

Fed Unfiltered, Transcript

8/11/22 - Mary Daly, Interview: A Fortt Knox Conversation

John Fortt:

I'm John Fortt from CNBC and this one I'm particularly excited about. Going to have a conversation this morning with Mary Daly, the president and CEO of the San Francisco Fed and that's the short version of the title, I recognize. Mary, thank you for being with me.

Mary Daly:

Oh, my complete pleasure. Thank you.

John Fortt:

Now I always start these conversations off asking what today's toughest problem is though for you and the Fed. I'm not sure it's much of a mystery, right? You guys have a dual mandate and I'm going to oversimplify here of maximum employment and making sure that inflation doesn't get out of control, price stability. Here's my question to start. Last week, we got the 75 basis point hike, and a lot of people seem to take that as, whew. Okay. The work's almost done, right? Do you feel like the work is almost done?

Mary Daly:

Oh, nowhere near almost done. We have made good start and I feel really pleased with where we've gotten to by this point, but let's just remember the last numbers on inflation 9.1%. Those are far too high, but most importantly, just go to any grocery store. I went to do a lot of shopping for different things over the weekend, and people are still struggling with the high prices they're paying and the rising prices. The number of people who can't afford this week, what they paid for with ease six months ago just means our work is far from done. We are still resolute and completely united on achieving price stability, which doesn't mean 9.1% inflation. It means something closer to 2% inflation, so a long way to go.

John Fortt:

At the same time though, you've got gas prices coming down. We see the home price growth also slowing down. There's an argument out there that the slowing is happening without having to do a lot of hiking. But then at the same time, the labor market continues to be pretty incredibly tight, that we're seeing some loosening there too. What are the most important factors that you're watching to determine, well, how much is this really slowing to the degree that we hope it is?

Mary Daly:

Let's start with gas price because it's a really good example of how that is going to provide some relief for consumers. I'm already seeing it. When you fill up your tank, it's a little cheaper than it was just a month ago. That's good news. We need that relief for consumers. The housing market slowing is very good early signs, and I'm seeing signs of more broader slowing. You see it. People are starting to think that the economy is down shifting, but we can't stop there because part of our work is raising the interest rate. The other part of our work is telling people where we expect the interest rate to go in the future and financial markets, as you know, price that in and you're seeing that, but we have to make good on those commitments to continue to raise the interest rate or else the whole thing unravels.

Mary Daly:

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Part of it is people expecting us to do something going forward and they're reacting to that expectation and it really would be premature to unwind all of that and say, the job is done. I also think that we've been with this high inflation for a while and really getting too confident that we've already solved the problem, I think would be a mistake. We need to keep committed until we actually see it in the data. We are seeing signs that again, the economy's slowing, but we have a couple more inflation releases before the next FOMC meeting. We have a couple more labor market reports, including one this Friday. I really am looking to seeing what those data tell us about whether we can downshift a little bit the pace of rate hikes, or if we need to continue to ensure that again, you started the segment with, Americans need to get up in the morning and not worry about inflation. They need to know that they have a job if they want one and that those jobs are secure. Those are the two things we're working for. The labor market's delivering. We're not delivering on price stability.

John Fortt:

I was kind of surprised to see the bond market, some folks betting that you guys are actually going to be cutting next year.

Mary Daly:

That's a puzzle to me. I don't know where they find that in the data. For me, that would not be my modal outlook. My modal outlook or the outlook I think is most likely is really that we raise interest rates and then we hold them there for a while at whatever level we think is appropriate for accomplishing this dual mandate, as you said, the full employment, price stability. That is where my outlook is. If we had an unforeseen negative shock on the economy that we needed to lower interest rates for, we could absolutely do it, but not as optimal policy, not as the policy we go in and think, oh, we're going to ratchet interest rates up really fast and then cut them. That is terribly hard on the economy. It's really hard on people because you imagine you're trying to figure out, am I buying a car? Am I buying a house? Am I getting a loan for a remodel? And you don't know what interest rates are doing because you think the fed is going to raise them quickly and then lower them. That is why we don't typically do that. We typically smooth out the path, but it's also really important to continue to fight back on this inflation that we've seen and doing that requires raising and leaving the interest rate for a while.

