

Fed Unfiltered, Transcript

4/13/22 – Patrick Harker, Interview: The Hill Virtually Live

Steve:

My final guest is Patrick Harker. He is the president and CEO of the Federal Reserve Bank of Philadelphia. I spoke with him recently and began the discussion talking about a record inflation rate, as we are witnessing, and its impact on the jobs. Let's listen.

Steve:

President Harker, thank you for being with us. As you well know, we're seeing record low unemployment among the fastest growing job market we've seen in decades, and we are now coming off what many are calling the great resignation, but also dealing with record high inflation, among the highest in 40 years. So, bottom line, where does that put the US economy now and moving forward through 2022?

Patrick Harker:

Well, thanks for having me, Steve, today. And if I look at the economy, absent inflation, which is clearly an issue that we need to address and we are in the process of addressing that to the extent we can, I mean, some of the things like supply chain disruptions are outside really what the Fed can do. The economy's strong. You just mentioned a very strong labor market, strong GDP growth, and we're seeing lots of good signs. So, what we don't want to do is ruin the good things by being too aggressive in terms of inflation. We need to take action, but we need to be careful at the same time. So, I think things are good, but think back before the pandemic. I know it's hard for us to think back before the pandemic, but we had very tight labor markets then. So, there are some structural issues we need to address in our society, in our economy, to solve these problems, to get the people back to work that we need for this economy to thrive.

Steve:

So, you say, take action, structural changes. Specifically, what are they? What can the Fed do? What needs to be done?

Patrick Harker:

So, in terms of inflation, we're taking action with respect to raising the Fed funds rate, the interest rates, and also reducing our balance sheet, which also removes monetary accommodation. And that's really what the Fed can do through monetary policy. But what we have in the labor market in terms of these tight labor markets, as I said, that was true before the pandemic hit. There are things we're doing through our community development function all throughout the Fed, but particularly in Philadelphia to try to address this, because we need to really focus on creating an equitable workforce recovery. I mean, it's real simple. We need to get people off the sidelines into good-paying jobs. It's good for them, it's good for their families, it's good for their communities, and we need them as part of this economy.

Steve:

From your standpoint, what did we learn during this pandemic in terms of the job market and really what we're dealing with today, which is in many sectors, a labor shortage?

Patrick Harker:

I think if I were to summarize it in one word, it's hope in the sense that people need a sense of momentum. They need hope that there's a better future, a better future for themselves and for their

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family members. And I think what we saw in this job market right now is if people had the opportunity to leave a job that didn't fit them, where they didn't see opportunities for growth, they did because there's so many openings. But in order to make your way through this job market to better and better jobs, you need skills. I mean, ultimately it comes down to, "I need the skills. Those skills need to be matched with what the employers want." There are talented people all across our country, really talented people, and I think what we need to focus on is connecting them to opportunities to get the skills to leverage what they already know and to enhance what they know so they can improve their life and their family's lives.

Steve:

So, skills, but perhaps, in many cases, not necessarily a college degree, correct?

Patrick Harker:

Right. Yeah. So, this is a little strange for me to say. I'm an old university president. Not everybody needs to go to college or needs to go to college right away. People need skills, and we have to recognize that people learn in different ways. Not everybody learns in exactly the same way. Not everybody learns by sitting in a classroom and learning. Many people learn by doing. So, we need to really have the diversity of approaches to helping people get those skills. And in the case of a college degree, for some people that makes perfect sense, but it doesn't make sense for everybody. We need a very diverse workforce in this very diverse economy. So, we should celebrate those jobs where you don't have a college degree, but that provide a middle-class living for your family and for those in your community.

Steve:

So, when you hear the term equitable workforce, what comes to mind? How does that look?

Patrick Harker:

So, people who want to make a move, people who want to get a better job, have the opportunity to do so. I think it's really simple and there are the barriers to that, whether they're racism in some cases or lack of opportunity because it's not in your neighborhood or you just never saw it in your family. You don't understand that those opportunities are there. There's lots of things that hold people back from being able to get the job that they would like and that would make their lives better. That's what I mean by equitable. Everybody has an opportunity to be what they want to be.

Steve:

As you know, there are so many areas, especially in the service sector, that are seeing huge labor shortages. Why is that and what can be done about that?

Patrick Harker:

Well, if you step back for a minute and look at economic growth, economic growth is both productivity growth plus the growth of the labor market, and productivity growth through this pandemic has ticked up some, as people automated more because they couldn't find workers, but in terms of getting more people into the labor force, there's only two ways to do that. One is to, again, get people off the sidelines who are not currently participating, and I think that's what we're seeing right now is people just stop participating in some of these jobs, particularly in the service sector, and this is something I have to be very careful saying because it's not in our wheelhouse. It's not in our policy at the Fed to do anything about this, but we also need a sensible immigration policy so that people can get those jobs.

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Patrick Harker:

I think right now, my district, we have a lot of beaches, New Jersey, Delaware beaches. I've been talking to my contacts right now. They're very afraid of this summer and not having the workers. So, people are being creative about how to get workers, but they've really relied for years on bringing people in on temporary visas to work in the resorts. It's not clear how that's going to work this year, and that's why they're concerned.

