concerned that high inflation tends to lower real wages in their groups. Job turnover and low wages are widespread in these communities, panelists noted, and long periods of low unemployment can yield better-paying jobs with less turnover.

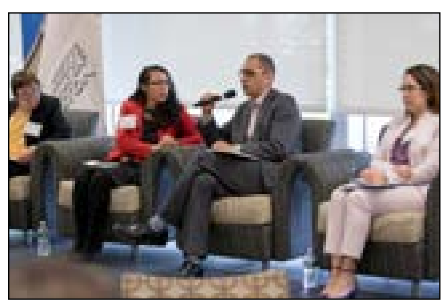
Entrepreneurs and small business owners noted the link between low unemployment and wage pressure. These panelists agreed that wage pressure is one of the biggest concerns for small businesses, particularly those whose employees are at the low end of the wage distribution. One small business owner said that the company might soon have to raise its prices because of the wage increases it has had to pay for its employees.

Panelists representing retirees said inflation was a major concern for that demographic group; retirees want their savings to hold value, and so they are concerned about increases in the cost of living. Panelists also expressed skepticism about whether the inflation rate accurately represents changes in the cost of living, particularly for retirees, because costs such as those associated with health care have generally been rising faster than overall inflation.

Question 3: What effects have you seen from the long period of low interest rates? What are some of the costs you experience when interest rates change?

Panelists representing underserved populations said this question was not applicable to all members of their communities, because many have not had access to low interest rate credit. These populations have traditionally been more susceptible to predatory lending, and a good portion of the community members have poor credit histories, which preclude them from taking advantage of low interest rates.

Small business owners generally found the low interest rate environment beneficial; one owner noted that the company recently increased investment because low interest rates allowed it to do so. However, business owners also said that they had expected rents to be lower than they are in this environment, and that high rents have prevented some companies from expanding as rapidly as they would like to.



Representatives for retirees understandably conveyed a more negative view of the low interest rate environment given the low return on savings.

Question 4: How has the Fed done in terms of achieving its mandate over the past 10 years? What can the Fed do better?

Overall, panelists spoke positively about the Fed's work over the past decade. Many participants offered suggestions for how the Fed could do a better job serving their particular communities or the country as a whole, but many of the suggestions ventured into fiscal rather than monetary policy. The suggestions associated with the Federal Reserve overwhelmingly focused on community engagement, including establishing financial literacy education programs and inviting members of the various communities into the Bank for more events such as this one.

Survey Results

As a part of this research outreach effort, the Boston Fed conducted two surveys (see appendix). One involved 35 conference participants. The median age of the respondents is 49, and the majority have a professional degree or doctorate. The second survey, completed through Amazon Mechanical Turk (Mturk), involved a larger (992 respondents) and more diverse group of participants. The median age of these respondents is 33. The majority have a college degree or higher, but this sample has a slightly lower level of educational attainment than the conference survey sample.

Both surveys asked about respondents' views on unemployment and inflation, and they yielded different results. The conference sample aligned with the conference panelists, with the majority (63 percent) of respondents indicating they valued keeping unemployment low over keeping inflation low. The larger Mturk sample was more evenly split on this question, with 49 percent preferring to keep unemployment low and 51 percent preferring to keep inflation low. This split varied slightly by level of educational attainment, but most of the Mturk survey respondents who said they preferred to keep unemployment low are currently unemployed. Among the unemployed, the split was 67 percent to 33 percent in favor of low unemployment.

Regarding tolerable levels of unemployment, most of the participants in the two surveys said an unemployment rate over 5.0 percent is unacceptable; the central tendency of responses for a maximum tolerable unemployment rate fell between 4.1 and 5.0 percent. Both surveys revealed uncertainty about personal experiences with inflation. Twenty-nine percent of the conference survey respondents said they had "no idea" what inflation rate they had experienced over the past year. Of those who did select a rate, the majority said it was between 1.1 and 2.0 percent. Similarly, in the Mturk survey, the greatest share of respondents (25.5 percent) selected an inflation rate of 1.1 to 2 percent. However, a large portion of respondents reported inflation rates from 2.1 percent to greater than 8.0 percent. Regarding maximum tolerable inflation, the conference survey's median response was between 2.1 and 3.0 percent. The median response remained largely unchanged when the question was asked in the context of income increasing at the same rate as inflation. In the Mturk survey, the majority of respondents said that an inflation rate over 2.0 percent is unacceptable. The Mturk survey results included a breakdown of responses by age group and showed that older respondents were less tolerant of inflation. Major concerns regarding inflation included worries about the difficulty of budgeting, a decline in real income, deterioration of savings, and stress.

Conclusion

Many of the participants in the *Fed Listens* conference appeared to be satisfied with tight labor markets and low interest rates, though some expressed concerns about whether all groups have received equal benefits from this environment. According to participants, underserved populations and minority communities still face higher unemployment and struggle with high job turnover. In addition, members of these communities often are unable to access credit because of poor credit histories and susceptibility to predatory lending. On the other hand, small businesses have struggled to find employees in this tight labor market. Most panelists said the groups they represent value low unemployment slightly more than low inflation. Responses from the conference survey reflected a similarly slight preference for low employment over low inflation. Participants in the Mturk survey leaned the other way, with slightly more respondents valuing low inflation to low unemployment. Concerns regarding inflation came mostly from the retired community and older survey respondents, who worried about their savings being depleted by cost-of-living increases.

Appendix

Conference Survey Questions *(The Mturk survey is similar but includes more detail.)*

1. Which of the following options best describes the price inflation you experienced in the past year (12 months)? Please select the inflation range that best describes your experience. (Available inflation ranges varied from "<0%," "0%–1.0%," "1.1%–2.0%," . . . , "7.1%–8.0%," "more than 8.0%," and "No Idea.")

   Note: There are no right or wrong answers. We are interested in your experience and opinions.

2. What levels of annual inflation do you feel are acceptable? Please select all the inflation ranges that you would feel comfortable with. (Available inflation ranges varied from "<0%," "0%–1.0%," "1.1%–2.0%," . . . , "7.1%–8.0%," "more than 8.0%," and "No Idea.")

3. If there are levels of inflation that you don't find acceptable, why is that? Select all that apply.

   - With high inflation, it is difficult to plan spending and do the household budgeting
   - With high inflation, I cannot purchase as many goods and services as before
   - With high inflation, I feel stressed
   - With high inflation, the value of my savings will deteriorate
   - With low inflation, the economy will slow down
   - With low inflation, my income will grow more slowly

- With low inflation, I will earn less on my savings
- With low inflation, I feel stressed
- I am comfortable with all levels of inflation
- Are there any other reasons for your being uncomfortable with certain levels of inflation? Please specify the reasons separately for high and low inflation levels, if applicable:

4. What levels of the national unemployment rate do you feel are acceptable? Please select all levels that you would feel comfortable with. (Available unemployment ranges varied from "0%," "0%–1.0%," "1.1%–2.0%," . . . , "7.1%–8.0%," "more than 8.0%," and "No Idea.")
5. Do you think the national unemployment rate can be too low?
6. Why do you think that the national unemployment rate can be too low? Select all that apply.
   - Unqualified workers will be hired
   - Firms will have trouble finding workers
   - I will have to work overtime
   - Work productivity will decline
   - It will lead to more immigration into the United States
   - Inflation will go up
   - Workers will be tempted to stay in dead-end jobs rather than pursuing further training for a better job in the future
   - Other
7. Currently, both the unemployment rate and the inflation rate are relatively low. If you had to choose between keeping unemployment low by allowing inflation to rise, or keeping inflation low by allowing unemployment to rise, which would you prefer—keeping unemployment or inflation low?
8. If the Federal Reserve could improve your understanding of how monetary policy affects you, it would be through the following ways: Select all that apply.
   - Better web presence
   - Inviting comments more frequently
   - Increased social media engagement
   - More consumable or lay-friendly content
   - More opportunities to receive updates
   - More public meetings
   - Other

Federal Reserve Bank of Philadelphia

On May 17, the Federal Reserve Bank of Philadelphia hosted a *Fed Listens* event attended by Vice Chair Richard H. Clarida and Ellen Meade, special adviser to the Vice Chair. Philadelphia Fed President Patrick T. Harker; Theresa Y. Singleton, senior vice president of the Community Development and Regional Outreach Department; and Ashley Putnam, director of the Economic Growth & Mobility Project, along with other Philadelphia Fed colleagues, participated in the listening tour.

The morning began with visits to a new manufacturing facility and a charter school in Camden, N.J., to showcase workforce development—something that the Philadelphia Fed believes is a key component of a healthy labor market.

The afternoon featured panel sessions that focused on the main directive of the *Fed Listens* initiative: to understand how different members of the public view the Fed, monetary policy, and the Fed's effect on the economy. To gather a wide range of viewpoints, the afternoon sessions were divided into one panel of representatives from business and academia and a second panel of leaders from the philanthropic and nonprofit sectors. The first panel explored monetary policy and economic growth, and the second highlighted monetary policy and economic opportunity. The auditorium audience of about 90 guests included community development stakeholders, members of the Bank's board and advisory councils, and Fed employees. Both sessions were moderated by Michael Dotsey, executive vice president and director of research, and Andrew Hill, economic education officer.

The goal of the panels was to delve into the basic questions posed by the *Fed Listens* initiative around the Fed's strategy, tools, and communications, with an emphasis on the statutory goals of maximum employment and price stability. Other questions around the Fed's research and community work were also included.

How is the economy doing?

When asked about the current state of the U.S. economy, both panels agreed that the economy was doing well and growing at a solid pace, but panelists said they felt that the progress was not evenly shared. The topic of inequality was discussed widely in both panels. One business owner mentioned strong commercial construction and healthy home remodeling activity as signs of overall economic strength but said there remain regions where "the economy is not doing so well" and that "people are still struggling."

A philanthropic chief executive from Delaware mentioned that communities where the labor market is stagnant are dealing with empty storefronts, high rates of opioid addiction, and high levels of stress among households. A retail executive said it is essential that any discussion about the economy include addressing inequality. "How do we share the growth of the economy in a better way? How do we ensure the whole population is rising and sharing in the growth of the economy?" he said.

How are labor markets doing?

Both panels were asked about labor markets. Again, the consensus was that labor markets are doing well, but mainly for high-skilled workers or for workers in vibrant urban areas. Others are missing out. Both panels placed greater emphasis on wages and uneven access to jobs than broader regional employment trends. The economics professor said, "People have jobs, but [not all are] well-paying jobs." The Delaware philanthropist agreed: "Full employment at very low wages masks part of the problem." But the business owner said the high cost of health care had to be taken into account.

The employment discussions also turned to the topic of the skills gap, with a specific focus on the U.S. educational system's shortfalls. "Education is strategic for the future," said the college administrator, "but we have not changed our traditional educational system. And we need to realize that not every 18-year-old should go to college."

Panelists agreed that job training is essential to creating a more inclusive economy. Such training could be done by employers, nonprofits, or the government. A community leader who works with disconnected youth in Philadelphia said better education access would give young people job opportunities, not just for now but also for the future.

And what of the future of work? In addition to the consensus view that our education system needs a reset, panelists also discussed the idea that automation will make career paths uncertain. "A big challenge is, who are we going to train and for what jobs?" said the college administrator.

One interesting anecdote was shared by the business owner, who said her current staff of truck drivers were aging into retirement, leaving a skills gap for her company. "We're all waiting for autonomous vehicles," she said, "but until then, we need truck drivers." The conundrum for her company was how to attract younger workers to become truck drivers when that job may be obsolete in 10 to 15 years.

Which is more important, maximum employment or price stability?

Regarding the Fed's dual mandate, the panels posted a split decision. The business–academia panel sided toward price stability, while the community development panel leaned toward maximum employment.

The reason for price-stability primacy was that, as the economics professor pointed out, it "can be more easily guided by Fed policy. The fed funds rate is a blunt tool to affect the labor market."

Both business executives mentioned that the internet has changed pricing decisions. The business owner explained that the internet has brought with it pricing transparency, which has created a very narrow band in which to raise prices. The retailer agreed, saying, "The empowerment of the consumer has changed the dynamic between business and the consumer."

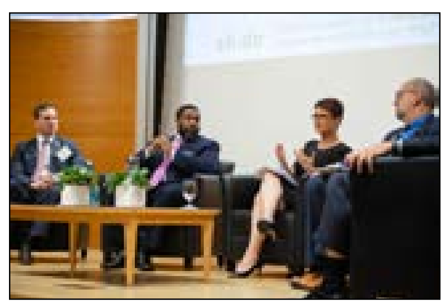
The second panel, however, thought maximum employment was the more important goal, especially regarding low- and moderate-income (LMI) and minority communities. A leader in the nonprofit investment fund sector said the racial wealth gap is a result of lower wages and high unemployment for minorities over many decades. In his view, the current employment situation in some neighborhoods is similar to that of the nation during the Great Recession. He asked, "What is the role of monetary policy once you disaggregate the data? Does a 10 percent unemployment rate in the Asian American, Latino, or African community obligate the Fed to act as it did during the financial crisis?"

How does monetary policy filter down to everyday activity?

The view on both panels was similar: Most people do not connect the Fed and its work to their everyday lives. A major reason for that is, many challenges faced routinely in the economy—income inequality, a lack of access to transit, the skills gap—are not responsive to current Fed monetary policy tools, most notably the fed funds rate.

One nonprofit expert whose work focuses mainly on affordable housing issues said Fed policy can have an indirect role in daily decisionmaking. He said, "When I think of monetary policy, I think it comes down to confidence. If monetary policy is working well, then individuals have confidence in their own situations, and businesses have confidence in the decisions they are making about the future."

What could the Fed do better?



The advice for the Fed centered on functions the Fed already performs—but that the public may not know fully about.

Members of both panels called for the Fed to take a bigger role in promoting financial literacy. "We are finding our employees, even highly skilled, have very low financial understanding," said the business owner. "If there is a role for the Fed to explain how money works, how business works, I think that would be a tremendous and big impact."

A greater understanding of how credit works could also help LMI households avoid decisions that can worsen budget strains. "Financial troubles can come from misinformation, such as with predatory lending," said the college professor.

The nonprofit funding executive said the Fed is one institution that has the reach and scale to promote financial education. Such assistance in LMI communities could help lessen the distrust in the banking system and enable individuals to make better saving and credit decisions, which could help build wealth.

Panelists also applauded the Fed's outreach work with various partners. Within the System, this function is framed as the Fed's "convening authority," but for the panelists, this is the Fed's ability to bring together different voices to discuss economic challenges. Fed conferences and research can inject economic issues into the public conversation. "The Fed talking about issues related to workforce and community development makes a big difference to our work," said a workforce development expert.

Panelists suggested that the Fed could do more. "The Fed needs to say, 'We want to understand what's going on in your community so we can better understand how to conduct policy or regulate banks better.' People will respond to that," said the affordable housing leader. One caution, however, was that the Fed has to be intentional about its outreach efforts. As the philanthropist from Delaware said, "People are not interested in having conversations that don't lead anywhere."

Federal Reserve Bank of New York

The Federal Reserve Bank of New York hosted a series of *Fed Listens* discussions in the spring of 2019. In March and April, John C. Williams, president and chief executive officer of the New York Fed, facilitated *Fed Listens* discussions with three of the New York Fed's external advisory groups, including members of the New York Fed's Advisory Council on Small Business and Agriculture on Monday, March 25; Upstate New York Regional Advisory Board on Tuesday, March 26; and Community Advisory Group on Tuesday, April 3. The *Fed Listens* discussions culminated in a capstone roundtable discussion event hosted at the New York Fed on May 20 from 1:00 to 3:00 p.m. The event featured a brief introduction by President Williams and opening remarks by Richard H. Clarida, Vice Chair of the Board of Governors of the Federal Reserve System, followed by a discussion session moderated by Jack Gutt, executive vice president of communications and outreach at the New York Fed. The attendees who participated in the discussion along with President Williams and Vice Chair Clarida included labor and nonprofit leaders, local government officials, congressional district staff, and regional academics from the Second District.[32]

The following is a summary of some of the key points raised during the New York Fed's *Fed Listens* discussions.

Big Picture

When attendees were asked about how important the Fed's two statutory goals are and whether they view one as more important than the other, answers were mixed. For example, some members of the small business community said that price stability, which reflects input costs for small businesses, is more important to them than keeping unemployment low. Participants from Puerto Rico also said that price stability was important given the island's reliance on imports. However, for several participants who represent workers, the Fed is too focused on price stability at the expense of other aspects of a healthy economy.

Job Market

Across all of the discussions, there was consensus that at a national level, the United States is running a "tight" job market. Some labor leaders and employers argued that the benefits of running a tight labor market for a sustained period outweigh the risks. However, many expressed ongoing concerns about low- and moderate-income households even in today's tight job market. While wages have risen and the wage gap has diminished, participants emphasized that the cost of living, especially housing and health-care costs, remains a challenge for a large part of the population. Some members of the Community Advisory Group agreed that pushing the economy too hard and keeping interest rates low pose some risk because they tend to propel higher housing prices. During the roundtable discussion, participants voiced particular concerns about the cost of living and low wages for a generation of recent graduates who are burdened with a significant amount of student debt.

[32] A webcast of the session, as well as the agenda and list of attendees, is available on the New York Fed's website at https://www.newyorkfed.org/aboutthefed/fed-listens.

When attendees were asked whether we have reached "full employment," there was no such consensus. Some said they believed that we are at (or near) full employment, while many others argued that we are not at full employment, as evidenced by continued wage disparities and income inequality, and said the Fed should continue to push to see how low the unemployment rate can go. Those who said that we are not at full employment argued that the unemployment rate itself does not capture the tightness in the labor market. Labor leaders said that at full employment, firms would be spending on training, wages would be rising across the board, and there would be lower turnover. Many emphasized that despite the low U.S. unemployment rate and rising labor participation rates, certain pockets of the economy are far from full employment. For instance, participants from Puerto Rico said that the territories are seeing "unbearable" unemployment and expect that those trends will spread to the mainland soon. Going forward, participants urged the Fed to focus on helping create quality jobs with living and equitable wages, not just minimum wages.

In order to maintain the tight labor market and improve productivity, many participants spoke to the need for skills training, especially as technology is expected to disrupt the future of work. Participants from upstate New York, small businesses, and labor leaders noted a sizable skills gap in labor supply versus demand, and that there is a need for job readiness programs, particularly for low-income individuals.

Inflation

Many participants said that it is important that price inflation be predictable and stable. Members of community groups said that stable inflation is particularly valuable for people in severe hardship. Some from upstate New York expressed a similar sentiment, explaining that inflation tends to be more concerning for low-income populations as opposed to higher-income populations, who tend to have the ability to absorb price changes. Participants from state and local governments said that stable inflation is critical for fiscal planning.

During the roundtable discussion, one participant argued that some inflation is good and echoed a sentiment from the advisory group discussions—that today inflation may be too low.

Younger participants noted that their generation is more concerned with another recession than with high inflation.

Transmission of Monetary Policy to the Broader Economy

Members of the advisory groups as well as many participants in the roundtable discussion expressed that they feel it is challenging to understand how a national monetary policy accurately reflects the multiple and diverse local economies that exist in the country. They worried that the effect of uniform monetary policy is very disproportionate. At all of the *Fed Listens* discussions, the need to address income inequality—both across households and geographically—was an important underlying concern.

In all of the discussions, participants emphasized the importance of the Fed communicating with the public about the state of the economy and its stance on policy. Members of the small business community said that the Fed messaging is comforting to the community and provides certainty for businesses, especially in light of today's political environment. Participants underlined the need for the Fed to remain independent and apolitical in order to maintain its credibility.

In order to enhance the effect of the Fed's role in the community, participants recommended that the Fed think about communicating in different ways to get their message across to different sectors and populations of the economy. Rather than using terms like "full employment and stable inflation," they said that the Fed should consider language that an average person would understand. During the roundtable discussion, some economists agreed with this recommendation, given that even from their perspective, the definition of "full employment" is unclear.

Federal Reserve System

One of the *Fed Listens* events was a research conference hosted by the Federal Reserve System and held at the Federal Reserve Bank of Chicago in June. The conference included two panel sessions with panelists representing workforce development, higher education, senior citizens, CDFIs, small businesses, and organized labor; these panel sessions focused on questions associated with monetary policy.[33]

Panel 1: What Does Full Employment Look Like for Your Community or Constituency?

This session assembled a panel that included leaders in labor, education, and workforce advocacy to discuss how current aggregate labor market conditions play out in the communities that they serve.[34] The panel began with brief introductions from each of the panelists, followed by a discussion led by moderator Governor Lael Brainard.

Panel Discussion

When we have a strong labor market (such as we enjoy today), what does that look like in your communities?

Dujakovich first described his members, who are drawn from a diverse set of industries, the bulk of whom are low- to middle-income workers. In part because manufacturing has been rocked by a

[33] Videos of panel sessions are available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/events/2019/fed-listens-conference-on-monetary-policy. In addition to the panel sessions, research economists from academia and think tanks presented papers on topics pertinent to the Federal Reserve's review of its monetary policy strategy, tools, and communication practices; summaries of the research presented at the conference are provided in Part 5 of this report.

[34] The panelists were Patrick Dujakovich, president of the Greater Kansas City AFL-CIO (American Federation of Labor and Congress of Industrial Organizations); Juan Salgado, chancellor of City Colleges of Chicago; and Andy van Kleunen, CEO of the National Skills Coalition. In addition to the panelists, Holly Wade, director of research for the National Federation of Independent Business, participated from the floor.

number of external factors over the years, employment stability and sustainability are critical to his members.

Salgado's students—largely African American and Latino—are benefiting from apprenticeship programs with local businesses that build pathways to entry-level jobs that might historically have gone to students with four-year degrees. He also noted that the national unemployment statistics are not reflective of his students, who, as a group, suffer considerably higher unemployment and lower labor force participation even in the midst of an otherwise vibrant city economy.

Van Kleunen reported that businesses in this environment are more aggressively reaching out to find workers. In addition, firms are building relationships with community colleges and job training institutes to prepare workers for a sustainable employment relationship. That progress is promising, but it is also slow to attain scale, he reported. He also observed that working on these margins is easier for larger firms to exploit; a corollary is that building more of these partnerships with smaller firms is an important goal to work toward.

Wade reported on developments in recruiting and training potential employees among her members. Her members are adjusting their recruitment strategies to current conditions, in part by lowering minimum qualifications for lower-skilled positions, but also by providing more in-house training programs.

For the most vulnerable households, those at the lower end of the skill spectrum, and those households of low and moderate income, how is this strong labor market changing prospects?

Dujakovich reported that for those among his members who are most vulnerable, it is generally difficult to get a foothold in the workforce, so the strong labor market has been a great benefit. Employers are waiving prerequisites such as minimum years of experience, looking the other way on criminal record blemishes, and dropping the drug test requirement in some cases. They are also exercising more flexibility on family-related and personal absences because they have to, given tight labor markets.

Salgado tallied the many stresses that lower-income workers face. Importantly, this often includes trying to pursue education—perhaps at a community college—while they are working. He reemphasized the number of new training programs his system is offering in partnership with private businesses that are finding it harder to find new employees in the tight labor market. He noted that this is a rare opportunity for these populations to get attached to the labor force. Without that opportunity, many of these workers might never get the chance to participate fully and sustainably in the labor market.

Van Kleunen also emphasized the array of stresses on these workers—notably, pursuing education while working, providing childcare, and accessing transportation. While the focus in such discussions is often on worker training, a broader set of supports is needed to provide workers with a path to sustainable employment. In the current strong labor market, employers have a strong interest in building public and private support systems that address these stress points and make it more likely that they can retain workers.

Can you be specific about what it takes to pull some of these populations into the labor force on a sustained basis? Do current labor market conditions change the likelihood that they will still be in the labor force even in a weak economy?

Dujakovich noted the importance of arrangements that provide workers with employment and income stability through the ups and downs of the economy. He recommended programs that allow workers to either move to part time or train for an advanced position when labor markets are not so strong. Workers who leave the workforce with little experience are extremely hard to get back.

Salgado noted that most of his students are low-wage workers, with only a small percentage covered by collective bargaining agreements. These potential workers especially value predictable schedules, as well as employers who support their efforts to increase their skills while on the job. He suggested that the best time to build skills is in the context of work or in work–school partnerships, when the new skills can be quickly put to use. He was concerned that, in the absence of a strong economy, employers might not address these challenges, so it is important to seize this opportunity.

Van Kleunen also discussed the benefit of more-flexible work arrangements that adjust hours rather than employment during downturns, perhaps augmented by government assistance to replace a portion of wages. He noted the general tendency to focus on current problems rather than the long-run future of the workplace, using the aging workforce as a key example. There has been little planning for how to prepare low-skilled workers to step in for the wave of retiring workers. Another example ripe for longer-term planning is changing technology (automation, artificial intelligence, and the like), which he estimates may affect 60 percent of jobs in some way.

