John Waldron: Welcome to Talks at GS. It is my honor today to be joined by Dr. Raphael Bostic, the president and chief executive officer of the Federal Reserve Bank of Atlanta. Raphael, happy new year, and thank you so much for joining us today.

Dr. Raphael Bostic: Well, happy new year to you, John. It's really good to be here.

John Waldron: Let's start with your story, which is a great story, and I want to make sure we have time to get into it. So I developed an early interest in economics, earning your doctorate in the subject from Stanford after graduating from Harvard. And you've worked in both government and academic roles leading up to your current job at the Fed. What inspired you to pursue a career in economics and public policy as you were growing up and educating yourself through that period?

Dr. Raphael Bostic: Well, you know, it's really interesting. I don't think when I started I really had in mind becoming a policymaker. I just decided I was going to follow things that I liked. So I actually started as a chemical engineer in terms of my interests. But got to college. Discovered that psychology was something I really liked and then econ. And just followed it along and wound up taking a bunch of jobs that I enjoyed. Found out that there was a lot of work to be done in terms of community and economic development. And really found that I really had a passion for it and enjoyed that. And so I just kept going.

And then, you know, with the policy stuff, a lot of the work that I had been working on at the Fed was around how do we get capital? What policies can we design to get capital in the communities? And then I started doing research on Fannie and Freddie and housing, and then we had the housing crisis. And that kind of just builds upon itself, and now here I am.

And I have to tell you, one of the things that's so gratifying about doing this sort of stuff is that it really provides an opportunity for me to talk to a lot of people, understand their challenges, and try to find solutions that can make their lives better. And that's just a great feeling.

John Waldron: Let's turn to the state of the US economic recovery. So just talk if you would about how the pandemic has impacted the Fed's ability to accomplish the monetary policy objectives of maximum employment and price stability.

Dr. Raphael Bostic: Well, you know, first off, this pandemic has been just totally different than anything I've ever experienced. You don't have textbook cases of pandemics and how policies should respond. So a couple things that I would say have really been important, one, is that we have acted extremely fast proactively in a way that we hadn't in previous crises. And I think that was learned from our experiences in those prior crises. And I think it's a new way that we're going to approach things moving forward because I think a lot of that stuff actually really made a positive difference. It calmed markets down. It provided clarity of support and all of that kind of stuff.

A second thing that I think has been a big factor has been that we've really had to turn to real-time data in a way that we hadn't before. In the early days of the pandemic, there was so much that was unknown about what was happening with responses and reactions, and things were changing and our understanding of what was happening was changing so fast that, you know, data coming out about last quarter was just so old and so just not relevant for what we were experiencing that we had to do other things. And I think that that's been really important.

In terms of our ability to achieve our mandate, right now I think we're at a very interesting period. You know, a lot of folks that we survey, a lot of business leaders told us that they thought the pandemic would be over by September or October. Well, it's January now and we're not close to done. And what that's meant is that everyone's had to change the horizon and their thinking about what survival in this period means. And so we're thinking about sort of where is weakness likely to emerge? And how do we get support and relief to those areas so that their recovery can happen as robustly as possible?

John Waldron: Another aspect of this that's been at the forefront including very recently is the role of the Fed versus the role of congress. And you've got the fiscal authority, the monetary authority, both important, both having the ability to impact economic recovery, particularly in a crisis. Can you just comment on how you look at the balance between the Fed's role and the congressional role?

Dr. Raphael Bostic: Well, you know, I think the congressional role is clear. They have the ability and the authority to deliver fiscal policy that can affect businesses and families in very direct and targeted ways. Most of our tools are not of that character. You know, we do monetary policy. We provide support through facilities to make sure that any fragile financial markets are bolstered and allowed to continue to function. And those are the key policy tools that we do.

There's another thing that we do that's a little behind the scenes. You know, we run, to a large extent, a retail payments office that facilitates a lot of the transactions that go on and a lot of the settlements. The economic impact payments, those $1,200 checks that went out in the summertime, they went through a Fed rail that runs out of Atlanta. So my staff did that. And the $600 checks that have just been delivered, we also did that. So we're providing that support.

And then one thing that I think people may not be aware of, in crises, what usually happens is that the demand for cash dollar bills goes up. And all cash in circulation originates at a Federal Reserve facility. So I've got people who have been coming in every day through this pandemic to make sure that cash gets out into the public. And I'm grateful that you haven't heard any issues about people not able to get to access their funds.

And then one last thing I would say which is really important -- I mentioned this a little bit earlier -- is we have really stepped up our efforts to do real-time reconnaissance of what's happening in the economy. The data that's out there, that gets generated under ordinary circumstances is going to be late. And we need to make sure that in real time we know what's happening. So we bolstered our surveys. We've started some new surveys in low- and moderate-income communities. We have a regional economic information network, a group of people who go out and they talk to CEOs. They've tripled the amount of engagement that they've done just so that we have as much real-time information as possible. And then once I get that information, my job is to make sure the policymakers know what we're seeing so they can craft that fiscal policy with the maximum effectiveness as possible.

