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Federal Reserve Bank of San Francisco

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Webinar

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Introduction

Good afternoon. This is Barbara Van Allen, President of the Club, and we will get started in exactly a minute and a half. Thank you.

Chairman John C. Williams

Good afternoon and welcome to the 587th meeting of The Economic Club of New York in our 114th year. I'm John Williams. I'm the Chair of the Club and President and CEO of the Federal Reserve Bank of New York. As many of you know, The Economic Club of New York is the nation's leading nonpartisan forum for discussions on economic, social and political issues, and our mission is as important today as ever as we continue to bring people together as a catalyst for conversation and innovation.

A special welcome to members of the ECNY 2021 Class of Fellows – a select group of very diverse rising next-gen business thought leaders and it appears we will have our largest class ever this year. And another special welcome to the graduate students from Rutgers University, Manhattan College, City University of New York Graduate Center, Baruch Zicklin School of Business and the Gabelli School of Business at Fordham University.

Now, it's a pleasure for me to welcome our special guest today, my friend and colleague for nearly 20 years, Mary Daly. Mary is the President and CEO of the Federal Reserve Bank of San Francisco, a bank, of course, which I know very well from having been there myself. As a participant of the Federal Open Market Committee, Mary helps set American monetary policy to promote a healthy and stable economy.

Since taking office in October of 2018, Mary has committed to making the San Francisco Fed a community-engaged bank that is transparent and responsive to the people it serves. She works to connect economic principles to real-world concerns and is a sought-after speaker on monetary policy, labor economics, and increasing diversity within the economics field.

Mary began her career with the San Francisco Fed back in 1996 as an economist specializing in labor market dynamics and economic inequality. She went on to become the Bank's Executive Vice President and Director of Research. She currently serves on advisory boards for the Center for First-Generation Student Success and the Maxwell School of Citizenship and Public Affairs at Syracuse University. She has also served on the advisory boards of the Congressional Budget Office, the Social Security Administration, the Office of Rehabilitation Research and Training, the Institute of Medicine, and the Library of Congress.

Mary earned her bachelor's degree from the University of Missouri-Kansas City, a master's degree from the University of Illinois Urbana-Champaign and a PhD from Syracuse University. She also completed a National Institute of Aging post-doctoral fellowship at Northwestern.

Now the format today will begin with prepared remarks from Mary followed by a conversation in which we're fortunate to have Club Vice Chair, Peter Blair Henry, who is the W.R. Berkley Professor of Economics and Finance and Dean Emeritus at New York University Stern School of Business to do the honors. As a reminder, this conversation is on the record and we do have media on the line. So with that, I'll turn it over to you, Mary.

Remarks from Mary C. Daly

Thank you John and thank you everyone at New York Economic Club. This is really a pleasure. It's an honor to be here. So let me begin by talking about last year. In February of last year, right before Covid-19 hit our shores, I was actually in Ireland. And walking around Dublin one day, I happened upon a converted warehouse with artists selling their work. One of the artists had a wall of beautifully colored, tiny, framed prints and each print was etched with the phrase, "History Will Repeat Itself" followed by an arrow pointing to the future. Now to me, this seemed a pessimistic, almost fatalistic view. So I asked the artist if he had painted it out of prophecy or out of fear. And he answered – I'll admit quite gruffly – "Both." As an unrelenting optimist, I saw something quite different in his work. I saw the potential for agency – for people and institutions to learn from the past and use those lessons to better shape our future.

At the Federal Reserve, we have a very practical test right before us. With much welcomed light at the end of the Covid tunnel, we must work to return the economy to full employment and price stability. And this is frankly a tall order. Millions of Americans remain out of work and inflation remains below our target. At the same time, a swell of market and academic commentary has already started to emerge about a quick snapback in the economy, an undesirable pickup in inflation, and the need for the Federal Reserve to withdraw accommodation more quickly than anticipated.

I will say that I see this swirl as the tug of fear. The reaction to a memory of high and rising inflation, an inexorable link between unemployment, wages, and prices, and a Federal Reserve that once fell behind the policy curve. But the world today is different, and we can't let those memories, those scars, dictate current and future policy. We need to learn from history without letting it drive our current actions. We must consider all the lessons from our past, not just the ones that frighten us. And this is what I'll tackle today. But before I begin, let me give you the reminder that the remarks I make are my own and do not necessarily reflect those views of anyone else in the Federal Reserve

System.