We've discussed the fact that employers are looking at workers they might not have looked at before. How long does an expansion need to go, or how strong does the labor market have to be, before we can expect to bring these workers into the labor force? Is a strong labor market the only way to accomplish this, or are there other mechanisms to bring these workers to work?

Dujakovich noted that there is no question that the labor market has heated up, and that this is bringing more people in, bidding up wages to some extent because of competition for low-wage workers. He noted that counting on a pull from the top to raise the workers at the bottom is likely to be less effective than working directly on the bottom. In his experience, drawing such folks into the workforce often had multigenerational benefits. He also noted that today's workers are stretching their income across three or four generations—helping support their parents, their own children, and their grandchildren.

Salgado noted the ways in which job market stresses are felt across extended families in these communities—the loss of a job or a home affects many other nuclear and extended family members. At the moment, he suggested, some of the many stresses that he highlighted throughout this discussion have been reduced or eliminated, giving people a fighting chance to focus on skill building and career advancement, highlighting the importance of sustaining a strong labor market. He also noted the desire to use this opportunity to build partnerships and systems that are resilient through the business cycle, not just at times like these.

Van Kleunen suggested that solutions to address the challenges of coming changes in automation and technology might be best addressed by an entire sector or industry, rather than firm-by-firm. Such an approach would take advantage of economies of scale and could be complemented by public policies that foster such collaboration across firms.

What are workers able to ask for in wages and benefits? How has that changed as the market has strengthened?

Dujakovich reported that it has been very difficult to get wage increases until recently, when fierce competition for workers has begun to bid up wages. He suggested that the lag time between the earlier increase in demand and the more recent rise in wages was likely due to the need to meet increases in other costs to employers, such as health-care and pension liabilities for some industries. He noted that another cost that arises from a very tight labor market is the need to cover for vacationing or sick workers, often at time-and-a-half wages. He expects to see more wage increases.

Salgado suggested public policy needs to address the minimum wage as well as the need for predictable scheduling. He emphasized the difficulty facing low-income workers who need to raise a family and maintain performance at work even when work schedules can be quite unpredictable. Governor Brainard asked if graduates from Salgado's colleges who become employed are enjoying more rapid wage increases. Salgado replied that his students, who are predominantly low-wage workers, are taking advantage of pipelines into high-demand occupations (in health care, advanced manufacturing, information technology, and supply chain management), with the opportunity to move up, and are seeing wage progression. He noted that in the aggregate, as students fill positions vacated by retiring workers who were making much more, we may not see a net wage increase, and this may contribute to a lack of inflationary pressure.

Van Kleunen noted that from the policy perspective, previous efforts have focused on opportunities in middle-wage skilled jobs, often ignoring the needs of lower-skilled workers in lower-wage jobs, who then do not get the opportunity to enter the labor force.

Quits are often used as an indicator of how confident workers are in the availability of job opportunities. Are you seeing more of that kind of movement now? Or are workers still worried about their security in newly entered jobs?

Dujakovich suggested that, at the entry level, workers are mostly concerned with putting in enough time so that they are not the first to go in a downturn, which provides some disincentive to quit for other opportunities.

Salgado had seen many more career changers, seeking positions in skilled occupations and generally looking for a better overall fit to their career aspirations.

Van Kleunen wondered if there were policy adjustments that would make it easier for workers to pursue on-the-job training. He suggested that the rules for Pell grants might be changed to make them available to fund shorter-term certifications pursued while employed. Using these grants in that way would also help workers avoid going further into debt.

The Fed has a clearly defined mandate. How would you counsel the Fed to balance its responsibilities for price stability and maximum sustainable employment?

Panelists were consistent in suggesting that maximum employment should be the first priority. Most important to these populations is a steady paycheck and a good job. Salgado wondered where the concern about inflation comes from. Wages are growing, but not at a concerning rate and not as much as they can or should grow. Van Kleunen added that we need to be careful to measure maximum sustainable employment in a way that captures all of those available for work, both in and out of the labor market.

Do the panelists have any words of advice on how we communicate and how we can better connect what we do to the communities you interact with?

Panelists felt that the Fed is doing a good job on the whole. Some panelists suggested it was partly their responsibility to disseminate some of the good information that the Fed and others already provide. Salgado suggested that we are probably not reaching all of the layers of leadership in his city who might want to be better tuned into the topics of this conference. He felt it was always better if the decisions made by the Fed are well understood by civil leadership. Van Kleunen had worked extensively with the regional Feds, which he commended as valuable partners, both as conveners and as research providers. He suggested that this week's convening constitutes interaction with the Fed at a different level. Still, he wondered how the Fed can be an even stronger voice at the national level on the issues under discussion today. Dujakovich noted that a respected and dispassionate voice is particularly important today, when he felt there is so much noise and animosity in public discourse.

Panel 2: Transmission of Monetary Policy to the Economy: Beyond the Headlines

This session assembled a panel on the transmission of monetary policy to the broader economy.[35] The panel was intended to provide non-economists' perspectives on how monetary policy affects different segments of the U.S. population. The panel began with brief introductions from each of the panelists, followed by a discussion led by moderator President Eric Rosengren.

Panel Discussion

How do people feel about the transmission of monetary policy? When the FOMC is raising short-term interest rates, how does that affect your constituencies?

From the perspective of CDFIs—organizations that rely on donations and investments from other entities to fund their lending to financially underserved or low-income constituencies—Barrera and Jones emphasized that the level of interest rates matters a great deal. Banks pursuing their community development goals are an important source of CDFIs' funding, and the cost of that funding is a key consideration for CDFIs. In particular, when market interest rates rise, CDFIs have to either pass on their higher cost of capital to their constituent borrowers or rely more on donations to help defray that cost. At times, higher interest rates result in higher revenues for CDFIs' donors, which in turn can lead to increased donations, but that benefit needs to be weighed against the possibility that some projects will not get off the ground if their financing costs cannot be kept low enough for CDFIs' constituencies.

The discussion also addressed some of the potential benefits and costs of higher interest rates to current and future retirees. John remarked that the low interest rate environment of the past several years has had a decidedly negative effect on earnings on retirement savings. In particular, for a given retirement goal, lower returns on fixed-income investments have required individuals

[35] The panelists were Janie Barrera, president and CEO of LiftFund; David John, senior policy advisor at AARP Public Policy Institute; Maurice Jones, president and CEO of Local Initiatives Support Corporation; and Holly Wade, director of research and policy analysis at the National Federation of Independent Business.

to save a greater share of their income than in previous decades, although, to some extent, the negative implications of this development have been offset by historically low borrowing costs. The discussion also highlighted that individuals are now generally going into retirement with more debt than in the past, potentially leaving them vulnerable to future interest rate increases.

Addressing the question through the small business lens, Wade remarked that, although the cost of funding is now a little higher than in the recent past, what matters most for small business owners is the return on investment for the projects they are interested in. While access to credit is generally a lifeline for small firms, she noted that—with the economy currently strong—small businesses' main source of funding has been earnings and profits, with small changes in the general level of interest rates being much less of a concern.

An important part of monetary policy is not only the actions the Fed takes, but also how the Fed communicates its actions. How do people understand what the Fed does? How can the Fed do better?

The discussion started with a focus on small businesses. Wade said small business owners rely on radio and television as their main sources of financial and economic news and, as a result, as their main filters for understanding Fed announcements and actions. Other media were also mentioned; Twitter, in particular, is becoming an increasingly important form of communication. Nonetheless, it was noted that, in general, understanding Fed actions can become very confusing very quickly, given that there is so much uncertainty out there about what the Fed did and why. Wade noted that the National Federation of Independent Business communicates with its membership about interest rates and Fed policy.

With regard to specific Fed communication practices, John suggested that the Fed's postmeeting policy statement could be improved by clearly reporting in its opening sentences what policy action was taken at that meeting. Instead, the Fed's current practice forces readers to search for the policy action somewhere in the middle of the statement. Still, the discussion acknowledged that most people do not read the statement and will, at best, read about it in the press. As a result, it is important to educate the press on the Fed and the rationale for its monetary policy actions. Barrera and Jones emphasized the need to tailor the policy message to different audiences, noting that what works for an academic or professional audience will not necessarily reach the general public. They also highlighted the importance of community events for explaining what the Fed does and why that matters.

In their communications with their own constituencies, all of the panelists mentioned their reliance on a variety of media, ranging from email, Twitter, YouTube, and webinars to radio, television, print media, and in-person events.

How do people think about the availability of credit? Which one affects your membership more, cost or availability of credit?

Barrera remarked that, for most financially underserved or low-income communities, bank credit is not an option; it is simply not available in many cases. Those communities either live in a cash-only economy or rely on higher-cost financing alternatives. As a result, for these communities, the main issue is access to credit at a rate that is not prohibitive. Jones noted that both price and access are important: The cost of credit is the key consideration for the financing associated with real estate or housing projects, whereas access is the most important consideration for individuals with negative or zero net worth.

With regard to individuals who are in or nearing retirement, John emphasized that, in the current environment of low interest rates, access to credit has been a more important factor than the price of credit. He noted, for instance, that older individuals are increasingly taking out mortgages that they will carry well into retirement.

Referring to small businesses, Wade noted that being able to access credit when needed is crucial. While the cost of credit certainly is a factor, changes in that cost can typically be absorbed by businesses provided that they expect reasonable returns on the projects that they are undertaking.

How does your membership think about the tradeoffs between the Federal Reserve's two goals of low inflation and maximum employment?

Wade highlighted that having a predictable foundation for inflation is critical for most small business owners. With employment conditions reflecting so many factors that are not directly affected by the Fed, it becomes especially important for the Fed to keep uncertainty on the inflation front to a minimum. That said, she noted little indication that inflation is currently a major concern for small businesses. For instance, while surveys of small businesses show some upward pressure on compensation, businesses have been able to absorb much of that pressure.

Those in the CDFI community offered a different perspective on the relative importance of the Fed's two goals. Jones pointed to employment as the best tool for fighting poverty, emphasizing that the prolonged period of low unemployment that we are experiencing has given low-income people a better chance of becoming employed and, as a result, of improving their longer-term economic prospects. He noted that businesses are now digging deeper into the potential hiring pool—bringing in people they would not hire otherwise—and added that many in the CDFI community are skeptical of the fear of high inflation down the road as a direct result of today's low unemployment numbers.

John indicated that older Americans might also be more attuned to the Fed's maximum-employment objective than to its inflation goal. Employment was said to have become a more important issue for the current generation of older Americans because they are now retiring later than previous generations. At the same time, older Americans were characterized as being unlikely to see a small overshoot of the Fed's inflation target as a serious problem, although those living on fixed incomes would be adversely affected if inflation were to rise substantially.

Referring to the population as a whole, Barrera noted that most people might not know what inflation is or how high it is, but they certainly do notice when the prices of the goods and services that they buy start rising.

How do you think about longer-term interest rates versus short-term interest rates?

Barrera and John commented that long-term rates matter more than short-term interest rates because the former determine the return on investments. Jones noted that shorter-term rates are also important because the Local Initiatives Support Corporation borrows short term. Wade discussed surveys suggesting that small businesses attach similar importance to short- and long-term rates.

Discussion

President Neel Kashkari (Federal Reserve Bank of Minneapolis) asked whether John's constituents at AARP see the economy as being at maximum employment. John responded that there are still a significant number of older Americans who would like to have a job, and thus, at least from that perspective, the U.S. economy had not yet reached maximum employment.

Jared Bernstein (Center on Budget and Policy Priorities) asked about people who remain out of work even in a very tight labor market and whether there could be a role for government as employer of last resort. Jones remarked that, even in the current environment, there could be a role for the government to play in offering employment opportunities for those with the poorest employment prospects, but only if those opportunities were focused on providing skills that would allow individuals to move on to sustainable employment in the broader economy.

Randy Kroszner (University of Chicago) followed up about not only what the broader public understands about inflation and what inflation measures, but also whether economists could use clearer vocabulary to communicate in layman's terms. The panelists offered various suggestions regarding the challenges associated with communicating economic concepts to the general public. The suggestions ranged from creating blogs aimed at explaining basic principles to reiterating the importance of getting to know one's audience.

Federal Reserve Bank of Cleveland

The Cleveland Fed took several approaches over the first half of 2019 to solicit a wide range of perspectives from diverse stakeholders to help inform the Fed's review of the strategy, tools, and communication practices used to pursue its monetary policy goals.[36]

The very low unemployment rate and the stable inflation reported by government agencies may mask serious deficits in LMI communities, community development practitioners and researchers told Fed policymakers at the Federal Reserve Bank of Cleveland's *Fed Listens* session on June 21 in Cincinnati. Low pay and mismatches between job openings and workforce skills are among the shortcomings preventing LMI communities from sharing more fully in a steadily expanding economy, *Fed Listens* participants told Cleveland Fed President and Chief Executive Officer Loretta J. Mester and Federal Reserve Governor Lael Brainard.

The Cleveland Fed's event was one in a series of listening sessions being held by Reserve Banks to help inform the Federal Reserve's review of the strategy, tools, and communication practices used to pursue the monetary policy goals established by the Congress: maximum employment and price stability. The *Fed Listens* session capped the Cleveland Fed's "Policy Summit 2019: Connecting People and Places to Opportunity," hosted in partnership with the Federal Reserve banks of Philadelphia, St. Louis, Minneapolis, and Chicago.

In introductory remarks, President Mester noted that the Federal Reserve has a keen interest in understanding the effect its research and policy have on its various constituents, including those in LMI areas. Governor Brainard added that the Fed was undertaking the *Fed Listens* initiative "to hear how Americans are experiencing the economy day to day and to make sure we are carrying out the monetary policy goals assigned to us by the Congress in the most effective way we can."[37] About 200 Policy Summit participants were then asked to think about and discuss two questions during lunch:

1. According to the national statistics, the labor market has improved significantly compared to five years ago. Today, what does the employment picture look like in low- and moderate-income communities that you know and/or serve?
2. Over the last five years, official measures of inflation have typically been running below the Fed's 2 percent objective. How has inflation been affecting the low- and moderate-income communities you know and/or serve?

[36] A full summary of the Cleveland Fed's *Fed Listens* program is available on its website at https://www.clevelandfed.org/~/media/content/events/2019/ps/cleveland%20fed%20listens%20program%20summary.pdf?la=en.

[37] See Lael Brainard (2019), "*Fed Listens* in Cincinnati: How Does Monetary Policy Affect Your Community?" speech delivered at "Policy Summit 2019: Connecting People and Places to Opportunity," a conference sponsored by the Federal Reserve Bank of Cleveland, held in Cincinnati, June 21, quoted text in paragraph 2, https://www.federalreserve.gov/newsevents/speech/brainard20190621a.htm.

Participants shared views on these questions at their tables and then with President Mester and Governor Brainard. A summary:

Question 1: Employment in LMI Communities

A recurring observation among attendees involved employment mismatches between the needs of businesses and the skills of available workers, as well as a shortage of paths out of low-paying positions. Discussants noted an abundance of low-skill, low-wage jobs and a dearth of midlevel or mid-skill jobs. Attendees from Ohio and Kentucky observed that the recent surge in low-wage-job creation followed the exodus of manufacturing jobs paying livable wages. *Under*employment—not necessarily *un*employment—is a pressing concern in LMI communities. Either high-skill workers are provided opportunities in positions far below their capabilities or low-skill workers are not receiving adequate training for higher-skilled open positions, participants said. If people are able to climb a rung or two up the income ladder, they must contend with cliff effects involving the loss of access to government-subsidized programs following increases in household income. Some attendees said workers often face an unappealing tradeoff between a relatively low-paying job versus benefits such as SNAP, affordable housing subsidies, and health-care coverage.

Participants at one table said wage growth is a better indicator of the nation's economic health than inflation. Several groups mentioned that wage stagnation is deepening wealth and income gaps, and one speaker summarized a table's thoughts on the availability of entry-level positions this way: "People don't want them." Lack of transportation linking people to their jobs was a recurring theme, particularly for people in rural areas. Commenting on persistent transportation shortcomings, one attendee suggested that community development leaders should target job creation in LMI regions with difficulties accessing high-opportunity areas.

To address mismatches, participants suggested improving both education and transportation. Regarding education, attendees said both schools and employers must improve how they prepare the labor force. One participant noted an abundance of technical programs at community colleges near Dayton, Ohio, that are routinely underutilized, and another said employers are increasingly importing workers from other locales for their businesses rather than investing in local workers. Other employment challenges frequently mentioned included the opioid crisis and reintegrating formerly incarcerated workers into the labor force.

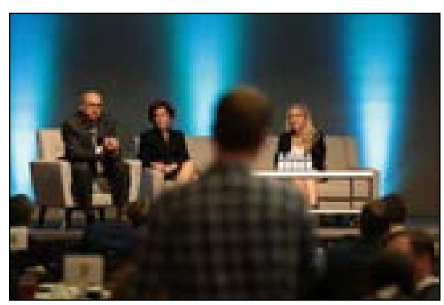
Question 2: Inflation

Inflation was not a primary point of concern in many discussion groups. During the open-discussion session with President Mester and Governor Brainard, one participant underscored that residents in LMI communities are generally unaware of inflation because current prices are too high relative to the wages employers pay. Similar notes from table moderators suggest this was a common point of view.

While many LMI communities report not feeling the relative effects of inflation, participants did say the rising cost of necessities does burden households. Many tables cited childcare and health-care costs as two major financial pressure points for LMI individuals. Participants noted the direct effect of health-care costs on LMI families. Others noted an indirect effect: Rising health-care costs for businesses put downward pressure on wages. One commenter also suggested reconsidering how inflation is calculated for LMI individuals, particularly given the fact that expenditures such as housing, utilities, and groceries account for a large percentage of income for low-wage workers. Participants expressed skepticism about the robustness of economic health based on topline numbers. "Economic health isn't what the numbers show," one participant wrote. There is "no resiliency among LMI communities." "Many people are struggling, so how are we near 'full employment'?" another wrote.

The Federal Open Market Committee (FOMC) will be discussing economic research and the perspectives offered during the *Fed Listens* events as part of its policy review. Policymakers plan to report their findings to the public during the first half of 2020. Governor Brainard summarized some of the main themes she heard from the discussion, including the lack of connection felt by communities cut off by physical barriers, such as those in rural areas, or those seeing a high incidence of opioid addiction, along with structural barriers tied to racism or formerly incarcerated people. Governor Brainard concluded that participants' "insights today were extraordinarily valuable to us. What's clear to me is that this expansion and continuing it are extremely important to create opportunities, but it's not enough."

In her closing remarks, President Mester noted that many of the solutions to the economic stresses of LMI communities and people lie outside the realm of monetary policy, but she pledged to bring their concerns to the appropriate policymakers. "What we can do by collecting your comments and summarizing them is make sure that they get into the hands of the people that can actually make those policies," President Mester said. "My promise to you is that we will make sure that people hear what you're saying.



Summary of the Federal Reserve Bank of Cleveland's *Fed Listens* Program

The Federal Reserve Bank of Cleveland took several approaches to solicit a wide range of perspectives from diverse stakeholders across the Fourth District to help inform the Federal Reserve's review of the strategy, tools, and communication practices used to pursue the monetary policy goals established by the Congress: maximum employment and price stability.[38]

Between March and May 2019, the Cleveland Fed queried its Community Advisory Council (CAC), its eight Business Advisory Councils, its Branch boards of directors in Cincinnati and Pittsburgh, and more than 600 direct service providers through its Community Issues Survey.[39] Questions were customized to each audience and focused on how the Fed's monetary policy affects respondents' businesses and communities, including the perceived advantages, if any, of running a "hot" labor market, the importance of stable price inflation, and the effects on LMI communities and individuals. Capping off the effort, a *Fed Listens* session with Federal Reserve Governor Lael Brainard and Federal Reserve Bank of Cleveland President and Chief Executive Officer Loretta J. Mester was held on June 21 to conclude the Cleveland Fed's "Policy Summit 2019: Connecting People and Places to Opportunity" in Cincinnati, Ohio.[40]

Community Advisory Council

The Cleveland Fed's CAC comprises experts and leaders in the Fourth District and convenes them to discuss issues of concern to underserved and lower-income individuals and communities. Its purpose is to inform and advise the Cleveland Fed about current and emerging economic and social issues and trends affecting these individuals and communities. At the CAC's March 2019 meeting, members were asked to comment on monetary policy's effect on LMI communities using the following prompt and question:

> *Monetary policy refers to the actions the Fed takes to achieve both stable prices and maximum employment. With this in mind, please consider the following question:*
>
> *How does the Federal Reserve's monetary policy broadly affect the communities you represent with respect, for example, to housing, access to credit, retirees/savers, small businesses, or community banks?*

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[38] The Fourth District comprises Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. More information on the Federal Reserve's review is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm.

[39] Additional details about the Community Advisory Council, the Business Advisory Councils, and the boards of directors of the Cincinnati and Pittsburgh Branches can be found on the Cleveland Fed's website at https://www.clevelandfed.org/en/about-us/advisory-councils/community-advisory-council.aspx, https://www.clevelandfed.org/en/about-us/advisory-councils/business-advisory-councils.aspx, https://www.clevelandfed.org/en/about-us/our-directors/cincinnati-directors.aspx, and https://www.clevelandfed.org/en/about-us/our-directors/pittsburgh-directors.aspx, respectively.

[40] More information on *Fed Listens* events is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-fed-listens-events.htm.

Key Takeaways

Several themes about the economic and financial challenges of LMI communities emerged in the discussion that followed. Some of the themes were not easily connected to monetary policy:

- Access to personal credit, savings, and retirement: Monetary policy affects the cost of accessing credit, particularly for families that lack good credit and are otherwise stressed financially. Access to credit for businesses, including small businesses, was mentioned as potentially being affected as well.
- Job access and wages: To the extent that monetary policy can further boost employment, LMI communities would likely benefit, though employment barriers can be more local and include public transportation and lack of job training.
- Multifamily investment and housing policy: A council member noted that monetary policy may affect multifamily affordable housing construction because of lending costs. Multifamily LIHTC (low-income housing tax credit) projects may need more soft money—money that does not go into the physical construction, but instead goes toward such items as fees in order to fill financing gaps.
- Public funding and other investments: Monetary policy decisions may have implications for nonprofit bond issuance and yields. Smaller municipalities are having problems with access to credit.

Business Advisory Councils and Boards of Directors

Surveys were administered to the Cleveland, Cincinnati, Columbus, Dayton, Lexington, Pittsburgh, Erie, and Wheeling Business Advisory Councils and to the Cleveland Fed's Cincinnati and Pittsburgh Branches' boards of directors. Members were asked several questions related to monetary policy.

Key Takeaways and Select Responses

1. The Fed's two goals of maximum employment and price stability were seen as either very important or extremely important in a large majority of the responses.
2. Price stability and maximum employment both contribute to confidence in the current economy. Confidence in the economy translates into growth. Most respondents believed the Federal Reserve was either somewhat successful or very successful over the past decade at achieving both of its goals.
3. The survey asked about the advantages and disadvantages of running a "hot," or tight, labor market. According to respondents:
   - Advantages: Increased minimum wage, employers' placing more value on employees, increased urgency to invest in workforce development, and reduced transfer payments.
   - Disadvantages: Higher employee turnover, employees who feel they should be paid more, employees sacrificing long-term career goals for short-term gains, and employee burnout.

4. A majority of respondents believed that workers were either somewhat or very able to ask for and secure higher wages.
5. In order to contain turnover and retain qualified employees, some respondents said they have granted higher merit wage increases to employees for the past few years (relative to the cost of living and to historic levels) and often are willing to increase the wage level of employees to retain them.
6. Most respondents said they believe it is very important for price inflation to be predictable and stable. They said that this helps predict a firm's profitability, anticipate clients' future buying power, and create a more equitable economy, and it allows households to better predict future spending, including for retirement and home purchases.
7. Most respondents said their firms have not been affected by inflation over the past decade.

Community Issues Survey

The survey is sent biannually to organizations in the Fourth District that directly serve either LMI individuals or communities (for example, workforce boards, food pantries, small business centers, workforce training providers, and housing or health and human services agencies). In March, the survey was sent to more than 600 contacts, with 180 direct service providers responding (29 percent response rate). This iteration included the following question:

> *For our final question, we're going to switch gears to monetary policy. The Federal Reserve has a dual mandate from Congress with the goals of maximum employment and stable prices. The Fed conducts monetary policy to achieve these goals primarily through its interest rate policy—setting a target for the federal funds rate. The federal funds rate influences the interest rates that consumers and businesses pay for loans.*
>
> *With that in mind, please consider this question: How well do you feel the Federal Reserve's interest rate actions take into account issues facing the low- and moderate-income people you serve?*

Key Takeaways

1. A majority of respondents either did not think the Federal Reserve considered LMI people in their decisions (27 percent) or said they did not know (27 percent).
2. Respondents who felt the Fed did not consider LMI people when making monetary policy cited reasons such as a greater focus on the middle class, a feeling that low-income people are generally disregarded because the extent of their borrowing is limited, or a feeling that they are unaffected by interest rate changes.
3. There were some who felt the Fed does consider low-income individuals: "There seems to be a real understanding of low-income economic struggles as well as a continual and proactive attempt to keep a finger on the pulse of the community," said one provider.

