**Summary of FRBSF *Fed Listens* "Hot Economy" Symposium and Town Hall**
**September 26, 2019**

On September 26, 2019, the Federal Reserve Bank of San Francisco held a symposium and town hall discussion of "A Hot Economy: Sustainability and Trade-Offs." This event was part of a broader effort within the Federal Reserve System to review the strategy, tools, and communication practices the Fed uses to pursue its monetary policy goals as established by Congress: maximum employment and price stability. At *Fed Listens* outreach events throughout the country this year, the Fed has heard from researchers and community members about the design of monetary policy and its effects on economic conditions overall and across different population groups and regions.

The San Francisco event focused specifically on assessing the upsides and downsides of a "hot economy," with sustained above-trend economic growth and tight labor markets. This assessment is appropriate and well timed because the current economic expansion appears to have reached a record for sustained growth based on historical records back to the 1850s, and the national unemployment rate has reached a 50-year low. The event included presentations and discussions by researchers, members of community, government, and labor organizations, and business leaders. About 150 people attended from a similar broad cross-section of stakeholder groups and the general public. The event was available to an online audience via live streaming. In addition, all invitees received a questionnaire before the event; the appendix summarizes their responses.

**Opening remarks**

**San Francisco Fed President Mary Daly** opened the event with a warm welcome that emphasized the Federal Reserve's commitment to hearing a wide range of viewpoints on the practice and impacts of monetary policy via the *Fed Listens* program.

**Federal Reserve Vice Chair Richard Clarida** set the stage for the day by explaining this year's Systemwide review of the Fed's monetary policy strategy, tools, and communication practices. As he noted, the importance of the review is reinforced by changes in national and global economic conditions that affect the conduct of monetary policy. The primary changes are a reduction in the "neutral" policy interest rate that neither supports nor impedes stable economic conditions, and an environment of low inflation that reflects a limited response to conventional measures of idle resources such as the unemployment rate. This new environment raises questions, such as whether sustained undershooting of the 2% inflation goal in recent years might be effectively balanced by overshooting in the future. The overall review process pairs such research questions with public perspectives on the impacts of specific monetary policy goals and choices.

**Douglas Elmendorf,** Dean of the Harvard Kennedy School and former Director of the Congressional Budget Office (CBO), provided an overview of the benefits and potential costs of a "hot economy" in his opening keynote. He noted that tight labor markets tend to improve the relative labor market status and income gains for traditionally disadvantaged groups, such as racial and ethnic minorities and the less educated. This typically comes at the risk of an unwanted increase in inflation, although the current low inflation environment lowers that risk and calls for some experimentation with monetary policy. Both the presentation and the subsequent Q&A discussion emphasized that, because monetary policy alone is not sufficient to achieve ideal economic outcomes, other policymakers can play an important role. These include state and local governments, which may be more effective than the federal government in targeting policies to the groups and regions that need it.

**Research panel**

The research panel presentations provided an analytically based discussion of the benefits and tradeoffs inherent in a hot economy.

**Jason Furman** from the Harvard Kennedy School emphasized the favorable labor market effects of the prolonged expansion, which has produced not only a very low unemployment rate but has also counterbalanced structural pressures pushing down prime-age labor force participation. He noted that wage gains net of price inflation have been positive in recent years, especially for those whose wages put them near the lower end of the distribution.

**Heather Boushey** of the Washington Center for Equitable Growth also discussed the favorable effects of accommodative monetary policy on low-wage workers. However, she stressed that long-term economic factors and perhaps also unconventional monetary policy tools such as large-scale asset purchases have contributed to a long-term trend of rising inequality of income and wealth.

**Douglas Holtz-Eakin** from the American Action Forum, also a former CBO Director, elaborated on some notable downsides to a hot economy. These include excessive price increases for important items such as housing coupled with rising risks of unwanted overall inflation; potential financial instability that could threaten the expansion; and risks to Fed independence in response to a perceived focus on hot-button issues such as rising income inequality.

**Sarah Bohn** from the Public Policy Institute of California discussed the desirable reductions in poverty arising from sustained economic growth. However, she also emphasized features of the California economy that have kept poverty above the national average even when the state economy is doing well. These include the high cost of living and the large number of low-wage jobs that are created even in a strong labor market.

**The Q&A discussion** focused primarily on the uneven distribution of the benefits and costs of a hot economy. Lower-income families are particularly exposed to the sharp increases in housing costs and prices of other services that often accompany hot economic conditions. Commenters noted that low interest rates associated with accommodative monetary policy tend to help existing homeowners via higher property values but may harm renters, whose rents rise. In response to a question, panelists expressed little concern about any potential downside from reduced educational investments due to improved job opportunities when the labor market is hot.

**Community panel**

The community panel provided an opportunity to gain perspectives from individuals who directly observe the economic conditions faced by disadvantaged population groups.

