From Academia to the FOMC: The Journey of One Fed President

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Thank you for inviting me to join you. It's always nice to go to the beach in November. And mingling with fellow econ nerds is a bonus.

I want to congratulate Hoov, as he likes to be called, and the other organizers on an impressively broad and deep agenda. You are showcasing important, timely work here that can inform critical policy conversations happening at the Federal Reserve and elsewhere.

The presentations over the course of this three-day conference will include several by my colleagues at the Atlanta Fed and in the broader Fed System. So, if I may, here's a shout-out to all of them. There are honestly too many for me to list them individually, though I will be referring to some of their work in the context of the Atlanta Fed's policy agenda during my remarks this afternoon. That said, there is one person I would like to call out specifically, and that is our own Julie Hotchkiss—I guess she's yours, too. I know Julie has provided strong leadership to the Southern Economic Association over the years, including being a recent president, and we are all proud of her contributions, both those to the SEA and to our Bank. Thanks, Julie!

My subject matter today will be wide-ranging, like this conference. I will center my remarks on my background, particularly the experience of moving between academia and policymaking, something I figure many of you can relate, or even perhaps aspire, to. I will also share my views on the current, extremely challenging economic and monetary policy environment, and hopefully give you a sense for how I form my policy views.

Before I dive into all that, please understand that the thoughts I share are strictly my own. I do not speak for my colleagues at the Atlanta Fed nor for the Federal Open Market Committee, or FOMC.

Inflation battle has a way to go

I'll start with the macroeconomy and monetary policy.

Right up front, it is worth a reminder that the profound effects of the pandemic and attendant policy responses continue to shape macroeconomic conditions. In just two-and-a-half years, the US economy has taken a head-spinning ride: the sharpest drop in overall output since World War II, a rapid resurgence in demand, a dramatic imbalance between labor supply and demand, severe supply and shipping constraints, and an inflation rate that surged from about 1.5 percent to nearly 7 percent—that in over just 17 months—to name a few.

The recovery in employment from the short but severe downturn early in the pandemic has been much faster than the recoveries from the three previous recessions. Importantly, the labor market since the 2020 recession has been characterized by an excess of labor demand over labor supply, a stark contrast to previous so-called "jobless recoveries" when job seekers outnumbered job openings.

That imbalance in the labor market mirrors an imbalance between aggregate demand and supply across the macroeconomy. Our persistently elevated rate of inflation is a direct result of that imbalance.

As we close out 2022, the inflation situation is something of a mixed bag, though the inescapable bottom line is that it remains far too high, and it will probably take some time to bring it back to our 2 percent target, as measured by the Personal Consumption Expenditures price index.

Core services prices excluding rent of shelter rose 6.5 percent over the past year, as of October's Consumer Price Index report, and inflationary pressures here remain broad-based. Rents and other housing-related prices are still rising briskly in many places. The latest data tell us many other categories of services prices continue to push upward, and with considerable momentum.

In particular, price pressure has been clear lately in categories including doctors' office visits and transportation services. These prices, along with food services prices, are tightly linked to the supply-demand imbalance in labor markets and the resulting wage pressures. Most measures indicate that the labor market is still very tight. Further, demand for goods remains uncharacteristically high for households at all income levels.

To be sure, some recent reports give glimmers of hope that supply throughout the macroeconomy will climb closer to being in alignment with demand. Supply disruptions are easing in some places, both for goods and labor. For example, operators at the Port of Savannah, which is the fourth busiest port in the nation, expect that congestion will likely clear by the end of this month. The number of job openings has declined, albeit slightly. Some contacts report they are eliminating openings rather than laying off workers, as the aggregate data on job openings and layoffs also suggest. A few contacts are postponing capital investments; some property developers are delaying projects; and some bankers say demand for financing is diminishing.

Inflation for goods has declined after surging because of a big shift toward goods spending in the thick of the pandemic. The impact of this last development has been muted somewhat because aggregate consumption has reverted toward the typical mix that is more heavily weighted toward services.

On balance, all of this tells me that our inflation battle likely still has some way to go.

Let me offer a peek at how I'm forming my battle plan, if you will, from a policy perspective. In short, we must get inflation on a clear trajectory toward 2 percent. The first step toward that outcome is to raise interest rates to a restrictive level sufficient to drive inflation back to our objective. The challenge, of course, is to determine what constitutes sufficiently restrictive given the tremendous uncertainty in US and global economic dynamics.

