MR. LYNCH: Hello and welcome to Washington Post Live. I'm David J. Lynch, global economics correspondent here at the Post.

Today I'm joined by Raphael Bostic, president and CEO of the Federal Reserve Bank of Atlanta for a conversation about the economy, inequality, and the American dream.

Dr. Bostic, welcome.

DR. BOSTIC: Thank you, and it's good to be here, David. Good to see you.

MR. LYNCH: Well, we're delighted to have you with us.

Now, before we get to our discussion about economic opportunity, I do need to ask you about a couple of issues that are making news today, and first, I'd like to get your view of the extraordinary events unfolding in the United Kingdom, where financial markets basically have turned a resounding thumbs-down on the government's plan for massive tax cuts and borrowing with inflation already sky high. What implications does the UK situation have for the already weak global economy?

DR. BOSTIC: Well, I think what we've seen in the reaction to the proposed plan is a real concern and a fear that the new actions will add uncertainty to the economy.

You know, one of the things that I spend a lot of time thinking about is how do we create more certainty for consumers so that they have confidence, that they know what's going to happen moving forward, and I think what we've seen in terms of market reaction is that the proposal has really increased uncertainty and really caused people to question about what the trajectory of the economy is going to be or might be moving forward.

For me, I think that it will certainly cause everyone to think hard about what their policies need to be moving forward and how much of this policy needs to be put in place. I know they're huddling right now. I have no doubt about that.

For me and for us here in the United States, I think the key question will be what does this mean for ultimately weakening the European economy, which is an important consideration for how the U.S. economy is going to perform. You know as well as I do that trade with Europe is incredibly important for our economic performance, and if that gets weaker, that puts more stress on us.

MR. LYNCH: So, at the end of the day, does greater instability emanating from the UK increase the odds of a global recession?

DR. BOSTIC: Well, I think it doesn't help it. You know, it would take international modelers to really try to quantify how much.

But, you know, one of the things that we know as a basic tenet of economics is that more uncertainty leads to less engagement for consumers and businesses, and less engagement in an already tenuous environment is not going to be positive.

So it is a concern. It's something that me and my team and all of us here in the Federal Reserve will be watching closely to make sure that we understand the implications of this development.

I would also say, though, that at this point, as I understand it, these are just proposals, and we haven't actually seen what's going to play out on the ground. And so that will be the other important question as we move forward.

MR. LYNCH: Right. Now, back in the U.S., the Federal Reserve last week raised interest rates for the fifth time this year. Markets this summer were clearly too optimistic about prospects for an early end to the Fed's rate hikes, but with stocks and bonds now being driven down for several days in a row, are investors too pessimistic about the outlook, or are they simply reacting appropriately to a fundamental change in the cost of borrowing?

DR. BOSTIC: Well, you know, I don't know whether they're too optimistic or not optimistic enough.

You know, for me, I actually think the more important thing is that we need to get inflation under control, and until that happens, we're going to see, I think, a lot of volatility in the marketplace in all directions. Little pieces of news can drive people to--and businesses to draw some more extreme conclusions than I think might be appropriate, and all of this, I think, is driven by the fact that we have inflation that is too high.

You know, the U.S. economy functions best when there's confidence about where the economy is going to be and what its trajectory is going to be over both the short and the medium term, and high inflation undermines that. So what we need to do is get inflation to be much more under control, down to our 2 percent target, and once that happens, I think we'll be able to draw more clear signals from where the market is evolving to.

But, also, you know, I just think we'll just hear much more clearly from businesses and from consumers, "These are the investments that I'm going to make. This is how I'm thinking about my prospects," and I'm pretty confident that's going to happen. Once we get there, I think it will be far less likely that we'll see the wild swings that we've seen over the last several weeks, but I still think we've got a ways to go. And there's some more work that we're going to have to do to try to help move inflation in the right direction.