The Fed Listens: A Discussion with Federal Reserve Leadership

On June 21, the final session of Policy Summit 2019 featured Federal Reserve Governor Lael Brainard and Cleveland Fed President and Chief Executive Officer Loretta J. Mester in a *Fed Listens* event on the intersections between community development and the economy. Conference attendees, who included social service practitioners, policymakers, and researchers, discussed with each other two questions related to the Fed's monetary policy and then shared their thoughts with the Fed policymakers.

In introductory remarks, President Mester noted that the Federal Reserve has a keen interest in understanding the effect its research and policy have on its various constituents, including those in LMI areas. Governor Brainard added that the Fed was undertaking the *Fed Listens* initiative "to hear how Americans are experiencing the economy day to day and to make sure we are carrying out the monetary policy goals assigned to us by the Congress in the most effective way we can."[41]

About 200 Policy Summit participants were then asked to think about and discuss two questions at their tables:

1. According to the national statistics, the labor market has improved significantly compared to five years ago. Today, what does the employment picture look like in low- and moderate-income (LMI) communities that you know and/or serve?
2. Over the last five years, official measures of inflation have typically been running below the Fed's 2 percent objective. How has inflation been affecting the low- and moderate-income communities you know and/or serve?

Participants shared views on these questions at their tables and then with President Mester and Governor Brainard. The following summary includes excerpts from those comments and notes taken by designated moderators during the discussion period.

Question 1: Employment in LMI Communities

Many attendees identified as a major issue mismatches between the needs of businesses and the skills of available workers. One participant noted that finding talent takes too long for businesses, though others said many jobs created by businesses are unattractive to prospective employees. Some participants noted a lack of midlevel or mid-skill jobs. One moderator summarized a table's thoughts on the availability of entry-level positions: "People don't want them."

Similarly, participants noted that jobs created in LMI communities are often low-paying positions, noting that underemployment is more pressing than unemployment (see "Other Observations" later in this summary). Attendees from Ohio and Kentucky observed that the recent surge in low-wage job creation followed the exodus of manufacturing jobs paying livable wages. Attendees at one table said that wage growth is a better indicator of the economy's health than inflation. Several tables mentioned that wage stagnation is deepening wealth and income gaps.

Many tables said that public transportation fails to adequately link LMI communities to jobs, emphasizing this problem is particularly acute in rural areas. Commenting on persistent

[41] See Brainard, "*Fed Listens* in Cincinnati," in note 37.

transportation shortcomings, one attendee suggested that community development leaders should target job creation in LMI regions with limited access to high-opportunity areas. Attendees felt that even if workers can physically get to jobs, workers often do not possess the appropriate skillsets for available positions. Participants either said high-skill workers were provided opportunities in positions far below their capabilities or that low-skill workers were not receiving adequate training for open positions.

Attendees generally offered two solutions to mismatches in the labor market: Improve education and improve transportation. Regarding education, attendees said both schools and employers must improve how they prepare the labor force. One participant noted an abundance of technical programs at community colleges near Dayton, Ohio, that are routinely underused, and another said employers are increasingly recruiting workers from other locales rather than investing in local workers.

Other frequently mentioned issues included the ongoing effects of the opioid crisis and the reintegration of formerly incarcerated workers into the labor force.

Question 2: Inflation

Across many discussion groups, inflation was not a primary point of concern. One participant said that residents in LMI communities are generally unaware of inflation because prices are too high relative to the wages employers pay. Similar notes from table moderators suggest this was a common thought among discussants.

While LMI communities generally may not feel the relative effects of inflation, participants said, the rising cost of necessities does burden households. Many tables cited childcare and health-care costs as two major points of frustration for LMI residents. One attendee told her tablemates that childcare "was a big problem at the YMCA [where she worked]: Paying [childcare workers] $10 an hour and expecting them to show up every day is unrealistic." And while many participants focused on the effect of health-care expenses on residents, others mentioned that rising health-care costs for businesses put downward pressure on wages. Beyond childcare and health-care costs, concerns also circulated over increases in utility bills for LMI residents.

Other Observations from *Fed Listens*: Frustration over Economic Indicators, Cliff Effects

Attendees voiced frustration that the official economic statistics fail to capture many peoples' struggles. The following are notes from the discussions at different tables during the event:

- "Economic health isn't what the numbers show. No *resiliency* among LMI communities."
- "Many people are struggling, so how are we near 'full employment'?"
- LMI workers are "trapped in service industry jobs."
- "[The] federal poverty level is a joke."

Attendees often highlighted underemployment—rather than unemployment—as a pressing concern in LMI communities. One participant suggested reconsidering how inflation is calculated for LMI residents, particularly given the fact that expenditures such as housing, utilities, and groceries account for a large percentage of low-wage workers' income.

Cliff effects—the loss of access to government-subsidized programs following increases in income—was another frequently cited challenge. Some attendees said workers often face an unappealing tradeoff between a relatively low-paying job versus benefits such as SNAP, affordable housing subsidies, and health-care coverage.

In closing remarks, President Mester noted that many of the solutions to the economic stresses of LMI communities and people lie outside the realm of monetary policy, but she pledged to bring participants' concerns to the appropriate policymakers. "What we can do by collecting your comments and summarizing them is make sure that they get into the hands of the people that can actually make those policies. . . . That's my promise to you—that we will make sure that people hear what you're saying." Governor Brainard summarized some of the main themes she heard from the discussion, including the lack of connection felt by some communities, such as those in rural areas or those seeing high incidences of opioid addiction or structural barriers tied to racism or people formerly incarcerated people. Governor Brainard concluded that "your insights today were extraordinarily valuable to us. What's clear to me is that this expansion and continuing it are extremely important to create opportunities, but it's not enough."

A selection of comments shared with Governor Brainard and President Mester during the listening portion of the session:

1. Statistics do not always measure the real things that are happening in LMI communities. There is a supply-and-demand problem. There are fields in which employers cannot find people to do the work, but there are also people working three jobs because what they really need is a living wage and a job with benefits. The unemployment rate does not count the people who have dropped out of the labor force either because of health problems or addiction problems or because they have already used their unemployment benefits. For some of the lower-wage jobs in health fields, for example, there are not enough training slots for the people available. Some participants felt that when one invests in a community rather than in individuals, the benefits do not always get to the people. If one focuses on investing in businesses, for example, doing so may not create jobs for people in that community.

2. Benefits of a tight labor market do not trickle down to people of color and people of lower or low income. People do not have time for training programs that would allow them to move up the income ladder. There has been a systemic policy of racial bias throughout our nation for almost its entire existence, and policies that created racial bias have not yet been addressed.

3. Our particular community, in an under-resourced neighborhood, has an unemployment rate of 12.3 percent. Over 60 percent of the people there are paying more than 50 percent of their incomes for housing. We also recognize, from a business perspective, that the cost of health care drives employability. Food is very expensive, and so are utilities, making it really hard for low-income people to survive. We hear employers say all the time that they cannot get enough trained workers, but they also do not want to pay a wage that does not have the cliff effect. We have seen some improvement over the past five years, but not at the rate the rest of the state (Massachusetts) has. We do not have large employers; we do not have anchor institutions.

4. Individuals with criminal histories are a problem because they may have the skills and the education, but they are not considered employable. Expunging records would help, especially for those with some sort of low-level drug crime. Communities of color are much harder hit with that than other communities. There is a gap between people who need jobs and are ready to take jobs and those who have the skills and the education to qualify for those jobs.

5. Some chambers of commerce in Ohio have talked about experimenting with reentry programs. They have been pleasantly surprised about the results, including being able to retain more employees. They are also realizing that they need to be more attentive about providing support, not only for reentrants, but also for other LMI individuals, particularly in terms of transportation and childcare.

6. Aggregate information and data in terms of maximum employment can be misleading for people of color in terms of variation on place and who is employed and who is not—on how those things tend not to change over time. Neighborhoods in Allegheny County, Pennsylvania, saw little change in the past three decades: Communities that were well off stayed well off; communities that were disadvantaged became a bit more disadvantaged. So just because there are places with high economic growth, such as in Pittsburgh, that does not mean that everyone is benefiting.

7. Our LMI communities have not experienced tremendous benefit from economic growth over the past 5 to 10 years, and that might be for a variety of reasons, whether they are physically isolated from where the growth is occurring or dealing with populations that have structural disadvantages such as criminal records or addiction problems or people who cannot find affordable childcare. A lot of folks are finding that it is hard to pay for their housing, so they are moving out into the suburbs, and they are facing increased transportation costs, and they are not finding jobs that pay wages that would allow them to make up that difference. We are also seeing people who at one point in time did have decent paying jobs, but because of advances in technology, those jobs no longer pay premium wages, and they are getting lower-wage jobs, and some of them are just deciding to exit the labor force.

8. Some LMI communities cannot participate in technology-enabled remote work because of a lack of access to high-speed internet. If companies are moving away from having employees in the building, what does that mean for other jobs such as cleaning, and how does that move affect other employment?

9. There is a very promising program in Cincinnati that has taken the lead to design the kinds of processes that are needed to keep previously incarcerated people employed and to provide a variety of wraparound services to their employees. They found that this is the best business model because it produces very, very loyal employees, and they have expanded that model now to about 50 other companies. They are providing transportation to remote jobs out of the county. They are looking at the possibilities of onsite childcare. They are providing housing for their employees in nearby locations. So they are really going the extra mile and demonstrating that this is a good business practice for companies.

10. Low- to moderate-income families are having trouble providing for their families. So inflation is not as important. If something is so expensive in the first place, it does not matter how much more expensive it is later.

11. Below the numbers that show the aggregate economy doing well, the lower tier of workers has no resilience at all. Zero. In fact, they are in deficit-resilience category. It seems to many of us that the economy is much more fragile than the overall numbers show.
12. Even if employers build housing near the jobs that are being created, do our citizens have the education that can get those jobs?
13. Overlooked is the population of people who do not have high school diplomas. They have the least opportunity to participate in this system, and it is important for policymakers around the state and in this country to figure out a way that we can engage and, more importantly, incentivize people who did quit high school to get back into the game. We understand that a lot of careers do not require a bachelor's degree, but they all require a high school diploma or its equivalent.

Federal Reserve Bank of Atlanta

The Federal Reserve's nationwide *Fed Listens* tour came to Augusta, Georgia, on July 16. Michelle Bowman, member of the Federal Reserve Board of Governors, and Raphael Bostic, president of the Federal Reserve Bank of Atlanta, heard local business and community leaders explain how monetary policy and macroeconomic conditions affect their daily lives and work.

The *Fed Listens* events series is part of a comprehensive public review of the strategy, tools, and communication practices the Federal Reserve uses to achieve its dual mandate of maximum employment and price stability. Fed officials are aiming to reach some conclusions about possible changes in the overall monetary policy framework by early 2020. They will communicate what they have learned next year, President Bostic said.

The Fed Listens to Augusta

In Augusta, a three-person panel discussed what full employment looks like in the community. A second three-member panel explored the grassroots effects of monetary policy.

The following is a summary of the discussions, with questions Governor Bowman and President Bostic asked the panelists and questions the audience asked the panelists along with President Bostic and Governor Bowman.[42]

Panel 1: Full Employment in Your Community

The panelists were as follows:

- Randy Hatcher, president, MAU Workforce Solutions, an Augusta-based staffing and recruiting firm
- Gia Hunter, director of human resources, Textron Specialized Vehicles, an Augusta-based manufacturer of golf carts, snowmobiles, and industrial vehicles
- Angela Pringle, superintendent, Richmond County School District

How is the economy working for your organization?

Hatcher said the Augusta-area labor market is the tightest he has ever seen, with job openings far outnumbering qualified available workers. "This is creating some interesting phenomena," Hatcher said.

For one, employers are facing pressure to raise compensation. Much of that pressure has materialized only in the past 18 months, he noted, and so it is not yet reflected in official wage growth data. In general, deep-pocketed larger firms have benefited, in some cases by luring workers from smaller employers that cannot match the salary offers, Hatcher said.

[42] A video of the discussions is available on the Federal Reserve Bank of Atlanta's website at https://www.frbatlanta.org/about/atlantafed/outreach/events/2019/07/16/fed-listens-augusta?panel=1.

Yet even some larger companies are having trouble increasing salaries quickly enough to attract skilled people with numerous job options. "Employees can move just about wherever they want to move at any time they want to move," Hatcher said.

Hunter said Textron has increased wages and enhanced benefits in response to the tight labor market. For example, the company has instituted flexible work schedules, Hunter said.

The economic recovery has rejuvenated the Richmond County School District, according to Pringle. After a cumulative $188 million in budget cuts over 10 years, the school system last year finally returned to what officials consider full funding, she said. Its budget totaled $247.5 million in the fiscal year from July 1, 2018, to June 30, 2019.

During the year, rising local tax collections helped the district supplement teacher pay raises funded by the State of Georgia, Pringle said.

Describe the evolution from the Great Recession to now.

During the Great Recession, Hunter said, Textron did virtually no hiring and conducted numerous layoffs. Now "I can't hire fast enough," she stated.

Richmond County schools struggled through the recession. For example, the system required teachers to take unpaid days off. Morale has improved after long-awaited pay increases, Pringle said.

Hatcher of MAU Workforce Solutions identified two stark contrasts between the recession and today's economy. First, there is a marked difference in mass layoffs. During the downturn, 95 percent of the firm's client companies, most of which are manufacturers, let workers go. He said MAU laid off half of its contract workforce and half of its full-time staff.

Second, he said that compared with 2009, most MAU clients now maintain a higher share of contract workers relative to full-time staff. "I think everyone's a little more cautious now," he said.

How are you recruiting and retaining employees? Are you competing with other employers?

Hunter said Textron is forming partnerships to help the firm find qualified workers. The company works with state training agencies along with the Richmond County School District on a novel program to help students who are at risk of dropping out learn manufacturing skills. Textron prefers to promote employees from within, in part because it costs more to hire externally. Hunter explained that hiring from outside often entails wooing someone from a place they like.

Pringle said the Richmond County School District is expanding its traditional recruiting territory beyond the Southeast, offering more flexible work arrangements such as four-day weeks, and working with local officials to help teachers acquire housing.

The system is using more agencies to train and recruit employees at all levels of the organization, she added. It has become difficult to find teachers, in part because many left the profession during the Great Recession and have hesitated to return.

Hatcher said MAU's clients are devising "all types of creative ways to retain people." They are reconfiguring shifts, as few job candidates today want to work Friday or Saturday nights, for instance. MAU allows one segment of its staff to work from home. That flexibility has allowed the company to attract people "who would never have worked for our company" before, Hatcher said.

There is debate among economists and policymakers about how "hot" to let the economy get. Do you see risks from a hot economy?

Hatcher said that MAU's clients, mostly large manufacturers, are maintaining high inventories of products to meet strong demand, and they face rising labor costs. If the economy suddenly slows, he wondered whether some companies would be stuck with bloated inventories and payrolls and be forced to make big layoffs.

For now, he said, he sees people changing jobs for an additional 50 cents an hour without notifying their employer. Meanwhile, salaried workers are leaving jobs for novel reasons—Hatcher cited one who quit to spend time in Peru. "People would never do that 20 years ago," Hatcher said. But now they are confident they can return and easily find employment. "That's kind of the danger in the hot market for employers."

Textron's Hunter said that while talent shortages can increase costs, a hot market can also help firms by forcing them to rethink their processes and practices and to focus on their real priorities.

Another positive stemming from the shallower pool of available workers is that it helps some people find work who historically were considered unemployable, Pringle said. The hot labor market, she added, is forcing employers and policymakers to think harder about lowering barriers to employment.

Is it easy for students and graduates to find jobs in this labor market?

Pringle said the school system has shifted from focusing on an "antiquated career path" to programs better suited to today's employers. For example, schools are trying to prepare students for more technology-based careers in engineering and aeronautics, she said.

If the economy slows, what will be the implications for the last people hired? Will they be the first out?

Textron's product line is diversified, so the company could probably shift focus to remain profitable if the economy slows, Hunter said. However, she said she worries that many shop-floor workers are living paycheck to paycheck and therefore are vulnerable to an economic slowdown.

Hatcher said that in a downturn, the less-skilled (and thus lower-paid) workers would most likely feel the brunt of job reductions. Most companies, he added, would be unlikely to dismiss higher-skilled employees.

Pringle observed that if parents need to work multiple jobs, then they will spend less time with their kids. That detracts from student performance.

"When people are able to have a good wage and pay their bills and spend time with their children, it just makes for a better community and a better school system," Pringle remarked.

How does inflation affect your organization? How important is predictable inflation?

Construction costs are critical for the school system, Pringle said. Officials plan school building and renovation projects in five-year increments, she explained, so if costs rise more than expected, then the system might cancel some construction or renovation. Recently, building costs have risen but not dramatically, she said.

Textron decisionmakers prize stable inflation, said Hunter. The company employs analysts to monitor markets for the firm's raw materials, including rubber, copper, and lead.

It costs MAU Workforce Solutions 50 percent more to hire a person today than it did three years ago, according to Hatcher. That is because, rather than simply placing help-wanted ads and fielding resumes online, today's tight market means the company must pay staff to call prospective workers and visit prospects in person.

"That's been hard for us to sustain," he explained, because in many cases, MAU is not charging clients more even as its costs increase.

Does the Fed do a good job of explaining inflation, and why it is interested in inflation?

Hatcher said the Fed should consider streamlining its websites and simplifying information it produces.

The other two panelists largely agreed. Pringle said teachers are seeking practical material to interest students in financial literacy. Hunter added that while informed, engaged citizens likely grasp the Fed's work, many shop-floor workers and others do not understand how the central bank's actions affect their household budgets.

Audience Q&A

How would raising the minimum wage to $15 an hour affect employment?

Pringle said a $15 minimum wage would create challenges for the school system. In particular, a higher wage floor would mean raising the pay of school cafeteria workers. The federal funding that pays food service staff is insufficient to cover a $15 hourly wage, she said.

Textron's Hunter said she would like to see a hike in the minimum wage. However, she added that it could affect the company's finances.

Hatcher stated that he thinks private-sector companies are already increasing pay for the lowest-level workers and that a higher mandated minimum wage would hurt those employees.

President Bostic cited a recent Congressional Budget Office report that estimated a $15 federal minimum wage would result in 17 million people receiving a significant pay raise and 1.2 million lost jobs. He said policymakers and the public must ultimately judge which side of that equation is more important.

Panel 2: Monetary Policy and the Economy: Beyond the Headlines

The panelists were as follows:

- Jay Forrester, regional president, South State Bank
- Ryan Hawk, executive director of business development and community outreach, Peach State Federal Credit Union
- Hawthorne Welcher, Jr., director of Augusta Housing and Community Development Department

How is the economy working?

Forrester described a "very strong" economy with uncertainties in some sectors. He noted that while most businesses are prospering, profit margins are beginning to narrow, and there might be bubbles emerging in industries including multifamily residential construction.

Hawk observed that confidence is high among most consumers and businesspeople, in contrast to pervasive gloom during the Great Recession.

Welcher pointed out that in low-income urban areas, many people are more concerned with daily challenges like paying their next power bill than with inflation and the state of the macroeconomy. Many LMI Augusta residents, he added, also question why financial services are scarce in their neighborhoods even as property taxes increase because of redevelopment.

President Bostic interjected that it is indeed important to keep in mind that there are multiple economies—some prospering and others still struggling. He said he travels the Southeast often for a nuanced, ground-level view of how people are truly living, a view he emphasized he cannot get from data alone.

How would you compare today's economy to the Great Recession?

Welcher said compared with today, more funding flowed into the community development sphere amid stimulus efforts surrounding the recession. He lamented that it took a recession to focus public policymakers' attention broadly on community economic development.

Hawk sounded a similar note. He said that, regardless of macroeconomic conditions, Peach State Credit Union strives to educate its members about financial literacy, budgeting, and the basics of securing and keeping a job.

The banking industry is in far better shape than during the recession, Forrester stated. He said regulators' expectations are clearer, capital cushions to guard against bad loans are healthy, and loan quality is good. He added that lenders have not poured inordinate proportions of their loans into any one industry, in contrast to the heavy concentration in real estate before the Great Recession. At the same time, certain sectors, including multifamily real estate, are perhaps becoming overheated.

Is caution from the recession lingering and affecting spending, investment, and hiring decisions?

Peach State's business customers are more cautious now in spending, Hawk said. Forrester added that consumers are also much more careful about spending, especially on major purchases such as homes and cars, than they were before the recession.

Is the cost of credit or the availability of credit more of a challenge now?

All three panelists said the availability of credit is the bigger issue. Welcher and Hawk emphasized the importance of educating borrowers about financial basics and especially about the differences between traditional lenders, such as banks, and outlets, such as title pawn and payday lenders, in obtaining credit. Hawk noted that many potential borrowers mistakenly think they need an exceedingly high credit score to qualify for a loan from the credit union. "The knowledge of what's available at their fingertips is key," he said.

Are short-term or long-term interest rates more important to your customers?

Every panelist agreed that long-term rates generally are more important than are short-term rates. Commercial customers over the past 10 years have become far more likely to borrow for terms of seven years and more, Forrester said. Welcher noted that housing and community development hinge on 30-year mortgages and 20-year development bonds.

How do your customers think about inflation?

Answers to this question diverged. Welcher said many of his constituents do not understand inflation. Forrester said his bank's business customers say costs are rising for labor and materials and from regulation and tariffs. "It feels like it's starting to have an impact," Forrester said of inflation.

He has noticed that consumers and businesspeople seem to consider low interest rates and low inflation as a "new normal." In that context, he said, any uptick feels painful, even though inflation remains low by historical standards.

How well does the Fed explain inflation?

The key to reaching the broad public is clarity, the three panelists agreed. Forrester said that while there is plenty of information available from the Atlanta Fed and the Fed System, it is not always in plain language. He noted that many Fed officials and economists seem unable to explain the economy in layman's terms.

Welcher noted that the most effective way to engage the public is through face-to-face outreach, such as the *Fed Listens* event.

President Bostic responded that he would continue conversations like this. And Governor Bowman said the session "has been incredibly enlightening for me."

Audience Q&A

What is being done to address intergenerational poverty?

(Note that this issue is at the core of economic mobility, one of the Atlanta Fed's major priorities.)

Forrester said helping individuals and families climb from the lower socioeconomic rungs is a critical, long-term concern. South State tries to partner with groups that focus on poverty, he said. Forrester added that educating parents and children about financial and economic literacy is important.

South State sponsors a mentoring program for girls who have not yet entered third grade, teaching basics about banking. Hawk mentioned Textron's partnership with the school system and the importance of involving the parents in such efforts.

Welcher said his agency aims to fill gaps unaddressed by other programs. All three emphasized the importance of a "holistic approach" that addresses numerous matters and not just job skills, for example.

What about future retirement finances amid the possibility of cuts in Social Security benefits and the fact that many Americans already face difficult financial straits? (She noted a Federal Reserve study showing that 40 percent of adults would be unable to pay a $400 emergency expense.)

President Bostic responded that he and Atlanta Fed researchers are wrestling with the shape of the future labor force and with questions about when and how often people can retire. He noted that Americans, on average, are working much longer than they used to, in some cases because they cannot afford to retire or they have to care financially for parents or grandchildren. At the same time, evolutions are happening in family structures, life expectancy, and other areas that influence the family balance sheet. Ultimately, President Bostic said, the Fed must ponder what all of this means for monetary policy, in particular for the maximum-employment mandate and for economic stability and resilience.

Homeownership is generally the best basis for building wealth over a lifetime, Welcher said. Yet owning a home is not sufficient by itself, he added. Families need to know how to manage finances, pay a mortgage, and buy groceries. Moreover, small business people need to know not just how to start a business, but also how to sustain one.

Federal Reserve Bank of St. Louis

On September 4, the Federal Reserve Bank of St. Louis hosted a *Fed Listens* event, one of several sessions held around the country as part of a yearlong effort by the Federal Reserve System to assess its monetary policy strategy, tools, and communication practices.

This event was held at the St. Louis Fed's headquarters and assembled members of the Bank's six advisory councils: its four industry councils (representing agribusiness, health care, real estate, and transportation), its Community Development Advisory Council, and its Community Depository Institutions Advisory Council.[43]

The event began over lunch with opening remarks from St. Louis Fed President James Bullard and Federal Reserve Governor Michelle Bowman. Following lunch, each council met in concurrent working sessions to discuss questions related to the labor market, inflation, interest rates, and Fed communications, among other topics. Then, during an afternoon plenary, the councils presented summaries of their discussions to, and fielded questions from, President Bullard and Governor Bowman.[44]

The following is a summary of the key points raised by the councils in their working sessions and in their oral summaries during the afternoon plenary.

