"It's a Special Job": A Conversation with Atlanta Fed President Raphael Bostic

Tom Heintjes: Hello, and welcome to another episode of the Economy Matters podcast. I'm Tom Heintjes, managing editor of the Atlanta Fed's Economy Matters magazine. I'm so pleased you're listening today, because we have a real treat in store for you. Today I'm sitting with Raphael Bostic, the president and CEO of the Atlanta Fed. Thank you so much for being here today, Raphael.

Raphael Bostic: It's really good to be here, Tom—thanks.

Heintjes: I was about to say you're the new president of the Atlanta Fed, but you're coming up on your first-year anniversary as Bank president in June—so it's probably time to stop saying you're new. Does it seem like a year to you?

Bostic: Well, let me just say: I'm still new, right? [laughter] So I don't want anyone to think that I feel completely seasoned in the job.

Heintjes: A veteran policy maker.

Bostic: Yes, exactly, exactly. But it's a funny thing, because it's been fast and slow at the same time. It's been fast in that it doesn't feel like a year. The calendar just kind of flies by—I remember 2012 like it was yesterday. But in another regard, it feels like I've been here for a long time. I've met with so many people, I've been very active and busy, my days are really full. So, yeah—I'm feeling like I kind of understand the job, and I feel like we're starting to make really good progress with me in the role to help advance the Bank.

Heintjes: Right. Well, let me get you to turn back the clock maybe a little more than a year, and ask you what initially appealed to you about becoming a Reserve Bank president?

Bostic: Well, I mean, it's a pretty good job, and it's a special job in that there aren't very many opportunities to do something like this. And the Fed is an institution that touches on the economy in so many different ways. There is definitely the monetary policy, as most people think about, but most of my career was really in access to credit and capital. And so the role that the Bank plays in terms of bank supervision and regulation, which is a key conduit by which capital flows into communities, and also the work that happens in terms of community economic development, where we try to help communities help themselves and get in a position where their residents and citizens can be successful and live the American dream.

And then since I've been here, I've also learned about our role in the payment system and cash and transactions—we play a critical role in so many
different ways, that having a chance to oversee that and facilitate it is something that is special. When I applied for the job, someone was telling me—actually, it was Paul McDonald, from USC, where I came from—he was a former quarterback, famous guy—he was saying, “You know, there are fewer Fed presidents than there are NFL quarterbacks.”

Heintjes: Right—only twelve.

Bostic: Right, exactly. And so when you think of it like that, it’s even more special. So it’s really a privilege to do this, and I’ve really enjoyed it so far.

Heintjes: Is there anything that surprised you about the southeastern economy that maybe you hadn’t noticed from a distance or just reading about it?

Bostic: I guess I hadn’t reflected on it a lot, but what has really struck me is that there are real pockets of innovation and positive energy. The urban centers like Nashville, or Atlanta, or even Tampa—those are places where we’re seeing a lot of growth. Miami is doing well as well. But then there are a whole lot of other places where we’re not seeing the same amount of vibrancy. I talk a lot about Georgia as an example of this. I read a report a couple of months ago which showed that the vast majority of the new job creation in this state happens in a small number of counties, maybe 10 or 12 counties, and there are 150 counties in the state. And so if most of the energy is happening in this small number of places, what’s happening in those other 147 places? Are they falling behind? Are they losing hope? And what messages do they need to hear?

I’ve been thinking a lot about how we as an institution can try to weigh in. I was talking with a bunch of bankers last week, and talking about the importance of community banking and the small banks that serve these communities—they may be the only bank that serves these communities—and the critical role they play. I think our job here at the Fed is really to, as much as possible, be helpful for all portions of the economy, and not just the ones that grab all the headlines. And so we’re going to try to engage in that. I’ve got some trips out to more rural places, and I’m going to try to understand those economies better so that we can craft a message that really works for them as well.

Heintjes: Right. You mentioned the uneven dispersal of growth. Would you say that’s among the most pressing problems in the region, or maybe the most pressing? What’s your take on some of the problems you’ve observed in the region, economically?

Bostic: Well, I think that’s an important problem. If you look at just the land area that the district represents, the vast majority of it is in these rural places that have not been nearly as economically vibrant. So we’re going to speak to just the spatial layout of our district, and that’s got to be something that we have to worry about.

