Welcome and Introduction

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Fed Listens:
Monetary Policy's Impact on
Workers and Their Communities
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FEDERAL RESERVE BANK OF CHICAGO

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Introduction and disclaimer

Welcome to Chicago. I'm Charlie Evans, president and CEO of the Chicago Fed. We're very happy to be hosting this important discussion of Monetary Policy's Impact on Workers and Their Communities. Before I begin my remarks, let me remind you that my comments reflect my own views and not necessarily the views of the Federal Reserve System or the Federal Open Market Committee (FOMC).

The Federal Reserve's monetary policy framework review

This year, the Federal Reserve has been engaged in a broad review of the strategies, tools, and communication practices it uses to pursue its monetary policy goals as mandated by Congress—namely, maximum employment and price stability.[1]

Our current framework dates back to 2012 when we formally stated our intention to pursue a balanced approach to achieving our dual mandate objectives. That's also when our inflation objective was explicitly defined to be 2 percent annual inflation, as measured by the Price Index for Personal Consumption

[1] For more on the Federal Reserve's dual mandate, see our dual mandate webpage, https://www.chicagofed.org/research/dual-mandate/dual-mandate.

Expenditures (PCE).[2] We also noted then that defining maximum employment was more difficult because it can change over time due to influences beyond our control as monetary policymakers. But we did note the range of our assessments of the level of the national unemployment rate in the long run—which can be taken as a rough benchmark for full employment.

Every January, we reaffirm this framework. Sometimes we've made some changes to improve it—most importantly in 2016, when we clarified that our inflation objective is symmetric around 2 percent.[3] This strategy document then guides our detailed policy decisions, which we describe in a separate policy statement after every FOMC meeting.

I think our 2012 strategy statement and its updates were strong efforts. Still, it is appropriate that we periodically reexamine our strategy thoroughly to determine whether it still serves us well in light of changes that may have occurred in the economic environment. Clear communications to the public about our goals and strategies bring transparency and accountability to monetary policy, which is very important for a central bank in a democracy.

So, late last year, Chair Jay Powell announced that we would be conducting a broad review of our policy framework. And this time, we are getting more input from people outside the Federal Reserve System. In June, the Chicago Fed hosted a meeting that featured many prominent academics applying highly

[2] Federal Open Market Committee (2012).
[3] Federal Open Market Committee (2016).

mathematical analyses that help us understand how different monetary policy strategies might work.

But it also very important for us to get input from beyond traditional economic analysts and the financial sector. I always think it is important to check theoretical ideas with real-world experiences. Talking with people engaged in important, real-world work, such as those on today's panels, to find out how they are affected by monetary policy is an important source of insights into how we should do our work at the Fed.

Today's panels

Today, we will have the opportunity to hear from a very impressive group of panelists and delve into some of the key issues in more depth.

The members of the first panel are committed to improving the labor market prospects of current and future workers. Their efforts, much of which are aimed at those who face substantial labor market disadvantages, help people build their workforce skills and employability and ultimately earn higher incomes.

The participants in the second panel are working to promote wealth building, especially in low- and moderate-income communities. Their work adds to the vibrancy and sustainability of small businesses and increases access to affordable housing.

The efforts of our panelists to build human capital and create wealth where it is in short supply are extremely important to making us a more productive nation over the long haul. They also serve to promote a more inclusive economy by providing greater support to those who face significant challenges in finding good jobs or achieving financial stability in today's complex world.

What we hope to learn

The work that our panelists do, like that of everyone in the economy, is importantly affected by the Fed's monetary policy. Our belief is that the objectives of our panelists are more achievable in an environment of price stability and maximum employment. However, if they are not succeeding, we have to ask ourselves if there's something about macroeconomic conditions that is inhibiting their progress.

For instance, one of the key questions facing us today is whether the economy is currently operating at its maximum sustainable level of employment. Certainly, the national unemployment rate is very low by historical standards. And at 3-1/2 percent, it is below most estimates of the so-called natural rate of unemployment—the unemployment rate at which the economy can operate on a sustained basis without the buildup of unwelcome inflationary forces. Estimates of the natural rate tend to be 4 percent or a bit higher.

However, even though economists put a lot of effort into estimating the natural rate, we're very conscious of how uncertain those estimates remain. That is, while something a little greater than 4 percent might be the best assessment given our limited data, we know the actual number might be somewhat higher or somewhat lower. Certainly, wage growth has remained quite moderate, even though we've been below conventional estimates of the natural rate for some time. This suggests that, at a minimum, unemployment is not so far below its natural rate that overly high inflation is an urgent threat. Indeed, inflation has been persistently below our 2 percent target over just about the whole time that we've had that formal target.

This leads me to think that the Fed should continue to cautiously probe for the true level of maximum employment. That is, we shouldn't treat a statistical estimate of the natural rate as a hard barrier that automatically signals an impending problem. Of course, we should also be mindful of the possibility that unwelcome inflationary imbalances could yet emerge. We need to keep both possibilities in mind.

As part of our probing for the level of maximum employment, our panelists can provide us with very useful evidence from the frontlines. Can people with skills find good jobs? Is today's environment one in which people can add to their skills and support greater future productivity? Do small business owners and housing developers with good business plans have adequate access to capital in order to expand their operations?

In addition to knowing current economic conditions very well, our panelists all have a wealth of experience with varying economic conditions over the years.

They've seen periods in which the economy has boomed, as well as times when it has gone through recession. They know the impact these cycles have on the people they serve. I hope they'll be able to tell us whether major ups and downs in the economy make it more difficult for them to achieve their objectives. Such insights may have important implications for our choice of monetary policy strategy.

So I'd like to thank all of our panelists for taking the time to come here today to share their experiences and insights. I know we are going to have a very interesting afternoon.

Now I would like to introduce Governor Michelle Bowman. Governor Bowman is one of the champions of this series of Fed Listens events. She has been traveling all over the country to listen to community leaders such as yourselves. Before I turn over the podium, I want to take the opportunity to tell you a bit about her.

Miki Bowman took office as a member of the Board of Governors of the Federal Reserve System on November 26, 2018. Prior to her appointment, she served as the state bank commissioner of Kansas from January 2017 to November 2018. She also served as vice president of Farmers & Drovers Bank in Kansas from 2010 to 2017.

In addition to her community banking experience, Miki has previous experience in Washington, DC. During the late '90s, she worked for Senator Bob Dole of

Kansas and served as a counsel to the U.S. House Committee on Transportation and Infrastructure and the Committee on Government Reform and Oversight. In 2002, she became director of congressional and intergovernmental affairs at the Federal Emergency Management Agency and later served as deputy assistant secretary and policy advisor to Homeland Security Secretary Tom Ridge.

Following her time in Washington, DC, Governor Bowman led a government and public affairs consultancy based in London before returning to Kansas in 2010. Miki received a BS in advertising and journalism from the University of Kansas and a JD from the Washburn University School of Law. Please join me in welcoming Governor Michelle Bowman.

References

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