John Waldron: Raphael, what would you say are some of the longer term economic effects? If you think longer than 2021 and you kind of think about the structural or behavioral changes that might come on the back of this, as you all think about it at the Fed, any perspective on longer term impact of the pandemic?

Dr. Raphael Bostic: Well, you know, John, we've lived a lot of the change of the pandemic here at our bank. You know, we have most people working remotely. We're figuring out how to get our work done and deliver our product from a remote posture. We're using technology in ways that we've never used it before to try to be more effective and more efficient. And those sorts of things are happening across the country. And so when I think about, you know, what's going to change, we've already seen what's changed.

Now, the question that's in my mind is: How much of this is going to be permanent versus how much is going to be temporary? And then are there particular sectors that are going to be more affected by this than not?

I think about, say, health care. Our surveys and our contacts really signaled pre pandemic that the telehealth was used very rarely. Less than 5% of all patient contacts were through telehealth. Now it's up to a third, moving to a half of patient contacts. That's a huge change. And the question is: How much of that move from 3% to 30% is going to persist? My guess is it's going to be more than we might think because it's more convenient for patients. It's easier for doctors. And that will have real implications.

And then there's one other thing that I would say. You know, we've talked to a number of business people who have told us there was a reckoning that was going to come in a number of sectors because there was too much capacity. And what the pandemic has done is it's put stress on everyone such that those that were at the bottom of the profitability stack are going to face real challenges. So I think we're also going to see a restructuring there. And that's going to have real implications for what the labor market looks like, what skills are required from workers, and what kind of training and re-training capacity we're going to have to have in our economy. And those are all things that are going to be really important.

John Waldron: You've been pretty outspoken on the role the Fed should play in addressing racial inequities and establishing a more inclusive economy. And I think your comments have been, you know, spot on and very thoughtful, so I'd like for you to maybe share some of those perspectives here in terms of specific things you think the Fed can do to start to address these important issues.

Dr. Raphael Bostic: Well, thank you for the kind words. And, you know, I think that this is an issue that merits a lot of attention. And what is the Fed doing? We're doing a couple things. So one is that we're talking a lot about it. And, you know, when the Fed invites people to conferences, they usually show up, which gives us a real opportunity to talk about things and introduce issues that they may not be as sensitive to. And in the areas of racial equity and inequality, one of the things that we try to do as we are having these conversations is educate people and inform them about some of the realities of what's going on.

For example, I think most people today are not aware that when people set up social security during the New Deal, it was designed in a way to exclude most African Americans. And it took many, many years before African Americans could participate in the social security system, which is a foundational backdrop for helping families preserve savings and pass it on across generations. So that kind of information I think is really important for people to be aware of. And we're trying to get that information and that knowledge out there because that kind of knowledge makes clear that, you know, the challenge of racial equity are not just about individuals. There are systemic problems and challenges that we have to acknowledge and we have to change if we're going to see progress there.

Then a second thing that we do is a lot of research. And this plays out in a couple ways. So for example, one of my researchers, Kris Gerardi, has done some work with some other Fed economists on the responsiveness of families and households to Fed policy. So when we cut interest rates, how fast do homeowners, white homeowners versus African American homeowners, move to refinance? And it turns out that African American and Hispanic homeowners refinance much slower, if at all, than white homeowners. So they're not taking advantage of the policy as much. The efficacy of our policy is less and it has real distributional implications. That kind of research is incredibly useful to help us understand sort of what's going on and the areas where we need to inject ourselves to try to make things work better.

And then another area is around benefits and the support system. We call it the benefits cliff here. But the idea is that typically the way that these programs are designed, for every dollar you earn, you lose one dollar of benefit. Now, that's neutral if you're just getting one source of support. But if you're getting multiple sources of support, it could be you earn one dollar and lose four. You're actually worse off. And that means that our incentives are pushing people to not try to make themselves better and get more self-sufficient. And that's a problem. So we've identified this. We're lifting this up. And we're talking with policymakers at the state level and at county levels across the country to think about what a new design might look like to get the incentives aligned in a way that promotes people and gives them the real sense that we want you to get yourself better.

And then the third thing that we do in this regard is we have a bunch of tools that we put up on our website, things like an Opportunity Occupations Monitor, which is a tracker that shows what jobs are out there that pay, like, living wages but don't require a 4-year college degree because those are the things that are going to be more accessible. And we actually have this online county by county. So whatever county people live in they can plug that county in and they can see what jobs are there that are going to get them a good wage, that they're not going to have to spend long periods of time getting training for.

We're doing a lot on this and, you know, I'm really excited and gratified because a bunch of this stuff happened before I got here. So I don't want to take all the credit for it. But it is something that makes our institution and the system really, really powerful. And it gives us a real platform to make some positive change.

John Waldron: So I want to ask you, as the first African American and first openly gay president of a regional Federal Reserve bank, how have your own life experiences shaped your views on the role economic policy should play in combating discrimination and inequality?

