Fed Unfiltered, Transcript
4/11/22 – Charles Evans, Interview: Detroit Economic Club

Susan:

Charlie, welcome to Detroit, and thank you for spending time with us here. This is great to see you again.

Charles Evans:

Thanks Susan. It's always a pleasure to come to Detroit.

Susan:

I want to go back to one of the times I interviewed you in 2014, when you were at the Economic Club, and back then the concern was low inflation. Actually not something we're hearing about much on CNBC these days. Among the comments then, you said, "I am concerned that low inflation will run too long, for too long. And that low inflation is just as economically costly as high inflation." Much has happened in the past eight years. We're seeing inflation at 40 year highs. The February CPI was at 7.9% for 12 months. March comes out tomorrow, and I'm hearing some different estimates of 8.4 to 8.5. Some are saying it's a possible peak. What are your thoughts? Are we at a peak yet on inflation or not?

Charles Evans:

Well, thanks very much. You've covered a lot of territory, going all the way back to 2014. And I always thought this is the time when everybody gets to get even with me, when I sort of said, "Inflation's too low, it's going to be hard to get up to 2%." And now we're in a period where inflation, February the CPI was reported at 7.9%. So how do we get there? How did that happen? And is it going to continue? And all of the things that go with that. One of the interesting things about the February report is, in the column just to the left of 2022, was the 2021. And a year ago, the CPI had been 1.7%, 1.7%. And the core CPI had been 1.3%. So it really, inflation really leaped on from a lot of things. And there were a lot of relative price increases with used car prices increasing 40% ultimately, so far. New cars, also a lot, home furnishings, furniture up quite a lot.

Charles Evans:

You can take 15% of the CPI, that includes what I just mentioned, and that increased by almost 20% over that time period. The other 85% also increased quite a lot, 4%, 4.5%. So it's clearly the case that we have inflationary issues, inflationary pressures. They've come at us from many different sources, supply chain issues, semiconductor chips, labor force issues. It's hard to find workers, a lot of businesses say. And the unemployment rate is really a pretty good 3.6% right now. But I do think that these high prices are going to persist longer, certainly than I anticipated. I thought it would be more transitory than it's been. I don't think they're going to be permanent, but I think it's going to be a while. And the Russian invasion of Ukraine puts added pressure. Agricultural prices, energy sources are going to be redirected and challenging. And so I think that that's going to be tough. And this is just a time where the monetary policy authority, the Fed, has to be on top of this and reposition ourselves.

Susan:

And why do you think it wasn't transitory? What were a couple of the factors that made things different than many had expected?

Charles Evans:

Well, I think initially some of the reports were the car companies were having trouble. They couldn't complete assemblies. They didn't have semiconductors. You kind of found out that these chips are in more places than you ever guessed. They were in the, if you want to move your seat a little bit, they were there as well, not just in sort of GPS and things like that. I think there was initially reason to believe that the global COVID pandemic had shut down assembly in Indonesia, Malaysia, Vietnam. And there's sort of a two part assembly for this. And so the chips themselves made maybe in Taiwan, then shipped to Malaysia. It took a little bit longer. Maybe that would work its way out more quickly, turned out to be much more challenging.

Charles Evans:

Then there's some industrial issues, which I just don't understand well enough. When the car companies sort of delayed their orders back in the spring of 2020, because who knew what was going to happen. People wouldn't be buying cars. Then before very long, they put in more orders. It's kind of like, "Oh, other people got in front of you." Consumer electronics, there are all kinds of people at home playing electronic games. And did you know that the markups on those chips are more than the car company chips? And so I'm always amazed that the car companies were able to get as many chips. There's relationships in everything that works with that. But I mean, it's just a longer story. It's taking longer to play out, and there are many other things going on.

Charles Evans:

Then there's getting goods into the ports coming across the Pacific Ocean. And there are never enough truck drivers. We've kind of known that for a long time. And now you hear it even more. You've got Amazon warehousing. And there's a whole secular change in how consumers are buying goods. Do I go to the store? Or do I wait for Amazon, the delivery truck in front of my car, house to show up and deliver things? And so there's a lot of transition going on and prices have been high for a lot of that.

