Wailin Wong:

NPR.

Speaker 3:

Previously on Game of Feds.

Speaker 2:

The council has decided, henceforth, the Federal Reserve Bank shall have two mandates. A dual mandate. Mandate number one, step forward.

Speaker 3:

Yes, your highness,

Speaker 2:

Your duty will be to fight for stable prices and low inflation.

Speaker 3:

Yes, your Highness.

Speaker 2:

Mandate number two.

Speaker 4:

Your highness.

Speaker 2:

You will fight for maximum employment across the lands.

Speaker 4:

It shall be, my honor.

Speaker 2:

Some will say having two mandates will cause conflict in the realm. But what do they know?

Speaker 4:

Mandate number one. I know you're trying to bring down inflation, but think how your actions will affect employment.

Speaker 3:

That's your mandate number two, I'll carry mine out even if I have to crush you.

Speaker 4:

We'll see about that. Aargh!

Adrian Ma:

Hey, why'd you pause the show?

Wailin Wong:

Sorry, I'm super confused. Why is there all this tension between the Federal Reserve's dual mandates? Why are they literally dueling, and why is there so much nudity?

Adrian Ma:

You know what, you're right. I think what we need here is somebody to explain the backstory of the dual mandate. And actually I know the perfect person to call.

Raphael Bostic:

Hello?

Adrian Ma:

Raphael Bostic, President of the Atlanta Fed. It's Adrian Ma.

Raphael Bostic:

Who is this?

Adrian Ma:

Adrian Ma with the Indicator from Planet Money Podcast.

Raphael Bostic:

Okay.

Wailin Wong:

Adrian, I thought you said you knew him.

Raphael Bostic:

Wait, am I on speakerphone?

Wailin Wong:

Oh. Oh, hi. Hi, I'm Wailin Wong.

Raphael Bostic:

Hi. Can I ask, how did you get this number?

Adrian Ma:

Listen, we have a quick question for you.

Raphael Bostic:

Can this wait? I'm kind of in the middle of dinner.

Adrian Ma:

It's about the Fed's dual mandate.

Raphael Bostic:

Oh, well why didn't you start with that. Here, give me a second. I'm going to clean up and then I'll be right back.

Adrian Ma:

Yes. So in a minute we'll hear from Raphael Bostic, president of the Atlanta Fed, about the origins of the dual mandate. And hopefully we'll get to the bottom of why there is this tension between the two.

Speaker 7:

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Speaker 8:

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Adrian Ma:

So the Fed's dual mandate means that it has two main goals. The first is stable prices, and that means when inflation is running really hot, when prices are going up, the Fed raises what it's called, the Fed funds rate, which causes interest rates to rise, which slows down the economy and hopefully brings prices down over time. Now, over the past year, we have seen the Fed try to do exactly this, and the latest government figures released today showed that it seems to be working. The annual inflation rate was 6.5% last month, which is actually the sixth straight month that it's gone down.

Wailin Wong:

But a lot of economists and financial forecasters are worried the Fed might have gone too far. If the economy slows down too much, it could go into a recession causing people to lose jobs. And that would work against the Fed's other primary mandate to promote maximum employment. Basically, that's meant having an unemployment rate of around 4%.

Adrian Ma:

And when I called up Raphael Bostic to ask about these dueling dual mandates, he said, "First off, it wasn't that way when Congress originally created the Fed in 1913."

Raphael Bostic:

For the Federal Reserve, the mission was originally price stability and making sure that the economy operated in a very orderly way over time. The US has put a little twist on it, and that started in the late sixties and early 1970s when people across the country, and including in the civil rights movement, started to think that there are other things and other features that should inform how essential bank works. And so those activists got with the Congress and there's an act called the Humphrey Hawkins Act where they added a number of things to the Fed's mandate and one of them was maximum employment. And so when you hear the dual mandate, it's really a reflection that the Fed has to think about price stability, but it also has to think about maximum employment and how we are doing in that regard as well.