So, as John mentioned, I started the Federal Reserve of San Francisco job in 1996, and I became quickly deeply steeped in standard macroeconomic logic that many of us learned. And it goes like this. There is a level of unemployment in the economy below which wage and price inflation will start to pick up. Once that begins, the feedback loop between price inflation and wages will happen and we'll have unemployment, wage, and price inflation. And once it begins, it's out of control. It continues to spiral. So, prudent central bankers should avoid that situation, even try to stave it off. Given that monetary policy works with a lag, this means we need to be forward-looking and respond to expected future inflation to ensure that actual inflation remains close to target.

In this simple model, one of the key tools was the Phillips Curve, which captured the tradeoff between unemployment and inflation. And the Phillips Curve had this additional feature of delivering what we call the non-accelerating inflation rate of unemployment, or NAIRU, which all of you know. And it could be used to gauge the level of full employment that was the steady state of the economy. Of course, we also applied expectations theory, which posited that future inflation depended largely on expectations about future inflation.

So, with these tools in hand, it felt pretty straightforward to assess where the economy stood relative to the Federal Reserve's dual mandate goals. If unemployment was below or projected to be below this NAIRU, wage and price inflation would start to build and economic agents would begin to expect higher future inflation. A responsive and proactive Federal Reserve would pull the reins on growth and the labor market and broader economy would settle at our full employment and price stability goals.

Of course, when you think about it, many other factors made this very simple system work. First, the real neutral rate of interest, or r-star, was well above zero, roughly in the range of 2 to 3%. And combined with inflation expectations that were above 2, the Fed had plenty of room on both sides of the business cycle to adjust the federal funds rate and stimulate or restrain growth. Second, inflation was highly responsive to economic activity. In other words, the Phillips Curve was steep. So, changes in policy that impacted growth and employment had a concurrent and significant effect on inflation.

Compared with this old normal, the one that we learned, and I learned back in 1996, our new normal is almost an opposite world. And here is what I mean. There is still some level of unemployment below which wage and price inflation will pick up, but it's hard to know, a priori, where that is. And we saw this very much in the last expansion, when Fed policymakers – among others – continuously lowered their estimates of the longer-run rate of unemployment that was sustainable in the economy in the face of modest inflationary pressures, as this chart clearly shows.

The dynamics of inflation have also changed. Inflation is far less responsive to movements in employment and output than in previous decades. Indeed, despite a near eleven-year expansion and historically low unemployment, inflation has remained stubbornly below our 2% target since the Great Recession. And I see this chart as very striking because this high inflation environment has been followed by a really moderate rate environment largely because of well-anchored inflation expectations.

But this also reflects, in part, the weakening of these traditional links between unemployment, wages and prices. And a very large literature at this point confirms this, showing that the Phillips Curve has become quite flat in recent decades, or recent years. Declines in bargaining power for workers, fierce competition in product markets – you can think about Amazon and others – and a labor force that is far more elastic than anyone imagined have all played a role. Each of these factors, the three I've just named and others, are likely to persist and continue to persist in coming years. And they require us to adjust our policies to adapt to these new conditions.

We will need to make an adjustment, or these adjustments, in an environment that also looks quite different than the old normal. The real neutral rate of interest is expected to remain at very low levels, not much above zero, for some time. In this world, keeping inflation expectations well-anchored at 2% will be critical. As I noted earlier, inflation expectations, as we all know, are an important determinant of future inflation. So any drift downward in inflation expectations will lower the nominal funds rate, or the expected nominal funds rate, and give the Federal Reserve fewer policy cuts when we really need them to aid the economy. In this context, this context of the world we live in, long periods of below-target inflation, like the one we've been experiencing, are very costly.

So, the lessons of the last decade and projections about the future conditions we will face tell us that, for the foreseeable future, the Federal Reserve will face an uphill battle using conventional monetary policy to keep the economy healthy, the labor market strong, and importantly, inflation at our 2% goal.