Susan:

And for consumers, I think they really want to know when they're going to see more relief, more relief at the grocery store, more relief at the gas pump. We're starting to see a little bit of that here at the gas pump, seeing gas at 3.99 this weekend. It had been 4.25 at certain points. But where do you think we're going to start seeing some more relief when it comes to prices? And here's the trick question with that one, when? When and where?

Charles Evans:

I just think it's hard to forecast. If I initially thought that these were more transitory effects, I've learned that they're more persistent. And then there are new sources of unease coming from Russian invasion of Ukraine, all of the Russian oil. Even if we weren't buying so much in the US, other people were. How much is going to be re-diverted around the world. And so I think supply pressures are just more intense than I expected. Will they show some relief before too long? Hopefully. But they're oil tankers. There are only so many tankers. If they've got Russian oil, unload the oil, then that's a tanker that can't be used for more deployment. And so there's just a whole lot of issues. I'm not an expert on the logistics side of that.

Charles Evans:

And so I think we have to see it play out. When we actually see prices come down, that'll be an important part of that and understanding the reasons for that. But I mean, I wish I could offer more confidence in that regard. I do believe that by the end of the year, we're going to know a lot more about the persistent properties, and I'm hopeful that they'll be receding by that timeframe. And I think that's the timeframe over which we'll be adjusting monetary policy and still be able to make choices about more or less in terms of restrictiveness.

Susan:

And the Fed next policy meeting is in May, three weeks from now, the Fed raised interest rates the first time in what, three years, more than three years in March. Up a quarter. San Francisco Fed President Mary Daly told The Financial Times, April 1, that she sees a case for half an interest point increase, instead of a quarter. What are your thoughts? Are we more likely to see a half going forward? And will we see rate hikes in between meetings? Or give us some kind of idea of where you think the trend line will be?

Charles Evans:

So I think a couple of things are very clear. Interest rates are very low. They've been low for three years, as you mentioned. We only recently took them off the bottom, and we raised them by a quarter of a point. We need to position monetary policy much closer to neutral, some neutral setting relative to where we are. We don't need, as one of my colleagues has said, we don't need an emergency setting of monetary policy anymore. The economy's doing well. The labor market is at 3.6% unemployment. Growth should be good. We might see a quarter of not so great growth in the first quarter, but that's partly the Omicron and some other inventory issues and things like that. But there's still a tremendous amount of momentum. So I think the economy should do well. And a neutral setting of monetary policy will continue to be consistent with growth in a vibrant labor market.

Charles Evans:

I would say a neutral setting for monetary policy is somewhere in the 2.25 to 2.5% range. And I would say that it would be good if we got there... Well, most recently I thought by the end of our next March meeting would be a time when we'd be at the 2.25 to 2.5% range. If we accelerated that so that we were there in December, that would be okay too. I don't think it's going to make a lot of difference, those three months. I think that by the time we get to December, we ought to see whether or not we see some rollover in the inflation data, whether or not some other shocks make their way into our forecast in ways that I never envisioned, but could be problematic for policy. Or whether or not they mean that some vibrancy is being taken away from the labor market and businesses.

Charles Evans:

And so I think the optionality of not going too far too quickly is important. So I would focus the attention on where do we want to be at the end of the year. Now the next meeting is part of how you get there and how quickly you get there. 50 is obviously worthy of consideration. Perhaps it's highly likely even, if you want to get to neutral by December. That would probably require something like nine hikes this year. And you're not going to get that if you just do 25 at each meeting. So I can certainly see the case. But I think the real discussion is about how you want to be positioned by the end of the year.

Susan:

Is there a danger of going too high? I mean, when you start raising rates, what's the trade off for unemployment for the unemployment rate. Right now, we're, I believe, at 3.6%. I mean, how much higher does the unemployment rate go when you talk about that many rate hikes in six months or nine months? Whatever.