MR. LYNCH: Now, the Fed obviously is not alone in raising interest rates. Central banks in Europe, the UK, Canada, really all around the world, with few exceptions, have been doing likewise. How do you assess the risks that all this relatively uncoordinated monetary tightening could in its cumulative impact prove excessive and, thus, drive the global economy into a recession that it might otherwise avoid?

DR. BOSTIC: Well, I'll say two things on this. First, I don't think it's as uncoordinated at some might think. You know, our leaders here, the chair and others in Washington, talk regularly with their colleagues across the world, and so there's an awareness of what we're seeing and a collective understanding about how it all fits together that informs our thinking about the exposure of the U.S. economy to things that are happening overseas and the exposure of overseas economies to things that are happening here. And all of that is taken into account. So I do think that that is an important thing for people to understand that we are not on an island. Our economy is not on an island. So it wouldn't be appropriate for our policy to be there either.

And then the second thing I would also say is it's important to remember that at the beginning of this tightening episode, monetary policy was at its maximally accommodative stance. We were basically at zero, which is trying to push the economy as strong as possible, and you see the same basic stance in central banks all the way across the world.

So I think when you look at our policy, we are just now getting to a place where we might be construed as having a more constrictive or restrictive stance, but many other central banks are in a position where they're just not pushing as hard as they used to be. So I think while there's going to be less momentum coming from our policy, we haven't fully pulled the reins yet, and so I think the likelihood of a cascade such that we get a global recession is not where we are right now. But it is definitely something we'll have to keep an eye on in the weeks and months to come.

MR. LYNCH: Okay. Now, you've been very vocal about the need to spread the gains of economic growth, the benefits of economic growth throughout the entire society, and you've said that you think the U.S. has, quote, "a moral and economic imperative to end racism," close quote. What are the practical implications of that imperative for the Fed's management of the economy? How would things, how should things be different in how the Fed operates if it really does make that a core concern?

DR. BOSTIC: Well, first of all, I would say, you know, we have a dual mandate of stable prices and maximum employment, and that dual mandate really informs and guides how we think about the economy. And when I first started in this job, I really asked the question like, what should our maximum employment benchmark be, and how should we think about it? And one thing that became very clear is that there were parts of our economy, there were parts of our economic community that were not contributing nearly as much as they might have otherwise, and that was constraining our economy potential. That was stopping or slowing our ability to get to maximum employment.

And so we do think about that. I think about that a lot here in this bank, and there are a couple ways to think about this. One is just really to figure out what are the drivers or the things that are causing that impairment that are preventing economic opportunities from reaching everyone so those people can reach their full potential, and as I go around the U.S. and my district in the Southeast, you know, I talk to people and they tell me the things that are not working. They tell me about education or about childcare or constraints, and I'm able to take that information and move that into discussions that I have with policymakers who have the levers to potentially make a change there.

The second thing that I think is important is that it's really helped us think about how we execute monetary policy. Now, it's very clear that monetary policy doesn't do the targeted sorts of investments that would most directly affect some of these challenges, but it is also the case that monetary policy does have implications for basically the foundation of the economy and also the benchmarks and the baselines as we move forward.

And one of the things that we've learned over the last, really, 10 years or so is that the Federal Reserve was a little too aggressive in slowing growth as we got closer to maximum employment, and there was as risk that maybe we were preventing the economy from including people in terms of employment that we might have otherwise. So, in our new framework, we basically took the position that we wouldn't slow the economy because of the fear that the economy was going to overheat until we actually saw inflation start to move, and then once that happened, then we would slow it down. And I think that helped right before the pandemic lead to millions of people to get jobs that would not have under previous approaches to monetary policy.

So I think there, in both those ways, we have an ability to speak to and try to help make progress in terms of the inequality that we see in the U.S. economy.

MR. LYNCH: I want to ask you about that framework, but I'll come back to that in a bit. First of all, just to make sure I'm clear, so you're not calling for any sort of formal expansion to the dual mandate. It's more a question of just how it's interpreted, and I ask that because, as you know, the Fed already faces criticism from some on Capitol Hill who say that it may be losing its focus on the dual mandate by worrying about concerns such as climate change.