**Carolina Reid**, an Associate Professor of City and Regional Planning from UC Berkeley, set the stage for the discussion by providing an overview of the challenging economic conditions many communities face despite the hot economy. She emphasized the growing disparities in income, job benefits, wealth, housing costs, and access to credit across different groups in San Francisco and other California cities, despite generally favorable economic conditions. These broad disparities show little response to accommodative monetary policy and a hot economy, which highlights the importance of vigorously enforcing the Community Reinvestment Act and state and local policies to support disadvantaged groups.

**Carmen Rojas**, the Co-Founder and CEO of The Workers Lab in Oakland, echoed those comments by focusing on the limited benefits from the hot economy for low-wage workers in the San Francisco Bay Area and throughout the country. In the face of very high costs of living, many of the jobs created in recent years do not provide the wage rates, benefits, and work hours needed to adequately support families. This leaves many families in precarious financial situations. The persistence of these conditions has created a great deal of pessimism and disengagement for the communities with whom she works.

**Isela Gracian**, the President of the East Los Angeles Community Corporation, discussed the myriad challenges facing the low-income population in that area. Many of the residents are recent immigrants, often employed as street vendors. They face steep challenges in finding and maintaining stable employment and housing, or even gaining basic levels of public acceptance and a sense of personal safety. Gracian emphasized, "the population we work with [is] always feeling a strain, whether the economy is hot or not." Her portrayal of their circumstances suggested that any income increases from a hot economy are eclipsed by the increased housing costs and related challenges.

**Carrie Cihak**, Chief of Policy for King County, Washington, emphasized the wide economic disparities in the Seattle area and statewide. This reflects that many of the workers in highly paid sectors have been imported from out of state rather than "homegrown." For example, in contrast to the prevalence of highly paid tech and engineering jobs in her area, the state ranks quite low in high school graduation rates. Overall, she emphasized that she sees a "dual economy:" it is hot and hence very favorable for some groups but leaves others "getting burned," falling off the path of economic opportunity with little chance to get back on. Given the many low-wage jobs being created, Cihak noted that the Fed might consider thinking in terms of "fulfilled" or "full potential" employment, rather than simply "full" employment; this aligns with the broader concept toward which her county's agencies are working.

**The Q&A discussion** revolved around the panel's observations about limited opportunities for advancement despite the hot economy, in the absence of specific policy measures aimed at disadvantaged groups. Commenters noted that less restrictive housing regulations and a more proactive approach to low-income housing might help alleviate some of the challenges created by rapidly rising housing costs in urban areas. Regarding whether a strong economy makes it more or less challenging to achieve favorable outcomes for low-income groups, the panelists generally indicated a mixed or neutral stance. One panelist noted that people struggling to make ends meet face an adverse psychological impact when the public perception is that the economy is strong and working to everyone's advantage.

### Business panel

The business panel provided a broad perspective on how companies and employees in a wide range of sectors have responded to the long expansion and tight labor markets. The panel consisted of the following individuals: **Chip Childs**, CEO of the airline company SkyWest, Inc.; **Patricia Richard**s, CEO of SelectHealth, which administers health insurance plans throughout Utah, Idaho, and Nevada; **Rosemary Turner**, President (retired) of UPS Northern California District, the worldwide package delivery and logistics company; and **David White**, National Executive Director for SAG-AFTRA, the world's largest union for entertainment industry employees.

The panelists generally emphasized that despite the long expansion, their industries have grappled in recent years with long-term challenges for their business models and bottom lines. They cited a highly competitive product environment, often on a global scale, that merits cautious business strategies despite strong economic conditions. They also noted that the growth of international competition and globalized markets requires stable trade relations for sustained industry growth.

This competitive environment creates the need for continued innovation in their products and processes. Much of this takes the form of automation and other labor-saving innovations, which hold down growth in labor costs despite the tight labor market. New technologies are likely to undermine growth in some job categories, such as package delivery workers who may be replaced by automated drones. Although industry expansion in response to improved efficiency is expected to create new, different jobs that replace the jobs lost to automation, many of those jobs are likely to require additional training for existing or new staff.

One key question is whether widespread labor shortages are affecting compensation. The panelists pointed to substantial ongoing compensation increases in some sectors for both low-wage and high-wage employees. However, current and potential employees have placed growing emphasis on workplace culture, as reflected in an organization's mission and favorable employment conditions and benefits, including flexible hours and work location; these job conditions are increasingly viewed as viable substitutes for higher wages. The panelists also noted that many employers have altered their recruiting strategies and standards in response to tight labor markets. Companies have expanded their recruiting to reach wider geographic areas and previously neglected groups. In the extreme, some employers have started providing transportation from outlying areas to urban cores, or vice versa, to bring workers to jobs. In the airline industry, widespread pilot retirements have led to expanded recruiting efforts. Because a college degree is not a strict requirement to become a pilot, this includes reaching out to high school students to make them aware of this career option.