Charles Evans:

So I think the first thing I want to say is I think that the policy approach that I just mentioned that getting to neutral by the end of this year, I don't think that there's a great risk to the economy of doing that. I think that's getting off of the emergency setting for policy and getting to something that's neutral. That is neither propelling the economy further forward, nor is it actually expected to be holding it back. Now, the question is going to be whether or not inflation continues to be high and is expected to be high into 2023, and so we need a more restrictive stance of monetary policy. And if we have to be very restrictive, then obviously the way that policy would affect that inflation outcome would be in pulling back on the sources of demand. It would be in making businesses reconsider some of their growth opportunities. Hopefully into a nice glide path so that we're still at sort of potential growth.

Charles Evans:

But if you really have high inflation, you probably need to restrict the economy more. Now I don't see it coming to that at the moment, because I think that many of these supply driven relative price increases are going to give up some of those increases, lead to reductions in those segments of the CPI and PCE, and will ultimately get to a point where not too much of the increased inflationary pressures bleed across into other broader goods pricing. But that's the risk. And so there is a risk if we have to tighten too much, but there's also a risk of inflation continues to be too high, much too high for too long. At the moment, I don't think that'll be the case, but we have to be eyes wide open about this.

Susan:

And sitting here in Detroit, I've got to ask about car loans. I mean, that's a rapid increase in interest rates. It makes it more expensive to borrow. The average rate on a five year new car loan was about 4.15% a year ago. Estimates are that it could hit about 5% by March. And people I talked to say that might be $15 to $20 a month on a payment, which just doesn't sound like-

Charles Evans:

How much?

Susan:

15 to 20 a month on a payment, which doesn't sound like a lot. Except one of my favorite people that I used to interview, the late Hoot McInerney, local car dealer once told me, he let me in on a little secret that he didn't sell cars, he sold car payments. That's how people make judgments. They make a judgment based on that monthly payment. And the car companies benefited a great deal from this low rate environment. If you go back to the 9/11 crisis, 0% financing was part of the catalyst that helped the economy recover. So I must ask how much do you think higher rates could help or could hurt auto sales, could shut down auto sales from here? What is the concern with higher interest rates on car loans?

Charles Evans:

You described it very well. That is one of the transmission mechanisms. If we were to tighten monetary policy a lot, buying ourselves with very restrictive financial conditions, then consumer loans would be more expensive. And auto loans are prime example, suspect number one, perhaps even in terms of what its implications for the economy. I almost feel like I haven't been doing my listening job adequately as I've talked to car experts over the last couple of years, because for the longest time I have also heard, people come in to buy cars and they kind of have this $500 payment a month in mind. And if it's more than that, well, maybe they need less car. Or maybe they don't buy a car. Or they need less auto loan. So you get the lengthening of the auto loan to like 84 months, and you kind of go, "Gosh, that's a lot." But the auto loan being sold is a very common type of story.

Charles Evans:

I haven't heard very much of that recently because you can't get cars. You can't see them on the lots. I'm old enough to remember back in the eighties, when so many of the Japanese name plant, name plate, cars were coming into the US and being sold. And they had the surcharge on that sticker price because people really wanted those small cars, and all of that surcharges on the retail is always a sign that it's hard to find these cars and whatnot. So people have been willing to pay whatever it takes. But that gets worked off, and you're going to get to the payment sensitive buyer at some point, I would guess. I don't know where we are. How soon that'll be. But that's part of what if we had to reduce demand more, we'd have to know more about where that point is and how it works out.

Susan:

Wherever that choke point is for the consumer.

Charles Evans:

Exactly. And it works out with home purchases as well, and construction, and all of that. Mortgages are more expensive now. And it's all very important. The future interest rate environment becomes important. I mean, I can imagine a conversation with somebody about, is this a good time to buy a house? Well, it never seems like a good time to buy a house. Because prices are always too high, but you have to actually do this. And maybe mortgage rates are too high, but you do have the ability to refinance a mortgage if you continue to be in good credit status, and all of those things. And so if there's an interest rate cycle, if you get in and you can work your way through that, that's also part of it. So financial savviness is part of this, but it can be really challenging when interest rates go up a lot.

Susan:

And you could refinance a car loan too. And so many people do that when they're credit improves, and maybe they've gotten a double digit rate on some lots. Where do you think, you mentioned the cars not... Selling above sticker price. One thing that surprised me about this economy is the bubbles. I see them as bubbles. As a consumer and as a journalist, housing prices, car prices, the stock market, virtual currency. I don't see how prices can keep climbing in some of these categories. But what is your view? Where? Do you see bubbles in certain areas? And were you surprised at all that prices would go up this much, given where we started two years ago?