Agribusiness Industry Council

Labor Market

- Many council members reported that their respective (often rural) regions had higher unemployment rates than the national average, yet nearly all noted a challenge in attracting and retaining skilled and, particularly, unskilled labor. Employers on the council reported having a difficult time filling jobs, with reasons cited including the difficulty of attracting highly skilled labor to rural areas; mismatched skills to jobs; the challenges of retaining seasonal labor; and workers not being motivated to remain employed, as they lack a willingness and ability to come to work every day and on time. Council members employed in the corporate sector expressed less concern about finding skilled labor but noted that costs were higher to recruit and retain employees.
- One bright spot was the H-2A visa program, with several members noting that it is working quite well. One member highlighted their organization's success in obtaining workers from South Africa, who are skilled, motivated, and effective. This, in turn, was helping elevate the performance of domestic workers. Several members commented that they hoped to see the program continue and expand.
- One member who works in research and development (R&D) reported that layoffs could occur, as regulations on ethanol from the Environmental Protection Agency have caused demand for

[43] Additional information about the advisory councils and links to membership lists can be found on the Federal Reserve Bank of St. Louis's website at https://www.stlouisfed.org/about-us/advisory-councils.

[44] A video of the reports and subsequent Q&As is available at https://www.stlouisfed.org/about-us/fed-listens.

corn to soften in some areas. This member noted the effect of ethanol plant closures (15 plants to date, with an estimated 2,500 jobs lost) and predicted further plant closures and more job losses unless regulations change (for example, the adoption of E15 standards or the elimination of waivers for refiners). However, the member did express optimism that St. Louis will continue to be a leader in agricultural science and will drive this region's growth.

- The majority of members reported that local labor shortages are leading them to offer more competitive compensation. This was split into two categories: "hard compensation," like higher salaries and bonuses, and "soft compensation," like increased benefits, retirement plan options, and additional vacation time. One member reported paying $400 in bonuses for seasonal labor, with half paid upfront and the other half paid at the end of the season, for the first time in the company's history. Another member noted that the corporate office is trying remote working as an additional bonus, while bankers on the council reported poaching workers from competitors with additional compensation. There was consensus on the council that benefits were needed to attract a new generation of workers, but several remarked that these incentives were not necessarily successful in attracting more skilled labor than in the past. Moreover, one member noted that farming requires long and inflexible working hours outdoors during the growing season, and that cannot be changed.
- Should an economic downturn or recession occur, there was agreement that layoffs and damage to farmers would likely be minimal. Some members remarked that farming was "already in a recession" relative to the economy overall. Council members agreed that farmers were already operating with high leverage, low margins, and low commodity prices. The current trade and tariff situation has been creating uncertainty, delaying investment, and possibly driving further consolidation and layoffs in the industry. Another member pointed to the high debt levels of farms and expressed concern about what happens in a downturn, as these farms have "been in the red too long."
- Unlike farmers and farm collectives, council members employed in the corporate sector suggested that their employers were likely to be more affected by a recession. These members also noted, however, that agribusiness already operates with a lean labor force in a cyclical industry, and that retirements, attrition, or simply not hiring for open positions could reduce the workforce naturally.
- Almost all members acknowledged the use of workforce development programs but noted that these programs are in their infancy. Some members have developed specific partnerships with industry or university groups with some success, perhaps filling a gap in the education system in some areas. Other council members spoke of programs—such as ACT in the Mississippi Delta, which trains and certifies workers—or partnerships with state departments of agriculture and local universities. Several remarked that workforce development programs may replace vocational tech training but noted that there is still a mismatch between what training is available and what fits with actual job requirements. Most members reiterated the need for soft-skills training, including partnering with high schools or other educational organizations to provide certification or fill the gap in education.
- The council expressed optimism on the future of R&D and automation in farming. Technological developments are likely to increase crop yield and productivity. The automation cited included

self-driving farm equipment, mechanical picking (at night), use of drones (with current regulation preventing widespread adoption), drying crops with computers, and shared service centers (on the corporate side). Many members believed that automation will increase the demand for technical or highly skilled labor. One member remarked that the new generation of workers wants to implement technology, and a different skill set is needed to understand how computers are running the business. The council agreed that the jobs that automation could eliminate are typically the jobs that members cannot fill, and that automation is a way to fill the labor gap and to substitute capital for labor.

- One member working in R&D noted that agribusiness has benefited from technological advancement, with crop yields expanding twofold or threefold over their lifetime, particularly with genetically modified crops. The member commented that the future push will be for genetically modified husbandry: cow, poultry, and pig. The bigger issue for the industry is regulation (particularly acceptance of these crops in places like Europe). Another issue to address in the industry is better investment in cell and high-speed internet services in rural areas to implement the technological advancements mentioned. One bright spot is that new technology could allow skilled labor to return to farms as a viable career.

Inflation and Interest Rates

- Council members agreed that inflation and the Federal Reserve's 2 percent inflation target are "not on the top of anyone's mind" in agribusiness. One member noted surprise that inflation is not higher despite the Fed employing various forms of unconventional monetary policy like quantitative easing during the Great Recession. Members were more concerned with crop price deflation and low commodity prices in general. One member remarked that he would like inflation, but there has been deflation in agriculture since the 2009 financial crisis.
- Most members reported that some input costs had increased, with one member noting that input costs for farmers have increased while input costs for livestock producers have decreased. Others noted that fuel prices have been stable. The cost areas that were mentioned as trending higher were housing costs (particularly in northwestern Arkansas), general construction costs, and insurance rates. There was consensus that output and crop prices were dropping faster than input prices, creating an unsustainable business model over time for farmers.
- Nearly all members highlighted the inability to push price increases on to consumers. There is belief that large chains or retailers will not accept price increases, even with the uncertainty posed by the current trade situation. There was further discussion about competition among suppliers and a recognition that farmers cannot lose money forever.
- Members acknowledged that agriculture is a global industry and that American farmers are price takers. Some members expressed hope that the Fed would consider this point when determining policy rates, as the strength of the U.S. dollar directly affects agricultural exporters. Still others noted that they do not think of the federal funds rate often and have confidence the Fed is setting the benchmark rate where it needs to be. Yet others commented that the rest of the world is lower or negative in terms of interest rates, and the United States may be too high by comparison.

- Nearly all members noted the cost of business credit as an important issue. One member remarked on the very large lines of credit extended to most of agribusiness and especially to younger or smaller farmers that have highly levered balance sheets. There was a general sense that credit conditions for agribusiness are tight currently, but members clarified that this was due not to high interest rates but rather to preexisting high levels of debt. One council member said, regardless of future government payments to farmers (due to historic flooding or otherwise), large numbers of farmers have their credit fully extended and will receive no further aid through credit channels. This could force consolidation and have a domino effect in causing lenders to pull back on further lending to farmers with good credit.

Communications and the Role of the Fed

- Council members expressed interest in clear, concise, and credible—even predictable—communications from the Fed. They want to have confidence that the Fed knows what it is doing to help the economy. One member noted that the Fed should hike or cut rates as it sees fit but should explain why it was done and why it will help the economy over the long run. Then businesses can adjust to that accordingly.
- Council members agreed that the communications need to be in layman's terms so that they are easily understandable to the public. Several members expressed the desire for consistency of Fed messaging, remarking that if the Fed changes its policy course, it is best for the Fed to explain why it is doing so and communicate that clearly so Main Street can understand it.
- There was widespread consensus that the Fed should remain apolitical and above the political fray as much as possible.
- Several members raised the topic of consistency, noting that it is confusing for there to be so many Fed officials making comments and opining about Fed policy and decisions in times of uncertainty. Some council members said that the Fed should act like a board room where, even if there is spirited debate and disagreement behind closed doors, once a decision has been made, there is solidarity among officials that they took the optimal path of policy. Another member remarked that the economy has been good for a long time, so the Fed must be doing something right.
- In terms of community-related issues, the council agreed that educating rural communities on finances and debt is important for agribusiness. Other issues noted in the discussion were a lack of infrastructure (such as roads and cell service), poor education, and trouble attracting skilled labor in rural areas. Many on the council feel there is a divergence between national and rural economic trends.

Community Depository Institutions Advisory Council

Labor Market

- The current low unemployment rate is supporting local economies in the Federal Reserve's Eighth District. But retaining employees or hiring new ones is becoming increasingly difficult as labor expenses rise across the board. At higher levels of employment, some banks poach talented lenders from one another with significant signing bonuses. Wages for tellers paid by some banks are also increasing.

- Banks have responded to job market pressures with wholesale policy changes involving expanded benefits, including more vacation, more flexible hours, better health-care options, better retirement programs, and college tuition reimbursement programs. Smaller banks, in particular, offer a culture that balances work and life (encouraging employees to attend their children's school events, care for aging parents, and so on). "Creativity" in hiring, benefits, and work–life balance is becoming increasingly necessary.
- Part-time and temporary employees are increasingly being used to supplement core workforces. This provides a buffer against a potential economic downturn. In this regard, however, bankers do not foresee any significant staff reductions in the near future. Bankers also stated that they were further insulated from future downturns by "lessons learned following the Great Recession." Workforce development occurs privately within firms through various training programs. One bank is figuring out a way to train internally: "If we can't find talent, we create it." Initiatives include formal training programs and, increasingly, student internships. Public initiatives, alternatively, provide free tuition to community colleges and technical schools for high school graduates as well as adults. High school students benefit from technical training programs. Access to universities is advantageous.

Inflation and Interest Rates

- Inflation is not considered an issue at this point, but bankers are concerned about the effect of inflation in particular industries, such as health care, education, and pharmaceuticals. Some regions of the Eighth District are being affected by wage increases mandated under state minimum wage laws. Fierce competition limits the capacity of banks to pass on higher operating costs. Eventually, costs could be passed on to consumers, but bankers generally agreed that "we're not there yet."
- Bankers are concerned about the yield curve, noting that it is "difficult to make money with an inverted yield curve." Some bankers suggested that the fed funds target rate might be too high.
- Pressure to increase prices to offset higher labor costs is being offset by increases in productivity, particularly in information technology, which has reduced back-office costs. Bankers are seeing an increase in their ability to automate mundane tasks through technology. A large slate of new and emerging financial technologies is enabling banks to deliver accessibility at lower cost. Neural networks to detect credit card and other fraud are increasingly being used.

Communications and the Role of the Fed

- Fed communications, overall, were described as "positive." Bankers said the Fed is managing the economy well in a very challenging environment. However, they strongly emphasized the importance of the Fed's independence from political and other influences: Actual and perceived independence was seen as "more important than ever."

- Bankers noted that comments by Fed officials are no longer parochial; they echo around the world. As a result, they stressed that the Fed needs to "speak with one voice" to create stability. One banker touted the advantages of the approach used in bank board rooms: "When board members meet, there may be disagreement, but when they come out, they are unified."
- Bankers said the Fed should not rigidly defend a commitment to a previous statement if data change. Bankers generally agreed that there can also be "too much transparency," which can serve to confuse markets. Bankers also identified several emerging issues they believed warranted attention by the Fed, including a lack of banks in rural areas, student loan debt ("There are young people coming out of college with a mortgage-sized debt but no house to go along with it"), and a lack of access to small-dollar lending.

Community Development Advisory Council

Labor Market

- Council members agreed that the national unemployment rate—currently at a record low of 3.7 percent—is not necessarily reflective of what the people in the communities they serve are experiencing. The unemployment rate among minorities, especially African Americans, and in rural places, like Arkansas and the Mississippi Delta, is much higher than the national rate.
- Labor force participation rates are also lower than what they were before the Great Recession. Several members of the council suggested that issues such as the high costs of childcare, lack of transportation, lack of affordable and quality housing, large employers overusing temporary workers, high incarceration rates, and the opioid epidemic are inhibiting many Americans from fully participating in the labor force.
- There was a consensus among members that there are many additional barriers to employment that exist in their communities. They identified groups like the formerly incarcerated, nonwhite, disabled, immigrants, and veterans as being the most affected by these barriers.
- Members from the Louisville region noted that while jobs in the service, retail, and logistics industries are bountiful, they do not pay wages that are sufficient enough to sustain a living.
- The council identified various opportunities as means of improving the conditions of the labor market, including

- offering free tuition for community college students
- collaborations among various industries and sectors
- loosening hiring requirements (including eliminating marijuana testing and increasing hiring efforts for applicants with criminal convictions)
- offering a low-interest loan product to help immigrants get certified in varying professional services

- A member noted concern about the number of service jobs being greatly reduced because of pending automation and artificial intelligence.
- The council highlighted workforce development programs like Kentuckiana Builds (which offers free training and job placement) and SLATE (St. Louis Agency on Training and Employment, a Missouri job center that provides a variety of free employment services).
- Council members perceive that many areas in the Eighth District are experiencing an overreliance on temporary workers instead of hiring full-time workers with benefits.

Inflation and Interest Rates

- There was a consensus among the council that the availability of credit and cost of credit are salient issues for their communities, and the rates and costs have a disproportionate effect on LMI groups.
- A member stated that most people with low incomes can afford a home in a low-cost neighborhood, but few qualify for a decent mortgage rate, if a mortgage at all.
- The council discussed the possibility of the Federal Reserve aiding CDFIs in compiling data on the availability of credit and interest rates, especially considering the historical and residual implications of redlining.

Communications and the Role of the Fed

- The council also noted the value provided by the data, research, and analysis the Fed has done regarding LMI communities.
- There was a consensus among members that the Fed continues to use its voice in addressing historical inequities.
- Council members stated their appreciation of the Fed for being a nonpolitical convener that consistently brings together leaders and individuals from diverse groups and backgrounds to discuss the issues of LMI communities.

Health-Care Industry Council

Labor Market

- Overall, the council members generally agreed the labor market for health-care workers is tight, leading to higher wages and benefits. Employers on the council largely agreed it was hard to find skilled workers to fill open positions. Companies have tried to address this via initiatives such as increasing benefits offerings, accepting candidates with fewer skills, lowering requirements for employment, seeking out nontraditional portions of the labor market (for example, college students and people coming out of retirement), and offering unconventional benefits. Some council members said a general trend in the industry was a shift to more flexible working environments, particularly when it came to scheduling and telework.

- Some of the unconventional benefits the members mentioned as being offered included financial and employee wellness programs, as well as 401(k) matching and insurance for employees who were not previously getting those benefits. Several council members said they were seeing more applicants for positions who did not strictly meet the job requirements (for example, having an associate degree instead of a bachelor's degree), while others mentioned that employers in the industry were considering more lenient requirements, if possible, when it came to criminal past and drug testing.
- Most council members saw upward pressure on wages as well as the need for additional financial compensation measures. For example, a few members of the council reported that new nurses could see starting bonuses of as much as $20,000. They noted that firms were also offering increases in retention bonuses, and that employers were increasing the budgeted amount for employee insurance programs. In addition, one council member in the health-care technology field noted that firms' equity valuations were high, and that some companies were offering equity incentives as a recruitment tool, particularly when trying to attract employees from the West Coast.
- With fewer qualified workers, several council members noted that employers were finding new ways to be productive and innovative with a smaller workforce. Some pointed out that there are already "abandoned markets" where there are fewer available workers, and that was breeding innovation. Also because of the tight labor market, health-care companies across the District were emphasizing an investment in students and training programs. Several council members reported that more firms were funding education and training programs.
- The council anticipates that the labor market in the health-care industry will continue to tighten even in the event of an economic downturn, mostly because of an aging workforce and an increase in demand from an aging population. Council members generally expected that the number of health-care providers will decline, with retirements expected to be high in the next 5 to 10 years. There was concern among many of the council members about how to backfill those jobs, particularly when training can take as long as 8 years in the case of doctors or when technology changes rapidly and skills quickly become outdated.
- Demand in health care is somewhat disconnected from the broader economy, the council noted, and therefore most do not expect large layoffs in the event of a recession. Staff turnover in the health-care industry is already generally higher than in other industries, so if the economy

slows, most of the council members expect hiring to slow and lower employment to happen through attrition.

- One member in the health-care technology field noted that, in some ways, remote working has made it harder to find workers. With the rise of telework, employees can work for a San Francisco firm from their home in Tennessee, for example. On the flip side, council members pointed out that, because people can work virtually, local firms can find and recruit workers from around the United States.
- Finally, the members noted that while the labor market in the health-care industry in the aggregate was tight, there were still parts of the District—particularly in LMI communities—that were experiencing higher levels of unemployment. The council was generally hopeful that if low unemployment is sustained, more organizations will reach out to and employ more people in such communities. To reach workers in these communities, the council saw a need for offering financial training and deferred compensation plans for individuals who do not necessarily want to see rising wages because of childcare benefits and other subsidies. It was not clear if these benefits were being used in the industry.

Inflation and Interest Rates

- Most of the council members agreed that the current level of inflation was good, with several members expressing their expectation that inflation would not become an issue in the near term. The council noted that higher inflation itself is not necessarily a problem for the industry, in general, as long as any increase in inflation is modest, predictable, and slow moving. Many noted that inflation in the health-care industry is generally higher than in the overall economy, so inflation a bit higher than 2 percent was not a big deal for most council members. Those members agree that stability matters more than the actual level.
- Council members also generally agreed that interest rate levels are still manageable. Several members of the council representing hospital systems said they would see an effect over the longer term if interest rates were to rise, but that they would not expect to see an effect in the shorter term. Several council members involved in the financing side of the health-care industry generally noted that access to credit overall is easy. Still, these members pointed out that they expected the industry to continue to invest in new technology and not in new hospital systems and other brick-and-mortar expansions in the near term.
- Some of the council members agreed that one negative when the Federal Reserve tries to adjust the interest rate to give cushion against a potential downturn is that the stock market has an outsized effect, and that affects income statements. One member said the current interest rate level was manageable but also worried lower rates could reduce the Fed's ability to respond to a recession.
- One council member pointed out that the low interest rate environment can hurt aging people, a group that is normally the largest consumer group of health care and that does not participate in the stock market and instead invests in low-return, risk-averse certificates of deposit. Council members noted that it was important for monetary policymakers to think about how inflation and interest rates are affecting families that cannot afford lines of credit to borrow on and are

not saving money or earning much interest off savings that could help them offset costs of health care.

- The council reported that businesses in the health-care industry are generally more highly leveraged in areas they have not been in the past, due to rapid changes in technology that incentivize leasing or temporarily financing equipment. Just as households are turning toward renting houses and leasing cars rather than buying, businesses are leasing equipment more, a member pointed out. One health-care system member noted that 70 to 80 percent of their equipment is leased, and another noted that the lifespan of health-care equipment is changing quickly, with things becoming obsolete faster.

Communications and the Role of the Fed

- Council members were mostly pleased with the level of transparency coming from the Fed. They noted that transparency was important for investment decisions, with one member saying, "Transparency leads to clarity, clarity leads to confidence, and confidence leads to investment." Overall, the members noted that the Fed is still very highly trusted by the industry.
- That said, the council also noted that the industry— including the council members present—probably understands the Fed better than most people. One member summed it up: "It's not clear how much the general population understands about what it's hearing." Another member suggested that the Fed could be out there more and making efforts to better educate everyone on the Fed and its decisions.
- The health-care council members generally expressed appreciation for the opportunity to interact with the Fed, noting that there were other opportunities for the central bank to connect with the local community. Many council members encouraged the Fed to do a better job of communicating in communities of color and communities that are unbanked or underbanked. It was also mentioned by council members that the Fed should find ways to engage with a more youthful demographic. Several called on the Fed to better educate people about monetary policy and how to interact with banks, with one suggesting additional outreach in high schools and colleges.
- While council members generally expressed appreciation for more transparency, one member noted that the FOMC press conferences and statements were enough, and that they appreciated a succinct reasoning of the decisions. The council discussed how much transparency is too much, with the majority noting that transparency on goals and decisions is good, but fighting on Twitter and in public is not. At least one member noted that more openness from the FOMC in the past 10 years has more clearly shown the differing views on the FOMC, which may be hindering a unified message.
- All members of the council agreed that the Fed needs to remain politically independent and "stay above the fray," with one member saying this independence is "essential" and another saying policymakers need to avoid being dragged down into "the swamp."

Real Estate Industry Council

Labor Market

- All members reported that the labor market is tight. St. Louis members reported that the strength of area labor unions and their opposition to recruiting nonlocal labor have made it harder to attract workers from other cities, with particular difficulty in the construction business, as older workers retire while others are growing weary of long hours and declining to work weekends or overtime.
- A St. Louis member reported that the area's labor shortage is resulting in a cap on company expansions as firms assess the labor market's dynamics and choose to look elsewhere. St. Louis members also reported widespread delays in the completion of construction projects throughout the region due to the labor shortage.
- Firms have had to adopt creative ways to entice people into trade-related jobs. For instance, St. Louis City has an apprenticeship program specifically targeted toward women and minority groups. Several Eighth District cities have also introduced academies in high schools (and even in middle schools) that equip students with the technical skills needed to enter the job market right out of high school without higher education.
- A Little Rock member noted that area school districts are forming academies dedicated to health care, information technology, and construction. A Louisville member described similar academies, adding that area businesses are incentivized to assist in these workforce development programs given their need for skilled labor.
- Members from Louisville also talked about the adverse effect that Amazon is having on the job market in outlying areas by offering competitive wages and good working conditions. It is making it harder for smaller firms in these outlying markets to attract labor, and it is also dissuading other companies from moving to the region and trying to compete with Amazon.
- Members reported that the hospitality sector was dealing with labor shortages by adopting new operating procedures that require less labor. Examples include awarding more reward points to customers who opt out of daily cleaning (thus cutting down on the cleaning staff), switching to materials that do not require heavy cleaning, and replacing single-use toiletries with larger, pump-topped bottles.
- All members agreed that the real estate market would have to find ways to incorporate underused labor sources, including both potential employees who are recovering from addiction or mental illness and applicants with criminal convictions who seek to reenter the workforce.

Construction

- Members reported dual trends of downsizing and increased density, in both residential and commercial real estate. In residential real estate, members reported that there was increased demand for small- to medium-sized homes, with interior amenities plus lifestyle features like walking trails and centralized green spaces. In commercial real estate, members cited a turn toward modularization in construction along with increasing demand for open floor plans, which allow firms to densify their operations and reduce leasing expense.
- Most members reported a wave of downsizing in office construction. A member reported that a major firm in downtown St. Louis is trying to accommodate triple the number of its current employees in the same office space by renovating the building with an open floor plan.
- A member from Louisville underscored that occupancy rates for office spaces used to be a good metric to study employment conditions. However, the shift to open-plan offices has reduced the accuracy of this metric.
- A member from Memphis reported a healthy demand for commercial construction. They observed that nearly 30,000 square feet of office space was undergoing reorganization to bring different parts of firms under the same roof, since Memphis is cost effective relative to other cities. The member further noted that there was around $9 million of speculative construction under way in Memphis.
- A member from Little Rock reported that the rise in construction costs has severely limited speculative construction. Members from Louisville and Little Rock also reported that landlords are no longer willing to spend the money to renovate older buildings, because they are unable to keep up with the rising labor and material costs.
- Another construction trend reported in the hospitality industry, in particular, is panelized construction, in which the structural components of, for example, a hotel room are assembled in a central factory—including built-in mechanical systems, duct work, and even furnishings—and then shipped as a fully assembled pod to the construction site, significantly reducing or eliminating the need for local labor for onsite assembly. This trend enables hotels and other companies to minimize the uncertainties and costs associated with local labor shortages as well as the variability in quality of local assembly.

Inflation and Interest Rates

- Most members were ambivalent about the potential effect of inflation above 2 percent. Some members stated that they would welcome higher inflation to some extent if it would help raise wages and, in turn, lead to increased consumer spending. Many members, though, were averse to higher inflation in input prices and noted that it is difficult to square a figure of 1.7 percent inflation with construction cost increases of 15 to 20 percent in recent years.
- Members also stated that since inflation has been low and stagnant for several years now, it would be hard to visualize a high-inflation environment.

- A member from Kentucky stated that it would be difficult to determine how higher inflation would affect the hospitality sector, given recent changes in the industry. In particular, the shift in travel decisions from a six-month to a six-week window due to technological enhancements that make reservations easier for travelers was cited.
- Members also noted that higher inflation would have varying effects by demographic groups and regions. Members argued that regions in Kentucky, for example, with cheaper input costs may be more resilient to higher inflation than regions in states such as Illinois where new or higher state fees and taxes have been instituted to address budget issues.

