Summary of Federal Reserve Board *Fed Listens* Event: Perspectives on Maximum Employment and Price Stability

October 4, 2019

Chair Powell provided opening remarks and the motivation for the *Fed Listens* event at the Board of Governors in Washington, D.C. He explained that the Federal Reserve System is hosting *Fed Listens* events around the country to improve its listening to and communication with representatives from diverse communities across the country.

The two panels focused on the Federal Reserve's statutory, or dual, mandate: The first panel was devoted to discussing maximum employment, and the second panel focused on price stability. Federal Reserve policymakers asked questions about the labor market, inflation, the effects of the Fed's monetary policy on different communities and groups across the country, and the Fed's communications about monetary policy.

Panel 1: Maximum Employment

The first panel, moderated by Governor Brainard, featured speakers from two nonprofit organizations (Denise Scott, Local Initiatives Support Corporation, and Melinda Mack, New York Association of Training and Work Professionals), an industry consortium (Chad Moutray, National Association of Manufacturers), a start-up focused on freelance and gig economy workers (Sara Horowitz, Trupo), and an educational institution (Gregory Haile, Broward College). Several of the organizations work on increasing employment in low-income communities, sometimes partnering with businesses that provide jobs and training. Some organizations also work on education, housing, and health-care issues.

Current labor market conditions

When asked whether the labor market feels as if it is at "full employment," the majority of panelists answered "no." Many cited pockets of persistently high unemployment—for instance, although the national unemployment rate is below 4 percent, some Zip codes and neighborhoods in large metropolitan areas have unemployment rates above 10 percent. Nevertheless, panelists agreed that a strong national labor market can help underserved populations find jobs and become attached to the labor force.

Panelists discussed structural barriers to employment faced by certain types of individuals and communities. Suitable housing was mentioned as a common barrier to stable employment; it is difficult for individuals to be focused and available for work when their homes are uninhabitable or they need to move frequently. Distance and transportation were mentioned as additional barriers that prevent people from connecting with job opportunities even in strong labor markets.

On the industry side, the manufacturing association representative indicated that employers perceive the labor market as tight; some companies have tried to delay the retirement of experienced employees because they find it difficult to hire qualified workers. At the same time, community organizations and colleges are offering degree and training programs to help individuals qualify for gainful employment.

Skills, wages, and the cost of living

Panelists discussed some reasons for mismatch between the needs of employers and the skills of workers. Some participants mentioned that, even in tight labor markets, many job postings have education requirements that screen out suitable candidates. One panelist noted that, paradoxically, employers invest less in training during expansions because skilled workers are more likely to be poached when the labor market is tight. In expansions, workers might also prefer to earn money in low-skilled jobs rather than spend time seeking additional qualifications that would make them more likely to get a position with higher pay. However, in downturns, when many workers have a renewed interest in training and degree programs, there is less funding from employers and government sources. In addition, the college president noted that logistical barriers and a lack of information from official and unofficial sources can prevent capable individuals from upgrading their skills to qualify for better-paid jobs.

When asked about the relationship between wages and living expenses, panelists generally agreed that many jobs do not pay a living wage. Some pointed to survey evidence that a large fraction of employed individuals cannot meet their monthly expenses. One panelist mentioned the hollowing out of the middle class, possibly related to the decline of unions and collective action. Another mentioned that wages in many caregiving occupations, which are a growing proportion of employment, are set by Medicaid reimbursement rates and not by the market. The speaker representing self-employed workers highlighted the importance of safety net programs for independent workers who have less access to government and employer-provided benefits.

Panelists generally focused on the costs of housing, health care, and childcare in their discussions of living expenses. Panelists mentioned that affordability is not the only challenge; in addition, it is important that these services are stable, easy to obtain, and of acceptable quality. They noted that these key services support workers' abilities to remain employed and attached to the labor force.