DR. BOSTIC: So, you know, first of all, I'm laser-focused on the dual mandate, and I don't want anyone to think that I spend any time on things that are not directly contributing to our mandate. Pretty much everything that I do is with the goal of trying to help our economy reach its maximum potential, and that will get us to maximum employment and stable prices. So that's the baseline there.

I don't have any interest or goal to get our institution to go beyond that. I think we've got a lot--enough on our hands already, and we want to--I think it's appropriate for us to stay in that space.

Just on the climate change question, so that you mentioned it, you know, one of the things that we are charged with doing is trying to preserve and maintaining a financial stability, and to the extent that climate change is introducing new risks into the portfolios of banking institutions in the communities across the country, we need to understand the nature of those risks and make sure that banking institutions are prepared in case those risks come to fruition.

You know, we've got a hurricane that's going to bear--that's bearing down right now on Florida. That's part my--part of my district. That has implications for holdings and loans that banks have. I'm hopeful that this storm does not do a lot of damage, but what we've seen over the last several years is storms are bigger, they're stronger, and they're doing more damage, which exposes all of my financial institutions in the Sixth District to a lot more danger. And I think it's responsible for us to just acknowledge that and have conversations to make sure that banking institutions are thinking about that and have a plan moving forward so that they're still around tomorrow to continue to provide the services that we need them to do.

MR. LYNCH: Okay. Now, in one of your speeches, you described systemic racism as the yoke that drags on the entire economy, and you provided some striking evidence of how this has worked over the generations. And the example that stuck with me was that at the end of World War II, when the government was trying to promote homeownership, in the state of Mississippi, out of a total number of VA-guaranteed home loans that was 3,200 total home loans, only two went to African American borrowers. And I want to repeat that number, because I had to read the speech or that passage twice to make sure I was reading it correctly. The government gave borrowers in the state of Mississippi, gave 3,200 of them, discounted loans that they guaranteed, the government guaranteed. Only two went to African American borrowers. And folks might ask, "Well, who cares? That was a long time ago." But acquiring homes and passing them on, building wealth, this is how the process works, and obviously, if White families were able to access government financial aid that was largely off limits to Blacks, that has an effect that lingers over time.

But what can the Fed do about those sorts of historic inequities? What should the central bank try to do about that?

DR. BOSTIC: Well, I think--well, first of all, when I saw those numbers, I had to read them several times myself. You know, that was really just a striking demonstration of the disparities and experiences under ostensibly a single program which has major implications.

In terms of what the Fed should do, I think that just the virtue of you having--now having those facts in your head is an important contribution. You know, as I've gone around the country and my district and talking about how we help the economy be more effective, what I found is that many are not aware of the things that have happened in the past that are contributing to our constraints.

As you appropriately noted, homeownership has been a pathway for wealth building for families throughout the history of this country, and it often becomes the foundation upon which families and entrepreneurs are able to start small businesses, to go to college, and to do a whole host of things that allow them to ultimately be much more productive. And so having folks that are aware, having the American public be aware of the realities that have prevented some from getting to those experiences, I think, can help us have a richer conversation about things we might do to try to make sure that doesn't happen moving forward and to think maybe creatively about how we allow people's ideas to carry the day as opposed to their past financial situations.

MR. LYNCH: All true, but I wonder, though, you know, as you look back, we've had a half century of various government programs that have tried to address some of these issues, to close some of the--some of the gaps between racial groups and other groups in society, and they've had limited success, to be charitable, I think. So I wonder what you would say or what your view is of arguments for more dramatic action, more dramatic action although politically controversial action, something like financial reparations for the descendants of enslaved people. Is that something that makes sense, or is it just too controversial to even look at?

DR. BOSTIC: Well, you know, I don't know if it's too controversial. That's for the policymakers who are going to face that question to think about.