John Fortt:

That's the part that... I'm no economist. I don't even talk to economists that often, so thank you, but that's what I couldn't figure out is it seems to me like there are more people saying, "Oh, we're going to have a relatively soft landing," yet there are also more people saying, "But we're going to be cutting interest rates next year." It seems to me, boy, if we're cutting interest rates next year, something has to go horribly wrong, like a really hard landing.

Mary Daly:

I agree.

John Fortt:

Wouldn't that be bad for the markets?

Mary Daly:

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I totally agree. I'm on the soft landing side and by soft landing I mean I expect us to have a slower economy. That's what we're trying to do is slow the economy we're taking off the enormous support we gave during the pandemic and we're trying to get the economy working on its own and it's demonstrating it can do that. We're trying to get demand back in balance with supply and so that would be a slower economy, a slightly cooler labor market, which is right now so hot that people can't find workers and stores, at least in my neighborhood and across the district I serve, they're not even regularly open on the hours that they've posted because they don't have the staff to fully do that. That's really hard on small businesses in particular, who are running out of people to even keep open. One of the vendors or the store owners in my neighborhood said she works seven days a week and she finally decided she just can't do it anymore because she's been doing this for a while, so she simply closes now on Saturday and Sunday, which used to be her big days.

John Fortt:

Wow. Okay. That brings me to a question. You mentioned the tightness in the labor market. This has been batting around for a few weeks now or could be longer than that. You studied the relationship between wage growth and unemployment, so I want to know where you come down on this question. Is it possible to bring down the number of job openings out there? People are looking for workers that can't find workers. There are a whole lot of job openings, job listings. Is it possible to bring that down, signifying more slack in the labor market without significantly bringing down the unemployment rate? Because it's never been done before. I mean, bringing up the unemployment rate because it's never been done before.

Mary Daly:

No, it's a terrific question. If I can just unpack that a little bit. Right now we have twice as many openings, job openings as we have people looking for work and that's historical highs, right? This is really a high vacancy rate relative to the group of people who say they would like to have a job, the number who report being unemployed. The issue is can we bring those vacancies down to more historical levels relative to the number unemployed and that doesn't have a big increase in the unemployment rate. The answer is, I think, yes and no. I'm definitely of the mind that we can bring the openings down and you're already seeing this in the tech sector in particular. In the tech sector, they're saying, "Well, we thought we'd hire an extra 5,000 people, but now we're not going to do that. We're changing our hiring plans for this year."

Mary Daly:

Well, those are just posted vacancies at this point. They're not actual people in chairs doing the work so you can imagine they just stop hiring at that rate and that doesn't increase the unemployment rate in the tech sector. It simply means that there aren't as many jobs available in the future as we once thought, so that's how you do that. But I do see initial claims for unemployment insurance are rising and so you see that there are some layoffs taking place and that's because the economy is rebalancing. My own view is we'll have some modest increase in the unemployment rate as we slow the economy, but not that large increase in the unemployment rate that people are worried about and some people are projecting. I just don't see that in the current state of things, because again, there are almost auction like environments out there for workers. This is just about taking some of that auction like environment away, having workers stay in their jobs for it.

Mary Daly:

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Many of the restaurants around my area say you can't keep workers more than a month and they're being ghosted still. People don't even show up for work. We can take that out of the economy and still have an economy that Garrett has really the mantra we have which is "Everyone who wants a job can get one." I still see that as possible.

John Fortt:

Yet at the same time, it seems to me like it's easier to bring down the number of job openings without increasing the unemployment rate among higher wage jobs, which tend to now have the capability for things like remote work, which should make it easier to match because that's sort of what you have to do is match more efficiently the people looking for work with the jobs available. In the higher wage jobs with people who tend to have broadband at home perhaps, or a certain level of education and can do, I don't know, conversations like this one that might be easier than when you need the worker to actually show up at a specific location, which means they have to live in the area, which means, which means, which means, right?

Mary Daly:

Yeah. I think that's a really important piece you've just brought out, but I think it's also useful to describe what are, we call these matching inefficiencies, if they've risen, people changing jobs. Some of the biggest dislocations in this downturn because of the pandemic took place in the low wage sector, the lower wage sector, because a lot of things were hit hard were in person services, travel and tourism, restaurants, et cetera. Right now low wage workers are the ones really seeing rapid wage growth and that's because restaurants are competing with hotels all in this reopening phase. If you've been to an airport, it's hard to get in line for something because the food counters are understaffed. TSA is even understaffed. A lot of lower wage workers have other opportunities now and one of the main ones is in warehousing and distribution.