**The Q&A discussion** expanded on some key issues. In response to a question about the need for retraining, panelists noted that colleges and universities are not sufficiently adaptable to prepare students for jobs of the future, necessitating increased direct training by employers. Regarding the apparent diminished relationship between tight labor markets and wage and price increases, the panelists agreed that industry competition forces them to look for alternatives, such as greater production efficiencies, rather than simply raising wages and prices.

## Closing keynote

**Professor Atif Mian** of Princeton University focused on the growth in debt-financed consumption spending over the past few decades in his final keynote address. He linked this pattern to rising income inequality. Specifically, he argued that growth in top incomes leads to increases in savings that are used to finance consumption growth for lower-income groups that otherwise have seen limited gains in purchasing power. Because the current expansion has relied largely on growth in consumer spending in recent years, this raises the possibility that the hot economy rests on a fragile foundation. Mian emphasized the importance of emerging from the current low interest rate environment to foster sustainable growth, although he noted that monetary policy is not a primary contributor to these developments.

## Appendix: Results from Pre-Event Questionnaire

In the months leading up to the *Fed Listens* town hall, the San Francisco Fed distributed a pre-event questionnaire to all invitees and received 108 responses. We provide here a summary of takeaways from the response comments, followed by tabulations of numerical responses to scaled questions.

Respondents weighed the Fed's two statutory goals about evenly, though a slightly higher share viewed price stability as "very important" compared with maximum employment (79% vs. 72%). Several respondents stressed what they saw as a crucial link between the two goals: maximum employment can boost incomes and spending, growing the economy, but price pressures should be contained to preserve stability. Most respondents indicated that the Fed has achieved those goals well over the past few years, observing that unemployment has fallen noticeably without a significant run-up in inflation. However, specific comments noted that "the benefits of a 'strong' economy are not [being] equitably distributed," even though "top line figures for employment and inflation rates look very successful." A few respondents pointed to below-target inflation as a cause for concern.

Respondents viewed the labor market in 2019 as considerably stronger than in normal times, but many noted that wages have not risen as rapidly as in past periods of very low unemployment. In general, respondents cited the following advantages of running a tight labor market: improved wage growth, the inclusion of marginalized groups, added investment in worker training to reduce turnover, and broader economic growth that accompanies hot labor markets. For disadvantages, participants noted the threat of unsustainable inflation, disproportionate increases in housing costs, high worker turnover, and constraints on business expansion arising from worker shortages. In the current tight labor market, participants reported a mixed picture of whether wage increases are keeping pace with increases in the local cost of living. By a slim margin, most said wages have been growing faster than the cost of living, while many saw equal growth, and over a quarter of respondents said wage growth has not been keeping pace, due in large part to briskly rising housing costs. Almost half of participants judged that moderate-income households benefit more than low-income households from periods of low unemployment, owing to differences in skills, mobility, and exposure to automation and offshoring.

**Numerical summary:**[1]

How important are the Fed's two statutory goals--maximum employment and price stability?

| | Not important | Somewhat important | Very important |
|---|---|---|---|
| Maximum employment | 2% (2) | 26% (25) | 72% (71) |
| Price stability | 1% (1) | 20% (19) | 79% (76) |

Over the past few years, how well do you think the Fed has done at achieving each of its two statutory goals?

| | Not successful | Modestly successful | Very successful | Fully successful |
|---|---|---|---|---|
| Maximum employment | 3% (3) | 14% (13) | 39% (35) | 43% (39) |
| Price stability | 6% (5) | 26% (23) | 41% (36) | 26% (23) |

How strong has your local labor market been in 2019, compared with typical conditions and also with past periods of very low unemployment rates ("peaks," such as 2006-07, 1999-2000, etc.)? Please consider job availability, wages and hours offered, other job benefits, etc.

| | Much weaker | Somewhat weaker | About the same | Somewhat stronger | Much stronger |
|---|---|---|---|---|---|
| Compared with typical conditions | 3% (2) | 4% (3) | 8% (6) | 29% (23) | 58% (46) |
| Compared with past peaks | 4% (3) | 6% (5) | 11% (9) | 43% (34) | 36% (29) |

Relative to increases in the local cost of living, recent wage increases have been:

| Much smaller | Somewhat smaller | About the same | Somewhat larger | Much larger |
|---|---|---|---|---|
| 5% (4) | 22% (18) | 36% (30) | 35% (29) | 2% (2) |

[1] Share of responses for each choice is reported, with number of respondents for each choice in parentheses. Shares may not sum to 100 due to rounding.

In your view, do low- or moderate-income households benefit more from low unemployment?

| Low income benefit much more | Low income benefit somewhat more | Same | Moderate income benefit somewhat more | Moderate income benefit much more |
|---|---|---|---|---|
| 9% (7) | 21% (17) | 25% (20) | 29% (23) | 16% (13) |