Today's economic conditions are quite extraordinary, so there is a good bit of uncertainty that we will have to manage through. You've undoubtedly heard Chair Powell talk about our need to be humble. I certainly agree with that.

Forming the battle plan

But there are some things that we do know, owing to conclusions drawn from history and a large body of research. One thing we know is that monetary policy works with a lag, with its transmission only fully realized in the economy after 12 to 24 months.

We are now more than eight months into the tightening cycle. How has our policy done so far? The answer to this question is informed by something else we know, namely that we must look to signals in addition to inflation readings to guide any assessment. Underlying inflation will be among the last economic indicators to materially shift in response to tighter policy. We need to see a sustained relaxation of excess demand conditions sufficient to lower the inflation rate over time.

We have yet to see underlying inflation move decisively downward in a way that looks sustainable. We have seen significant movement in interest-rate-sensitive sectors of the economy, as you might expect. For instance, the average rate on a 30-year fixed-rate home loan began climbing even before the committee started increasing the federal funds rate, nearly doubling from December of last year to about 7 percent now. Residential investment declined by 26.4 percent at an annual rate in the third quarter. But, beyond this, there have been few signs of softening demand or increases in supply that auger rapid inflation drops in coming months. This suggests there is more work for monetary policy to do.

At the press conference after the last FOMC meeting, the chair pointed to two distinct decisions the Committee faces: what interest rate will be appropriate to return inflation to our target and the pace the Committee should pursue to get there.

On the first question, if the economy proceeds as I expect, I believe that 75 to 100 basis points of additional tightening will be warranted. As I've discussed, it's clear that more is needed, and I believe this level of the policy rate will be sufficient to rein in inflation over a reasonable time horizon. My baseline outlook is that the macroeconomy will be strong enough that we can tighten policy to that point without causing undue dislocation in output and employment. Indeed, with millions of unfilled job openings and a smaller number of unemployed workers, slowing need not mean that job growth dries up completely.

I do not think we should continue raising rates until the inflation level has gotten down to 2 percent. Because of the lag dynamics I discussed earlier, this would guarantee an overshoot and a deep recession.

In terms of pacing, assuming the economy evolves as I expect in the coming weeks, I would be comfortable starting the move away from 75-basis-point increases at the next meeting.

Comments that I am hearing from business leaders in my District suggest that the fourth quarter of 2022 will carry unusually significant weight in shaping investment and hiring plans for 2023 and beyond. On this last point, many are feeling that the fourth-quarter performance will be a psychological focal point that is taken as more signal than noise in determining the pace of economic activity heading into 2023.

In the next several months, then, early signs of reducing supply-demand imbalances could intensify. This could happen either because policy actions earlier this year have a larger effect or because shifts in economic activity in the fourth quarter lead to a large change in behavior that does some of the work of bringing demand and supply into alignment.

In my view, slowing the pace of rate increases also acknowledges the great uncertainty in our economy. Being more cautious as policy moves deeper into restrictive territory seems prudent.

This uncertainty leads me to be flexible in my thinking about both the appropriate policy stance and the pacing. Inflation has been more persistent than most have forecast, and so we might find that a higher "landing rate" is necessary. I might similarly need to adjust my view of appropriate pacing. I will, of course, let the data guide that evolution.

I will also note that the uncertainty is not one-sided. Some economic dynamics have shifted rapidly in positive ways during the pandemic. For example, GDP rebounded much faster than anyone anticipated. Financial markets have responded to our tightening faster than they historically do.

Staying the policy course

Once we reach our landing rate, I think it will be appropriate for the Committee to allow some time to pass, during which the FOMC could assess the impact of policy tightening as it transmits through the economy. The challenge here is that policymakers have no way of knowing for certain if the peak rate selected is the optimal one. So, I think we must let the economic dynamics play out.

If it turns out that that policy is not sufficiently restrictive to rein in inflation, then additional policy tightening actions may be appropriate. On the other hand, if economic conditions weaken appreciably—for example, if unemployment rises uncomfortably—it will be important to resist the temptation to react by reversing our policy course until it is clear that inflation is well on track to return to our longer-run target of 2 percent.

I think it would be unwise to quickly reverse our policy stance. While I do not speak for my colleagues on the FOMC, I think there is consensus that we do not want to stir even more questions into an already uncertain economy. Instead, we want the public and markets to clearly understand our aims, and the fact that we are going to be unwavering in the pursuit to bring underlying inflation back toward our 2 percent objective.

In the last several months, I've described this approach—getting to a moderately restrictive landing rate and then not reversing that policy stance for some time—as being "purposeful and resolute." It is heavily informed by analysis my staff has done of past tightening cycles, which highlights what *not* to do.