Communications and the Role of the Fed

- All members stated that the Federal Reserve's efforts toward transparency have been appropriate and welcomed, and many members cited transparency as being particularly effective for those who understand the Fed as well as the economy. A concern by some members is that other audiences who do not understand the Fed may tend to oversimplify and criticize the Fed's decisions. Also, some expressed a concern that transparent communication somewhat diminishes the aura of mystery around the Fed that some may have seen as a positive.
- Some members suggested that the Fed consider tailoring the complexity of its message according to its audience, since audiences have greater trust in information that they understand.
- Members also stated that the uncertainty surrounding interest rate changes is problematic for the real estate market. It is not the actual movement of rates, one member said, but the perception that there might be movement, coupled with lack of certainty of the timing and amount of a rate increase, that can cause market concerns. More predictability and consistency in rate moves might be better, some members suggested.
- All members expressed their desire to see the Fed continue to be unbiased and apolitical. The members said that the public views the Fed as a nonpartisan authority, and so it would be beneficial if the Fed were to better publicize its economic reports and publications that exemplify its strength in serving as a neutral, informed provider of economic information.
- Several members also stated that they would like the Fed to mediate in the lending market for low-income housing by easing regulatory standards, noting that housing affordability concerns continue to be widespread.
- Some members stated that they would like to hear the Fed talk more about how global conditions—such as Brexit or China's slowdown—might affect the real estate sector. One member noted that the Fed is viewed as a thought leader and that thoughtful audiences will appreciate hearing the Fed's point of view on these key international issues.

Transportation Industry Council

Labor Market

- Council members uniformly expressed concern about the increasingly tight labor market in the current period of economic growth. The supply of jobs continues to grow faster than the rate of qualified workers, with one council member describing it as a "rat race to find qualified people."
- A prime reason cited for the labor shortage is a decline in vocational and technical education in high schools. More and more, there is a mismatch between skills that are needed and skills that students emerge with after graduating from high school or college. Following high school, parents tend to steer their children toward "prohibitively expensive" four-year colleges under the assumption that transportation and manual-labor jobs are undesirable. One member talked about the challenge of changing mindsets after generations of sending a message that one needs to go to college to be a success. Meanwhile, labor shortages in some parts of the District are being addressed by immigrants, such as Bosnian and Uzbekistani immigrants in the St. Louis area taking jobs as truck drivers.
- While employers in the transportation industry cope with labor shortages, workers are reaping the benefits. Companies have taken steps to entice employees with incentives related to wages, benefits, flexible scheduling, vacation time, and parental leave. Employees are increasingly expecting and demanding a work lifestyle conforming to less time on the road and more time with their families. A Memphis council member said that employees "hold the key to the bank if they have a good skill set," and that Memphis companies commonly "steal" skilled workers from each other. There was general agreement among council members that employees' lifestyle expectations will not reverse course, meaning that employers will need to find innovative solutions to address their demands.
- As an example of how workers are benefiting, technicians at a District truck and refrigeration company average $60,000, with several earning over $100,000. In addition, there is a need at a District airport for trained and licensed electricians as well as for plumbers, pipefitters, and HVAC (heating, ventilation, and air conditioning) workers.
- Although jobs have become harder to fill, signs of optimism are emerging, including greater efforts to build a pipeline among K-12 students. There is enhanced emphasis on apprenticeships and innovative workforce development solutions as well as incorporation of Occupational Safety and Health Administration training in some high schools so that students can receive proper certifications before entering the workforce full time. The Kentucky FAME (Federation for Advanced Manufacturing Education) program, originally started by Toyota, was cited as a success story. This industrial maintenance and technician program has been adopted by the state's 16 community colleges. It is a five-semester program in which students work three days a week and go to school for two days. Each year, about 1,000 students graduate from the FAME program and are qualified for industrial maintenance jobs.

- As another method to counteract the labor shortage and expand the pool of potential hires, members discussed the increasing willingness to, in some cases, relax policies related to typical employment disqualifiers such as criminal offenses and drug use. At one distribution center, a member mentioned that 57 percent of recent applicants failed the drug test. The marijuana issue is particularly challenging because, even though there are states in which marijuana is legal to varying degrees, it is still illegal under federal law. For those people who may have done "one stupid thing" in their past, a council member said that companies should give them hope by providing training to help them jump back into the workforce.
- Nevertheless, in an industry in which safety is a vital concern, there is still hesitation toward overlooking certain offenses or forgiving failed drug tests for applicants in jobs considered high risk and safety sensitive. A rail representative said that he cannot envision his sector voluntarily relaxing polices related to drug and alcohol use.
- Although there is some applicability of robotics and artificial intelligence in the transportation industry to fill the labor void, there is more focus on refining the process and using data analysis to make better business decisions. One council member described his business as highly technical and analytical, while an airport representative said that human interaction is still important for security reasons.
- Innovation in the industry is centered on preventive maintenance and expediting repairs, more so than on advancements in new automation. The primary focus is on eliminating waste and inefficiencies within processes and equipment that already exist. In the case of autonomous trucks, adoption will move slowly, though it is already taking root in ports. With fewer people in tightly controlled environments such as ports, driverless vehicles create less of a safety concern while leading to a better understanding of how autonomous systems work.

Inflation and Interest Rates

- A few council members expressed that they are okay with occasional spikes in inflation because it stresses the system and weeds out weaker businesses while enabling stronger and more innovative businesses to gain market share. They indicated that some amount of inflation adds discipline to business practices and brings a degree of rhyme and reason to growth. As one member put it, "Bad practices are developed in good times." But because the industry operates on thin margins, continued inflation of a year or longer is considered undesirable.
- It was mentioned that inflation has an effect on a company like Walmart, which strives to deliver the lowest prices for customers. Any semblance of inflation prevents the retailer from realizing that goal. Said the council member, "To be everyday low price, you have to be everyday low cost."
- Higher inflation typically has an effect on consumer travel. Families will take staycations rather than making road trips or booking flights. Businesses tend to cut back on travel and use Skype for meetings.
- One council member mentioned that new car sales are down 4 percent nationally, as more buyers are opting to purchase used vehicles.

- Council members' greater concern is with global trade and tariffs, with a couple members pointing out the disruptions that are caused by tariffs.
- Another issue that was raised is the rise of electromobility in the transportation industry, which results in lower fuel taxes. One council member said that if a solution for the fuel-tax loss due to the rise of electric vehicles is not figured out, it will negatively affect the needed repairs of the nation's roads and bridges. The fuel tax is largely what funds road and infrastructure projects. Similarly, the increased amount of fuel-efficient cars on the road also results in less fuel tax collected.
- Council members did not have strong feelings on whether the federal funds rate is too high or too low. One member said that it is hard to gauge a right answer and that it is probably as low as it needs to be.

Communications and the Role of the Fed

- Council members were very positive about Fed communications. In general, the members expressed the opinion that more communications are preferable. They said that if the Fed does not tell its story, then others will tell it instead, complete with inaccuracies.
- Members said that they seek stability and clarity from the Fed. With issues like Brexit and trade disputes swirling and creating so much uncertainty, investors become reluctant. In such an environment, it is especially crucial for the Fed to stay the course with transparent, open, and honest communications.
- There was a strong desire for the Fed to remain apolitical and continue to take a measured approach by making intelligently informed decisions that are not influenced by politics.

Federal Reserve Bank of San Francisco

On September 26, the Federal Reserve Bank of San Francisco held a symposium and town hall discussion titled "A Hot Economy: Sustainability and Trade-Offs." This event was part of a broader effort within the Federal Reserve System to review the strategy, tools, and communication practices the Fed uses to pursue its monetary policy goals as established by the Congress: maximum employment and price stability. At *Fed Listens* outreach events throughout the country this year, the Fed has heard from researchers and community members about the design of monetary policy and its effects on economic conditions overall and across different population groups and regions.

The San Francisco event focused specifically on assessing the upsides and downsides of a "hot economy," with sustained above-trend economic growth and tight labor markets. This assessment is appropriate and well timed because the current economic expansion appears to have reached a record for sustained growth based on historical records back to the 1850s, and the national unemployment rate has reached a 50-year low. The event included presentations and discussions by researchers; members of community, government, and labor organizations; and business leaders. About 150 people attended from a similar broad cross section of stakeholder groups and the general public. The event was available to an online audience via livestreaming. In addition, all invitees received a questionnaire before the event; the appendix summarizes their responses.

Opening Remarks

San Francisco Fed President Mary Daly opened the event with a warm welcome that emphasized the Federal Reserve's commitment to hearing a wide range of viewpoints on the practice and effects of monetary policy via the *Fed Listens* program.

Federal Reserve Vice Chair Richard Clarida set the stage for the day by explaining this year's Systemwide review of the Fed's monetary policy strategy, tools, and communication practices. As he noted, the importance of the review is reinforced by changes in national and global economic conditions that affect the conduct of monetary policy. The primary changes are both a reduction in the "neutral" policy interest rate that neither supports nor impedes stable economic conditions and an environment of low inflation that reflects a limited response to conventional measures of idle resources such as the unemployment rate. This new environment raises questions, such as whether sustained undershooting of the 2 percent inflation goal in recent years might be effectively balanced by overshooting in the future. The overall review process pairs such research questions with public perspectives on the effects of specific monetary policy goals and choices.

Douglas Elmendorf, dean of the Harvard Kennedy School and former director of the Congressional Budget Office (CBO), provided an overview of the benefits and potential costs of a hot economy in his opening keynote. He noted that tight labor markets tend to improve the relative labor market status and income gains for traditionally disadvantaged groups, such as racial and ethnic minorities and the less educated. This typically comes at the risk of an unwanted increase in inflation, although the current low-inflation environment lowers that risk and calls for some experimentation with monetary policy. Both the presentation and the subsequent Q&A discussion emphasized that, because monetary policy alone is not sufficient to achieve ideal economic outcomes, other policymakers can play an important role. These include state and local governments, which may be more effective than the federal government in targeting policies to the groups and regions that need it.

Research Panel

The research panel presentations provided an analytically based discussion of the benefits and tradeoffs inherent in a hot economy.

Jason Furman from the Harvard Kennedy School emphasized the favorable labor market effects of the prolonged expansion, which has not only produced a very low unemployment rate, but has also counterbalanced structural pressures pushing down prime-age labor force participation. He noted that wage gains net of price inflation have been positive in recent years, especially for those whose wages put them near the lower end of the distribution.

Heather Boushey of the Washington Center for Equitable Growth also discussed the favorable effects of accommodative monetary policy on low-wage workers. However, she stressed that long-term economic factors and perhaps also unconventional monetary policy tools, such as large-scale asset purchases, have contributed to a long-term trend of rising inequality of income and wealth.

Douglas Holtz-Eakin from the American Action Forum, also a former CBO director, elaborated on some notable downsides to a hot economy. These include excessive price increases for important items such as housing, coupled with rising risks of unwanted overall inflation; potential financial instability that could threaten the expansion; and risks to Fed independence in response to a perceived focus on hot-button issues such as rising income inequality.

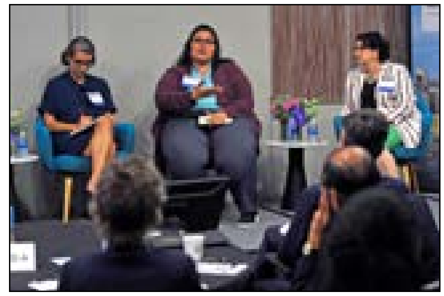
Sarah Bohn from the Public Policy Institute of California discussed the desirable reductions in poverty arising from sustained economic growth. However, she also emphasized features of the California economy that have kept poverty above the national average even when the state economy is doing well. These include the high cost of living and the large number of low-wage jobs that are created even in a strong labor market.

The Q&A discussion focused primarily on the uneven distribution of the benefits and costs of a hot economy. Lower-income families are particularly exposed to the sharp increases in housing costs and prices of other services that often accompany hot economic conditions. Commenters noted that low interest rates associated with accommodative monetary policy tend to help existing homeowners via higher property values but may harm renters, whose rents rise. In response to a question, panelists expressed little concern about any potential downside from reduced educational investments due to improved job opportunities when the labor market is hot.

Community Panel

The community panel provided an opportunity to gain perspectives from individuals who directly observe the economic conditions faced by disadvantaged population groups.

Carolina Reid, an associate professor of city and regional planning from the University of California, Berkeley, set the stage for the discussion by providing an overview of the challenging



economic conditions many communities face despite the hot economy. She emphasized the growing disparities in income, job benefits, wealth, housing costs, and access to credit across different groups in San Francisco and other California cities despite generally favorable economic conditions. These broad disparities show little response to accommodative monetary policy and a hot economy, which highlights the importance of vigorously enforcing the Community Reinvestment Act and state and local policies to support disadvantaged groups.

Carmen Rojas, the cofounder and CEO of the Workers Lab in Oakland, echoed those comments by focusing on the limited benefits from the hot economy for low-wage workers in the San Francisco Bay Area and throughout the country. In the face of very high costs of living, many of the jobs created in recent years do not provide the wage rates, benefits, and work hours needed to adequately support families. This leaves many families in precarious financial situations. The persistence of these conditions has created a great deal of pessimism and disengagement for the communities with whom she works.

Isela Gracian, the president of the East Los Angeles Community Corporation, discussed the myriad challenges facing the low-income population in that area. Many of the residents are recent immigrants, often employed as street vendors. They face steep challenges in finding and maintaining stable employment and housing—or even gaining basic levels of public acceptance and a sense of personal safety. Gracian emphasized that "the population we work with [is] always feeling a strain, whether the economy is hot or not." Her portrayal of their circumstances suggested that any income increases from a hot economy are eclipsed by the increased housing costs and related challenges.

Carrie Cihak, chief of policy for King County, Washington, emphasized the wide economic disparities in the Seattle area and statewide. This reflects that many of the workers in highly paid sectors have been imported from out of state rather than "homegrown." For example, in contrast to the prevalence of highly paid tech and engineering jobs in her area, the state ranks quite low in high school graduation rates. Overall, she emphasized that she sees a "dual economy": It is hot and, hence, very favorable for some groups but leaves others "getting burned," falling off the path of economic opportunity and with little chance to get back on. Given the many low-wage jobs being created, Cihak noted that the Fed might consider thinking in terms of "fulfilled" or "full potential" employment rather than simply "full" employment; this aligns with the broader concept toward which her county's agencies are working.

The Q&A discussion revolved around the panel's observations about limited opportunities for advancement, despite the hot economy, in the absence of specific policy measures aimed at disadvantaged groups. Commenters noted that less restrictive housing regulations and a more proactive approach to low-income housing might help alleviate some of the challenges created by rapidly rising housing costs in urban areas. Regarding whether a strong economy makes it more or less challenging to achieve favorable outcomes for low-income groups, the panelists generally indicated a mixed or neutral stance. One panelist noted that people struggling to make ends meet face an adverse psychological effect when the public perception is that the economy is strong and working to everyone's advantage.

Business Panel

The business panel provided a broad perspective on how companies and employees in a wide range of sectors have responded to the long expansion and tight labor markets. The panel consisted of the following individuals: Chip Childs, CEO of the airline company SkyWest, Inc.; Patricia Richards, CEO of SelectHealth, which administers health insurance plans throughout Utah, Idaho, and Nevada; Rosemary Turner, president (retired) of UPS Northern California District, the worldwide package delivery and logistics company; and David White, national executive director for SAG-AFTRA (Screen Actors Guild-American Federation of Television and Radio Artists), the world's largest union for entertainment industry employees.

The panelists generally emphasized that despite the long expansion, their industries have grappled in recent years with long-term challenges for their business models and bottom lines. They cited a highly competitive product environment, often on a global scale, that merits cautious business strategies despite strong economic conditions. They also noted that the growth of international competition and globalized markets requires stable trade relations for sustained industry growth.

This competitive environment creates the need for continued innovation in their products and processes. Much of this takes the form of automation and other labor-saving innovations, which hold down growth in labor costs despite the tight labor market. New technologies are likely to undermine growth in some job categories, such as package delivery workers who may be replaced by automated drones. Although industry expansion in response to improved efficiency is expected to create new, different jobs that replace the jobs lost to automation, many of those jobs are likely to require additional training for existing or new staff.

One key question is whether widespread labor shortages are affecting compensation. The panelists pointed to substantial ongoing compensation increases in some sectors for both low- and high-wage employees. However, current and potential employees have placed growing emphasis on workplace culture as reflected in an organization's mission and favorable employment conditions and benefits, including flexible hours and work location; these job conditions are increasingly viewed as viable substitutes for higher wages. The panelists also noted that many employers have altered their recruiting strategies and standards in response to tight labor markets. Companies have expanded their recruiting to reach wider geographic areas and previously neglected groups. In the extreme, some employers have started providing transportation from outlying areas to urban cores, or vice versa, to bring workers to jobs. In the airline industry, widespread pilot retirements have led to expanded recruiting efforts. Because a college degree is not a strict requirement to become a pilot, this includes reaching out to high school students to make them aware of this career option.

The Q&A discussion expanded on some key issues. In response to a question about the need for retraining, panelists noted that colleges and universities are not sufficiently adaptable to prepare students for jobs of the future, necessitating increased direct training by employers. Regarding the apparent diminished relationship between tight labor markets and wage and price increases, the panelists agreed that industry competition forces them to look for alternatives, such as greater production efficiencies, rather than simply raising wages and prices.

Closing Keynote

Professor Atif Mian of Princeton University focused on the growth in debt-financed consumption spending over the past few decades in his final keynote address. He linked this pattern to rising income inequality. Specifically, he argued that growth in top incomes leads to increases in savings that are used to finance consumption growth for lower-income groups that otherwise have seen limited gains in purchasing power. Because the current expansion has relied largely on growth in consumer spending in recent years, this raises the possibility that the hot economy rests on a fragile foundation. Mian emphasized the importance of emerging from the current low interest rate environment to foster sustainable growth, although he noted that monetary policy is not a primary contributor to these developments.

Appendix: Results from Pre-Event Questionnaire

In the months leading up to the *Fed Listens* town hall, the San Francisco Fed distributed a pre-event questionnaire to all invitees and received 108 responses. We provide here a summary of takeaways from the response comments, followed by tabulations of numerical responses to scaled questions.

Respondents weighed the Fed's two statutory goals about evenly, though a slightly higher share viewed price stability as "very important" compared with maximum employment (79 percent versus 72 percent). Several respondents stressed what they saw as a crucial link between the two goals: Maximum employment can boost incomes and spending, growing the economy, but price pressures should be contained to preserve stability. Most respondents indicated that the Fed has achieved those goals well over the past few years, observing that unemployment has fallen noticeably without a significant run-up in inflation. However, specific comments noted that "the benefits of a 'strong' economy are not [being] equitably distributed," even though "top-line figures for employment and inflation rates look very successful." A few respondents pointed to below-target inflation as a cause for concern.

Respondents viewed the labor market in 2019 as considerably stronger than in normal times, but many noted that wages have not risen as rapidly as in past periods of very low unemployment. In general, respondents cited the following advantages of running a tight labor market: improved wage growth, the inclusion of marginalized groups, added investment in worker training to reduce turnover, and broader economic growth that accompanies hot labor markets. For disadvantages, participants noted the threat of unsustainable inflation, disproportionate increases in housing costs, high worker turnover, and constraints on business expansion arising from worker shortages. In the current tight labor market, participants reported a mixed picture of whether wage increases are keeping pace with increases in the local cost of living. By a slim margin, most said wages have been growing faster than the cost of living, while many saw equal growth, and over one-fourth of respondents said wage growth has not been keeping pace, due in large part to briskly rising housing costs. Almost half of participants judged that moderate-income households benefit more than low-income households from periods of low unemployment because of differences in skills, mobility, and exposure to automation and offshoring.

Numerical Summary

The following are tabulations of numerical responses to scaled questions.[45]

How important are the Fed's two statutory goals—maximum employment and price stability?

	Not important	Somewhat important	Very important
Maximum employment	2% (2)	26% (25)	72% (71)
Price Stability	1% (1)	20% (19)	79% (76)

Over the past few years, how well do you think the Fed has done at achieving each of its two statutory goals?

	Not successful	Modestly successful	Very successful	Fully successful
Maximum employment	3% (3)	14% (13)	39% (35)	43% (39)
Price stability	6% (5)	26% (23)	41% (36)	26% (23)

How strong has your local labor market been in 2019, compared with typical conditions and also with past periods of very low unemployment rates ("peaks," such as 2006–07, 1999–2000, etc.)? Please consider job availability, wages and hours offered, other job benefits, etc.

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger
Compared with typical conditions	3% (2)	4% (3)	8% (6)	29% (23)	58% (46)
Compared with past peaks	4% (3)	6% (5)	11% (9)	43% (34)	36% (29)

Relative to increases in the local cost of living, recent wage increases have been:

Much smaller	Somewhat smaller	About the same	Somewhat larger	Much larger
5% (4)	22% (18)	36% (30)	35% (29)	2% (2)

In your view, do low- or moderate-income households benefit more from low unemployment?

Low income benefit much more	Low income benefit somewhat more	Same	Moderate income benefit somewhat more	Moderate income benefit much more
9% (7)	21% (17)	25% (20)	29% (23)	16% (13)

[45] Share of responses for each choice is reported, with number of respondents for each choice in parentheses. Shares may not sum to 100 because of rounding.

Board of Governors of the Federal Reserve System

Chair Powell provided opening remarks and the motivation for the *Fed Listens* event on October 4, "Perspectives on Maximum Employment and Price Stability," at the Board of Governors in Washington, D.C. He explained that the Federal Reserve System is hosting *Fed Listens* events around the country to improve its listening to and communication with representatives from diverse communities across the country.

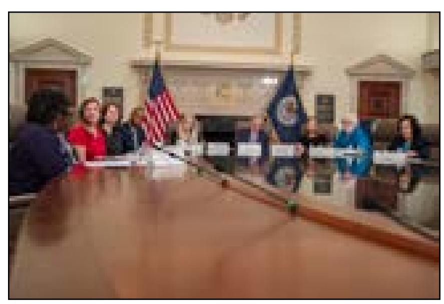
The two panels focused on the Federal Reserve's statutory, or dual, mandate: The first panel was devoted to discussing maximum employment, and the second panel focused on price stability. Federal Reserve policymakers asked questions about the labor market, inflation, the effects of the Fed's monetary policy on different communities and groups across the country, and the Fed's communications about monetary policy.

Panel 1: Maximum Employment

The first panel, moderated by Governor Brainard, featured speakers from two nonprofit organizations (Denise Scott, Local Initiatives Support Corporation, and Melinda Mack, New York Association of Training and Work Professionals), an industry consortium (Chad Moutray, National Association of Manufacturers), a start-up focused on freelance and gig economy workers (Sara Horowitz, Trupo), and an educational institution (Gregory Haile, Broward College). Several of the organizations work on increasing employment in low-income communities, sometimes partnering with businesses that provide jobs and training. Some organizations also work on education, housing, and health-care issues.

Current Labor Market Conditions

When asked whether the labor market feels as if it is at "full employment," the majority of panelists answered "no." Many cited pockets of persistently high unemployment—for instance, although the national unemployment rate is below 4 percent, some Zip codes and neighborhoods in large metropolitan areas have unemployment rates above 10 percent. Nevertheless, panelists agreed that a strong national labor market can help underserved populations find jobs and become attached to the labor force.

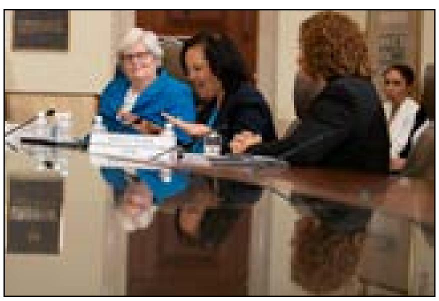


Panelists discussed structural barriers to employment faced by certain types of individuals and communities. Suitable housing was mentioned as a common barrier to stable employment; it is difficult for individuals to be focused and available for work when their homes are uninhabitable or they need to move frequently. Distance and transportation were mentioned as additional barriers that prevent people from connecting with job opportunities even in strong labor markets.

On the industry side, the manufacturing association representative indicated that employers perceive the labor market as tight; some companies have tried to delay the retirement of experienced employees because they find it difficult to hire qualified workers. At the same time, community organizations and colleges are offering degree and training programs to help individuals qualify for gainful employment.

Skills, Wages, and the Cost of Living

Panelists discussed some reasons for mismatch between the needs of employers and the skills of workers. Some participants mentioned that, even in tight labor markets, many job postings have education requirements that screen out suitable candidates. One panelist noted that, paradoxically, employers invest less in training during expansions because skilled workers are more likely to be poached when the labor market is tight. In expansions, workers might also prefer to earn money in low-skilled jobs rather than spend time seeking additional qualifications that would make them more likely to get a position with higher pay. However, in downturns, when many workers have a renewed interest in training and degree programs, there is less funding from employers and government sources. In addition, the college president noted that logistical barriers and a lack of information from official and unofficial sources can prevent capable individuals from upgrading their skills to qualify for better-paid jobs.



