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## We Can't Afford Not To

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Three crises—health, economic, and social—are converging into one difficult moment in American history. Everyone has been affected, but the highest costs are falling on those least prepared to bear them. The path forward will require investments in “opportunity infrastructure” that maximize individual potential, reduce inequities, and lay the foundation for long-term economic growth. The following is adapted from a presentation by the president and CEO of the Federal Reserve Bank of San Francisco to the National Press Club, Washington, DC, on Monday, June 15.

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Thank you for the invitation to join all of you, especially at this critical time in our country. Today's challenges require everyone's best thinking, and dialogues like the ones hosted here play a crucial role in navigating our way toward a better future.

Of course, our challenges are many right now.

COVID-19 has taken a tremendous toll on American life. Just a few weeks ago, the United States passed a grim marker—one hundred thousand COVID-related deaths.

To mitigate the spread of the virus, large portions of the country paused all but essential economic activity for more than two months. The magnitude of this sacrifice is unprecedented in our modern history—more than 20 million workers pushed into unemployment, millions more out of the labor force altogether, and countless businesses shuttered, some forever.

In both health and economic terms, the costs have fallen most heavily on those who are least able to bear them. Low-income communities have been disproportionately burdened by COVID-19 (Shrimali, Mattiuzzi, and Choi 2020; Cajner et al. 2020). Job losses have been concentrated among those with less than a college education, people of color, people with disabilities, immigrants, and others. And the past three weeks have served as a painful reminder that these are far from the only inequities in our country. Tensions and unrest around instances of police brutality, structural racism, and systemic injustice have flared nationwide.

Three crises—health, economic, and social—are converging into one difficult moment in American history. It forces each of us to reflect and consider who we are, as individuals and as a collective. And it will require those of us in leadership positions to take bold action if we're going to chart a course through this turmoil and on to a better future.

Today, I will primarily discuss our economic challenges and what bold action could look like in that space. And while economic equity is only part of the solution we need to craft, it will provide an essential foundation for making progress on health and social inequities as well.

## **Bridging the coronavirus**

So let's talk first about what the economic challenges we're facing look like.

We began this year in the midst of the longest economic expansion in American history. While it felt slow at times and didn't reach every community to the same degree, we nonetheless experienced more than 10 years of growth. Then the coronavirus reached our shores, and a decade of economic progress was erased in a matter of months.

In response to this shock, both monetary and fiscal policymakers moved quickly to deliver emergency support to households and businesses disrupted by the virus.

At the Federal Reserve, we cut the federal funds rate to essentially zero and used our lender of last resort powers to provide liquidity to volatile financial markets. With assistance from the Treasury, we also provided more direct support for households, businesses, and state and local governments. These actions have helped ease market pressures and ensured the smooth flow of funding and credit that is so vital to our economy (Board of Governors 2020; Powell 2020).

Our decisions were firmly rooted in lessons from history. The measures the Fed took during and after the Great Recession a decade ago taught us how to respond even faster and more forcefully to COVID-19.

Lessons from the Great Depression also loomed large. The mistakes made in the 1930s underscore the importance of a rapid and forceful monetary policy response when crises occur. The severe hardship during that decade would have been much less acute had monetary policy been more accommodative earlier (Bernanke 2002).

Fiscal policymakers also took swift and bold action. Congress and the White House approved several rounds of economic relief, collectively worth almost \$3 trillion. The aid was broad-based and included expanding and enhancing unemployment insurance, giving cash payments to most households, and providing direct support to small businesses through a forgivable loan program (Wilson 2020 discusses its potential economic impact).

Taken together, these monetary and fiscal measures are helping to bridge our people and our economy through the immediate hardships caused by COVID-19. And that's the intent—to provide emergency relief so that we can emerge from the crisis on the best possible footing and expand more rapidly when the virus is safely controlled or behind us.

Of course, no one knows right now if these emergency actions will be sufficient, or if more relief will be needed. The virus, and how quickly we are able to manage it, will determine the length of the bridge we need to build.