Charles Evans:

I hadn't been paying attention enough to forecast the price increase that we have seen. So I did not forecast that. I have been persuaded by a number of analyses that I've seen, read about, where after the mid 2000s, when there was a lot of home building, where there was clearly a home price bubble, and the over extension with exotic mortgages and things like that. And that came crashing down. That after that the housing market really never got back to the construction pace that would've kept up with population growth, household formation. And so there'd been less and less excess housing, however you want to describe that. And I think all of a sudden, then you get to the COVID world where it's kind of like, "Oh, I'm going to be working from home. And I don't have enough space. Maybe I need..." You had a lot of people who, their preference is for more housing.

Charles Evans:

Maybe it was... I never get the age cohort exactly right. Millennials, or whoever, who had been holding off on buying a house. This was a trigger. They were going to pull the trigger at some point, and maybe move to the suburbs, or buy more home in the cities and other places. And so I think that finally happened and home prices went up a lot. They went up around the country, which is different than the mid 2000s, where it was sort of a coastal and sand state kind of phenomenon to a large extent. So I wouldn't think of it so much as a bubble. It is a period of high prices, and it's extremely excruciating if you find yourself a buyer. It's a seller's market at the moment. But those things tend to turn. They don't necessarily have to be a truly adverse unwind. It could just be part of the normal cycle.

Susan:

And I want to go back to two years ago. At the start of the pandemic, we had a massive economic shock and the Fed stepped in, massive federal efforts, including the stimulus programs and the easy monetary policy. Quick rebound. Much quicker than many people even imagined. And even now we know we're witnessing pretty good employment, despite those supply chain disruptions, and the war. Which is sort of amazing in and of itself, that we've got this robust hiring. But what is your view about how the economy is doing today, including the Midwest and Michigan? What kind of grade would you give the economy at this point?

Charles Evans:

Well, I think the economy's been doing very well. I think that the spring of 2020 was just catastrophic, the public health crisis that we all face, the risks that we just couldn't even get our heads around. Health risk, lots and lots of people died. Fast forward a little bit, we learned more about the virus, its characteristics, how to stay safe, how to take precautions. It wasn't always pleasant wearing mask, social distancing, not doing things out and about with people that we liked, indoors. But we got through that. The vaccines came online and they're available to anybody who wants them plus boosters. And so that's been an important part of this. And so now we can largely go on living our lives, if not exactly as we did before, in a very good way. And businesses found ways to produce goods, safely, many services safely.

Charles Evans:

It's just very difficult to know everyone's comfort level in going out and mixing. So today it looks like everybody's pretty comfortable in a large setting. We're relatively close together. I'm sure there's a very good ventilation system here. We've learned so much about what the good characteristics of where it's safer than other places. And yet the variants are not by any means under control. The global ability of something to evolve into something more dastardly, it's a risk. So we don't really know.

Charles Evans:

Midwest is positioned as well as anybody else. I mean, our emphasis on manufacturing is something that serves the region well. Goods production is high. In fact, a lot of the... it took me a while to sort figure out when I'm talking to a business person, they're saying, "I can't find workers, I've got worker shortages." And then you poke a little bit more and you kind of go, "Oh, this is a manufacturer who's in a relatively small market. And they're trying to add a third shift in an environment where they know that they're not going to have a third shift six months or a year from now." And so workers who have not previously worked there may not be encouraged to take them up. Is that going to take place at a higher wage? Things like that. They're examples of that. And then there are examples of home care, daycare, elder care is more difficult. And so people are reluctant to enter into the workforce. I mean, I think the way Midwest has all of those challenges, just like everyone else.

Susan:

What are you worried about with the workers? Are you worried about wage inflation at this point? I mean with the workforce, you've got the boomers retiring. What do you see coming down the pike two or three years from now when it comes to the workforce?