Mary Daly:

That's been a booming sector and it's just increased the job opportunities for lower wage workers. The thing that makes the matching efficiency not as challenging this time around though, is if you can work at a restaurant you're pretty diversified. You can go and work at a warehouse or distribution job without a lot of extra training outside of on the job training that they provide. Workers are pretty mobile across these lower wage sectors and that means that they can get these jobs pretty readily, which would be good news for matching efficiency. While I generally agree in that it's the higher end that typically can move, in this particular instance the lower wage workers can also move around. The big barrier for lower wage workers right now is the price of gas. A lot of lower wage workers have to live outside of city centers.

Mary Daly:

They drive into work because in most places in the United States, we don't have intricate public transportation networks. That driving cost has become so high that it really doesn't pencil out. We're hearing across the district that I serve and across the nation that that's a constraint for people. I think as we get some gas price relief, we might see the labor market actually have more workers willing to drive those distances in order to get those opportunities. But those are all things that are happening in the labor market right now, so a little bit of an increase in the unemployment rate while this sorts itself out is likely, but nothing of the type that would say, "Oh my gosh, we have a labor market that's in recession." I don't see that in the data.

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John Fortt:

Okay. Well, I know that you don't give financial advice necessarily.

Mary Daly:

That's true.

John Fortt:

Here's a question that maybe you can give some perspective on-

Mary Daly:

Sure.

John Fortt:

... what you see people doing in your district and Sherry Hughes on LinkedIn asked what should consumers be doing right now to whether the up shift in the marketplace? I take that to mean deal with inflation and how do we protect financial investments? What do you hear about people in your district doing to handle these challenges?

Mary Daly:

Well, there's two types of things going on for people. For people who don't have a lot of financial investments other than their house say, but they're really struggling with day to day expenses. This is really challenging because you think, we used to afford this and now we can only afford this. In those places, I'm actually seeing a lot of things that I remember doing as a kid. I grew up in a high inflation environment and I went to work and I was, I'm trying to struggle. Do I put gas in my car to get to work? How do I provide basic needs, but also save a little extra to do what I'd like to do. I'm seeing families across the district, across the country, shift from going to a destination to meet the grandparents and have a summer vacation to having the staycation at grandma's house or going camping.

Mary Daly:

There's a lot of people camping that never camped before, because it's cheaper to camp. I grew up camping for the same reason. They're doing that. Or another thing that I see and I travel a lot for the work and I see in hotels people going on vacations, staying at a hotel, but then bringing in food and eating it. They're eating by the pool side or eating in their hotel room and that's still a vacation. What I see consumers doing is being extraordinarily resilient, making trade offs that allow them to do the things they need to do, and also have a little extra to do the things they want to do.

Mary Daly:

Now in terms of protecting financial investments, the housing market is slowing, so if you have a house you might be getting worried, but the house prices typically don't fall unless we have a crisis and it doesn't look like that. Households are really, really well positioned. Household balance sheets are in good shape, so if you have a house it's just about house price appreciation cooling, not about house prices falling. That's a really strong investment. In terms of thinking about your financial assets that are not in housing, you're in stocks and things. Well, it's a good time to talk to your financial advisor and if you don't have one, the way that I think about it is the stock market is a long haul investment and moving around quickly in response to small gyrations, it doesn't usually pay very well. Just kind of

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balance your whole portfolio. What are my goals? What are my long term needs and how do I best do those things? But as you said, I don't give financial advice, but what I do give is just general living advice. That is remain steady in the boat because panic is not usually anyone's friend in finances.

John Fortt:

Well, that's some of the best non-financial advice, financial advice that I've heard in a while, just reminding people of some principles. You mentioned your upbringing just now and the conditions, inflationary conditions that you dealt with during part of that. Now I'd like to get into that. Some of these stories you talked about before, but so rich and so relevant to the economic situation we find ourselves in now. I want to ask you about where were you born? Tell me about household, parents, siblings. I think you're the oldest. Aren't you?