Dr. Raphael Bostic: Well, you know, it's interesting. The one thing that has struck me throughout my whole life is that there is a diversity of experiences. There are diversity of realities. And, you know, I check a bunch of boxes in the diversity space. And, you know, when I'm in rooms, a lot of times the perspectives of not reflecting that full range of diversity. You know, I remember I was in graduate school and I'd be in econ seminars and there would be people talking about how African Americans think or why poor people do the things that they do. And I'm looking around thinking, well, have we talked to any African Americans or any poor people or whoever to really be informed by that? And so to me I think what it's done is really made me more sensitive to the fact that we need to unpack a lot of our conventional wisdoms. We need to actually work harder in these spaces to make sure that we're hearing the voices that are really living these experiences so we know for real why people are doing things.

You know, I just talked about the benefits cliff. You know, a lot of the policy discussion around poor people, you hear them say, "Well, they just don't want to work. They're lazy," they're all these sorts of things. And for many the reality is, no, they're actually quite smart. They're responding exactly to the incentives that we're setting up. And until we make sure that we're hearing all of these voices and we do those deep dives, we run the risk of missing those sorts of things. And I think my diverse background, it's harder for me to forget that. And it sort of keeps me grounded in a way that's really I think quite helpful for what I'm trying to do.

John Waldron: Let's spend a minute on inflation. You've commented the conventional thinking around inflation may not be entirely correct, and it's, you know, incumbent upon all of us to think about it, you know, in a more modern, contemporary way. What do you see? And what's the best way you think about in terms of measuring inflation? And how do you think about inflation, you know, as a factor going forward?

Dr. Raphael Bostic: Well, you know, first, inflation is incredibly complicated because it's the outcome of a lot of different decisions by many, many actors in the economy. And what we've seen is sort of a changing dynamic in inflation over the last 30 years where there's been something of a downward pull to inflation. And the reasons and sources behind that are not fully and completely understood, but it's stuff that we're working on.

When I think about inflation, I really think about our narratives around it, particularly in the months leading up to the pandemic. A lot of folks were talking about how, you know, there wasn't any inflation pressure, that the Fed was never going to get to its inflation target because the world had changed. And I actually think that narrative is a bit simplistic. And it's really tied to the one type of measure of inflation that we at the Fed have lifted up as the primary thing that we're going to pay attention to, which is a PCE inflation. But like I said, personal consumption, expenditures, inflation, and that. And I yell at myself for talking in acronyms, so I don't want to do that.

But the main point here is that there are many different measures of inflation. And of all those measures, I think the

PCE measure was the lowest. It was performing the lowest. And if you look at a bunch of the other ones, it seemed like inflation was actually a bit stronger than what people understood. To me that says that we might actually see rebounds in inflation that are stronger than what people are expecting, and we've got to leave ourselves open to that possibility.

Now, we're going to continue to monitor that. I've got a team of economists that is tracking all of these sort of measures. And once we get past the pandemic, because this pandemic has really generated a lot of volatility in prices such that the true signal of inflation is hard to determine. Once we get past that, I'm going to be watching very closely to see how strongly inflation rebounds. And I'm hopeful that we will get to our 2% target faster rather than slower.

John Waldron: So I want to close on an optimistic note because I know you tend to be an optimist. And so I just want to maybe ask you to close this great conversation by giving us perspective on what gives you hope as we're emerging out of the pandemic? We're not certainly through it yet, but as we're starting to emerge, you know, getting through this crisis, as you get your head around, you know, kind of what's next and you have the optimistic bent that I know you tend to have, what gives you hope? And what message would you leave for us?

Dr. Raphael Bostic: So, you know, and I'm thinking about this, the pandemic has been hard. And it's been hard in so many dimensions, so many levels. But one way that it's been difficult is that it's hit those with the least means the hardest. And, you know, one of the reasons why I'm hopeful is I think most people know this. They're aware of it. They understand it. And they think it's not a good thing to have happen. And we can't leave those people behind.

Similarly, when we think about racial justice and racial equity, I've never in my lifetime heard so many business leaders talking about the issue, the awareness that is there, the difficulty that it creates. And because of that awareness, you know, I'm hopeful that awareness will translate into action and that that action will translate into progress. And so, you know, we're going to continue to talk about these issues, lift them up, make sure that policymakers and that local leaders in business and in communities are aware of them and understand that there's stuff that we can do to make it better because having an economy that works for everyone is in all of our interests. And that's a tag line we're starting. An economy that works for everyone. And I think that's a phrase that we should have in the front of our minds as we do pretty much everything that we do. We need to make sure that we have an economy that works for everyone.

John Waldron: Well, Raphael, you're a busy guy with a lot going on, and so I appreciate you taking the time to be with us today. Your comments were terrific and I enjoyed it very much, so thank you. I wish you the best for 2021 and really appreciate you being with us today.

Dr. Raphael Bostic: Well, John, thank you. It's been great, and I always enjoy talking with you.