The Federal Reserve Open, or the Federal Open Market Committee's, the FOMC's new policy framework is an explicit recognition of these realities. It reflects the learnings of current and past FOMC participants, as well as inputs from a year-long process that included evidence from research and feedback from businesses and communities we serve – the Fed Listens events. And the resulting revised framework that we released last August reemphasizes our commitment to maximum employment and stable prices and makes changes to our policy strategy that will allow each one of these goals to be achieved more easily.

So I want to start with maximum employment. The new framework states that policy decisions will be informed by assessments of shortfalls of employment from its maximum level. And this is instead of the old language that said deviations from its maximum level. So the shortfalls language is very important. In other words, in the absence of inflationary pressures, we will not pull back the reins on policy, on the economy in response to just simply a strong labor market. Put simply, we won't be raising interest rates simply to offset the unemployment rate falling to a level that we've once seen before, absent inflationary pressures.

The statement also emphasizes that maximum employment is a broad and inclusive goal. In assessing whether it has been reached, there is no single number that tells the whole story. We really learned this in the financial crisis and its aftermath, but we've put it into practice going forward. Instead, we will examine a wide range of indicators and those include things like the unemployment rate, the labor force participation rate, job finding rates, and wage growth, among others. We're going to look at those measures across a wide distribution of workers.

As we apply this strategy, our most important virtue will be patience. You might offer humility as well, but I want to focus on patience. We will need to continually and patiently reassess what the labor market is capable of and avoid preemptively tightening monetary policy before millions of Americans have an opportunity to benefit. These efforts are critical to support the broad economy and its sustained strength, but they also, or and also, aid the inclusion of historically less advantaged groups, including people of color, those lacking college degrees, and others who face systemic barriers to equitable employment and wage growth.

And that brings us to price stability, and regarding price stability, the new framework reaffirms the Committee's commitment to a 2% inflation objective but it adds, we add that this means achieving inflation that averages 2% over time. To do this, the FOMC will employ flexible average inflation targeting. Specifically, following periods when inflation is below 2%, appropriate monetary policy will aim to move inflation above 2% for some time. And this is to ensure that inflation expectations remain well-anchored at our 2% target, even when our policy is more frequently constrained by the zero-lower bound.

This approach, if you think about it, helps put a floor under inflation expectations, enhancing our ability to achieve our full employment and price stability goals. And this is something, that if you look at the European situation prior to the crisis, their inflation expectations numbers were drifting more than the U.S. and so this is a really important tool for all central banks and the U.S. moved first on this, I would offer.

Practically, the new framework allows us to retain our vigilance, our vigilance against inflation that is too high and our vigilance against inflation that is too low. It allows us to apply the lessons of all of our history, the entire history, the 70s and the 80s, but also the 90s and 2000s and the recent period. And we recognize that persistent misses on either side of our target can leave lasting damage on expectations and ultimately on the economy.

Although the evolution of our framework was in place and entrained before the crisis, before the pandemic, it actually turns out to be exactly what we need to support the economy through this very difficult time. In addition to the very wrenching toll on health, which we are all witnesses to, the virus has severely depressed economic activity. Millions of workers remain unemployed and hundreds of thousands of businesses shuttered, many of them permanently. And if you dig beneath the data of the aggregates, you dig past the aggregate numbers, you can see clearly that a disproportionate share of the affected workers come from the lower half of the wage distribution.

And if you think about it, consistent with historical barriers in education and employment, the workers at the bottom half of the wage distribution are also the same workers that are concentrated among communities of color. So I find this chart particularly striking about the, what you often think of as the tale of two pandemics. And it’s really something we have to keep in our mind that the aggregate may not tell us, and in this case doesn’t tell us the whole story that distribution really matters.

Inflation, though, has also been pushed down by the pandemic. After falling quite sharply last year, it has improved as the economy has rebounded, but Covid-sensitive sectors remain a drag on overall inflation. And even when those sectors fully recover – they come back after Covid – it will be some time before we can get inflation sustainably to its 2% goal.

Getting fully past the crisis and back on track to achieve our dual mandate goals will require – in my judgment – monetary policy to be accommodative for some time. We must make sure that everyone who lost their job or left the labor force to care for children or other family members has an opportunity to return. We also need to offset the downward inflationary pressures created by the pandemic and get back to the job we entered the pandemic with, which is moving inflation sustainably back to our 2% goal.