I do think, though, to your point, that, you know, we all should be thinking about to what extent are the practices and policies that we're doing helping to make progress on this, and so I've had a number of conversations with businesses in the last several years where they have tried to explore are there things that we are doing in terms of how we make people aware of our job openings and the like, that are not as inclusive as they might be. So the chamber of commerce--the Metro Atlanta chamber of commerce here has a racial equity initiative where they've created playbooks to help businesses examine their policies and maybe find ways to reach people they hadn't been reaching before and employ them.

There's a Partnership for Inclusive Innovation here in the state of Georgia that is run out of the lieutenant government's office, which is trying to get investment capital to small business entrepreneurs who typically don't have access to venture capital and the like. And the thing I really like about that program is that they've tried to make sure that entrepreneurs are contacted who aren't just in the Metro Atlanta area, which is where a lot of that money goes.

So I think the key here is really for us collectively to think about different ways that we might do the things that we do to try to reach people in different ways, and I will say in both the partnership case, the Metro Atlanta chamber case, and even a case such as creating internships for high school potential dropouts, what I've heard in terms of the outcomes have been that people have performed far better than you might have expected otherwise, and that there are really good ideas out there that can move the dial both in terms of income and in terms of wealth building that we need so much in so many parts of the country.

MR. LYNCH: What's your assessment of the role that the Fed's own policies, though, have played in contributing to greater income inequality? The ultra-low interest rates of the past 10 or 15 years, for example, fueled a huge boom in financial markets, and that was great news for people who already owned financial assets at the beginning of that period, but it further contributed to them pulling away from lower-income groups. Is that just an unintended consequence that couldn't be avoided, given the nature of the various financial crises, or was the Fed not thinking of these sort of outcomes?

DR. BOSTIC: So I was not at the Fed in those days. So I can't tell you what they were and weren't thinking about.

What I'll say is this. You know, I think this is a really hard issue. You know, on one level, you know, my charge in the Federal Reserve is to create price stability, to establish an environment in the economy that allows it to grow robustly. We don't have a lot of say in terms of what the distribution of income was before or the distribution of wealth was before, and the unfortunate reality is if the economy is growing, those who have wealth are going to get wealthier. And those who have not been able in a position to have wealth, they're not going to be able to participate in the same way.

So, for me, what I've really tried to do in terms of thinking about this is let's get as many people into the wealth-building space as possible. Let's make sure that they have enough income or that they're building the skills that allow them to compete for jobs that get them income that allows that to live sustainably and not on the edge, moving them away from being precarious, and then once they do have an ability to build wealth, let's make sure that they build that wealth in a safe and sound way.

So we do a lot in terms of financial literacy and financial advising in terms of putting tools out there for people so that they can understand things they might do once they are positioned.

But, look, we didn't get into this situation in three or four years. This is going to be something that's going to take many, many years for us to really make sizable progress.

But, in many ways--you know I'm a central banker, and I'm paid to get nervous--I'm also very optimistic about what we can do as Americans, and I think that the more that we see that there is potential and growth and good ideas coming from places that we haven't always looked at closely, I have every confidence that we will start to see more and more capital flow there and more and more investment in ways that allows us to get broader growth and more employment and a more resilient economy.

MR. LYNCH: So a few minutes ago, you mentioned the Fed's new inflation targeting framework, and arguably, I think that could be the tool where the Fed may potentially have the greatest potential impact on these sort of issues, but--and the idea being that the Fed would allow the economy to run hot for longer so that disadvantaged groups would have a chance who are always the last in line, would have a chance to benefit from a tight labor market. But I wonder whether this current episode of high inflation essentially strangles that strategy in its crib, because won't the Fed be allergic to resumption of inflation once this current episode is put to rest, which could take a year or two or three?

DR. BOSTIC: Well, you know, I would--I look at it a little differently. I think that the environment that we're in right now, the high-inflation environment we're in right now, is very much the byproduct of a covid economy. We have high demands because a lot of people were sitting at home for multiple years, not spending money. We had a strong fiscal support, and we had an economy that turned out to be far more resilient than I think anyone had anticipated.