Charles Evans:

So we've known for quite a long time that the US population is aging. That's the way I characterize what you just said. The baby boomers are getting older. They're retiring. Everybody's getting older. Birth rates are not high. And so where are future workers going to come from? And this takes place very slowly over a long period of time. And I think one of the things we're struggling with, it's hard to get people's full imagination on this, I think, because it takes place very slowly. But if you think about the last 15 years, it's been a period where the aging has taken place. We had the Great Recession. We had a slow recovery. You didn't need the largest workforce because we didn't have the largest amount of demand. And so every year we didn't really acknowledge that this was getting harder and harder. Then on top of that, add whether or not we have a tendency to enthusiastically embrace immigration as a source of additional workers.

Charles Evans:

I think the answer is no, not enthusiastically certainly. And that adds to this issue. Sometimes I've been known to say, "Well, we need more 25 year olds. And it's really hard to birth 25 year olds into the workforce. Doesn't work that way." So there are all these issues that also leads to lower sustainable growth rates. In the eighties, we enjoyed trend growth rates when the economy was growing on the order of 3.25%. Today, we think it's much more like 1.75%. Maybe it's lower. It would be great if technology advanced more quickly, although technological advance also typically comes with these transitional issues where you have winners, and losers, and sometimes the transition is difficult as well. And so we need more people in the labor force and where are they going to come from? And we need improved skill sets. We need to make sure that everyone has as much opportunity, the ability to get education, to get training, so that they can hit the workforce, be very successful, and we get productivity that way. So I think that's really very important.

Susan:

And I wanted to ask you, the Fed of course, says we're now at full employment and that has been good. That's been, Fed gets a lot of the credit there, but the Black unemployment rate now is 6.25%, which is much higher than the rate for white workers at 3.3. How does the Fed define inclusive and broad based employment, and how do we deal with such issues?

Charles Evans:

Well, I think we definitely take note of the unevenness of the opportunities that individuals have in the workforce. Education is an important part of that. Making sure that everybody can have access to good jobs at good wages, that's going to bring forth the most productive workforce so that we can continue to grow. So we're always paying attention to the structure of the economy. Like I said, 1.75%, that's my guess as to what trend growth is going forward. I have to have a viewpoint of that because that's going to tell me where inflation pressure is going to start to kick in. That's also going to give me an idea of what neutral interest rates are. I said earlier that neutral short term policy rates were probably 2.25 to 2.5%. That's not what we thought 10 years ago. We thought it was higher.

Charles Evans:

In the eighties, it was much higher than that. But that's kind of related, definitely related. Sometimes there's uncertainty with growth rates, for the economy, interest rates and growth rates. So lower growth rates, lower interest rates. And so low interest rates are good if you're borrowing, but if you're lending you like higher interest rates. So there's just a whole bunch of things going on. We have to pay attention to all of that.

Charles Evans:

I think the unevenness of the expansion in any environment... unfortunately Black unemployment has always been higher than white unemployment, Hispanic unemployment. And the increase in income inequality over the last 20 years, median household income for a family of four, $67,000. Mean, average household employment, 97,000. From the median 50th percentile, to the average is the 65th percentiles. When we do average economics, we're focusing on the 65th percentile with a distribution around that. It's sort of like, why don't we focus on the median? Why don't we focus on the opportunities there? And if the 65th is an interesting percentile of focus, why not the 35th percentile? We need opportunity for everybody. And I think you can see this with demographic breakdowns, regional break grounds, and all of that. We just really need to reinforce opportunities, and the skill mix, and the ability of workers to contribute.

Susan:

And-

Charles Evans:

And be compensated.

Susan:

That's another good point there as well. Some commentators have focused on the Fed or accused the Fed of being overly concerned about racial equity, saying the topic is outside the responsibilities that Congress has given the Fed. The Chicago Fed recently started an economic mobility project. Can you explain a little bit what that project is, what its purpose, and how do you believe it fits within the Fed's responsibilities?

Charles Evans:

Sure. So it keys off sort of the comments that I just made about income inequality, and areas of focus in terms of income percentiles, and whether or not different demographic groups have access to the same opportunities. So it's incumbent upon us to understand the structure of the economy. That's the only way that we can truly understand when the economy is at full employment. When there are no employment shortfalls, that's the most important thing. When there's shortfalls, we need to be working on that. When employment just keeps getting better and better, it's like, who am I to get in the way? Let's look at inflation, if inflation is low, why would I get in the way of a vibrant labor market? If inflation is a problem we have to get on top of that. So that's sort of how that fits within our monetary policy ideas.