I would say another thing that I worry about—and the Bank is starting to take steps on this—is the issue of workforce development. We are in a rapidly changing economy, the world is moving at a very quick pace, and the skills of ten years ago are going to be less applicable ten years from now, and so we need to make sure that as people evolve in their careers, they get the skills that are going to work in tomorrow’s economy. So we have an initiative here, we have a new Center on Workforce and Economic Opportunity that’s really designed to try to help spark a conversation about where there are opportunities for tomorrow—and also get people to think about what kind of institutions they can go to, to help them find a pathway to get those skills. Because for many people, if you don’t have them, you’re going to have to get some help to get them, and we need to start a conversation on that.

And then the other thing I would say on this point: change has always been a feature of the American economy—of all of our economies. In the 1800s, most of our jobs were in farming, and that’s not true anymore. And so all those people who used to be farmers are now doing other things. We’re seeing the same sorts of transformations today, but they’re happening at a much faster pace and at a scale that means that the challenge to be successful is much greater. And so we need to really have everyone be aware of these things and understand what role they can play to make sure that the vast majority of the American workforce is still engaged in employment that pays good wages and allows them to have a high quality of life.

Heintjes: Well, I wanted to touch on another longtime interest of yours as an issue, and that is housing. Prior to working at the Atlanta Fed you worked at the Department of Housing and Urban Development, and your research has delved into topics such as homeownership, housing finance, and neighborhood change, and as Atlanta Fed president, you’ve commented on these issues in speeches. How do you see the Atlanta Fed playing a role in community development and fair housing?

Bostic: So here’s what I would say on this: housing is something that every person actually needs. This is a basic need for people, and the research has shown pretty clearly that when people don’t get housed well—in a safe, stable, high-quality type of housing—the rest of their life suffers. They don’t do as well in school, and they don’t have as good job attachment, they don’t have better health. We’ve had studies that show that when you don’t live in poor housing, your health is actually better under stress—all those sorts of things.

It’s important that we engage with communities to help. We have people here at the Atlanta Fed who are experts in housing, who try to help communities figure out what solutions there might be to making housing insecurity something that is rare. We try to put out reports and studies to speak to some of the challenges in housing markets, but one thing I’m trying to get our folks to do—and I think they’re very excited about this—is to try to get in front of as many policy makers, as many decision makers, as many private-sector people as possible to get the word out about what the challenge is, and to try to facilitate conversations so that communities can craft strategies that allow them to provide housing in a way that works for all their citizens.

Throughout our district, this is a challenge, and how we develop our housing has implications for how our region is going to work. So as an example of that, think about Nashville, Tennessee. Nashville has been quite successful, and when I was up there a couple months ago I met with a number of leaders there who were talking about how they’re very excited about the growth, but the growth has happened in such a way that it’s putting real burdens on their transportation infrastructure. And those challenges, the congestion, is risking the strangulation of their economy, and making it difficult to grow moving forward.

So thinking about this, and trying to provide assistance so that communities can plan and prepare for the change that comes, such that they don’t have these rocky moments. And in Nashville, they’re doing a referendum now to try to backfill some transportation that has been sorely needed, given the growth. If we can do that better and do it proactively, then we can have smooth trajectories of growth, and smooth experiences for people in terms of improving their quality of life.

Heintjes: Well, when you worked at HUD you obviously observed a lot of the housing market. How different is your perspective then versus now, from where you sit on housing and the challenges of housing?

Bostic: Well, I don’t think they’re that different. I’ve been talking about housing for almost 20 years now, and one thing that I was struck with—and I think anyone who works in the federal government understands almost immediately—is that housing is a local decision, right? So it’s local planning commissions, it’s city councils, it’s mayors that decide how housing gets developed and how it gets built. What we tried to do at HUD—and what I try to
do, what I've been trying to do through my career—is really point out the important role that housing plays in all the other aspects of people's lives. That the choice of where you build and what you build is not an isolated decision, but rather is linked to all the other things that people are going to be dealing with in terms of safety, in terms of schooling, in terms of recreation and amenities, and all those sorts of things.

And once, I believe, that housing is placed in that context, it is no longer this sort of isolated field that is just about specialists. It's really about all of our communities. And so I guess at HUD I got hit over the head with this, because you have resources, you have programs, but at the end of the day you have to go to every city and talk to them and help them build strategies that they believe in. And here we're going to do the same thing, so we have definitely experts here who can advise and help people, but we're not going to run out there and tell people what to do. We're going to try to present information and get it in front of as many people as possible, so that they can decide what to do, and they can be examples of what successful policy looks like. And my hope is that—and humans are pretty good about this—once they see success, others will try to emulate it, and so if we can get a couple of successes going, I have real confidence that we'll start to see many, many others step forward and try to repeat the successes and gains that we see in other communities.