Mary Daly:

I am the oldest. Yes, I'm the oldest. Yeah. Go ahead.

John Fortt:

Okay. Is it Missouri? Were you born in Missouri?

Mary Daly:

I was born in Missouri. I was born in St. Louis, Missouri, and then I moved, my family moved to Baldwin, Missouri, which just was a rural area at the time. It's no longer rural. If you go there, you'll see that. But when I grew up there, it was kind of bordered on the rural area and it was a housing development by this rural area and where the neighborhood I grew up in was low to moderate income, my family was on the lower end of that spectrum and we weren't poor by any measure, but we lived pretty close to, as we call it in Missouri, pretty close to the bone, but just for Americans everywhere, I think they'll know what this means. We lived close enough from budgeting that any particular shock to the family, a health shock, a job shock could knock us through and that's what happened to us. I ended up dropping out of high school when I was 15 and just helped to work to help support the family and help make those volatile times a little smoother, but that's-

John Fortt:

Give me a sense-

Mary Daly:

Yeah. Go ahead. Sorry.

John Fortt:

Give me a sense of the picture even before that. Why did the family move from St. Louis to Baldwin?

Mary Daly:

It's like the American dream, right? My parents get married, they're from more urban St. Louis and they want to go out and have a house and buy one and so they move out and closely after that, my grandparents moved too, who had always lived in St. Louis and either owned donut shops or worked at donut shops and moved out with them. They lived three houses up the street in this little housing development from us. It really was that sense of the American dream that you can get a place. We had a

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one bathroom, three bedroom house, and we had six people, two parents and four kids and a yard. It felt like a palace, both to my parents and to us growing up, it just felt palatial relative to where my parents had grown up, or if we'd go and visit where my grandparents had lived over their donut shop on the north side of St. Louis, we felt palatial. This was why people moved there.

John Fortt:

Donut shop, north side of St. Louis, living above it. I'm getting this. Small business, right? Why donut shops? What brought them into entrepreneurship, where that was the business they chose?

Mary Daly:

Well, my grandfather and grandmother, they grew up in large families, one of 11 kids, one of nine kids living in pretty rural areas. Share cropping was the historical aspect of the family, but then trying to run little small businesses. There's even talk of my great-grandmother moon shining when prohibition was in place. There's a history of entrepreneurship, but I think in the South, we just called that scrappiness, just trying to make a living. When my grandfather and grandmother got married, grandma and grandpa got married, they decided my grandfather wanted to start a business, so he started a little donut shop and then family members started working at the donut shop. That was just became something what they knew how to do. My grandfather made the donuts and I helped him in many occasions on that. Actually I started my first job working there at 13, going, getting up in the middle of the night with my grandparents, driving to the donut shop and grandpa would make the donuts. I would ice the donuts. Grandma would work at the front of the store, getting coffee ready and serving the customers. I even had a little uniform.

Mary Daly:

We just did that. That was part of the history of how they made it a go of it. I think it was simply because that it was a small, you didn't have to have a lot of capital to start a business like that and who doesn't like donuts and there we are. My grandparents didn't mind getting up in the middle of the night and that's a really important aspect of we're running a donut shop.

John Fortt:

Well, Hey, if you're from a farming background, share cropping, you're used to getting up early. Where did education fit into the picture? Typically you hear about farming communities and there's this push pull, Hey, you got to work if there's time to go to school for a certain period of time, fine, but the most important thing is bringing in resources.

Mary Daly:

It really is true. Education, getting a high school education was considered the terminal degree in my family. In fact, I didn't really have any grasp of what college was, literally none. People find that hard to believe, but I just didn't grow up in a family where college was even talked about. Finishing high school was the aspiration and many of my cousins hadn't even done that, but that was something, both my parents finished high school, but that was it. My grandparents had completed high school, but that was it. Education was considered something you do, you got to learn, you've got to do arithmetic so that you can basically calculate the donut prices and you've got to be able to know how to spell so you can write up bills and things, but more than that wasn't true and I didn't have anybody in my entire extended family who had a white color job.