Two of our economists, Federico Mandelman and Brent Meyer, examined monetary policy before and during "the Great Inflation," which lasted from the late 1960s through the early 1980s. The main takeaway from their research is that we must be resolute if we are to completely uproot inflation. What economists have come to call stop-and-go monetary policy—tightening in the face of rising inflation only to reverse course abruptly when unemployment rises—likely helped fuel the Great Inflation. Between the late 1960s and '80s annual inflation rates exceeded 6 percent for the better part of a decade and peaked at nearly 14 percent.

That doesn't mean we charge ahead blindly with tightening. Moving too aggressively could introduce the temptation to abruptly shift course if economic indicators soften. Therein lies the risk of repeating the stop-and-go approach that arguably contributed to economic instability in the 1970s and early '80s.

Now, let me be crystal clear about my policy approach. By advocating that the Committee reach a landing rate and then assess how monetary policy is flowing through the economy, I am in no way suggesting that we reverse course at that point and loosen policy. Along those lines, I warn against a stop-and-go approach, with abrupt shifts, before inflation is firmly on a trajectory back to the longer run target of 2 percent. Being purposeful, reading the economic signals, and carefully assessing how policy is affecting the real economy is not synonymous with reversing the policy stance. We need to look at other signals besides inflation—including wage growth, unemployment, labor market tightness, and sustained demand—but not overreact to them.

In hindsight, in the 1970s, the Fed reacted too quickly to changes in the real economy, such as rising unemployment. Policy reversals never allowed inflation to fully recede to the 1 to 3 percent range that was the norm after the Korean War. Hence, instead of fading from the American psyche, inflation remained an ever-present concern. Business leaders and workers anticipated higher future inflation rates as they set prices and bargained for wages. In other words, inflation expectations became unanchored. Consequently, elevated inflation itself took root, and the Volcker Fed ripped it out of the economy only after a pair of painful recessions in the early 1980s. Failure to promptly restore price stability led to worse suffering later.

I take this lesson from the Great Inflation to heart. I am firmly committed to the fight against inflation and will remain purposeful and resolute until the job is done.

My path to the FOMC

Let me turn now to how I came to be standing here as a central banker. A few years ago, if someone had told me I would be president of a regional Federal Reserve Bank, and thus a member of one of the most important economic policymaking groups in the world, I would have thought, "Yeah, and maybe you think I'll be an NFL quarterback, too."

When this job first came to my attention, I was teaching, doing my research, working hard, and having a fine time. Even after the first round of interviews for this job, I really didn't think I had much of a shot. But I've learned that things rarely play out according to tidy plans. My journey into economics in the first place was thanks, in part at least, to happenstance. I went off to college thinking I'd be an engineer, like my dad. Then a freshman chemistry lab experiment sparked a minor inferno—OK, that's a bit of an exaggeration—but I decided then and there to pursue something else.

I studied psychology and economics, and both felt right to me. The economist's way of viewing the world of human motivations, incentives, and opportunity costs felt deeply sensible. And I believe that an understanding of psychology dovetails beautifully with trying to figure out why we humans behave as we do, particularly in the marketplace.

My academic research centered on cities, and how and why they develop, who benefits and how we might spread the benefits of economic growth. I always encouraged my planning and real estate students not just to be good at their job, but also to strive to make people's lives better, to use their influence in positive ways.

I like to think I do that now. As a Fed president, people do listen to me, maybe at times more than I'd like. It seems they want to hear what I have to say, like you guys apparently do.

That required some adjustments, to be sure. I've had to learn to be more disciplined in how I communicate. Fed watchers and the press can interpret what I say very differently depending on nuanced phrasing. You all know that, as a professor, while this may have changed somewhat, you can still within bounds say pretty much whatever you want and not worry too much about making headlines.

Another difference between the academy and the Fed is that I can't just think and write and lecture. I must make judgments about the economy, and continually weigh incoming information and data against theories, and ultimately formulate policy actions. Honestly, that has been a privilege.

I have been able to bring my research interests into policymaking, to some extent. Our Bank has made it a priority to promote economic mobility and resilience, or EMAR, as we call it. I was far from alone in bringing that forward at the Atlanta Fed. But I had some influence, and my grounding in arenas that are at the heart of mobility and resilience informed my thinking about how critical it is in advancing the macroeconomy and especially the maximum employment side of the Fed's dual mandate.