Charles Evans:

And so it just turns out that there's a tremendous amount of inequality across demographic racial groups. And that affects the structure of our economy, and whether or not we can do better as a growth opportunity for businesses and workers and households. And so we had a nice event just last week where we showcased some of our research from the Chicago Fed. Bhash Mazumder, who's done cutting edge research in terms of inequality. What's the likelihood that if your parents were in a low income group, that the children would be in a low income group too? We like to think that there's opportunity, and there's a lot of mobility in this. And you sort of showed that earlier research that indicated as recently as 1986, that we thought that there was a lot of mobility here, not so much. It's really, instead of... Anyway, it's not as much.

Charles Evans:

And it's even more difficult for Black families than white families too. So there's a racial component to that. And then we had three economists: Wendy Edelberg, used to work at the congressional budget office; William Spriggs, professor of economics at Howard University; and Michael Strain from the American Enterprise Institute. And then talking about the challenges that the economy is facing in inequality. And there was general agreement. There are obstacles for many workers in terms of their ability to get jobs uniformly evenly across the economy. And then we had a conversation between myself and Raphael Bostic, President of the Atlanta Fed. So I think there's general agreement that we need to be focusing on the structure of the economy, the strengths of the economy. It comes in unusual ways. It's not the just looking down employment rate. That's a sufficient statistic. I wish it were, but there's a lot more unevenness.

Susan:

What can be done though? I mean, what type of action or what kind of things?

Charles Evans:

Well, monetary policy really can't do a lot. I mean, we've got this one tool, which is the stance of accommodativeness. So it's either short term policy interest rates, are they high or they low. I think it's, in terms of some research about the structure of the economy, what we learn, what we share with others, with businesses, convening people to talk about, but it really requires a whole host of additional issues. I mean, what Bhash Mazumder's work indicated that one of the determinants of lack of mobility comes from history of residential segregation. Another is quality of schools. And I think it's easy to see from most of our experiences. I know growing up, being born in South Carolina, 1958, I saw evidence of segregation that continued to linger beyond any official ending of that, and went to a desegregated school in Alexandria, Virginia, TC Williams High School. You might have heard about it from the movie Remember the Titans with Denzel Washington. He was my gym teacher. I meant the coach, the football coach or something. So, I mean, there are a lot of challenges and we just need to keep working at them.

Susan:

But it does hold back the economy though. The inequality isn't just an individual issue. It does hold back economic growth. I mean, explain you're...

Charles Evans:

... employed, and employed in all the best activities with the skill sets. And if you're having trouble finding workers, improving the matching possibilities. Just in our own organization, I know that it's tremendously helpful for everybody. When you can see yourself in the leadership positions in the bank, that's really inspiring for so many people, and it inspires others around them too. And not everybody can see themselves when I'm the President, but when they can see themselves in the management committee, and my Chief Operating Officer, Ellen Bromagen, and things like that, I think those are inspiring. Those are important. It's sort of on the softer side. Obviously good programs that support good educational opportunities, good training opportunities, equal employment opportunities, are really important. And letting people compete and do the best that they can do on the basis of what they can contribute. That's important. And we get the most for the economy.

Susan:

Do you have one top concern right now? And that will be my last question, but what, looking at the economy right now, what is your number one concern?

Charles Evans:

From a monetary policy standpoint, we obviously don't have the right setting for the funds rate. So we need to make that adjustment. And my concern is that as, we need to get to neutral, and I think we need to allow ourselves enough time so that more data accumulates so that we can see better what we're actually going to be facing in 2023. And so is it going to be that some of these pricing pressures have crested, and they start coming down? Or are they going to stay high? Or are they going to be higher? And if it's because of supply concerns, real resource pressures, there's going to be a lot of gnashing of teeth, angst over the inflation versus the concern for the economy. And I think finding the right balance is going to always be at a premium and even moreso. I think my concern is that we take action to get to neutral, but we don't get outside of ourselves in doing that.