We'll need to be flexible and responsive as the situation evolves—and prepared to do more, if more is needed. Because *speed* of action alone isn't enough. *Commitment* to action over the long term is essential to ensuring a sustainable recovery.

## A decade is too long

The hardest lesson from both the Great Depression and the Great Recession is that it took a decade to dig out. A decade for the economy to fully recover and for the benefits of growth to reach all of those displaced by the shock.

The Great Depression began in 1929. And in 1939, overall employment was still below its pre-depression peak, leaving many workers and families stranded and struggling 10 years later.

The employment recovery following the Great Recession was faster, but the gains were uneven. In 2018, household incomes for the bottom 20% of households were still lower than their pre-recession peak more than a decade earlier (Semega et al. 2019).

What do we learn from this? A decade is too long. We can't wait 10 years for an economic recovery to reach everyone.

Some people might argue that our ability to reverse these patterns is limited. That in present times, the post-virus economy will be so different that not everyone will be able to adapt. That we should expect some dislocations to remain.

And it's certainly true that many of the recent job losses are likely to be permanent (Barrero, Bloom, and Davis 2020). But we heard similar arguments during the Great Recession—that we should expect unemployment to remain permanently elevated well above its prior levels. The thinking was that unemployment approaching 10% was due in large part to permanent or structural factors, rather than temporary cyclical disruptions (see, for example, Kocherlakota 2010; Lacker 2012; Phelps 2008; Daly et al. 2012 provide an alternative view).

The subsequent expansion proved that these arguments were wrong. Unemployment approached 50-year lows, while inflation remained subdued. We discovered that the labor market was much more flexible than we thought—and that finding maximum employment experientially, rather than theoretically, yields a higher number than almost anyone thought possible.

Moreover, we found—in the data, and in our conversations with business and community leaders—that letting the economy run past what we thought was possible has tremendous benefits, especially for less advantaged groups (see the [discussion of the “Fed Listens” initiative](#)). Individuals who were previously seen as less employable—such as those with less education or experience—were able to get a foothold when economic conditions were sufficiently strong (Aaronson et al. 2019; Petrosky-Nadeau and Valletta 2019).

Those same groups—who only lately got a chance to experience the benefits of the longest economic expansion in U.S. history—are now among the hardest hit as we respond to COVID-19 (Cajner et al. 2020). And this is not a new phenomenon. As in so many previous economic cycles, those least advantaged in the

labor market are the first to be let go when conditions deteriorate, and the last to be hired when conditions improve (Couch and Fairlie 2010; Hoynes, Miller, and Schaller 2012).

Unless we build the foundations for a sustained and robust recovery, we risk losing these individuals—from the labor force, and perhaps even from the mainstream of economic life (Krueger 2017).

This isn't just about fairness—although that's clearly important. Low employment risks letting many people sit idle, sidelined from work and participation in economic life. This limits growth and pulls at the health of our communities.

We have to commit—now—to not letting this happen. Any plan for long-term economic recovery has to include the people we welcomed into employment during the expansion. This must be the measuring stick we hold ourselves to.

### The path forward

With this goal in mind, what should our path forward look like? The answer isn't simple, and it can't be achieved by any one institution alone.

At the Federal Reserve, I expect our current stance of highly accommodative monetary policy to continue until the economy has largely recovered what's been lost due to the virus. Getting back on track to achieving our congressionally mandated goals of maximum employment and price stability is our top priority. And with the current low inflation environment expected to continue, we can once again search for the upside potential of our full employment goal.

But monetary policy can't help the U.S. economy reach its full potential on its own. We also need fiscal policymakers to commit to sustained investments in our economic future. The need for this was evident before the crisis, and it's even more evident now (Elmendorf and Dynan 2020).

Increasing investments may sound like a surprising recommendation. After all, we've already spent trillions of dollars in emergency economic relief. And this has occurred at a time when the federal debt was already at historically high levels (Congressional Budget Office 2020).