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Mary Daly:

If you don't have a white color job or you don't even have those aspirations, you think of get a high school degree and then get a job doing whatever. You can work in manufacturing, you can own your own small business. You have those. My father was a postman. Those are block and tackle jobs in the United States that were very important. That's how we thought of education. I did well in school, but it wasn't something that people really expected of me. They didn't care that much. What they cared about is can I do something?

John Fortt:

Right. What was that first economic shock that really started to have an impact on your family?

Mary Daly:

My father had a health problem and my mother didn't work. She was a stay at home mom and then my father gets a series of health problems and so he can't work. The postal service is providing some income. It offset the inability to work, but we don't have enough. Then we were running out of money and so my mother tries to go to work and she does, but that's just hard. You've not been in the job market for a while. She goes and she's working episodically. Then she gets sick and so now we have two parents who are completely not available for additional work and so the family just starts to break apart a little bit. My siblings went to live with my grandparents. I moved in with a teacher, they had me rent a little room, rent being I paid them \$5 a week from my income I was making, just because there's a certain indignity to being really, really without.

Mary Daly:

I'm so pleased that they knew that about me, that allowing me to pay \$5 a week allowed me to have some sense of self efficacy and dignity and agency. That was a critical at that time. I'm 15, 16 years old and I needed that in a big way. That's what happened to us. After that, it's just a series of tumbling through. All of my siblings and we all dropped out of high school, eventually. I did it first, but then they all followed after that. My brother just after me, went into the Marines and my sister got married and my youngest brother just scrapped together jobs and we managed and here we are.

John Fortt:

What did your family do for childcare at that point where your mom had to go to work? This is a challenge that families still face.

Mary Daly:

We took care of ourselves, actually. We took care of ourselves, but again, think about it. We're living in a smaller community in the Midwest many, many years ago. As I get older, I realize how many years ago, but many, many years ago, so the world was a little bit different, but we were kind of fending for ourselves. We would go out with our friends and things like that. We were old enough by then that we could manage that, but was the childcare idea was your parents, your grandparents, your neighbors. Those were the people who looked after us. I think it is not an exaggeration to say that for many Americans today, that's exactly what they're facing. If they don't have extended family to help out, then it's hard to find childcare, especially if you're in the lower half of the income distribution. It was hard before the pandemic and it's really hard now because so many childcare organizations have closed and schools or even summer camps. The number of summer camps that are open now, relative that were

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open before the pandemic is quite limited. American families struggle. You've got to struggle with childcare, lower wage jobs, high inflation. It's a challenge.

John Fortt:

How much of high school had you completed when you dropped out?

Mary Daly:

That's hard for me to even remember at this point, but I was ending 9th grade and starting 10th. The last year of my high school education before I dropped out even, I barely went. My grandmother got sick, who I just completely adored and I spent a lot of time going to the hospital to try to see if she was okay basically. The whole thing was a little overwhelming. I think this is really what happened to me and to many other people I'm sure is that when you're 15 and your family kind of implodes and your world gets shaky, school's the last thing on your mind. I didn't come in with a strong view on education's what mattered because I saw my family members and people around me make do with less than that. It was like, okay, I'll just deal with school later because that's a future thing and I have no idea what's important about that, but I do know that working's important, trying to hang on, trying to feel like you're okay is important, so I spent all my time and energy doing that.

Mary Daly:

Someone asked me actually, when I went to apply for college, if I felt proud of myself for dropping out. That was the first time that I really experienced the sort of judgment that comes when people don't understand.

John Fortt:

What did they mean did you feel proud of yourself?

Mary Daly:

He thought that I was just one of those kids who had dropped out because I was indignant about the world or trying to prove something. I said, "No, sir. I would've preferred to stay in school, but my situation didn't allow that." He wasn't buying any of it, but I thought that's disrespectful, of course, but it's also ignorant of why people find themselves. My grandma always taught me, "There, but for the grace of God, go I." I think that's a good mantra to live by, even if you're not religious, that basically we all have luck and we have bad luck, good luck, bad luck. I think that gentleman, when he asked me that question just didn't think hard enough about what my circumstances might have been. Why do I tell you that story? Because I think that's what I bring to my work now. It's not just my upbringing, which I absolutely bring to my work, but it's also the recognition that you don't understand the challenges that people have all the time. You only see the outcomes of their challenges.