Susan:

Well, thank you very much. This has been very enlightening.

Charles Evans:

Thanks, Susan.

Susan:

I've really enjoyed it. I really-

Charles Evans:

Thanks, Susan. Thank you.

Susan:

Thank you.

Charles Evans:

Yeah. Really enjoyed it.

Speaker 3:

Thank you, Susan. Appreciate your questions of Charlie. And I've got a few more from the audience, Charlie.

Charles Evans:

Super, super.

Speaker 3:

I'm going to start off. Someone submitted a question that said, what are your thoughts on the current levels of real disposable income for Americans?

Charles Evans:

Well, I think it was very important and useful that both administrations, the Trump administration, Biden administration, supported households during the COVID pandemic. It was very difficult when the economy sort of shut down, and the period of opening it back up. And so those support payments kept household incomes up. They were very generous programs. And there's been a lot of commentary about maybe they were a little more generous than they should have been, but I think that they positioned households very well during a very difficult time. And the fact that vaccines came along more quickly, and we're in a better position than I would've guessed we were going to be, that's a good thing. I'm glad that they took that chance. And I think that, so I think that's part of it. I think that'll be coming down in terms of the fiscal support because it's waning. I don't think we'll see another version of that anytime soon. Hope it's not necessary.

Speaker 3:

What impact would workers coming back into the workforce in earnest have on the economy?

Charles Evans:

Well, lots of businesses say that there's a tough time finding workers. And so it would be great if this provided relief for that. As an economist, I think there's always a price. So I mean, part of this is what are the wages that are being offered? What are the terms of the employment? What are the business models that have been tried? So I think in goods production, it's pretty well understood, and businesses have made adjustments...

Charles Evans:

... small business side, it's far more challenging because the business model, the margins are probably very small, very thin. And so wage increases really can turn the tide against a small business models. Some are resistant and others are probably not going to be able to survive that. So more people coming in, and being available, would help. Higher wages would challenge the business model. They're probably business models that worked before that aren't going to work anymore.

Charles Evans:

For instance, if you had a... So many businesses do, it's like schedule somebody and then the customers don't show up. And so you send your workers home. Or maybe you schedule more and then thinking... Anyway, you send people home, and maybe they don't get as many hours as they wanted. Well, to the extent that workers have options, they're going to find employers that provide them more secure hours and things like that. So if that was a critical part of your business model and you can't get around that, not quite sure how that's going to play out, it's going to be tough.

Speaker 3:

Do you think that US national debt of 30 trillion represents a long term threat to the US economy?

Charles Evans:

Obviously debt is something that you have to pay interest on the debt. If you're a household, you tend to think that you have to pay it back. Somehow governments don't always have to pay it back. They just keep extending it. And next thing you know, grow into it and that type of thing. Nevertheless, servicing the debt can be very burdensome. So that is a concern. I am reminded that when one of the first times I spoke after the COVID shutdown, I said, this is going to be very difficult and we are going to be poorer as a nation. Because how can you shut down the economy for two or three months and not have that be a loss? Now the economy came back so quickly, and we're back to where we used to be. I kind of rethink that. And it comes back to the fact that, well, the government took on a lot of debt to make people better off during the downturn, during the public health crisis. That, in my mind, is an appropriate use.

Charles Evans:

That's why we have a federal government and it worked out. So this is the side that we're poor. We're going to have to somehow give up on something, or it's going to pressure these things, or we can grow into it if we have really good growth policies. And some of that 30 trillion is... A business would be kind of thinking, "Well, some of that's capital investment and I'm making a return on that investment. So it's going to pay for itself. Or I know how to pay for it." We're not very good at splitting that out. Some people think that there's never a payback on that, but I'm not in that camp. I think that quality infrastructure investment is a good thing.

Speaker 3:

This is submitted from one of the college students in the audience. What steps do you and other Federal Reserve heads take to make sure you and your decisions are perceived as nonpartisan? And has that changed in recent years?