When asked about the relationship between wages and living expenses, panelists generally agreed that many jobs do not pay a living wage. Some pointed to survey evidence that a large fraction of employed individuals cannot meet their monthly expenses. One panelist mentioned the hollowing out of the middle class, possibly related to the decline of unions and collective action. Another mentioned that wages in many caregiving occupations, which are a growing proportion of employment, are set by Medicaid reimbursement rates and not by the market. The speaker representing self-employed workers highlighted the importance of safety net programs for independent workers who have less access to government and employer-provided benefits.

Panelists generally focused on the costs of housing, health care, and childcare in their discussions of living expenses. Panelists mentioned that affordability is not the only challenge; in addition, it is important that these services are stable, easy to obtain, and of acceptable quality. They noted that these key services support workers' abilities to remain employed and attached to the labor force.

The Federal Reserve's Relationship with the Public

Panelists were asked to suggest ways that the Fed could improve its communication with the public. One panelist suggested that the Fed enlist local ambassadors—individuals who are trusted and have large networks within their communities—who can help the Fed connect with and transmit information to populations it does not typically reach. Another proposed that the Fed partner with trusted organizations. Several panelists agreed the Fed uses too much jargon, with one noting that even terms like "maximum employment" and "price stability" sound very academic and abstract to most people. Some panelists suggested that outreach efforts, such as the Federal Reserve Bank of New York's comic book for school kids, and more general economics and personal finance education could help bridge the gap between the Fed and the public. On a more positive note, some of these community and industry leaders mentioned that they make use of Federal Reserve System tools, such as those on "opportunity occupations."

Panel 2: Price Stability

The second *Fed Listens* panel, moderated by Governor Bowman, featured speakers from a nonprofit organization (Nancy LeaMond, AARP, formerly the American Association of Retired Persons) and from two industry groups (Lisa Mensah, Opportunity Finance Network, and Holly Wade, National Federation of Independent Business). The institutions represented work with elderly Americans, small businesses, and financial institutions focused on serving communities that are typically underserved by mainstream banks. The panelists were asked how inflation affects the communities and institutions they represent. All of the panelists emphasized the importance of low, stable, and predictable inflation.

Vulnerability with Respect to Inflation

Some of the panelists emphasized that individuals in low-wealth and low-income communities who are already having a difficult time making ends meet are particularly vulnerable to increases in prices. Even small increases in inflation can be a challenge, and when people in these communities cut back on nonessential services because necessities become more expensive, the small businesses that cater to them also suffer. One panelist noted that about half of Americans over the age of 65 live exclusively or primarily on income from Social Security, which makes price stability especially important for their financial well-being.

The panelists widely agreed that the rising cost of health care is a major challenge to the people and groups they represent. This concern is particularly true for the elderly, whose financial well-being is closely tied to the cost of medical care and prescription drugs. In response to a question on how inflation affects employers' ability to hire or retain workers, one panelist pointed out that offering health insurance to employees is a significant cost to businesses. Continued increases in the cost of health care present a big challenge and make it more difficult for people to absorb other cost increases, especially if rising inflation means that those other costs increase more rapidly than in the past.

Small Businesses and Nontraditional Financial Institutions

The particular ways in which inflation can cause difficulties for small businesses were also discussed by several panelists. Small businesses cannot always pass cost increases on to their customers in the form of higher prices. Higher costs are thus a hit to small business earnings, which are often the main source of financing for expanding the businesses as well as for funding their retirement. Uncertainty over future inflation is particularly problematic, as businesses already have to navigate several uncertainties. A representative of a manufacturing industry association emphasized that manufacturing businesses, in particular, find it important to have certainty about pricing over long time horizons. Both recent developments in trade policy and the uncertainty surrounding tariffs were cited as examples of the uncertainties that businesses face over prices.

Regarding the problems created by rising inflation, the panelists mentioned that while inflation and rising costs were a major concern for many businesses at certain points in the past—especially when energy prices rose dramatically 30 to 40 years ago and again in 2008—those concerns are currently not among the biggest difficulties that they face. Indeed, businesses have benefited from the current environment of low and stable inflation. However, the panelists emphasized that rising and uncertain inflation would be difficult for businesses to deal with, especially if inflation were to increase suddenly.

A representative from a group of CDFIs noted that such institutions and the people and businesses they lend to are particularly sensitive to increases in inflation. As these financial institutions offer credit and financing at accessible rates in lower-income communities, they operate on thin margins. Higher inflation, which puts additional pressure on margins, thus makes it more difficult to offer reasonably priced loans. Because CDFIs are often the only institutions that lend in certain underserved communities, these challenges can affect access to credit for affordable housing or small business loans for many people.

Communicating about the Fed's Inflation Objective

The panel session included a discussion of the Fed's communications with the public. The panelists pointed to the importance of the *Fed Listens* events and to the Federal Reserve's convening power more generally, in terms of engaging with the public. With regard to the current environment of low inflation and low interest rates and the Fed's review of its monetary policy strategy, tools, and communication practices, panelists were asked how the Fed could best communicate its desire and possible efforts to see inflation rise to achieve the Committee's objective of 2 percent. Inflation has been below the FOMC's 2 percent objective since 2012, and the panel was asked whether trying to bring inflation up would make sense to the public and how the Fed could best communicate about it. The panelists noted that work must be done to explain why inflation should be higher, especially to communities that often do not see their wages keep up with prices. Even though, for the Fed, it seems natural that faster wage growth would result from higher inflation in the longer run, one panelist pointed out that the long run can feel distant for many in underprivileged communities who struggle before wages catch up. Another panelist emphasized that the Fed should make clear to the public what the benefits of slightly higher inflation would be.

Federal Reserve Bank of Kansas City

As part of the Federal Reserve System's *Fed Listens* program, the Federal Reserve Bank of Kansas City and Federal Reserve Chair Jerome H. Powell hosted a roundtable session with a group of local business and community leaders on October 9. This dialogue was part of the Fed's review of its strategy, tools, and communication practices related to its congressionally mandated policy objectives of price stability and maximum employment. Chair Powell and Kansas City Fed President Esther George listened to Missouri and Kansas leaders discuss a range of economic issues, such as labor market conditions, local banking, and community development challenges.[46]

The following is a summary of some of the key points raised during the Kansas City Fed's *Fed Listens* discussion:

Labor Market

U.S. employment growth has generally remained solid in 2019 at a time when the unemployment rate remains very low. Discussion participants were asked to characterize labor market conditions based on recent developments in their industry or area. Most respondents said that the top challenge they face is attracting and retaining quality workers. One participant noted that in the construction industry, the pipeline for talent has been limited because many people left the industry after the Great Recession and have not returned. Combined with this, an aging workforce nearing retirement has created multiple challenges to provide workers for the construction jobs that are currently available. Another participant shared that in the food service industry, a tight labor market and less participation among youth have made it difficult to keep staffing at adequate levels. Many firms are turning to technology and automation to replace the jobs they cannot keep fully staffed.

Workforce development organizations that are working to help people move back into the labor force face a threefold problem. The first problem is accessibility: the place where training, childcare, and work occurs. The second problem is affordability: the ability of people to afford training, childcare, and travel to and from work. And the third problem is availability: the time at which training, work schedules, and childcare are available. In a 24-hour economy, these three factors represent the primary barriers that limit many people from joining the labor force. To improve the skills and training of potential workers that are now demanded by employers, one participant advocated for an expansion of the school system from the current kindergarten-through-12th-grade model to a kindergarten-through-14th-grade system that would incorporate

[46] A webcast of the session is available on YouTube at https://youtu.be/oJ68LF6Fhnk.

additional credentialing and certification programs that prepare individuals for skilled employment.

Wage Inflation

Discussion participants were asked to characterize the current pace of wage increases for workers in their industry or area. Several participants noted that current conditions, with limited available workers for most positions, have been pushing wages higher. But small business are particularly affected by tight labor markets because they cannot afford to keep pace with the wage increases of larger firms. These smaller firms also have more challenges than larger firms in getting access to credit, so even when they have opportunities to expand their businesses, they have limited options in attracting talent and obtaining the financing needed to expand operations.

Inflation

Participants were asked to discuss the major cost and pricing pressures that firms in their industry and area are facing. A participant noted that in the construction industry, most of the upward cost pressure is coming from higher labor costs, which are primarily being driven by increases in health-care costs. Additional cost pressures include materials costs for construction, such as higher steel prices. Another participant similarly noted that in the information technology industry, labor costs are the biggest pressure, though compliance costs associated with the numerous regulations that firms need to comply with are a secondary cost.

Current Economic Conditions

Participants were next asked to comment more broadly on economic conditions, including comparing today's situation with conditions from 5 to 10 years ago. A participant from the agriculture industry shared that this industry is struggling for three main reasons. First, a glut of agricultural commodities is putting downward pressure on prices. Second, the current trade policy disputes and trade disruption have created additional downward pressure on prices through a decline in demand for U.S. agricultural commodities. And, third, the elevated value of the U.S. dollar has decreased the competitiveness of U.S. agriculture in the global market. These forces have combined to lower annual revenues for the agriculture industry by 50 percent relative to 6 to 8 years ago.

In discussing the Kansas City metro area, another participant noted that while Kansas City experienced moderate growth during most of the current expansion, growth has slowed in recent years. In particular, a concerning factor is that Kansas City is falling behind the pace of growth of its peers. One of the factors that may be limiting the current pace of growth is the industry mix for Kansas City, as it is perhaps not quite as diverse relative to its peers. A limited industry mix may be constraining current growth because of current weaker conditions in the agriculture and manufacturing industries. Another limiting factor may be the workforce, where 9 out of 10 new workers in Kansas City are minorities. These workers typically have less education and skill training than white households and therefore have a more challenging time in terms of competing for jobs. The positive news is that a number of innovative partnerships between public groups and private employers are being created to promote broader prosperity for the citizens of the Kansas City metro area.

A participant in the civil and structural engineering industry noted that economic conditions are very strong, but a notable shortage of workers is limiting the pace of business expansion. A high level of competition for engineers in the Kansas City metro area is driving wages higher. Many firms are focusing on developing their own talent via additional investment in the training of younger engineers.

Sustainable Economic Growth

For the final topic, participants were asked to discuss constraints currently facing businesses, households, and communities with regard to cultivating economic opportunity and the path toward improved economic outcomes. One participant in the nonprofit sector noted that nonprofits face the same issues as for-profits, including rising business costs, wage inflation, and challenges in training workers. Through a strong commitment to workforce development and creation of a charter school, this participant's organization is preparing a broad group of students from low- to moderate-income communities for college and employment in skilled jobs. The organization also runs a low-income credit union to contribute to a local economy where many of its customers are underbanked.

Another participant emphasized the importance of efforts by CDFIs to deploy capital in low-income communities. These efforts can help address economic and income disparities by assisting communities that have not been able to accumulate much wealth. One recent effort has focused on providing microloans to small businesses in these communities.

Several participants noted that the public education system would benefit from increased support and funding so that it can help the next generation of workers enter the labor force with the skills employers are seeking. In recent years, the pace of funding for education has not keep pace with growth in the private sector.

Federal Reserve Bank of Chicago

On October 17, the Federal Reserve Bank of Chicago hosted a *Fed Listens* event to better understand the perspectives of workers and their communities, especially those facing disadvantages, on the effects of monetary policy. Practitioners, advocates, and policymakers participated in two panel discussions focused on the Federal Reserve's long-run monetary policy goals established by the Congress, the tradeoffs associated with different approaches to monetary policy, and how these approaches affect disadvantaged workers and their communities.

Chicago Fed President Charles Evans and Fed Governor Michelle Bowman opened the session by emphasizing that workers and community representatives can provide important insights to help guide the Fed's work. The first panel discussed disadvantaged workers' experiences in the labor market. Panelists shared their experiences in workforce development, human capital development for workers with a criminal record, community college education, and labor organizing. The second panel explored wealth-building in LMI communities from the perspective of financial counseling, neighborhood revitalization and small business development, CDFIs, and federal housing finance policy. David Wessel, director of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution, moderated both panels.

Setting the stage for the panel discussions, Chicago Fed Executive Vice President Daniel Sullivan posed key questions of interest to Federal Reserve policymakers:

- Is unemployment below its natural rate, and should we worry about unemployment being too low?
- Which policy tools can help disadvantaged workers to be more productive and earn higher wages in the long run?
- Does the Federal Reserve need new monetary policy strategies?
- What kinds of macroeconomic conditions would best support efforts to build wealth in LMI communities?

The panel discussions provided important and diverse insights into how monetary policy affects disadvantaged workers' long-term employment prospects and their ability to build wealth. The panelists' observations are summarized as follows.

1. **The national unemployment rate may not be able to fully capture whether the economy is at full employment.**

   Panelists pointed to many reasons why the national unemployment rate is not sufficient for understanding whether the economy is at full employment. For one, panelists pointed to how labor market conditions are typically worse for workers they seek to help through their organizations, including dislocated workers, young workers, those with an arrest or a conviction, adults with spotty employment histories, and workers without a college degree. One panelist representing a workforce development agency questioned whether the term "full employment" characterized the state of the labor market for all workers, stating that in some neighborhoods, "it's always a recession"—for example, in Chicago neighborhoods with persistently high unemployment, between 15 and 17 percent. Panelists stressed that while such levels would be considered catastrophic for the country as a whole, they are among the lowest these communities have known. Several panelists said they did not believe the economy is at full employment because of the disproportionately high unemployment rates for African American men and those with disabilities and emphasized that these groups of unemployed workers represent an underutilized "talent pool." A panelist who works with formerly incarcerated workers reentering the workforce also asked whether one could confidently speak of full employment conditions without completely understanding who was being left out of the unemployment data. A panelist representing a labor union noted that workers in some industries may be more willing to go on strike in a strong labor market. This may highlight how today's low unemployment rate does not ensure good employment conditions for all workers.

2. **Disadvantaged workers and their communities experience worse outcomes during recessions and recover more slowly.**

   One panelist noted that the formerly incarcerated are hit particularly hard by a recession, as they tend to be among the last hired and the first fired. Panelists emphasized the need for such workers to experience lengthy employment periods so that they can enhance their work histories, support their families, and build wealth. A panelist working in Chicago neighborhoods noted that the business cycle also hits minority communities harder than others.

   To illustrate this point, a panelist acknowledged that while economic conditions in Chicago's LMI neighborhoods may be better than ever, conditions are still worse than those associated with a recession in most of the nation. Another panelist pointed out that some African American families remain reluctant to buy homes today, particularly in neighborhoods still recovering from the foreclosure crisis, which hit them especially hard. A panelist representing a labor union stated that in certain communities, it has taken a long time for wage gains to emerge; indeed, some private-sector employers still have not raised wages. Panelists also said that adverse outcomes from the recession endure for many low-income workers in terms of unfavorable work contracts or unstable employment arrangements.

3. **Labor market conditions have more direct effects on disadvantaged workers and their communities than does the inflation environment.**

   Panelists emphasized that the strong economy provided new opportunities for workers that typically have difficulty participating in the labor market or securing higher wages and better working conditions. One panelist representing workers with arrest and conviction records shared that employers have become less selective in today's tight labor market and are beginning to look at those workers as untapped talent. In some instances, employers have changed hiring practices and policies to be able to hire workers with criminal records. A few panelists noted that some, but not all, workers were finding it easier to secure higher wages, and one panelist noted industry-wide differences in the ability to obtain higher wages. A panelist representing a community college pointed out that employers experiencing difficulty finding skilled workers have become more interested in working with community colleges to develop training programs. The same panelist also noted that enrollment levels were lower during periods of economic expansion, as young adults chose working over enhancing their skills through education.

   On the subject of price stability, panelists had few direct examples of the effects of inflation on workers and their communities. Some panelists felt the concept of inflation was abstract for people dealing with the day-to-day challenges of making rent or paying for childcare. Opinions varied across panelists on how sensitive LMI communities are to changes in interest rates. One panelist specializing in housing finance spoke about the challenge house price inflation was creating for those seeking to purchase their first home but acknowledged the unclear relationship between rising house prices and the general inflation rate targeted by the Federal Reserve. Several panelists shared their perspectives on factors that may be leading to higher prices in the housing market, such as construction and regulatory costs. They generally agreed that addressing these concerns is essential to increasing the supply of affordable housing and enable first-time buyers to enter the market.

4. **Stable unemployment and inflation are better for disadvantaged workers and their communities than periods of major ups and downs in the economy.**

   Panelists representing organizations that serve disadvantaged workers generally expressed concern about employment volatility and agreed that stable labor market conditions benefit these workers. Another panelist noted that workers with criminal records who are only beginning to enter the labor force need additional time to strengthen their labor force attachment and build out their work history. The panelists also expressed concern that a recession could reverse the gains that have accrued to workers with criminal records during the expansion.

   Panelists also agreed that stable conditions were more conducive to fostering wealth accumulation in LMI communities. Several panelists shared their perspectives on economic stability and how CDFIs are able to pass on lower interest rates to borrowers during periods of sustained low rates. One panelist representing a CDFI explained that economic and community development takes time, and CDFIs are better able to get their clients to a point where they might be able to get bank accounts or mortgages when economic conditions are stable. They also emphasized that people need sufficient time during good economic conditions to gather information about how to start businesses and secure financing. Similarly, a panelist pointed out that economic development takes a long time to have an effect, underscoring the risk of economic volatility undermining real estate development projects in LMI neighborhoods.

5. **In the credit market, monetary policy is but one of several factors influencing borrowing and lending.**

   One panelist noted the many reasons why low interest rates do not reach creditworthy households, including risk-based pricing and the difficulty of documenting income among self-employed workers. Also, others noted that mortgage borrowing may be low today because there is a thin inventory of homes for sale at prices that LMI households can afford. Panelists described how the credit experiences of their constituents are also affected by economic cycles, with credit standards (including down-payment or mortgage insurance requirements) being looser during an expansion and tighter during a contraction. Panelists agreed that LMI households' access to credit was adversely affected during recessions.

   However, panelists working with CDFIs emphasized the stabilizing role of CDFIs in providing credit to LMI communities during recessions when the availability of credit dries up. While CDFIs tend to be small in scale, they often become an important lender in markets when banks pull back. As mission-driven lenders, CDFIs also transmit low interest rates directly to their customers, panelists said.

6. **The link between the Federal Reserve's monetary policy tools and income inequality is indirect and complex.**

   Panelists generally recognized the limits of the Fed's monetary policy tools for mitigating income inequality. However, many noted that extended periods of economic stability enable program and service providers to develop and deliver interventions that benefit disadvantaged workers and their communities. For example, a panelist representing a community college spoke about how the institution is training students and adapting curricula so that their graduates can better match the skills employers say they need. Another reflected that periods of economic stability enable those not in the labor force—for example, the formerly incarcerated—to gain access to and seek job opportunities and, in due course, to develop human capital and build savings.

   Panelists' insights into how income inequality affects disadvantaged workers highlighted indirect connections with monetary policy. For example, one panelist noted the importance of reliable transportation infrastructure for accessing economic opportunities, recognizing that such funding depends, in part, on financial market stability and the availability of taxpayer resources. Another panelist noted that a lack of access to high-quality and affordable childcare leads to challenges in securing employment, a target of the Fed's monetary policymaking. They also noted that, in some cases, even zero interest rates would not be enough to enable their constituents to buy a house, for example, due to the challenge of documenting income (in the case of someone working in the informal or "gig" economy) or the burden of student loans.

7. **The Federal Reserve's economic research and its ability to bring experts and policymakers together can have important roles in our nation's policy deliberations on many important economic issues.**

   Panelists noted that they had found research by Federal Reserve economists useful for understanding topics such as labor market discrimination. The moderator observed that the research done by Federal Reserve economists is providing important insights into when and how policy interventions may be effective at inducing sustainable wage growth, strengthening household economic resilience during recessions, reducing labor market discrimination, and related issues. An audience member suggested that the Federal Reserve's research could help "depoliticize" the issues related to income inequality. One panelist recognized the important role of the Fed as a convener in bringing together actors who can collaborate on policy solutions.

Update, Board of Governors of the Federal Reserve System

The Federal Reserve Board convened an event, "*Fed Listens* Update: How Is COVID-19 Affecting Your Community?" on May 21, 2020, to hear from a number of the panelists who participated in *Fed Listens* events in 2019 about the effects of the rapidly changing public health and economic environments.[47] Following opening remarks from Chair Powell, Governor Brainard provided each panelist with a comment he or she made in 2019 and asked them to discuss the changes their communities were facing since the onset of the coronavirus (COVID-19) in the United States.

Amanda Cage (president and CEO, National Fund for Workforce Solutions) had spoken in 2019—at a time when the national unemployment rate was below 4 percent—about low-income neighborhoods in Chicago facing double-digit unemployment rates.[48] These low-income neighborhoods had been hit very hard by the coronavirus, with rates of infection far higher than in other parts of the city. In addition, jobs had disappeared—in hospitality, childcare, private security, and other areas. For those still working—in delivery, in warehousing, or at grocery stores—the work was more difficult than ever, entailing greater demands in riskier working conditions. Cage observed that in 2019, her concern had been about sharing prosperity, whereas the current challenges are how to provide distance training to those who do not have internet connections and how to bring together the newly unemployed with the companies that are still hiring.

Patrick Dujakovich (president, Greater Kansas City AFL-CIO) reported in 2019 that one of the great things about the good jobs market was that it was providing the most vulnerable people with a foothold in the workforce.[49] At the same time, he had warned about the risk those vulnerable new employees would face in an economic downturn. When asked how those most vulnerable workers were faring now, Dujakovich responded that his greatest concern was that people without education or skills would lose hope, especially if the downturn proved to be long lived. For now, families are benefiting from stimulus checks and increases in unemployment benefits. But those benefits will end soon, and it will be difficult for many families to meet their financial commitments if the downturn continues and the benefits are not renewed. At the same time, being out of the workforce will lead to career damage for many workers. Dujakovich emphasized that people want to work, but they also need to be able to work safely.

[47] The event was livestreamed; the transcript and video are available on the Board's website at https://www.federalreserve.gov/conferences/fed-listens-how-is-covid-19-affecting-your-community.htm.

[48] Amanda Cage was a panelist in the Federal Reserve Bank of Chicago's *Fed Listens* event in October 2019. A summary of that event is provided earlier in this part of the report. A video of the event can be found on the Bank's website at https://www.chicagofed.org/conference.

[49] Patrick Dujakovich was a panelist at the System research conference in June 2019. A summary of that event is provided earlier in this part of the report. A video of the event is available on the Bank's website at https://www.chicagofed.org/events/2019/fed-listens-conference-on-monetary-policy.

When asked if many people in their communities had returned to work, Dujakovich noted that those who have jobs may not be able to work safely—workers in meat-packing plants, for example. Cage commented that even if some sectors of the economy reopen, others face lasting changes. In the hospitality sector, many of the jobs are filled by low-skilled workers, and a longer-term loss of those jobs would deny opportunities for many. Health care had provided steady employment in the past, but with this crisis, there are layoffs.

Juan Salgado (chancellor, City Colleges of Chicago) noted in 2019 that students at the City Colleges of Chicago, who are largely African American and Latinx, were benefiting from apprenticeship programs with local businesses and from having pathways to entry-level jobs that might historically have gone to students with four-year degrees.[50] These apprenticeship programs had been created in response to difficulties locating employees in the tight labor market. Although the collapse in the economy from the public health crisis has been devastating to his students, the situation for the apprenticeship program has been better, as employers have not pulled back—indeed, some have stepped up the number of apprenticeships—and have generally been very supportive of their apprentices. In Latinx and African American communities, it is rare for workers to be able to work from home, so the stability that the apprenticeship program provides is especially valuable.

When asked about the experience with remote learning and plans for the fall semester, Salgado replied that the transition to remote learning had been successful, in part because City Colleges of Chicago already had the technology in place. As to the fall, he was hopeful that remote learning could be offered as an option. Remote learning is not possible for everyone, however, as individual family circumstances can make it difficult for some students.

Darrin Williams (CEO, Southern Bancorp, Inc.) runs a CDFI as well as a community bank. When asked how the communities in the Arkansas and Mississippi Delta were weathering the COVID-19 crisis, he responded that Southern Bancorp had reached out aggressively to small business customers and encouraged them to apply for Paycheck Protection Program (PPP) loans. To date, his bank had processed more than 1,200 PPP loans totaling more than $110 million, was cashing stimulus checks without a fee for those without a bank account, was deferring loan payments for consumer and commercial banking customers, and was providing assistance to customers who were unfamiliar with accessing banking services remotely. Asked about the differences between the more- and less-advantaged locales his organization serves, Williams spoke of creative efforts by the nonprofit branch of his organization to provide grants to very small cash-based businesses that rely on informal accounting systems and are not eligible for PPP loans.