Mary Daly:

It's really important that we dig a little deeper and feel how do people live and why do they make those choices? Because when they find themselves in these circumstances, they have a story to tell us. A lot of times that story is really about economics. You and I talked about this before. You mentioned this. I really appreciated it. For the world, for many people, economics drives everything. And for me now, economics doesn't drive everything because I have enough that I don't have to have it drive everything, but if you don't have enough, it literally drives every decision you make.

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John Fortt:

Yeah. For much of the country, for much of the world, religion is about economics. What you choose to eat is about economics. Who your friends are, or your view on different groups of people is heavily influenced by economics. You got eventually a PhD, which means you got a master's, which means you got a bachelor's, which means you got a GED. Why?

Mary Daly:

Well, I was fortunate enough to meet someone. When I met her I'm 16, 17, 16, probably and she was in her early thirties. It's just stunning to me that she decided to take an interest in me. I met her through a high school guidance counselor. She was a friend of hers and she just started nudging me. I remember she had a Mercedes, which she had gotten from her father because they were well-to-do in the state of Illinois in a small town. I thought that was the fanciest thing I'd ever seen in my entire life. Just sitting in that car made me think, oh wow, she's a completely different being than I've ever met. But the good thing about Betsy, who I love dearly to this day is that she just nudged me. She said, "Maybe you should get a GED," because I was scraping together part-time jobs at a donut shop, Target, trying to figure out how to make a go of it.

Mary Daly:

She said, "Well, if you get a GED, you can get a bus driving job, something that pays a salary and has benefits," so I did. Then of course she didn't settle for that. She looked at my GED scores and she said, "Maybe you should go to college." I said, "Well, I don't really know much about college, but you went to college, so that sounds like a good idea, but I don't have any money to do that." She wrote me a check for \$216, which paid for my first semester at the University of Missouri, St. Louis and I did well. I got three As and two Bs and things like that. She said, "You should go to a four year program." The second day she said is, "And you should move away from this area," and so I went to University of Missouri, Kansas City, and here I am.

John Fortt:

Why did she say you should move away?

Mary Daly:

Well, because like many people who grew up in my situation, you feel this enormous sense of responsibility to take care of your family. While I was there helping try to take care of them, it was pulling away. I was working a full-time job or a series of jobs that added up to full-time work. I was taking a full semester of classes and I literally wasn't sleeping. I was trying to make as much as I can. She felt, and I think this was the best call of her entire work with me, she felt if I went away, I could always send money back, but I would be less distracted and I would be able to partake in the other aspects that are important about going to college, which is building a network of friends and colleagues and learning how to function on your own and managing school. I still worked when I went to UMKC, University of Missouri, Kansas City, but it was just self agency that allowed me to make choices.

Mary Daly:

You mentioned this. In a world where resources are short, going to college, seems like a luxury and I could have easily been pulled away and not continued to go to college because it just gets so hard. You think, well, I can just work twice as much and my family will have twice the income, but the best decision I ever made was to go to college, finish my degree, because what I can give back to my family,

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to the communities I serve, to the people who I want to help is so much greater now that I went to college. That was why it's the greatest thing she ever did for me.

John Fortt:

Here's an issue that I think about all the time, economic mobility, and it's so much illustrated in your story. You said both of your parents graduated from high school, but here is the situation where you and all of your siblings had dropped out. That question, that economic mobility question of, are you going to do better than your parents? It looked like the answer was going to be no. The key for you or one of the keys was education, but that was a \$216 check for Mary Daly back then. What's happened to the cost of education since, the access to that key piece, that key ingredient in economic mobility, it's through the roof. The cost of... I'm not going to say failure, but the cost of not having immediate success is now this crushing weight of debt that today's Mary Daly risks if she does even take that one semester. How much of an issue is that A in this economy and then B when we're having to raise interest rates and that debt is getting more expensive?

Mary Daly:

Well, I think it's a really important question. I think I would like to separate it for a moment from interest rates, because I think the first order, and this is what I tell all young people is when you're choosing a place to go or you're choosing what kind of risk to take, choose one that fits your needs and your talents, but also choose one that fits your budget, fits your pocketbook because frankly, I went to a state school, right? University of Missouri, Kansas City. It wasn't very expensive. University of Missouri, St. Louis wasn't very expensive. There are many state schools. If you think you even need to start lower, start at a community college, right? And build your way up because the path to success is not a fast one. What I really think is regrettable is that we kind of sell, the narrative, somewhat sells, you've got to go to these really expensive programs in order to make a go of it and that's completely untrue. I went to state schools and here I am.