Heintjes: Keep that momentum going.

Bostic: That's the hope.

Heintjes: Speaking of our people in the grassroots: one of the ways the Atlanta Fed keeps tabs on the regional economy is through our Regional Economic Information Network—or our REIN network, as we call it—which allows us to gather anecdotal information at the grassroots level. What are you hearing about the southeastern economy in general, either in terms of bright spots or areas of challenge—apart from housing, which we've already discussed?

Bostic: Well, let me just say, before I answer that question, that the REIN network is really one of the jewels of the Atlanta Fed and of the Sixth District. And it's something that is not common across the Federal Reserve, so it's an innovation that we've seen here that I think has really helped us get much closer to the grassroots. We have people now whose job it is to go around and take the pulse of the economy by talking to business leaders, by talking with community groups, by talking with public sector officials, to really get a sense of what's working, and it's been really gratifying for me to be able to plop into an institution that has such a well-built-out network of experts and linkages.

I guess for me, a couple of things that I have really come to through this network: one is that there are a lot of really great things happening in the Sixth District. There are good companies, there are large companies. They're growing, they're trying to innovate, they're important pillars of communities—and that's really true across the board, and it's given me a real sense of what it means for an economy to work in these places. I've been really pleased at how open everyone has been, in terms of telling us really what they think—telling us if things are working: "they're working great," if things are not, "these are the things that really could be better for us"—and that really helps us do our job better, right? If we get the real information, then we actually can respond to things in real time, and that can be helpful.

In terms of challenges: everyone is talking about labor and the challenge it is to build the workforce, to keep the workforce, and to make sure that workforce is nimble enough as the economy and the landscape changes.

Heintjes: So that gets back to your emphasis on workforce development.

Bostic: That's exactly right—that initiative started before I got here, but I'm really glad that it did because it really is right on point in terms of where people are concerned. I think there is a lot of uncertainty about tax policy, and what the recent tax reform is going to mean in terms of changes in investment patterns, and whether it'll have implications for wages—those are things we don't know the answers to, but we will find out fairly soon, I hope. That'll make our job a lot easier. And then more recently, changes in trade policy can have implications for this region.

One thing that has come up—and I wasn't as sensitive to this when I got here—is that many, many businesses in the Southeast are effectively international businesses, even if they don't think that way. And I think it's really made more people aware of the linkages that we have and has caused people I think to think more deeply about the implications of changes in trade policy for their businesses. Now, we don't know all the details about how this is going to turn out, but it's something that we're definitely looking at carefully and will try to incorporate into our projections of how the economy is going to perform as things become more clear.

Heintjes: Right. You talked about the role of the Fed in the economy, and changes we are trying to effect, but the role of the Federal Reserve, and the role it plays in the economy, is not always clear to many people—in fact, there are a lot of misconceptions. How do you think the Fed becomes more accessible and transparent to the man on the street? People listening to this podcast probably know the Fed's role, and what we try to achieve in terms of price stability and maximum employment. But how do we as an institution help the man on the street understand what the Fed does?

Bostic: Well, I'm glad you asked that question, and one thing I say all the time is, it's become very apparent to me that hardly anybody knows what the Federal Reserve does. And that's an "us" problem—we actually need to do better at getting in front of people who aren't the finance geeks or econ works, but who are regular people who are living their lives. So for me, I think there are a couple things that we should be doing. One is things like this, and other sorts of media engagements, where we try to talk about what we do in plain language and not "econ speak." I mean, we could do that, but that's not really going to increase the number of people who get what we do.

A second thing is really to go out and just talk to people. So I've tried as much as I can to make sure that a part of all of my commentary is, what do we do, and how do we touch people's lives? I think most people have a vague sense of what monetary policy is and what it does. But you know, just last weekend I was talking about the implications of the yield curve for our policies, and they had no idea. They'd heard the word "yield curve," but they didn't really know what it was and why it mattered, and so the more that we can talk about those things in plain words, the better we can do.

