

## NPR Transcript

Fed needed to raise rates because inflation is still too high, Bostic says

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NPR's Steve Inskeep speaks with Raphael Bostic, president of the Federal Reserve Bank of Atlanta, about the Fed's decision to raise interest rates again.

STEVE INSKEEP, HOST:

The Federal Reserve has two big jobs. It's supposed to keep inflation low and employment high. Behind those demands is a bigger, unspoken one - please don't crash the economy. The challenge went on display when the Fed raised interest rates to fight inflation and the higher rates became a factor in the collapse of Silicon Valley Bank. Some analysts thought the Fed might stop raising rates, but the Fed did it again this week. Raphael Bostic can help us understand because he is president of the Federal Reserve Bank of Atlanta, which means he took part in the Fed meeting that resulted in the interest rate hike.

Welcome to the program.

RAPHAEL BOSTIC: Hi, Steve. Good to be here.

INSKEEP: How much debate was there when you met?

BOSTIC: There was a lot of debate. Look, this wasn't a straightforward decision. But at the end of the day, what we decided was that there were clear signs that the banking system is sound and resilient and that the efforts that the Fed took with Treasury and the FDIC to deal with the difficulties of those banks seemed to be working. And with that as a backdrop, inflation is still too high. You know, we're at 6%, somewhere in that area. Our target is 2%. And so we needed to make sure that we stayed focused on that job because inflation is hurting pretty much all Americans.

INSKEEP: I'm thinking of the phrase tune out the noise. In your view, in the end, was the various issues that Silicon Valley Bank and other banks - the anxiety about the banking system, was that just noise then?

BOSTIC: No, there are real issues there. Look, the episode exposed a real hole in the insurance structure, namely that the structure doesn't cover a significant percentage of the money that businesses use to do basic things like cover payroll. So that's a real issue. But that's a different issue than sort of the macro policy issue that we were dealing with in terms of interest rates. And so since we were able to separate those, I think that allowed us to really stay focused on getting inflation back under control.

INSKEEP: Because you said there was debate, talk me through the other side of the debate. Not to quote other people other than yourself, but as you understood it, what was the case for doing nothing, for leaving interest rates where they were?

BOSTIC: Well, you know, the banking difficulty happened 10 days, just 10 days, before the meeting. And so there's a lot of uncertainty about how banks are going to respond. And really, there's uncertainty still

about the extent to which the things that we've done are going to completely protect the U.S. economy and the banking system. So some were willing to say, look, this uncertainty is really big, and we should wait. But I think - and, you know, I'm very comfortable with the idea - that we didn't see over the weekend before that meeting things getting worse. And that made me comfortable that we could manage through this.

INSKEEP: I want to review a little bit of history. In the 1970s and '80s, Paul Volcker, the Fed chairman, raised interest rates again and again and again to super high rates to kill the very bad inflation of that time. And of course, it's - you could say that the Fed caused a recession along the way - a very deep recession. Do you have to be willing to go that far, if necessary, or at least signal that you are willing to go that far, in order to kill inflation now?

BOSTIC: Well, two things. So one, we have to get inflation under control and back down to our target. That's incredibly important for the functioning of our economy and help businesses and families do what they need to do. And the second thing, circumstances are really different than what we saw in those days. But we are going to have to see demand come down. Inflation is high because there's more demand than supply. And one of the ways that you're going to see that demand come down is by seeing the economy slow down. I will say, I don't have as my baseline right now a recession at all. But I think if there is one, it will be nothing like - well, I'm hopeful that it will be nothing like what we saw in the early '80s.

INSKEEP: One of your tools, though, is my confidence that you're going to kill inflation no matter what, right? I mean, you need to be willing to say that.

BOSTIC: Well, that's important. And, you know, what we know is that when people expect inflation to be high, they do and act differently. And so we need people to have confidence that we're going to get this under control so they make the best long-term investments that give them the skills and the talents that allow this economy to be maximally productive.

INSKEEP: Raphael Bostic is president of the Federal Reserve Bank of Atlanta.

Thanks so much.

BOSTIC: It was great to be here.