Mary Daly:

The first private place I went to was Syracuse university, but I was fully funded to get my PhD because frankly, I couldn't afford anything else. I couldn't afford to take those risks. That's why I'm a huge advocate for if students need to start at community college. That's great. Let's have community college programs that translate. I just gave a commencement speech at Utah Valley University. What I love about that program is they serve people from certificates all the way up to master's degrees and any divisible education so that people don't find themselves taking these huge risks and then if they stumble, they are indebted. I think that's the tragedy of the narrative, basically. Get you get the education you need in incremental steps. I had the crooked path you can imagine, and I actually didn't get here despite having a crooked path, I got here because I took a crooked path. I think that's the main message for younger people.

Mary Daly:

In terms of raising interest rates, the way that I have to think of it as a policy maker is it might actually raise the cost of borrowing today. That's right, but I'm trying to fight for the future for those students that are graduating. What we know about coming in with less advantage than others to a labor market is a long and durable expansion, is the critical foundation. An economy that runs so hot that it falters and it falls on itself and it has a deep recession, that's a terrible economy if you're less advantaged. An economy that grows steadily and sustainably, that's a good economy. That's a platform for folks to get

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their degrees and move in or get their degrees while they're working. All those things that we are doing are for that group. Inflation's hurting the less advantaged more than it's hurting the more advantaged and a bad labor market hurts the less advantage more than it hurts the more advantaged. Those are the things I work on each and every day.

John Fortt:

Again, that short term pain for hopefully long term gain. I want to kind of fast forward quite a bit, now. There's this question I like to ask about what I call Death Valley, a lowest point because I think there's a lot to learn from how one gets through that. I wonder in your career as an economist, after you got your PhD, when you're on this track, you're perhaps even with the Fed, doing this research and rising into perhaps positions of more responsibility and authority, what was the toughest point in that leg of your journey?

Mary Daly:

No one's ever asked me that question actually, so I appreciate the question and I'm going to give you a really honest answer. The lowest point in my career as an economist came when I was moving up and doing well, and my research was good. I was improving my ability to communicate and then someone told me that I wasn't going to be able to go in front of a specific group because I was gay and it might be an embarrassment or it might not sit well because maybe the people we were going to speak to didn't really love gay people. It was the first time in my life where, I mean, I've been odd for a long time. I'm lower income from the wrong side of the tracks. I'm gay. I dropped out of high school. I got a lot of weird. I'm short. I got a lot of things that don't make me fit, but that was the first time that someone had directly told me that because of something I was, I was going to be constrained and it stopped me in my tracks.

Mary Daly:

I called a friend of mine and I said, I don't know what's happening to me. She happens to be a black woman and she said, "Oh, the first time someone stopped me and told me I wasn't going to be able to do something because I was black or I might not fit in because I was black and they said it out loud to me, it's like you've been hit by a car. You're just stunned." For me, that was the hardest moment in my career because I was indignant and all that stuff, but it was really, my gosh. He has power. I might not be able to do something I want to do. For me, it was about going in digging deeply and realizing if I can come from this family and I can work my way up, he's not stopping me. Of course I kept going and here I am, but that was the lowest moment. I think for basically everybody who's ever worked, you have one of those moments where someone tells you, for something completely unrelated to your work, that they're not going to choose you, or they're going to barrier you and that was the lowest moment in my career, but it's given me fortitude I tell you, to fight for what's right.

John Fortt:

What was particularly hard about it? Because you had already proven to yourself that you could work past certain barriers, so the fact of, oh, well, you're from this place and therefore you'll never... The person who said, "Are you proud of yourself for dropping out?" had done a type of that, but here, this bombshell comes at a point in your career where probably in a lot of people's minds, maybe even in your own mind, you're supposed to be past that.

Mary Daly:

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Yeah. Completely.

John Fortt:

Right? Was the challenge more internal or was it more strategic? Was it, how can I possibly work around this? Or was it, boy, I really wasn't prepared to take that kind of hit at this stage?