I'm really encouraging our staff to go out and talk to people. Everyone here works incredibly hard—they're high-quality people, they're smart—but in previous eras, they were discouraged from talking about the Fed, about what they did on a daily basis. I think in today's world we can't afford to be passive in this space. So I've told everyone, "When you're at dinner on a Thursday, if someone asks a question: tell them. Don't shy away, and let's be as transparent as we can."

And the reason why I think that's important is, we provide real value to the economy. We provide real value, and touch people's lives every day. And the more that people understand that, the more that I think we can be treasured as the jewel of the American institutional infrastructure that we actually are. And I think that will help us, moving forward, in thinking about how we do our business, how we engage with policymakers who are trying to also make some changes and improve the world, so that changes in the progress happens in ways that are mutually beneficial.
Heintjes: Well, your talking about thinking and perceptions is actually a nice segue to my next question. Before you became a PhD economist, you earned a combined degree in economics and psychology—from Harvard, I should add. I wanted to ask you how you think your interest in, and your knowledge of, psychology has influenced your approach to economics. In a very real sense, both disciplines are the study of human behavior. Do you ever find yourself thinking about the psychology behind conclusions economists make? How does that influence your thinking?

Bostic: Well, I think there are a couple of things. First, the psych world is really about—psychologists aren’t going to like that I say it like this—about how people mess up, right? So in econ, we have these nice models—everyone maximizes, everyone gets all the information. They process it perfectly, and they figure out the ideal thing to do. But we all know that that’s not how we make decisions, and that’s not how we live. Now, we get close to it many times, but we mess up systematically in many, many ways—whether it be having rules of thumb, or taking little short cuts, or finding something that we’re comfortable with so we just stay there even when the context of decision making changes.

My undergraduate thesis was about making decisions under uncertainty and how people anchor on either the large value that you could lose or the probabilities of winning, and making decisions, and they don’t do the math. So we know people mess up all the time. What’s been helpful for me is, it’s grounded me to say, “Okay, I got a model—right?—and the model gives me a prediction. But how close are people really going to get to that model? Are there things that are going on in the economy, or in people’s lives, that may cause them to be distracted or be overwhelmed in ways that they’re going to not get fully to where the model says we should get?”

And I think that’s really helped me be able to listen to people better, and to try to hear through what they’re saying. One thing I’ve really appreciated with this job is, I get to go around and talk to people. I talk to CEOs, I talk to community leaders, and they tell me, “We do some things, but we’re not going to do some other things that may be really in those models, because it has other implications.”

I’ll never forget the story of one CEO who, through the financial crisis, said, “I had to layoff a large portion of my workforce, and it hurt me so bad I cried.” And that psychology, and that pain, and that distress is something that will change how she approaches her decisions—about taking on labor in the future, but also in terms of what wages she’s going to set—because she’s not going to want to get to the brink, be that close to the brink. And I think that’s just an example of what happened in many C suites across the country, and it has implications for the trajectory of growth that we should expect moving forward.

So this psychology thing is really real, and I would say another piece is, how do we think about financial markets? So there is momentum that we see in the stock market and those sorts of things, and part of our challenge is then to see through that momentum to understand what is actually fundamental to the real economy, and what is just noise and the psychological herd mentality, and try to understand that better. We’re dealing with that psychology every day, and it helps me not lose sight of that. I love psychology—I think it’s really clever. They found really interesting ways to reveal how people actually make decisions, and that revelation, I think, really keeps me from going too far over the deep end in just holding on to a model’s predictions.

Heintjes: Yes, that’s great. I’ve been looking forward to hearing how you would answer that question. That’s very interesting. Well, this has been a really fascinating and wide-ranging conversation, and I do appreciate you sharing your thoughts with us—and especially your time, which I know is tough.

Bostic: Well, thanks for inviting me to talk. It’s always good to be here, and I look forward to doing this again sometime.

Heintjes: Well, thank you again, thank you so much. And that brings us to the end of another episode of the Economy Matters podcast. Again, I’m Tom Heintjes, managing editor of the Atlanta Fed’s Economy Matters digital magazine, which I encourage you to visit at frbatlanta.org. Please come back next month, when I’ll sit down with the Atlanta Fed’s Lauren Foley. Lauren will discuss her research into what are sometimes called disrupters: firms like Uber, Lyft, Airbnb, and the like. It’s an interesting and timely topic, and I hope you’ll be here for our conversation. And as always, thanks for spending time with us today.

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