But the key word there is “emergency.” These actions were taken to keep households and businesses solvent in the midst of the crisis. Much more will be needed in order to build a strong economic foundation that will allow a full recovery and sustained expansion.

Now let me be clear: I'm not just advocating for increased public spending and debt. The *composition* of spending is crucial. We need to focus on investments that leverage the talent of everyone and contribute to the economy's long-term growth prospects. In this case, inclusive growth is faster growth—and it will pay for itself in the long run.

And now is an especially good time to take on this type of debt. Even before the crisis, we were in an environment of low interest rates—and that is expected to continue for the foreseeable future (Williams 2018; Jordà and Taylor 2019). This makes public spending relatively inexpensive and easy to finance.

The payoff is potentially huge. Public works programs during the Great Depression re-employed many of those hardest hit by the downturn and made lasting improvements in the nation's infrastructure that boosted our economy's potential output (see, for example, Kline and Moretti 2014). The GI Bill following World War II helped educate a generation and set the stage for rapid postwar growth (Bound and Turner 2002; Fernald and Jones 2014). And the construction of the interstate highway system created jobs while laying the groundwork for our modern economy (Fernald 1999; see also Leduc and Wilson 2012 for the effects of road spending following the Great Recession).

## Opportunity infrastructure

So what should today's investments look like? The greatest need is for what I'll call "opportunity infrastructure"—the building blocks that help individuals maximize their potential.

First, we need to invest in people's health. The coronavirus exposed existing inequities in both health outcomes and access to health care. Structural factors related to race, location, and income have created disparities that leave less advantaged communities more vulnerable to health shocks. And when those shocks come, access to health care can be prohibitively expensive, or not available at all (Shrimali, Mattiuzzi, and Choi 2020).

A healthy economy requires healthy people who can live, and work, and contribute to our society. Investing in health infrastructure, access, and care will both improve individual outcomes and help create a more productive labor force.

Next, we need to invest in the full life cycle of education. Education is the best form of insurance against unemployment. We've seen this in the recent job losses, which were much less severe for those with college degrees.

Educational investments should begin with early childhood education that helps kids develop and allows parents to pursue employment without making difficult tradeoffs (Heckman, Pinto, and Savelyev 2013; Shrimali, Mattiuzzi, and Choi 2020; Grunewald 2020). We should also focus on making higher education more accessible, and encouraging students to enroll in and complete college. Of course, lifelong learning also means bolstering access to schooling and skills training to help workers displaced by economic shocks like COVID-19. These investments boost employment, labor force participation, and ensure our nation's long-term global competitiveness (Daly 2019).

Finally, we need to invest in digital infrastructure so that we can expand access to opportunity and create more economic resiliency. As shelter-in-place became the norm around the country in March, being able to get online was a crucial determinant of people's ability to continue engaging in the workplace and in the classroom (Gao 2020).

Jobs and education are only going to become more reliant on technology in the months and years ahead. And the "digital divide" means those without adequate connectivity will struggle to be full participants in our future economy (Goss, Lee, and Gao 2019). We need to close this gap in order to maximize our economic potential.

## We can't afford not to

The coronavirus is the largest economic shock most of us have experienced in our lives. It's taken a tremendous toll on all of us. But the inequities it exposed—and often magnified—have been with us for a long time.

Right now, not everyone gets the same chance to succeed in our country. And it's not for lack of trying—it's for lack of opportunity. Our system, whether we meant it to be or not, is set up that way.

*But we don't have to accept this.*

Our nation's economic health, physical health, and societal health are all intertwined. And while addressing our economic challenges alone can't solve the health and social issues we're facing, it can certainly help.

We find ourselves at an inflection point. A moment when crises converge, and a once-in-a-generation opportunity presents itself. The choices we make today will define our future path.

We have to choose long-term growth. We have to choose equitable opportunity. We have to choose inclusive success.

We can't afford not to.

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