I guess it's clear this job comes with stresses. In fact, I often say I get paid to worry, and it's not just a throwaway line. Believe it or not, when I started this gig in 2017, my hair wasn't completely gray. Then along came a global pandemic and the highest inflation we've seen since I was in high school.

I used to tell my public policy students—the easy problems have all been solved. If you're going to be in this business, you'd better be ready to work on the hard stuff. Well, here we are.

Another difference between academia and this job is the heavy travel schedule. But here again, the positives far outweigh any inconvenience. I get to meet a fascinating and eclectic range of people—my FOMC colleagues, business leaders from across the economic spectrum, elected officials, educators, nonprofit and arts leaders, community advocates, and on and on.

I have particularly enjoyed getting to know the Southeast. Before I joined the Atlanta Fed, I had spent little time in the region. It's been gratifying to travel around and see that people are engaged, people love their communities, and they want to make these places the best they can be. I have come to appreciate that while data and research are essential tools for a policymaker, the surest way to viscerally understand local communities and economies is to directly see and hear the people who live and work in them.

Our six-state district is tremendously diverse. It encompasses thriving Sunbelt metropolises that nonetheless face profound challenges, resort areas like this one, and small towns and rural expanses coping with the tectonic shift from a goods-producing to a service-providing economy. We are making policy for all of them.

This role has given me a deeper appreciation of the great good that economic policy can do, and the tremendous value of having people understand those policies and basic economic principles that affect their lives in such profound ways.

Taking solid research to people who can use it

This appreciation has only strengthened my conviction that we, as a profession, need to do a better job making our research and knowledge accessible and useful to real people. I'm sure my staff get tired of hearing me harp on this point. But we can spend months churning out papers for peer-reviewed journals that nobody outside rooms like this will ever see.

And certainly, basic research is critical. But we also need to get this work out there so it can make a real difference. So, another part of my job I love is that I can take good, solid research and data out to people who can use it. We have plenty of examples of that in our building, including tools many of you probably know, such as the Wage Growth Tracker, GDPNow, and our Underlying Inflation Dashboard.

But let me give you a couple of recent examples of how our work can manifest in material ways, even in places you might not expect.

As I travel around, I hear a lot from executives about their difficulties attracting talent, dating back to before the pandemic. A common refrain runs along the lines of: "People just don't want to work like they used to."

There may be some truth to that, and not in a pejorative sense. As a matter of fact, people are reevaluating how they want to participate in labor markets. Many workers have decided that the way they worked, when they worked, and where they worked before the pandemic no longer suits them. And many are in a position to be choosier.

That means employers have to rethink how to attract and retain workers. Demographics tell us a dramatic surge in labor force participation is not likely soon. But there are creative ways to think about solutions. Work by Julie

Hotchkiss shows that higher pay alone is less likely to attract younger generations to the labor force compared to baby boomers. So, employers need to innovate, whether that means demonstrating more clearly that work has meaning beyond a paycheck, allowing greater flexibility, offering better benefits, or, in many cases, all the above. We hear many reports from contacts that employers are at least pondering moves in all those directions.

To be sure, Julie's research alone doesn't solve this puzzle. But it does offer a framework to shape worker attraction and retention strategies in ways that employers might not have considered before.

Another example: Just last month, I was in an impoverished part of rural west Alabama. Childcare is among the biggest challenges they face in fielding a capable labor force. As it happens, Melinda Pitts, another of our economists who is here, has done good work on young mothers' labor force participation, or lack thereof, in the thick of the pandemic. Melinda found that much of the problem stems from a lack of childcare.

So, during this visit, I was able to talk about Melinda's work in conversations that included local and state policymakers. I'm hopeful that the discussion captured the attention of those officials, and that maybe they will take that information and raise childcare as an issue that is important not only for the general welfare of lower-income mothers and their children, but also for the local economy and business community.

As I talk to business leaders, many of them tend to fixate on one or two reasons why workers aren't returning to the labor force in sufficient numbers. I try to tell them there are many reasons why people aren't coming back. I've actually started keeping a list, which is now up to 11 distinct factors. And if you're narrowly focused on one or two, then you probably won't find solutions to the labor force challenges so that we, as a nation, start to see the supply-demand tensions ease. So, the research we're producing can shape how people understand the economy and what they can do to make the economy better. That's incredibly important.