The Federal Reserve's relationship with the public

Panelists were asked to suggest ways that the Fed could improve its communication with the public. One panelist suggested that the Fed enlist local ambassadors—individuals who are trusted and have large networks within their communities—who can help the Fed connect with and transmit information to populations it does not typically reach. Another proposed that the Fed partner with trusted organizations. Several panelists agreed the Fed uses too much jargon, with one noting that even terms like "maximum employment" and "price stability" sound very academic and abstract to most people. Some panelists suggested that outreach efforts, such as the Federal Reserve Bank of New York's comic book for school kids, and more general economics and personal finance education could help bridge the gap between the Fed and the public. On a more positive note, some of these community and industry leaders mentioned that they make use of Federal Reserve System tools, such as those on Opportunity Occupations.[1]

Panel 2: Price Stability

The second *Fed Listens* panel, moderated by Governor Bowman, featured speakers from a nonprofit organization (Nancy LeaMond, AARP, formerly the American Association of Retired Persons) and from two industry groups (Lisa Mensah, Opportunity Finance Network, and Holly Wade, National Federation of Independent Business). The institutions represented work with elderly Americans, small businesses, and financial institutions focused on serving communities that are typically underserved by mainstream banks. The panelists were asked how inflation affects the communities and institutions they represent. All of the panelists emphasized the importance of low, stable, and predictable inflation.

[1] Several Federal Reserve Banks (Atlanta, Cleveland, and Philadelphia) provide analysis of "opportunity occupations"— those that pay above the median wage and are generally accessible to individuals without a bachelor's degree— across metropolitan areas and over time.

Vulnerability with respect to inflation

Some of the panelists emphasized that individuals in low-wealth and low-income communities who are already having a difficult time making ends meet are particularly vulnerable to increases in prices. Even small increases in inflation can be a challenge, and when people in these communities cut back on nonessential services because necessities become more expensive, the small businesses that cater to them also suffer. One panelist noted that about half of Americans over the age of 65 live exclusively or primarily on income from Social Security, which makes price stability especially important for their financial well-being.

The panelists widely agreed that the rising cost of health care is a major challenge to the people and groups they represent. This concern is particularly true for the elderly, whose financial well-being is closely tied to the cost of medical care and prescription drugs. In response to a question on how inflation affects employers' ability to hire or retain workers, one panelist pointed out that offering health insurance to employees is a significant cost to businesses. Continued increases in the cost of health care present a big challenge and make it more difficult for people to absorb other cost increases, especially if rising inflation means that those other costs increase more rapidly than in the past.

Small businesses and nontraditional financial institutions

The particular ways in which inflation can cause difficulties for small businesses were also discussed by several panelists. Small businesses cannot always pass cost increases on to their customers in the form of higher prices. Higher costs are thus a hit to small business earnings, which are often the main source of financing for expanding the businesses as well as for funding their retirement. Uncertainty over future inflation is particularly problematic, as businesses already have to navigate several uncertainties. A representative of a manufacturing industry association emphasized that manufacturing businesses, in particular, find it important to have certainty about pricing over long time horizons. Recent developments in trade policy, and the uncertainty surrounding tariffs, was cited as an example of the uncertainties that businesses face over prices.

Regarding the problems created by rising inflation, the panelists mentioned that while inflation and rising costs were a major concern for many businesses at certain points in the past—especially when energy prices rose dramatically 30 to 40 years ago and again in 2008—

those concerns are currently not among the biggest difficulties that they face. Indeed, businesses have benefited from the current environment of low and stable inflation. However, the panelists emphasized that rising and uncertain inflation would be difficult for businesses to deal with, especially if inflation were to increase suddenly.

A representative from a group of Community Development Financial Institutions (CDFIs) noted that such institutions and the people and businesses they lend to are particularly sensitive to increases in inflation. As these financial institutions offer credit and financing at accessible rates in lower-income communities, they operate on thin margins. Higher inflation, which puts additional pressure on margins, thus makes it more difficult to offer reasonably priced loans. Because CDFIs are often the only institutions that lend in certain underserved communities, these challenges can affect access to credit for affordable housing or small business loans for many people.

Communicating about the Fed's inflation objective

The panel session included a discussion of the Fed's communications with the public. The panelists pointed to the importance of the *Fed Listens* events and to the Federal Reserve's convening power more generally, in terms of engaging with the public. With regard to the current environment of low inflation and low interest rates and the Fed's review of its monetary policy strategy, tools, and communication practices, panelists were asked how the Fed could best communicate its desire and possible efforts to see inflation rise to achieve the Committee's objective of 2 percent. Inflation has been below the FOMC's 2 percent objective since 2012, and the panel was asked whether trying to bring inflation up would make sense to the public and how the Fed could best communicate about it. The panelists noted that work must be done to explain why inflation should be higher, especially to communities that often do not see their wages keep up with prices. Even though, for the Fed, it seems natural that faster wage growth would result from higher inflation in the longer run, one panelist pointed out that the long run can feel distant for many in underprivileged communities who struggle before wages catch up. Another panelist emphasized that the Fed should make clear to the public what the benefits of slightly higher inflation would be.