Charles Evans:

I mean, we try to be nonpartisan in the way that we think about it. That's the first thing. Just in going about doing our job, we try not to take positions that are partisan. I know that working with my predecessor, Michael Moskow, he came in and sort of opened up more public events that we did in the Chicago Fed. I learned from him. And it's very important to have balance in how we think about these things. So, I mean, it's kind of easy to have critics come in and look at what you're doing to kind of go, "Wow, you're kind of leaning to the right on this one or you're leaning to the left on this one." And so having balance is important. I think in the current environment, things are, is it political to say that things are more polarized? I mean, there's just great dispersion in how different democratically elected officials think about the economy going forward and all of that.

Charles Evans:

And so it's almost like the Overton window has moved in ways that make so many things appear partisan that didn't previously appear to be that way. We try to keep our head down, take actions that are for the benefit of the American people, that benefit American households, that support businesses.

And the test is that we end up with strong economy, vibrant labor markets, and price stability. I think at the moment, it is way too early to say that we have let the price stability side of our mandate get out of hand. Oh, inflation is too high. There's no doubt about it. And we need to reset that. But I think that the relative price increases have been extraordinary. We need to be mindful of that and try to find the right setting of the economy that returns us to 2% inflation, on average, before too long, and maintain as vibrant a labor market as possible. So it's actions that really matter, and people are always going to be criticizing us.

Speaker 3:

I'm just going to finish with this last question, which I think you've given your point of view, but in a recent survey, the economy has majority of Americans concerned about a recession, with 81% believing one will happen this year. Should we be worried?

Charles Evans:

Well, I think, at the moment, I think that there's good momentum for the economy, that the vibrant labor markets will continue. Unemployment will stay below 4%. I think it'll be 3.6% or lower, as we increase policy rates up towards 2 to 2.5. So I wouldn't agree, myself, with that 81% figure, but I do think that we need to be mindful of as we get to neutral and we get a better idea of what the inflationary pressures are, and we see how things are playing out with the Russian invasion of Ukraine and the sanctions and everything else, hold our breath and hope that things work out globally. And the COVID global risk as well. There's a lot to hope there, but I think that there's still a good chance that we'll see continued growth for the next few years. And that's as far as I can forecast.

Speaker 3:

Charlie, you've made it through the easy part of the session. And now we're going to the traditional lightning round questions.

Charles Evans:

Okay. Those did scare me actually.

Speaker 3:

So something on your bucket list.

Charles Evans:

I don't really think in terms of bucket... We love national parks. We go out to Jackson Hole and Yellowstone every year. And I think going to see some of these national parks, that you can see in all those westerns, that people are riding horses through. I think that's part of our future.

Speaker 3:

One of your favorite movies.

Charles Evans:

So during the COVID sort of be careful kind of thing. We started doing driveway movies in our neighborhood. And we found out... Oh, it started off as my wife buying a projector for $150. And then I had to buy speakers so people can hear it, and all these kinds of things. So we're totally invested in this do yourself kind of thing. But we show movies for our neighbors on our garage door. And we saw The Bourne Identity movies. Those are very popular. And driving Driving Miss Daisy, I thought was very good. It was very poignant in the current environment, where you see the comedian Dan Akroyd talking to his mother, Jessica Tandy, about why he won't be attending the meeting to go see Martin Luther King. Because, "Well, I have great respect for him, but a lot of the business people I work with, they might not think about me the same way and I have to worry." And just worry about all the things going on today, and how it's important for us to just speak out, and think about what's important for America and all of that.

Speaker 3:

Describe Detroit in one word.

Charles Evans:

Motor City. Can I say city? Yeah.

Speaker 3:

That works.

Charles Evans:

Yeah.

Speaker 3:

And then just to wrap it up. Advice to your 25 year old self, what would you tell yourself?

Charles Evans:

Yeah. I think it would be to keep going. You didn't ask the question that was on there. What did you always want to be? And for me, it's really boring, an economist. And at the age of 25, I was in that I'd need to go to graduate school. I'm going back to graduate school. And I like to study the economy and macroeconomics. And I could never have guessed that it would work out as well for me to have a job like this, to interact with so many wonderful people, and share my views as one of only a small, one of large number of people. But try to make a difference in terms of the setting of monetary policy and all of that. So keep going. When you have a dream, go for it. 25 is still very young.

Speaker 3:

Thank you, Charlie. Thanks for your time today.