Finally, we have an interdisciplinary team that conducts an initiative we call Advancing Careers for Low-Income Families. We have established partnerships with more than three dozen state and local agencies nationwide that use our tools and data to help lower-income workers upgrade their skills and earn more money without losing public benefits that help sustain their families. People on multiple forms of public benefits confront so-called benefits cliffs as they earn additional income—each additional dollar earned can mean a loss of $2 or $3 in benefits. In effect, some of the country's lowest earners face punishing marginal tax rates and thus a disincentive to acquire skills, seek better jobs, and ultimately become more self-sufficient.

Going to the grassroots

Much of the research I've just described is grounded in data. Data in many ways are the lifeblood of the study of economics. But the numbers are inherently backward-looking. Nowadays, technology, globalization, and other forces have accelerated the pace of economic change to the point that, if we rely solely on aggregate statistics to guide our policy thinking, we will always play catch-up.

So, in addition to our economic research enterprise, we have developed other mechanisms to supplement the aggregate data with nuanced, more real-time intelligence.

Over several years, we have built a robust survey shop—we call it the Economic Survey Research Center—to generate forward-looking information about how business leaders are thinking. We produce the Business Inflation Expectations Survey, which has proven particularly helpful in today's environment, and the Survey of Business Uncertainty. The SBU has been invaluable in adding texture to our understanding of how firms are thinking about investment and hiring decisions, for instance. The CFO Survey we conduct along with the Richmond Fed and Duke University likewise has yielded rich information about large firms' cost pressures and timely concerns such as supply chain disruptions and hiring difficulties.

We augment these instruments with intelligence directly from hundreds of business contacts, community leaders, and nonprofit executives across the Southeast. Staff in our six offices who gather this input make up what we call our Regional Economic Information Network, or REIN.

The questions REIN personnel ask are informed by research and surveys. Importantly, our REIN information gathering and analysis constitute a longitudinal exercise, in that we can observe trends as they develop from seed to maturation.

All these data, survey findings, and grassroots intelligence inform my policymaking. Before every FOMC meeting, my staff and I hold a series of discussions that include formal briefings with economists and the REIN team to analyze the latest intelligence they've gleaned. REIN has produced a lot of insights. For example, early in the recovery from the pandemic recession our staff began hearing reports of firms having trouble filling job openings—well before shortages of available labor appeared in the data.

That is the sort of potential turning point in the economy that REIN can help us detect before it manifests in official statistics. In another such example, we have recently begun to hear scattered reports about higher interest rates beginning to constrain business activity.

Of course, we treat anecdotal information with appropriate caveats. But we feel our contact base is representative enough and our synthesis and analysis of the findings rigorous enough that the information is a useful complement to the aggregate data. It's become more than useful, actually. It's an essential component.

Before I close, I want to add one more thought about the economics profession. Part of the quest to make sound economic research useful is grounding it in real, lived experience. We need diverse voices, perspectives, and backgrounds to make polices as effective as they can be. We need people in the important rooms and around the big tables who have lived the lives of those for whom the economy is *not* working, the lives of those whose opportunities to fully participate in the economy are constrained.

To that end, I am proud to be associated with the Fed System's Federal Reserve Education Fellows Program that is training a cohort of teachers at the fifth through eighth grade levels in economics and monetary policy. We have a long history of training teachers how to be better econ instructors to high school kids. What's different with the Education Fellows Program is that we are trying to reach kids much earlier in their lives, so that they get strong positive reinforcement that economics is important, interesting, and, critically, something they can be good at. Our hope is that these early encounters might cause more kids to have economics or finance on their list of possible careers as they grow up. And I'm especially hopeful that this happens for girls and kids from groups underrepresented in our field.

Please think about how you might reach out and encourage or mentor a promising student. When we leave potential behind, we shortchange all of us and the entire economy.

Making our work available and accessible

I’ve discussed the Atlanta Fed’s research and information-gathering apparatus in part because I think it’s important to continually explain our work to the public. I also tell my research team that part of my job is to make them famous, hence the shout-outs today. If I’m going to make them famous, then our information must be available and accessible, and we need to make the work useful—on the ground, in our communities. I’m proud to say we are doing that.

Another reason I wanted to talk about our research is that I hope it sparks you to think about how our products can inform your work. By the same token, I encourage you to consider how your research might inform the work we’re doing. There are countless interesting economic puzzles out there, and while our people are working on many of them, there are others where help is definitely needed. I’m looking for your help as we wrestle with profound changes—in labor markets, inflationary dynamics, and the changing ways monetary policy is transmitted through the financial system and the real economy. So go find a Fed person at this conference, and let’s start making this happen. Check out the slide on the screen for ways to follow us.

Thank you for your attention and enjoy the rest of the conference.