Bobby Ukrop (president and CEO, Ukrop's Homestyle Foods) provided an update on conditions at his Richmond-area food preparation company, which has suffered a sales loss of 25 percent since the onset of COVID-19.[51] Although grocery store sales are generally higher, Ukrop's provides many self-serve items that have been affected by health concerns (salad and hot-food bars) or by stay-at-home orders (packaged lunches for office workers and cakes for party celebrations). His sales have

[50] Juan Salgado was a panelist at the System research conference in June 2019. A summary of that event is provided earlier in this part of the report. A video of the event can be found on the Bank's website at https://www.chicagofed.org/events/2019/fed-listens-conference-on-monetary-policy.

[51] Bobby Ukrop was a panelist in the Federal Reserve Bank of Richmond's *Fed Listens* event in May 2019. A summary of that event is provided earlier in this part of the report.

also been hurt by shifts at grocery stores toward high-priority items, such as cleaning supplies, and his business is coping with increased health and safety concerns. On pricing, Ukrop indicated that his firm had successfully raised prices and wages last year but may not be able to afford another wage increase this year. The firm received a PPP loan, which his company's community bank processed very promptly.

Another small business owner, Joanne Chang (Flour Bakery) noted that her eight cafés had closed for five weeks while the Boston area was a COVID-19 hotspot.[52] That shutdown furloughed 490 of the firm's 500 employees. Since then, half the cafés have reopened, with limited operating hours for pickup and takeout. Overall, sales are down 75 to 80 percent. The employees who have returned to work are managers, who are likely to adapt most readily to the new working environment. Her company raised wages in order to compete with the hike in unemployment benefits and is running a shuttle service for employees who would typically commute by public transportation.

When asked when her cafés will be able to return to pre-crisis operations, Chang answered that having people physically enter the cafés and sit down is probably at least a month away. Even so, they will need to reorganize operations—to provide greater distancing among kitchen staff and to limit the number of customers in the cafés at any one time.

Janie Barrera (president and CEO, LiftFund) spoke to the effects of the pandemic on the small borrowers that her CDFI funds.[53] Most of LiftFund's clients are in the service sector, which has been particularly hard hit by the crisis. As a first step, LiftFund deferred payments on business loans for four months and extended credit and grants to businesses with fewer than 10 employees. Many of the new loans were made under the PPP. Because many very small businesses are not accustomed to taking on debt, basic financial education is a key part of the process. Looking ahead, LiftFund sees helping businesses plan for their ultimate survival as a central part of its outreach.

When asked about the availability of PPP loans, Barrera indicated that for larger, more sophisticated businesses, applying for and obtaining a PPP loan were quite straightforward. LiftFund has focused its attention on providing assistance to the many very small businesses that could benefit from a PPP loan.

Aaron Gornstein (president and CEO, Preservation of Affordable Housing) had emphasized the importance of employment for making housing affordable in his 2019 remarks.[54] Gornstein indicated that health and safety issues raised by the COVID-19 crisis were his organization's first concern: checking up on residents and making sure they have access to food, health care, and government support. He pointed out that job loss has been particularly heavy for low-income workers who need affordable housing. For those who continue to work, a chief concern has been school closings and the lack of childcare. Rent collections from his organization's housing communities are down but somewhat less than had been expected, in part because of the support

[52] Joanne Chang was a panelist in the Federal Reserve Bank of Boston's *Fed Listens* event in May 2019. A summary of that event is provided earlier in this part of the report.

[53] Janie Barrera was a panelist at the System research conference in June 2019. A summary of that event is provided earlier in this part of the report. A video of the event can be found on the Bank's website at https://www.chicagofed.org/events/2019/fed-listens-conference-on-monetary-policy.

[54] Aaron Gornstein was a panelist in the Federal Reserve Bank of Boston's *Fed Listens* event in May 2019. A summary of that event is provided earlier in this part of the report.

extended by the CARES Act. However, stresses on renters would likely rise once the current government support expires in the late summer. Gornstein noted that expanded tax credits in conjunction with the Community Reinvestment Act could play a role in supporting affordable housing during the crisis.

In 2019, Nancy LeaMond (executive vice president and chief advocacy and engagement officer, AARP) had focused on the economic anxiety of older Americans.[55] While older Americans were already nervous about the economy at that time—when conditions were strong—it is clear that they are even more nervous now. AARP does extensive outreach to its 38 million members, conducting frequent polls and fielding phone calls. AARP's members are very concerned about the health aspects of the pandemic and about the risks associated with reopening the economy too early. In addition, AARP was hearing from older Americans who had not yet received stimulus checks and who were having difficulty filing for unemployment benefits. LeaMond pointed out that it generally takes longer for older Americans to find jobs when they are laid off. Overall, older Americans are much more concerned about their financial condition than before the pandemic. That concern is clear not only for those fortunate enough to have a 401(k) account, who have seen the value of their stock market investments fall, but also for those who had been relying on jobs in the "gig" economy—driving a ride-share or operating a home-share to supplement their incomes.

In a final question, Governor Brainard asked the panelists how they think the coronavirus will alter the landscape for work in the communities they serve. Panelists touched on a number of topics, including the importance of government initiatives, such as the New Deal, in stemming high unemployment; the concern that the COVID-19 crisis will exacerbate existing inequality, especially for those in the African American and Latinx communities; the loss of jobs associated with cancellation of concerts and other major public events; the transformation of education; and the long-term effects on consumer eating and dining patterns.

[55] Nancy LeaMond was a panelist in the Federal Reserve Board's *Fed Listens* event in October 2019. A summary of that event is provided earlier in this part of the report.

PART 3: FEDERAL RESERVE SYSTEM RESEARCH CONFERENCE

The Federal Reserve's research conference held on June 4–5 included seven research sessions and two *Fed Listens* panels; the *Fed Listens* panels are summarized in Part 2 of this report.[56] This part provides brief summaries of the research presentations, the discussants' remarks, and the audience comments.

Session 1: Review of the Federal Reserve's Current Framework for Monetary Policy

In their paper "The Federal Reserve's Current Framework for Monetary Policy: A Review and Assessment," Janice Eberly, James Stock, and Jonathan Wright summarize the Federal Reserve's current framework for monetary policy, review the efficacy and consequences of the policies undertaken during and in the aftermath of the financial crisis that began in 2007, and discuss how the U.S. economy would have evolved during the economic expansion that began in 2009 under alternative scenarios for monetary policy.[57]

After the FOMC reduced the policy interest rate to nearly zero in late 2008, policymakers turned to two other policy tools to provide stimulus to the economy: changes in the Federal Reserve's balance sheet and communications about the expected future path of policy, known as "forward guidance." The authors review studies in the research literature on the efficacy of balance sheet and forward-guidance policies. Regarding balance sheet policy, purchases of longer-term Treasury or agency securities affect interest rates by reducing risk premiums on longer-term bonds and by signaling that the Federal Reserve intends to keep policy rates low for a longer period than in the absence of the purchases. Existing studies indicate that the effects of the Federal Reserve's asset purchases on output and inflation were positive, economically meaningful, and perhaps strongest in the early stages of the recovery. Some studies suggest that purchases of mortgage-backed securities increased mortgage refinancing activity, at least among households that were not underwater in making mortgage payments, and that asset purchases in general supported bank lending.

Research on forward guidance indicates that the Federal Reserve's communications during the economic recovery helped shape expectations of households and businesses regarding the near-term path of the federal funds rate. Eberly, Stock, and Wright note that the evidence is mixed

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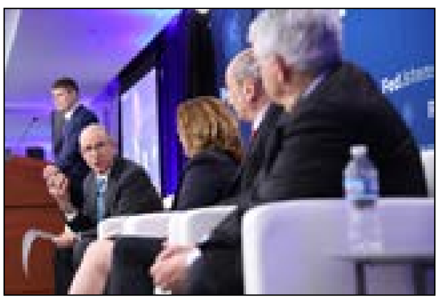
[56] The conference program with links to the papers, presentations, and videos is available on the Board's website at https://www.federalreserve.gov/conferences/conference-monetary-policy-strategy-tools-communications-20190605.htm.

[57] See Janice C. Eberly, James H. Stock, and Jonathan H. Wright (2020), "The Federal Reserve's Current Framework for Monetary Policy: A Review and Assessment," *International Journal of Central Banking,* vol. 16 (February), pp. 5–71.

regarding the effects of forward guidance on output and inflation, reflecting in part the possibility that monetary easing actions may convey negative information about the state of the economy.[58]

During the economic expansion that began in the second quarter of 2009, improvement in the labor market was steady and on pace with recent expansions despite historically slow output growth. Price and wage inflation were quiescent. Eberly, Stock, and Wright attribute much of the slow growth in output to factors that have little to do with monetary policy.[59] Therefore, the authors conclude that the scope for alternative monetary policies to bring about large improvements in output growth would have been limited. The authors also conclude that the steady decline in the unemployment rate during the recovery suggests that monetary policy remained effective despite the fact that the policy interest rate was constrained near zero.

The authors estimate a simple macroeconomic model to study how alternative scenarios for monetary policy would have affected the economic expansion. In their analysis, Eberly, Stock, and Wright treat balance sheet and forward-guidance policies collectively as "slope" policies that affect the slope of the term structure of interest rates.



The authors reach six main conclusions. First, slope policies supported the labor market and inflation; absent these policies, the unemployment rate would have fallen much more slowly than it did.[60] Second, more aggressive slope policies might have boosted the labor market and output growth, but output growth would nevertheless have remained below the pace observed in previous economic expansions because of the slowdown in productivity growth. Third, the FOMC cut the policy interest rate to nearly zero in late 2008, but because the rate could not move down further, interest rate policy was significantly constrained during the recovery; absent this constraint, the federal funds rate would have been about negative 5 percent. Fourth, small changes in the stance of monetary policy would have produced small changes in realized outcomes. Fifth, when the policy interest rate is constrained at or near zero, alternative policies with the largest effects involve early and aggressive slope policies. Finally, if the Federal Reserve had "inherited" an inflation target of 3 percent rather than the 2 percent goal the FOMC specified in its Statement on Longer-Run Goals and Monetary Policy Strategy, the economic recovery would have been substantially more rapid.[61]

[58] Nakamura and Steinsson (2018) find that a surprise monetary policy easing—measured using an event-study approach—leads to lower nominal and real interest rates as well as a decline in projected output growth. The response of output growth forecasts is the opposite of what one would conventionally expect from monetary policy easing, suggesting that surprise easing conveys negative information known to the Federal Reserve about the economic outlook. See Emi Nakamura and Jón Steinsson (2018), "High-Frequency Identification of Monetary Non-Neutrality: The Information Effect," *Quarterly Journal of Economics*, vol. 133 (August), pp. 1283–1330.

[59] The authors point to demographic factors (the retirement of the baby boomers), a slowdown in productivity growth reflecting structural trends in the U.S. economy, and headwinds from fiscal policy before 2018, all of which predate the financial crisis.

[60] The authors find that the unemployment rate would have reached the CBO's estimate of the long-run natural rate of unemployment more than one year later.

[61] In this scenario, the unemployment rate reaches the CBO estimate of the long-run natural rate seven quarters earlier. The FOMC first articulated its 2 percent goal for inflation in the Statement on Longer-Run Goals and Monetary Policy Strategy, first issued in January 2012. The statement is available on the Board's website at https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf.

Eberly, Stock, and Wright note important caveats regarding their counterfactual scenarios, including that the scenarios were conducted with the benefit of hindsight; some of the scenarios were not feasible in real time; and the scenarios do not take account of concerns that might have limited a more aggressive stance of monetary policy.[62] The authors emphasized that the counterfactual scenarios should not be interpreted as second-guessing the Federal Reserve, but rather as informing discussions about the efficacy of monetary policy in a low-inflation environment.

Discussion

Following the authors' presentation, John Taylor offered remarks from the perspective of rules-based monetary policy, which has been a hallmark of his academic work. Taylor questioned the authors' assertion that the Federal Reserve's current framework for monetary policy began in 2012, pointing to deviations from rules-based monetary policy from 2003 to 2005 when the FOMC began employing forward guidance about the policy interest rate in its communications. He raised various technical issues about the empirical model that Eberly, Stock, and Wright used for the alternative scenarios; in particular, Taylor did not agree with treating the level of the policy interest rate and the slope policies as distinct or with the absence of a structural model that could be used to assess different policy rules. At a minimum, the authors should have subjected their findings to checks for robustness. In sum, Taylor argued that the evidence for the effectiveness of slope policies in supporting the economic recovery was weak, that the FOMC should not raise its inflation goal above 2 percent, and that the Federal Reserve and other central banks should aim for rule-like monetary policies.

Questions from the audience focused on a range of issues, including the role of productivity growth in economic expansions and its relationship to full employment; the role of other economic policies—for example, fiscal policy—in combating economic downturns; the effectiveness of policies the authors did not consider, such as targeting the yield curve or reducing policy interest rates below zero; and the role of Federal Reserve communications in enhancing policy effectiveness in the next economic downturn.[63]

Session 2: Maximum Employment

Katharine Abraham opened her presentation by referencing communications from Federal Reserve policymakers about the difficulties associated with assessing maximum employment, one of the statutory goals for monetary policy. Tightness in labor markets—that is, the position of the economy relative to full employment—is often assessed using the gap between the unemployment rate and an estimate of the natural rate of unemployment. Macroeconomic models commonly used by central banks rely on this gap.

[62] For example, the scenarios do not account for uncertainty about the effects of slope policies or unintended adverse consequences of monetary policy easing (such as excessive risk-taking in financial markets).

[63] A detailed review of the audience discussion is available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/~/media/others/events/2019/monetary-policy-conference/session-1-audience-qa-summary-pdf.pdf?la=en.

The research literature on search and matching models uses an alternative measure of labor market slack—the ratio of vacancies to unemployment (V/U)—that assesses slack in the labor market based on flows into and out of employment.[64] Abraham noted that, like the unemployment rate, V/U was pointing to very tight conditions in the labor market, although there was little sign of acceleration in wages or prices, as would be expected when labor market conditions are tight. She reviewed potential explanations for the disconnect between indicators of labor market tightness and inflation, with one explanation being the mismeasurement of tightness.

In their paper prepared for the conference, "How Tight Is the Labor Market?" Abraham and John Haltiwanger propose amendments to the standard V/U measure to create a more accurate and comprehensive indicator.[65] In particular, the standard search measure includes only the unemployed and excludes searchers who are outside of the labor force as well as those who are already employed; the authors add in these groups. In addition, the authors weight particular types of job searchers by their search intensity because the intensity of search by the different groups may vary with labor market conditions. Finally, because the recruiting intensity of employers may vary with labor market conditions as well, Abraham and Haltiwanger weight aggregate vacancies by recruiting intensity.

Search intensity on the part of job seekers and recruiting intensity on the part of firms include both the time and resources devoted to search and recruiting as well as a worker's efficiency at finding work and the stringency or looseness of a firm's hiring standards. The authors approximate search intensity by looking at a group's average ability to find a job. For example, unemployed workers on temporary layoff find jobs significantly more quickly, on average, than those who have permanently severed ties with their previous employer. Furthermore, unemployed workers are, on average, more likely to find jobs than either employed workers or those out of the labor force. Thus, workers on temporary layoff get the highest weight—or highest estimated level of search intensity—in the expanded measure, and unemployed workers have a higher weight than employed workers or individuals out of the labor force. Because employed workers and individuals out of the labor force are an order of magnitude larger than the unemployed, those groups each account for more hires and more effective searchers, on average, than the unemployed even though they have a lower search intensity than the unemployed.

The sum of all job searchers weighted by their search intensities equals the effective number of job searchers, while the product of vacancies and recruiting intensity equals the effective number of vacancies. The Abraham–Haltiwanger generalized measure of labor market tightness (GLMT)

[64] Labor market tightness can be represented as the ratio of labor demand (job vacancies, or V) to labor supply (the number of workers searching for a job, which is often measured using unemployment, or U). A high (low) ratio of V to U indicates a low (high) level of labor market tightness.

[65] See Katharine G. Abraham, John C. Haltiwanger, and Lea E. Rendell (2020), "How Tight Is the U.S. Labor Market?" paper presented at the Brookings Papers on Economic Activity Conference, held at the Brookings Institution, Washington, March 19, https://www.brookings.edu/wp-content/uploads/2020/03/Abraham-et-al-Conference-Draft.pdf.

is the ratio of effective vacancies to effective job searchers.[66] The authors show that the GLMT is highly correlated with the standard V/U measure but is much less cyclical and is a better predictor of hiring. At the end of 2018, the GLMT was noticeably below the standard V/U measure, signaling substantially less tight labor market conditions than the standard measure.

Abraham and Haltiwanger propose constructing the GLMT on a regular basis in the future. Such a measure could be a helpful addition to the variety of gauges that economists routinely consult to assess the position of the economy relative to full employment.

Discussion

In his discussion of the paper, Jared Bernstein observed that the maximum-employment goal in the Federal Reserve's mandate is very broad and is difficult to capture with a single statistical measure such as the GLMT. He noted evidence showing that the GLMT was about as good in explaining the variance in core inflation or growth in nominal wages as some widely used measures of labor market slack, such as the unemployment rate; for that reason, he suggested that the Federal Reserve add the GLMT to the dashboard of labor market indicators it monitors regularly. Finally, Bernstein offered a broader lesson for policymakers: The diminished responsiveness of inflation to constraints in labor and product markets, together with the benefits associated with high-pressure labor markets in bringing about opportunities for disadvantaged groups, creates an asymmetry in favor of a monetary policy that keeps interest rates low for a long time.

Questions from the audience covered a range of issues, including the extent to which the GMLT could be used to gauge the effect of labor market slack on wages and prices; the potential benefits of pushing the labor market beyond full employment; how the GLMT relates to other measures of labor market tightness; whether technological changes that have sharply reduced the costs to employers of posting job vacancies might have resulted in a structural break in the authors' measure of recruiting intensity; the difficulty of distinguishing cyclical from structural influences on search intensity; and structural factors that may be inhibiting labor market performance for lower-skilled workers.[67]

Session 3: Global Dimensions of U.S. Monetary Policy

In "Global Dimensions of U.S. Monetary Policy," Maurice Obstfeld explores the main channels through which global factors affect tradeoffs for the Federal Reserve's monetary policy.[68] He focuses on three broad areas: (1) the influence of global factors on the U.S. inflation process; (2) the effects of

[66] Abraham and Haltiwanger produce three measures of generalized labor market tightness. Because the movements in these measures are highly correlated, they are referenced here as "GLMT." Their work builds on that of Robert E. Hall and Sam Schulhofer-Wohl (2018), "Measuring Job-Finding Rates and Matching Efficiency with Heterogeneous Job-Seekers," *American Economic Journal: Macroeconomics*, vol. 10 (January), pp. 1–32

[67] A detailed review of the audience discussion is available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/~/media/others/events/2019/monetary-policy-conference/session-2-audience-qa-summary-pdf.pdf?la=en.

[68] See Maurice Obstfeld (2020), "Global Dimensions of U.S. Monetary Policy," *International Journal of Central Banking*, vol. 16 (February), pp. 73–132.

growing financial integration on the downward trend in interest rates in recent decades and the transmission of shocks; and (3) the role of the U.S. dollar in international markets, its influence on the transmission of U.S. monetary policy to the rest of the world, and spillback effects to the U.S. economy.

Obstfeld reviews several ways to measure the economic interconnectedness between the United States and other economies—the U.S. share of world GDP, shares of U.S. exports or imports in domestic GDP, and U.S. gross foreign assets or liabilities as a percentage of domestic GDP. The last measure, which captures financial openness, has risen steadily and significantly since 1990.

Obstfeld then discusses several international factors that affect U.S. inflation and asks whether these factors have contributed to the observed decrease in the responsiveness of inflation to domestic economic slack. The Philips curve relationship links inflation to expectations of future inflation and a measure of slack in the economy; this relationship has become weaker in recent years. Obstfeld examines whether the weaker Phillips curve relationship can be explained by increased international competition, a stronger influence of foreign prices due to a higher share of imports, or changes in wage behavior brought about by globalization. He finds that the evidence for globalization's role in the weakening of the Phillips curve is unclear.

Next, Obstfeld discusses the implications that movements in international financial markets have for U.S. monetary policy. In a world with somewhat integrated financial markets, movements in foreign investment demand and in the desire to save generate international asset flows that affect longer-term trends in the general level of interest rates in the United States. The tendency for the demand for safe dollar assets (that is, U.S. Treasury securities) to rise in periods of global stress can lead to upward pressure on the dollar and downward pressure on U.S. interest rates. Obstfeld points out that, in addition to overall flows, the composition of international financial flows might have implications for interest rates and monetary policy. As U.S. monetary policy responds to changes in trend movements in interest rates so as to stabilize domestic economic activity and inflation, the central bank needs to monitor foreign developments closely to anticipate pressures on interest rates and consider how changes in exchange rates will affect financial flows.

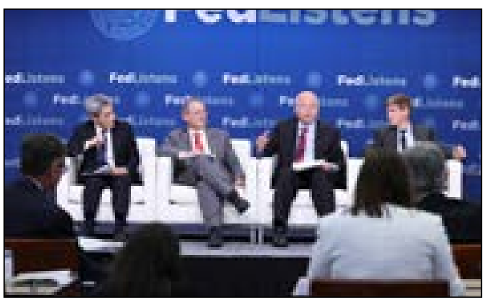
Finally, Obstfeld discusses policy considerations resulting from the special role that the U.S. dollar plays in the global economy and international financial markets. The dollar is frequently used in international trade transactions even if the parties involved in the transaction are located outside the United States. In addition, the dollar is often a point of reference for setting payments in international contracts, such as corporate bonds. This safe asset role of the dollar provides an additional channel for U.S. monetary policy changes to lead to an effective revaluation of the terms in existing contracts. Obstfeld places this channel in the context of a global financial cycle, where changes in U.S. monetary policy drive trade volumes, foreign asset prices, risk-taking, and cross-border lending. He points out that in this context, U.S. monetary policy tightening could have strong, negative spillovers to the rest of the world, which could then have adverse effects on the U.S. economy through trade and financial channels as global growth slows and financial vulnerabilities increase.

Discussion

In her discussion of the paper, Kirstin Forbes pointed to several international factors—in addition to the ones considered by Obstfeld—that could have implications for Federal Reserve monetary policy: global supply chains and markups, commodity prices, international capital flows, and financial stability worldwide. She noted that work on this issue had not yielded firm conclusions and that further study was needed.

Questions from the audience covered a range of issues, including the increased influence of U.S. monetary policy in light of the large number of countries that stabilize their exchange rates relative to the U.S. dollar; the spillover effects of the Federal Reserve's asset purchase programs and how those effects compare with spillovers associated with interest rate policy; the importance of Federal Reserve communications about the influence of foreign developments on the U.S. economic outlook; whether the dollar swap lines in the aftermath of the financial crisis had promoted the issuance of dollar-denominated debt outside the United States; and whether, if the spillover effects of monetary policy are not fully buffered by changes in exchange rates, it might make sense for central banks to take account of these spillovers and not pay attention solely to the effects that spill back on their domestic economies.[69]

Session 4: Federal Reserve Communications



Stephen Cecchetti began the presentation by noting the tremendous progress the Federal Reserve has made since 1993 with regard to transparency. Transparency of monetary policy is key in fostering democratic accountability and enhancing central bank credibility. Federal Reserve communications reinforce the institution's commitment to achieving its statutory goals of maximum employment and price stability. In "Improving U.S. Monetary Policy Communications," Cecchetti and coauthor Kermit Schoenholtz evaluate the FOMC's monetary policy communication practices and offer recommendations for their improvement.[70] The authors' analysis was informed by 24 interviews, conducted in person or in writing, of leading academics, financial market economists, and former Federal Reserve officials. In these interviews, Cecchetti and Schoenholtz asked open-ended questions about the primary objectives of FOMC communications, how FOMC communications should evolve in coming years, and the greatest challenges to effective FOMC communications.

Cecchetti and Schoenholtz outline three objectives that should underlie any changes in FOMC communications: (1) simplifying public statements while continuing to convey the divergence of policymakers' views; (2) clarifying how monetary policy reacts to changing economic conditions; and (3) highlighting policy uncertainty and risks.

[69] A detailed review of the audience discussion is available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/~/media/others/events/2019/monetary-policy-conference/session-3-audience-qa-summary-pdf.pdf?la=en.

[70] See Stephen Cecchetti and Kermit L. Schoenholtz (forthcoming), "Improving Monetary Policy Communication," in E. Pasten, R. Reis, and D. Saravia, eds., *Independence, Credibility, and Communication of Central Banking* (Santiago: Central Bank of Chile).

With regard to the first objective, the authors believe that FOMC communications should aim to reach the broadest possible audience, and that doing so requires "plain English." In their view, simplicity in communication is a cornerstone of the FOMC's democratic accountability. Moreover, clear communication of FOMC decisions and the rationale for those decisions supports central bank independence.

With respect to the second objective, conveying how monetary policy will respond to changes in economic conditions was the topic most frequently mentioned by interviewees.[71] Providing the public with this type of information can yield important stabilization benefits because monetary policy is fundamentally a forward-looking endeavor. Cecchetti and Schoenholtz argue that clear communications about how the FOMC would react to changes in economic conditions could provide a form of commitment that can lead to better economic outcomes.