Adrian Ma:

And at the time were people were like, "That's a great idea" or was it controversial to say the Fed should also be focusing on this?

Raphael Bostic:

Well, it depends on who you talk to. There are a lot of traditionalists who would say, "When you ask institutions to do more than one thing, they don't do either of them well", but there are others who would say, "Look, these things are related to each other and with any situation or in any pursuit, they're always going to be trade-offs." And so I think that argument carried the day in the 1970s, and it's where we stand today.

Adrian Ma:

I've also read that these two goals could be intention, trying to fight inflation could cause a recession, which could cause unemployment, which could hurt people who might be on the margins economically speaking.

Raphael Bostic:

So one thing I would say at first is we're trying not to have recessions. So even as we affect the pace of the economy through our policy stance, the goal is really to continue growth and have us have continuous, steady, longstanding growth, which is basically what you saw leading up to the pandemic. We had had eight or nine years of consecutive years of growth. So that's one thing I think is really important.

The second thing is, and I try to remind people of this as much as I can, high inflation hurts those with the least the most because if you can't pay for your food, you're not going to go to a workforce development program to get training, you're not going to go to college. And so if costs are forcing you to make hard decisions in the short run, you're going to wind up worse off in the long run. And we just really need to try. And I think it's really important that we give people the best opportunities in terms of how the economy performs so that they know that it's okay for them to invest in themselves. It's okay for them to invest in their businesses, and that's really the hallmark of an economy where price stability is being managed well.

Adrian Ma:

So there still seems to be some tension here though, because if raising interest rates can end up causing a recession, this makes me think about this research that shows that during a recession, black and Latino workers especially tend to get hit with job losses more than white workers.

Raphael Bostic:

So you're exactly right, and there's a lot of evidence, some by researchers in the Atlanta Fed that say when there's a recession, the last in are often the first ones out. And typically the job losses are more significant from minorities and lower income people. But at the same time, if you can get the economy to grow for a long period of time, people who often weren't benefiting in periods of economic growth start to benefit a lot more.

Adrian Ma:

The dual mandate has been the call to action for the Fed for the past little less than 50 years. And you've used an interesting phrase earlier, which was like the Fed has to think about these trade offs. How would you say that it is played out in trying to balance those trade offs?

Raphael Bostic:

Well, I think it's forced us to actually have the conversation, and in many regards, that's the most important thing. There's a possibility that if maximum employment was not on the radar screen, policy makers could be far more ruthless in trying to get inflation down to a number. If it was only about getting to 2%, we might want to just move the Fed funds rate to some very high level that squeeze the economy in an extreme way and just got us down there. You can do that, but that would come with so much cost that we shouldn't do it. You're trying to find that sweet spot where you get your price stability to be as positive as you can, but also to get maximum employment to be as great as you can.

Adrian Ma:

That was Rafael Bostic, President of the Atlanta Branch of the Federal Reserve. Special thanks to our voice actors, Amanda Aronczyk, Sam Yellowhorse Kesler, and Willa Rubin.

Wailin Wong:

This episode of The Indicator was produced by Senior Producer Viet Le, with engineering by Maggie Luther. Sierra Juez checks the facts. Kate Concannon edits the show and the Indicators of Production of NPR.

Adrian Ma:

Well guess that's it. Wailin, what did you think of Game of Feds?

Wailin Wong:

Honestly, the whole premise of this show is nonsensical. A medieval fantasy drama about the Fed, it's like this show will use any gimmick to try to get people to pay attention to wonky econ stuff. I'm not buying it.

Adrian Ma:

Yeah, it's true. It does seem kind of desperate. Yeah.

Speaker 9:

On Bullseye, we bring you the best stuff in popular culture like Tom Hanks as you've never heard him before. Mad.

Speaker 10:

You moron. Thank you for the use of the turn signal. Way to use your blinker, idiot.

Speaker 9:

That's Bullseye from maximumfun.org and NPR.