At the same time, we have supply chain disruptions. We have war in the Ukraine. We have a lot of challenges in China in terms of a drought. All of those things have really constrained supply. So that imbalance that we have is of a nature that we haven't historically seen. So I'm not sure that it would be appropriate to draw long-term lessons from this experience.

Certainly, we have to make sure, first and foremost, that we get inflation under control, because if we don't have that price stability, we're not going to be in a situation where we're going to see businesses and families be willing to invest in themselves, and it could undermine the likelihood that we can have sustained growth. But once we get that under control, I think it's going to be an important conversation that we have in the Federal Reserve at the Federal Open Markets Committee about how we're going to approach this and exactly what lessons we should learn from this pandemic episode.

But I don't think it's a foregone conclusion that we're going to be skittish or anything like that. I think this is going to be an open conversation where we're going to let the data and the evidence and what we see from how the economy has evolved inform what we think the appropriate path forward should look like.

MR. LYNCH: So you mentioned the unique features of the last couple years of economic circumstances, which I think no one can argue with, but in light of that, I'd like you to look back at the experience of the last year or so. As you know, Fed officials from Chair Powell on down spent most of last year insisting that inflation would prove, quote/unquote, "transitory," and that, of course, turned out not to be the case. We ended up with the highest inflation in 40 years. Should the Fed have done a better job of understanding what was happening in the economy, or was it the case that for all the circumstances you laid out, repeated unforeseeable shocks, the economy--the pandemic-era economy was simply unreadable?

DR. BOSTIC: Well, you know, I think it's been a very difficult time, and, you know, if you're an economist and you're building models, those models are predicated on data from previous episodes in history. And this episode is just unlike all of them, and so I do think this is a particularly difficult environment.

It's one of the reasons why at our bank, we have actually decided--and we had decided this a while ago, but we found a higher premium on this to do a lot more direct outreach to collect information in real time and to engage in surveys that happen with a faster frequency than what some of the national data provide, to hopefully give us an earlier sign or signal of what was going on. And, look, we were getting glimpses that inflation was going to be a risk and that there was--and there was also a diversity of views on how fast the supply chain issues would resolve. So it was difficult.

But now we're in a place where we know inflation has gone up rapidly, and it has been enduring, and we've got to take that on board. And I think what you've seen is us doing just that, and I think there's still some more work to do on that front. But no one should doubt our resolve to get inflation under control.

MR. LYNCH: Okay. In the limited time we have left, I want to ask you a question I asked President Mester of the Cleveland Fed when she joined us last month, which is, as you know, this is a time when many people doubt elites, doubt elite institutions in this country, whether it's the press, big business, government, you name it. And I wonder how you assess the institutional credibility of the Fed with the broader public, not so much financial markets, but with the broader public after the experience over the last year. Is it something you worry about?

DR. BOSTIC: I worry about this every day, but I will say I've been heartened as I go around the Sixth District. People actually believe in us. They have faith that what we're doing is going to be effective.

You see this in the data. The long-run expectations for inflation are at the target that we--are at or near the target that we have in place, and this is not the concern that I hear more often. More often, I hear folks say keep doing what you're doing, get the information that you need, and we will be behind you. I think our transparency and our willingness to tell people exactly what we're thinking in real time has been helpful. It's something I'm going to continue to do, and as you talk to my colleagues, they're--they are really in this for the right reasons. And I think the public has understood that pretty clearly.

MR. LYNCH: Interesting. Unfortunately, that's the final word. We are out of time. So we'll have to leave it there. Raphael Bostic, thanks so much for joining us today. We appreciate your time,

And to you in the audience, thanks to you as well. If you'd like to see what we have coming up, head no over to WashingtonPostLive.com, and if you want to follow me on Twitter, I'm @DavidJLyunch there. But thanks again for watching. We'll see you next time.