Regarding the third objective, the authors believe that communicating the uncertainty about the likely evolution of the economy and the policy path is essential. In particular, they note that emphasizing the median projection in the Summary of Economic Projections (SEP) conveys a false sense of certainty and does not highlight the range of policymakers' views.[72]

Cecchetti and Schoenholtz discuss how policymakers can revise and improve their existing communication vehicles to meet the three objectives. First, the authors consider the Committee's annual Statement on Longer-Run Goals and Monetary Policy Strategy as the foundation for all monetary policy communications. They take the statement as given and do not offer proposals for improving it, although they recommend making clear the linkage between the goals statement and other key FOMC communications.

Next, Cecchetti and Schoenholtz recommend changes to three other important communication vehicles. The authors suggest simplifying the statement issued by the FOMC after each of its meetings in order to broaden public understanding of the Committee's most relevant written description of its actions, the rationale for those actions, and ongoing concerns. Cecchetti and Schoenholtz also suggest that the postmeeting statement should provide greater room for dissenting policymakers to explain their views.

In addition, the authors recommend a simplification of the FOMC meeting minutes, streamlining them to explain the Committee's actions to the public more clearly. The authors also propose reorganizing the sections in the minutes to highlight the Committee's decisions, rationale, and range of views, as opposed to the current structure, which follows the agenda of the meeting.

[71] The research literature refers to information on how policymakers respond to changes in economic conditions as the monetary policy "reaction function."

[72] The SEP, released in conjunction with the last FOMC meeting of each quarter, provides projections for real GDP growth, the unemployment rate, and inflation under each individual FOMC participant's view of appropriate monetary policy.

Finally, Cecchetti and Schoenholtz recommend converting the SEP into a concise *Inflation Report*.[73] As they envisage it, such a report would focus greater attention on the uncertainty involved in policymaking and on better conveying that the FOMC would revise its economic and policy outlook quickly and transparently when new information becomes available. In particular, the authors advise publishing individual projections to convey how each Federal Reserve Board member or Reserve Bank president reacts to economic information and sees the joint evolution of key macroeconomic variables. The authors also recommend showing historical forecast error bands in the initial SEP press release and postmeeting press conference. The authors provide examples of the postmeeting statement and *Inflation Report* to show how their proposals could be implemented.

Discussion

In his discussion of the paper, Jón Steinsson noted that forward guidance has been a critical element of Federal Reserve communications since 1999. He reviewed the two effects associated with forward guidance: a "traditional" effect, in which communicating the period over which interest rates are expected to remain low boosts growth, and an "information" effect that results if the communication about low interest rates conveys that the central bank is more pessimistic about the economic outlook than the private sector. Steinsson saw the SEP as important in providing policymakers' views about the economic outlook and recommended that the SEP be collected and released at each FOMC meeting. Finally, he viewed helping private-sector actors to understand how to translate economic developments into expected policy actions as the most important goal of communication.

Audience comments and questions addressed the challenges associated with communicating clearly to multiple audiences—the Congress, the general public, and experts in the press and financial markets—and whether the Federal Reserve should even be concerned with audiences other than the financial markets, given that monetary policy is transmitted to the economy via financial market prices.[74] Many in the audience offered their own detailed recommendations for communications, with much of the discussion centering on how best to convey information about uncertainty and risks as well as the merits of providing additional detail on the individual projections in the SEP. Other comments concerned the importance of communicating about how the Committee would alter interest rates in the face of new information about the economy and how the Federal Reserve might best talk about a new approach to monetary policy were it to adopt one as an outcome of its strategic review; such communications would be key, given that the effectiveness of monetary policy hinges on public understanding. Finally, there was discussion about the confusion that can arise when the Committee's communication (in the FOMC statement, for example) is at odds with the SEP, which reflects each individual's view about appropriate monetary policy and the resulting economic outlook.

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[73] The authors view the Bank of England's *Inflation Report* and its brief visual summary, "In a Nutshell," as providing a template for the Federal Reserve. In November 2019, the Bank of England's *Inflation Report* became the *Monetary Policy Report*. "In a Nutshell" from the most recent report, released in May 2020, is available on the Bank of England's website at https://www.bankofengland.co.uk/report/2020/monetary-policy-report-financial-stability-report-may-2020.

[74] A detailed review of the audience discussion is available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/~/media/others/events/2019/monetary-policy-conference/session-4-audience-qa-summary-pdf.pdf?la=en.

Session 5: Monetary Policy Strategies

Lars Svensson's paper, "Monetary Policy Strategies for the Federal Reserve," compares the usefulness of different monetary policy strategies for achieving the Federal Reserve's dual mandate of maximum employment and price stability.[75] Svensson's emphasis is on policy strategies that aim to offset, at least in part, previous misses of inflation from the central bank's inflation goal—these types of strategies are often referred to as "makeup strategies." Such strategies, if they are well understood by the public, can provide automatic stabilization during periods when policy interest rates are near zero. Based on an assessment of the challenges associated with securing public understanding for a new monetary policy strategy, the author recommends the adoption of flexible average inflation targeting (FAIT) rather than flexible or temporary price-level targeting (FPLT or TPLT, respectively).

Svensson advocates implementing a makeup strategy through setting the path of the policy rate to guide the forecast paths for the central bank's goal variables to best fulfill the central bank's mandate—an approach known in the research literature as "forecast targeting." Under this approach, the central bank communicates its policy intentions by publishing its intended policy rate path and its forecasts for its goal variables, such as unemployment and inflation. This approach allows the central bank to reveal the manner in which it intends to adjust, over time, its published policy rate path in response to incoming information.

Svensson looks at three specific strategies for monetary policy: Under *flexible inflation targeting*, the Federal Reserve adjusts the federal funds rate to keep a weighted average of an inflation forecast and an unemployment forecast close to maximum employment and 2 percent inflation. In Svensson's view, flexible inflation targeting is a good characterization of the Fed's current approach to policy. In particular, the Federal Reserve's price-stability mandate is reflected in the desire to keep the inflation forecast close to 2 percent, while the full employment component of the mandate is captured by the forecast for the unemployment rate. Under *FPLT,* instead of adjusting policy to keep inflation close to 2 percent, the Fed instead aims to keep the level of prices close to the path that would result if inflation rose every year by 2 percent; unemployment continues to be taken into consideration.[76] Finally, under *FAIT,* the inflation component reflects a forecast for inflation over several years. Svensson also discusses the proposal of TPLT advanced by Ben Bernanke.[77]

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[75] See Lars E.O. Svensson (2020), "Monetary Policy Strategies for the Federal Reserve," *International Journal of Central Banking*, vol. 16 (February), pp. 133–93.

[76] Under the Fed's current strategy, inflation that runs above or below 2 percent in a given year is not taken into account in subsequent years. Thus, misses of the inflation goal are not made up.

[77] See Ben S. Bernanke (2017), "Temporary Price-Level Targeting: An Alternative Framework for Monetary Policy," *Ben Bernanke's Blog,* October 12, https://www.brookings.edu/blog/ben-bernanke/2017/10/12/temporary-price-level-targeting-an-alternative-framework-for-monetary-policy; and Ben S. Bernanke (2017), "Monetary Policy in a New Era," paper presented at "Rethinking Macroeconomic Policy," a conference held at the Peterson Institute for International Economics, Washington, October 12, https://www.brookings.edu/wp-content/uploads/2017/10/bernanke_rethinking_macro_final.pdf.

Svensson discusses each of the four strategies and their implementation through the lens of forecast targeting. He points out that flexible inflation targeting does not attempt to make use of private-sector expectations for future monetary policy to balance the central bank's goals over time. By contrast, the other three policies include an important "makeup" aspect that attempts to undo, at least in part, previous misses in the long-run inflation objective. If the public fully understands such a makeup strategy and believes that the Fed will follow through with it, an inflation shortfall today should bring about expectations of higher inflation in the future. This understanding and belief associated with a makeup strategy have two advantages: First, because expectations of future inflation likely affect inflation today, the initial drop in inflation is reduced. Second, expectations of higher inflation reduce current and expected future real interest rates—that is, interest rates after adjusting for the effects of inflation—even while the policy rate is near zero. As a result—and in contrast to flexible inflation targeting—the economy receives an additional stimulus.

In order for a makeup strategy to deliver the expected stabilization benefits, it is key that the public believes the central bank will take actions consistent with the strategy—when the strategy is believed, it is said to be "credible." In Svensson's view, implementing makeup strategies through forecast targeting may help secure this credibility. Under forecast targeting, the central bank routinely lays out published paths for the policy rate and its goal variables, and economic agents can hold the central bank accountable for its actions. Svensson argues that under FPLT, earning this credibility may require hard and unpopular choices, in particular in times when the economy experiences unexpected increases in prices, which would necessitate an extended period of low inflation and high unemployment in order to return the price level to its previously announced path.

Bernanke's suggestion of TPLT may offer a way for the central bank to avoid some of the unattractive features of FPLT when the policy interest rate is not close to zero and still benefit from the stabilizing properties it generates when that rate is near zero. Under Bernanke's approach, the central bank attempts to make up only the inflation misses that occur when interest rates are near zero and discards the strategy once inflation has sustainably returned to its target.

Svensson expressed concern that Bernanke's temporary approach to price-level targeting may not work. His reasoning is that the temporary approach leaves little opportunity for households and businesses to learn about the strategy, limiting the ability of the central bank to establish the credibility that is needed for economic benefits to arise from the strategy.

Svensson views another strategy, FAIT, as an attractive compromise between FPLT and TPLT. Under this approach, to maintain average inflation over a particular length of time near its long-run inflation goal, the central bank actively seeks to avoid prolonged periods of inflation under or over the goal. In contrast to FPLT, FAIT does not attempt to undo *all* past inflation misses. Nevertheless, if credible and well understood by the public, it still delivers some of the "automatic stabilization" benefits of price-level-based approaches. The property that current inflation that undershoots the central bank's goal generates higher inflation expectations over the next few years (with associated improvements in output stabilization) also holds under FAIT. Similarly, if inflation is above the central bank's goal, higher real interest rates result because the public lowers its expectations of future inflation, in turn cooling the economy and restraining any incipient uptick in inflationary pressures. Because FAIT involves being less ambitious about making up past inflation misses and constitutes a less dramatic departure from the Federal Reserve's current policy strategy, the Federal Reserve may find it less challenging to establish credibility for FAIT than FPLT.

Discussion

Sharon Kozicki focused her remarks on practical considerations in implementing the different policy strategies. She pointed out that the success of makeup strategies depends critically on assumptions about how the public forms its expectations for inflation, and these assumptions may not be valid. These strategies, therefore, may not prove to be robust, as expectations may not behave as economic models require, especially during a period of adjustment. Kozicki argued that the temporary policies may be more robust because they do not rely as heavily on specific assumptions about expectations. She also noted that policies relying on observed values, such as past inflation, may be easier to explain to the public and so could lead to more rapid changes in the public's understanding of the policy. She pointed out that the temporary policies would likely lead to some overshooting of the central bank's goal for inflation, a key feature that is shared with the policies that Svensson prefers. Finally, Kozicki noted the risk-management benefits of temporary policies: Because of the asymmetry that policy interest rates cannot fall below zero but can rise well above zero, it may be appropriate to run the risk of overshooting the central bank's inflation goal.

Questions from the audience covered a range of issues. One key question was what policymakers could do to bolster inflation expectations in order to align those expectations with policymakers' inflation goal. A particular concern was that U.S. inflation as measured by the price index for personal consumption expenditures had been running below 2 percent in recent years and could have a potentially destabilizing effect on expectations. Svensson noted that, ideally, inflation should be countercyclical—that is, higher in recessions than in normal times. An issue with forecast targeting was the risk that it could lead to highly unpredictable policy, a situation that might lead to an unmooring of inflation expectations. Conference participants also discussed nominal income targeting, another policy strategy, with a number of them arguing that this approach might have better properties than suggested by the analysis in Svensson's paper.

Session 6: Monetary Policy Tools

In their paper, "Evaluating Central Banks' Tool Kit: Past, Present, and Future," Eric Sims and Jing Cynthia Wu develop an analytical framework to evaluate forward guidance, negative interest rate policy, and asset purchases, three policy tools that were used by central banks during the financial crisis, since then, or both.[78] The authors argue that asset purchases are the most effective of these three tools because the magnitude of forward

[78] See Eric Sims and Jing Cynthia Wu (2020), "Are QE and Conventional Monetary Policy Substitutable?" *International Journal of Central Banking*, vol. 16 (February), pp. 195–230.

guidance or negative interest rates necessary to achieve the same macroeconomic outcomes is large. They acknowledge that asset purchases entail costs, but they view these costs to be more manageable than for the other two policies.

The analytical framework that Sims and Wu employ introduces several frictions aimed at providing channels for the unique aspects of the policies to operate. First, the framework incorporates a feature that allows asset purchases to affect asset prices and, ultimately, macroeconomic outcomes. Put simply, the authors assume that only financial intermediaries have access to long-term bond holdings, for institutional reasons. Because financial intermediaries can declare bankruptcy, the interest rate on deposits differs from the rate of return on long-term assets. As a result, changes in asset supply can affect asset prices.

Second, in the analytical framework, the central bank is able to set reserve requirements. Thus, the interest rate paid to banks on their excess reserve balances with the central bank may fall below the rate on deposits offered by banks to depositors, an outcome that is consistent with what has been observed in the euro area. This feature allows the authors to explore possible limitations on the effects of negative interest rates.

Third, the degree of credibility of the monetary policymaker can vary, and it determines the degree that communications about expected future policy—forward guidance—pass through to private-sector expectations. With these frictions, the authors then introduce the three policy tools.

When the degree of the central bank's credibility is high, forward guidance can have sizable effects. In Sims and Wu's framework, the effects of forward guidance are limited if credibility is not complete. In this case, alternative policies, including negative interest rates, may be warranted. The authors demonstrate that negative interest rates operate much like forward guidance by lowering the expected future path of deposit rates. Because there is inertia in the interest rate rule for the desired rate, the paper argues that negative interest rates serve as a commitment device to lower deposit rates in the future.

The authors argue that when the policy interest rate is near zero, purchases of government or private debt securities can have larger effects than either forward guidance or negative interest rates. These greater consequences result because the central bank's asset purchases are more effective in decreasing long-term interest rates contemporaneously, rather than only indirectly through future expected deposit rates.

Consistent with the experience of several major central banks, the paper finds that asset purchases may lead to a large stock of assets on the central bank's balance sheet when interest rates are no longer near zero. Therefore, Sims and Wu also consider the implications of policy decisions to shrink the size of the balance sheet. Compared with selling assets very rapidly or maintaining a large balance sheet, the authors find that gradual asset sales would be the best option because maintaining a large balance sheet after a period when the policy interest rate has been near zero causes deeper recessions.

Discussion

In her discussion of the paper, Annette Vissing-Jørgensen praised the authors' construction of an analytical framework that allowed the simultaneous consideration of forward guidance, negative interest rate policy, and asset purchases. She noted, however, that even this model might not be rich enough, because it considered only one channel through which asset purchases can affect the economy. The consideration of additional channels could lead to results that are either larger or smaller than those in the authors' framework. Vissing-Jørgensen also suggested other margins along which the model could be generalized, including the introduction of explicit corporate bond default risk, a housing market and mortgages that could be refinanced, and the ability to assess interactions with fiscal policy.

In the audience discussion, several conference participants commented on ways to make the model more realistic—by including, for example, an international dimension, which would allow the authors to explore questions such as the demand for safe assets from abroad and spillover effects from U.S. monetary policy to the rest of the world. There was discussion of the increasingly negative term premium on U.S. Treasury securities and whether there is some constraint on how negative the term premium could be, as well as the effectiveness of quantitative easing more generally. Audience members also asked about the pass-through of negative policy rates to private-sector interest rates and the related issue of what foreign central banks have done to immunize commercial banks from the adverse effects of negative interest rates.[79]

Session 7: Financial Stability Considerations and Monetary Policy

In "Financial Stability Considerations and Monetary Policy?" Anil Kashyap and Caspar Siegert discuss oversight for financial stability in the United States and make recommendations for its improvement.[80] Maintaining financial stability is not an explicit part of the Federal Reserve's statutory mandate; however, monetary policy—particularly policy tools such as forward guidance and asset purchases—can interact with financial stability. Therefore, the Federal Reserve has an incentive to identify and address risks to financial stability. Kashyap and Siegert point to the *Financial Stability Report* (FSR) as an indication that the Federal Reserve considers financial stability risks to be of critical importance for the country's overall economic outlook and therefore for monetary policy.

A central part of the analysis is Kashyap and Siegert's assessment of whether the current powers and tools that U.S. financial regulators possess are sufficient to address the vulnerabilities that developed before the financial crisis and the vulnerabilities identified in the May 2019 FSR.[81] The authors note that the Financial Stability Oversight Council (FSOC) does not have the powers necessary to combat three key pre-crisis vulnerabilities identified in earlier studies: (1) undercapitalization of the financial system relative to risks; (2) reliance of nonbank financial institutions on short-term wholesale funding; and (3) unprecedented levels of household debt,

[79] A detailed review of the audience discussion is available on the Federal Reserve Bank of Chicago's website at https://www.chicagofed.org/~/media/others/events/2019/monetary-policy-conference/session-6-audience-qa-summary-pdf.pdf?la=en.

[80] See Anil K. Kashyap and Caspar Siegert (2020), "Financial Stability Considerations and Monetary Policy," *International Journal of Central Banking*, vol. 16 (February), pp. 231–66.

[81] See Board of Governors of the Federal Reserve System (2019), *Financial Stability Report* (Washington: Board of Governors, May), https://www.federalreserve.gov/publications/files/financial-stability-report-201905.pdf.

particularly debt extended to nonprime borrowers.[82] While the Federal Reserve's current toolkit can address some of these vulnerabilities through stress testing and the countercyclical capital buffer, nonbank financial institutions (aside from bank holding companies) are not covered by these tools. In addition, regulators have no tools to address vulnerabilities in the household sector directly.

The first two FSRs, in November 2018 and May 2019, focused on high asset valuations and the high level of business borrowing. Mitigating high asset prices directly is challenging without first understanding the underlying cause; furthermore, the cause may differ by asset type. Building resilience via capital and liquidity requirements may be more straightforward. The FSOC and its member institutions have limited powers to put in place such requirements. While the Federal Reserve has such powers, increasing capital and liquidity requirements risks pushing activities out of the banking sector. The Federal Reserve can also use monetary policy—raising interest rates in the face of high asset prices—but this tool is a blunt one. And while limiting new capital to certain sectors could decrease business borrowing vulnerabilities, regulators have little ability to do this limiting systematically. The fragmented regulatory landscape does not have a clear financial stability mandate, and partial regulation leads to a migration of activities to institutions and sectors where regulation is less stringent.

The authors focus on the effect monetary policy may have on the vulnerabilities identified in the May 2019 FSR—elevated asset valuations and corporate indebtedness. They argue that the decline in the general level of interest rates in recent decades implies that newer monetary policy tools, such as asset purchases, may become a standard part of the monetary policy toolkit and potentially amplify the vulnerabilities identified by the FSR; their analysis mainly considers the implication of monetary policy for financial stability via term premiums in bond yields.

Kashyap and Siegert draw on the literature showing that loose monetary policy—and asset purchases, in particular—exerts downward pressure on term premiums and boosts prices of risky assets, contributing to valuation pressures across a range of asset classes. By reducing the return on risky assets, loose monetary policy also reduces the costs of financing for corporations, allowing them to increase the amount of debt funding and thus exposing them to the risk of rising interest rates. Rising interest rates also pose a risk to households, but to a lesser extent than to corporations, as mortgages—the main component of household debt—are predominantly issued with a 30-year fixed rate.

The authors also briefly discuss how financial stability affects monetary policy. They argue that the main channel though which financial stability affects monetary policy is by contributing to high unemployment and exerting deflationary pressure. Given the downward trend in interest rates in recent decades, Kashyap and Siegert argue that monetary policy has little room to address a standard recession, let alone a financial crisis.

[82] David Aikman, Jonathan Bridges, Anil Kashyap, and Caspar Siegert (2019), "Would Macroprudential Regulation Have Prevented the Last Crisis?" *Journal of Economic Perspectives*, vol. 33 (Winter), pp. 107–30.

The authors conclude by outlining three options for the Federal Reserve to address the gaps in the current regulatory regime. The most natural option, Kashyap and Siegert argue, is for the Federal Reserve to encourage the Congress to assign more power to the FSOC, as the latter body is better placed to deal with macroprudential policy and financial crises than monetary policymakers are. That said, the authors recognize the challenges presented by an environment in which post-crisis regulatory reform is largely believed to have been completed.

As a second option, the authors suggest the Federal Reserve ask the Congress to amend the Federal Reserve Act, making financial stability part of its mandate and expanding the Federal Reserve's toolkit accordingly. For example, the Federal Reserve could be granted new powers to address excessive borrower indebtedness. They argue that such powers would facilitate effective coordination between monetary and macroprudential policies, citing the United Kingdom as an example where the macroprudential authority—the Financial Policy Committee—resides within the central bank. Kashyap and Siegert suggest that the Congress set up an expert commission to review systematically the post-crisis regulatory overhaul and whether it sufficiently addresses all financial stability risks. The commission could be modeled on the recent U.S. Commission on Evidence-Based Policymaking, a bipartisan effort to examine how the government could better use its data to inform future decisions.

The third option is for the Federal Reserve to conclude that financial stability is a necessary condition for achieving its goals of maximum employment and price stability and to explicitly incorporate financial stability considerations into its monetary policy deliberations. However, given that monetary policy is not the most effective policy for addressing financial stability risks, Kashyap and Siegert conclude that the second option of asking the Congress for additional powers is a "price worth paying."

Discussion

Discussant Mark Gertler characterized financial stability as an "intermediate target" for the achievement of the Federal Reserve's objectives for the macroeconomy and for price stability. He noted that this idea was not new, as the idea of a "lender of last resort" had a long history in central banking. He pointed out many of the difficulties with using monetary policy to address financial imbalances: Doing so can be at odds with objectives for the macroeconomy and inflation, it can be difficult to discern financial imbalances in real time, and it is not clear how interest rates affect financial vulnerabilities. Gertler noted that once a financial crisis is under way, the principal goal of a central bank should be to offset its effects, either by reducing policy interest rates or by engaging in lender-of-last-resort policies that attempt to address risk premiums directly. Gertler echoed Kashyap and Siegert in observing that macroprudential policies are best suited for preventing financial crises, and he agreed with the authors' proposals for improving the macroprudential toolkit, including asking for new legislation. Gertler then raised the question of what macroprudential policy can do better in the short term before considering new legislation; he concluded that keeping the banking system strong through high capital standards is one clear option. He also mentioned looking ahead to threats from financial institutions that operate outside the regulatory perimeter.

Audience discussion focused in large part on potential paths forward for a congressionally established expert commission to study financial stability and potential gaps in the current regulatory architecture. Audience discussion also considered the optimal regulatory environment for financial stability: Is the central bank the appropriate place to put authority over macroprudential tools? Other countries have placed this power with more directly politically accountable institutions such as the ministry of finance. Several conference participants addressed the Federal Reserve's role in promoting financial stability under the current framework. Some emphasized the importance of stress tests as a tool to address potential financial stability risks that the Federal Reserve does not have the authority to regulate directly. Others questioned the desirability of expanding the Federal Reserve's remit beyond the banking sector, noting that Federal Reserve officials have communicated concerns about rising risks effectively and have the tools to ensure adequate risk mitigation within the banking sector.

ABBREVIATIONS

AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
CAC	Community Advisory Council
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CBO	Congressional Budget Office
CDC	Cornerstone Community Development Corporation
CDFI	community development financial institution
COVID-19	coronavirus disease 2019
EITC	earned income tax credit
FAIT	flexible average inflation targeting
FAME	Federation for Advanced Manufacturing Education
FOMC	Federal Open Market Committee; also, the Committee
FPLT	flexible price-level targeting
FSOC	Financial Stability Oversight Council
FSR	*Financial Stability Report*
GDP	gross domestic product
GLMT	generalized measure of labor market tightness
HVAC	heating, ventilation, and air conditioning
IMF	International Monetary Fund
LIHTC	low-income housing tax credit
LMI	low and moderate income
OECD	Organisation for Economic Co-operation and Development
PPP	Paycheck Protection Program
R&D	research and development
SAG-AFTRA	Screen Actors Guild-American Federation of Television and Radio Artists
SEP	Summary of Economic Projections
SLATE	St. Louis Agency on Training and Employment
SNAP	Supplemental Nutrition Assistance Program
TANF	Temporary Assistance for Needy Families
TPLT	temporary price-level targeting
UI	unemployment insurance
V/U	ratio of vacancies to unemployment

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