Steve:

Outside of tourism and the restaurant and entertainment sector, what else are you seeing in the greater Philadelphia area in terms of the economy and really the outlook for the rest of this year and into 2023?

Patrick Harker:

So, again, Philadelphia as a region doesn't have the highs of the economy that we see nationally or the lows. We tend to be right in the middle, and so we're a good barometer for, I think, where the economy's going. What we see is continued growth, but we see incredibly tight labor markets. Tight labor markets in areas. We were just talking about hospitality, tourism, but also, with the booming business here in the Philadelphia region of cell and gene therapy really being led by the research out of the universities here, we need lab techs. We don't just need Ph.D.s, but we need people that can work in the laboratories, people that can work in clinical settings. I mean, the shortage of nurses is profound in this region and all across the country. So, field after field, you can see the shortage and how important it is for us to really focus on getting people into the labor market with the skills that will make them successful.

Steve:

The other uncertainty as you well know is this pandemic. We're now in a new phase as most Americans have at least had one vaccine, at least half of the country with the second booster shot, but how does that uncertainty add to where we are economically?

Patrick Harker:

I mean, this whole recession that we went into was driven by the pandemic. I mean, this is why historical precedent isn't exactly something we can rely on when we look at coming out of this recession. This one is different because of the pandemic. Years ago, or two years ago, when people were asking, what letter would the recovery be? Remember this? Would it be a V, a W? I said it was going to be a Nike swoosh, but a bumpy Nike swoosh. You were going to climb out, but it was going to be bumpy, and we're still in that bumpy situation.

Patrick Harker:

I mean, things are opening and closing, but hopefully, we've seen the worst of it here, at least in the US, but globally, there's still challenges. But at least in the US, I'm hoping that we can reopen. We're coming back to work at the Fed in terms of bringing people back into the building. We're seeing that all across the city and that's good because the deli operator or the dry cleaner needs us working in the city.

Steve:

But in terms of the tools that you have, what more potentially could be done?

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Patrick Harker:

Good question. So, we've been doing work with our colleagues at the Cleveland Fed now for a while in what we call opportunity occupations. Jobs that pay above the median wage, but don't necessarily require a college degree. We know what they are. We've documented this very clearly and we know what skills are needed for people to get those jobs. So, we've looked at all sorts of research and we've actually built a tool called the Occupational Mobility Explorer, where people can go in and say, "Here's where I am right now. With a little bit of training, what job could I get and what would be my bump in salary?"

Patrick Harker:

And actually, it lets you do a couple of more steps. And if I got that one, what's the next move? And then, if I got that one, what's the next move? This tool is very powerful. We want people either individually or policymakers, nonprofit leaders, to really use it to help focus. And by the way, it's not just a national tool. It's broken down by region so you can look at the Philadelphia region and see exactly what those opportunity occupations are. We think this is a powerful tool to help people get the jobs that they need and we need them to have for this economy to grow.

Steve:

How worried are you about gas prices now well over \$4 a gallon and what seems to be record high housing and rental prices across the country?

Patrick Harker:

Of course, this disproportionately hits the low to moderate-income families. And yeah, I'm very worried about that. So, to the extent we can do something about the Fed that is to start to bring inflation down, we need to do it and we're taking action and I'm very supportive of that action. The supply chain disruptions, unfortunately, are more difficult to deal with. We see with China closing down some of their economy because of the COVID-19 outbreaks. They're more difficult to deal with. We have to soldier our way through this and we will, and our forecast is inflation will remain high this year, but [inaudible 00:11:44] years in 2023 and 2024, we should get back to the 2% goal that we have at the Fed.

Steve:

And so, bottom line, your recommendation to the employer and the employee looking for jobs and looking for employers is what?

Patrick Harker:

So, for employers, it's think skills, not necessarily credentials always, and think of employees as an asset and not as a cost. So, really start to invest, and we're seeing that. I'll give you one quick example. There's a resort up in the Pocono region that realizes that ... we were talking about housing, the temporary workers they need this summer can't afford the housing. They're building housing for them. We're going back to the old days of worker housing. That's a creative thing to do, and so employers, be creative.

Patrick Harker:

For employees, have hope. Think of what you want to do and then use the tools like we have the Occupational Mobility Explorer, or other tools, or just word of mouth. How can I get the skills I need to

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get that better-paying job? There's a lot of help out there, and so just encouraging people. Don't give up. You can make this move effectively for you and for your family.

Steve:

So, final question. From your perspective, are we at a turning point in this 21st-century economy?

Patrick Harker:

Oh, we've been in a turning point for a while. I think there's been a continual shift as we move toward a more service-based economy over many decades. I think right now though what's happened is technology has accelerated throughout many sectors of the economy and COVID was the impetus for that acceleration of the deployment of technology. That puts even more premium on getting skills. It used to be just hard work and a strong back got you far in life. Well, you need some skills now, and so that's why we're really pushing through the work we do in our community development function, skill-based hiring, and more skill acquisition for our workforce.

Steve:

President Harper from the Federal Reserve in Philadelphia. We thank you for your time.

Patrick Harker:

Thank you.