Mary Daly:

I think it was the latter, wasn't prepared for the hit. I hope I'm not unique, because that would just be another thing to add to my unique list, but I do think this is probably something others feel. When I was growing up, how I did, I just imagined that people who came from more privilege basically just saw the world differently because they didn't have to kind of scrap around, that they just had more openness for people. I think that gentleman who had come from quite a bit of super well educated, fanciest places, all this stuff, here he is with those ideas about what's going to be okay and doing it for an institution that I love, that just sort of stunned me. I just find that was the thing that was hard. It's just that it's something that was really challenging that even at that level I was still going to encounter these deep seated beliefs that because of something I was, I couldn't be in a place where I could do the work I loved and wanted to do that I was extraordinarily good at that point in time, which is speaking to... Not to be boasting, but I was really good and I'm dedicated to trying to explain to everyday people what we're trying to do as a Fed and what we're doing as economists.

John Fortt:

I think that's clear. I don't think that's boasting. I think that's proven out.

Mary Daly:

The fact that I was not going to be able to do that to a particular audience, that was the hard part. Another thing that I think is really hard is when you get typecast. That misidentification, people misidentifying you or not seeing you is one of the harder things to experience in life. All of us have had times where we didn't feel seen, either by our partner or our kids or our friends. If you're not seen in the workplace, just people look right past you and they only see something they believe about you then that's a painful thing. Ultimately I did speak to the group. Ultimately the group wasn't nearly as biased as this gentleman thought and the world ended well. I was not worried about the strategy because I'm stubbornly resilient. You tell me no and I'm going to find a way to get, yes. I just am undaunted in that space, but I was surprised at my emotional reaction to having someone be so well, frankly, prejudiced about something and then deciding. He said, "Oh, and I don't dislike gay people. I have a lot of gay friends." [inaudible 00:42:07]

John Fortt:

That's what so often happens, right? It's not me. It's other people-

Mary Daly:

It's all those other people.

John Fortt:

... I'm concerned about. Very often I find that whatever it is that gets you through the Death Valley experience becomes a core belief, a tool in your toolbox that you can continue to use in your career as

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you lead, as you manage. Is there a piece like that? I don't know if it has to do with your network and who you reached out to. Boil it down. What's the core belief you got from that you continue to use?

Mary Daly:

That's a terrific question. Here's a core belief that I have is that, and it's why I understand the concept of allies so well. What got me through that was actually one of my colleagues here, two of my colleagues here, both white males, neither one's gay and they were indignant and so protective and so thoughtful and called me and kind of helped me through that in a way that was totally about who I was and not anything about some label that somebody had put on me. What I took out of that and the core belief is that I've often wondered, can I be helpful to people who don't look like me in a way that is deep and meaningful, even though many people who don't look like me have helped me, but I have self-doubt about, I want to be helpful, but can I be helpful? What I realized is allies are critical. Every time I miss an opportunity to be an ally for someone and speak up for them on their behalf, if they don't feel, or they're kind of stymied for a minute, then I have missed an opportunity to assist. Leaning to this allyship.

Mary Daly:

Allies can be anything. I don't know, you're just in a different space, just stepping up and helping people when you can see they're in need, or you can imagine yourself being in that experience. My colleagues took it to the next level. My grandma always taught me, "There, but for the grace of God, go I." What they took it to is I am going to try to walk in Mary's shoes for a moment. Oh, that's terrible. I'm going to help Mary, because it's hard to walk in her shoes right now. That's now a core value of mine. It's why I'm so supportive of not just the groups that are helping each other, but the allies who join in. I imagine if we all acted like my two colleagues did in all the different places that we encounter each day, we'd have a kind of more harmonious world where we blend together in a way that I think would be better for us all.

John Fortt:

Sounds like another Betsy moment.

Mary Daly:

It was another Betsy moment. I've had so many. I'm a fortunate woman.

John Fortt:

And now you're delivering them it seems as well, tough work for you and for the fed as a whole to navigate these choppy waters of the economy, but President Mary C Daly president and CEO of the San Francisco Fed. Thanks for joining me on Fortt Knox and sharing about the economy and about your own journey.

Mary Daly:

Thank you. Terrific.