And this brings me back to the fearful swirl about spikes in inflation and the need to preemptively offset them. Of course, we need to be vigilant against all the risks that are in the economy, but we must also weight them by their likelihood and their expected cost. As for the likelihood of runaway inflation, I don’t see this risk as imminent, and neither do market participants. Instead, I view the recent rise in inflation compensation to roughly 2% as encouraging and in line with our stated goals. To me, it suggests that our commitment to flexible average inflation targeting has already gained substantial credibility, or at least people understand it. And I would offer that's part of our toolkit. Credibility of the fact that we'll use our tools is a tool in and of itself.

But what about the costs? Well, the memory of the 1970s and 1980s and the painful correction it required looms large. But that was more than three decades ago, and times have changed. Today, the costs are tilted the other way. Running inflation too low for too long can pull down inflation expectations, reduce policy space, and leave millions of Americans on the sidelines along the way.

So let me end by returning to my Irish artist friend. I bought one of his prints and I put it on my office bookshelf. I keep it as a reminder that the weight of the past can be a very powerful force, pulling us back to what has been. To shake its grasp requires diligence and intention, an active commitment to be students of history but not victims of it. To do otherwise would fall short, leaving us like this picture, destined to repeat ourselves. Thank you.

Conversation with Mary C. Daly

VICE CHAIR PETER BLAIR HENRY: Thank you, President Daly, for a very, very inspiring speech – if I may so – and one that really clearly lays out this new framework, this new strategy that you and your colleagues at the Fed have for monetary policy. So I want to begin by asking you about the ability of this strategy to achieve this new balance, as you discussed, and very specifically, there are many who say that monetary policy is a really blunt tool, President Daly. Could you explain how you expect this, you know, this fairly blunt tool of just monetary policy to address these more idiosyncratic issues that you talked about, the divergences in the labor market between high and low wage workers and so forth, please?

MARY C. DALY: Okay, so you're absolutely right. We do have a blunt tool. The way, I think, many of us like to say it is we have one tool and we have two mandates and so it's already making it hard, right? We have a full employment and a price stability mandate. But being blunt doesn't mean it's not powerful. And the power of our tool for the labor market, and then I'll talk about the price stability part, but for the labor market is that a good economy helps everyone. A sustained good economy helps the lower half or the less advantaged people more. I have worked with some other colleagues and many other research papers have shown this, that when you run a sustained expansion, people who were sidelined and employers simply said probably weren't employable, many economists said they weren't employable, came back into the labor force, got jobs, got opportunities, and participated in the economy and their community.

So when you think about that slide that I showed that shows really a tale of two labor markets or a tale of two pandemics, the key to having those individuals come back full force is, one, getting past the virus, and two, sustaining the expansion until we've eliminated the shortfalls in the lower half of the distribution of wages, not just the upper half. And that's really where the sustained expansion and accommodative policy over a period of time comes in.

And so then that immediately says, well, what about price inflation? And that's why I went through what's happened with price inflation for the last decade. It's been our challenge to push inflation up to our 2% target, not pull it down to our 2% target. And when we're past Covid, the same global forces that we've been grappling with and trying to offset will be with us and the framework puts us in a far better position to achieve both, both our goals really, full employment and price stability by being, you know, market participants, households and businesses are also part of our toolkit when we communicate well with them and they behave as if they know what we're going to do and they can appreciate what the future looks like. Then that already gives us power and that's part of why our blunt tool, while blunt, is still a very powerful force in the economy.

VICE CHAIR PETER BLAIR HENRY: I'd like to build on your very poignant slide of this sort of K-shaped recovery – if you will. As you well know because you've studied this and you've talked about this, one of the other aspects of inequality in this recovery has been female labor force participation. Could you say a word about the ability and limitations frankly of your strategy to address inequality in the labor force participation, gender inequality?

MARY C. DALY: Well, I'd like to just start by talking about why so many women have withdrawn from the labor force in the first place. I think that's a fact that sets ideas for us, that allows us to think about how the strategy and monetary policy can help. So women have been leaving the labor force in very large numbers and when you ask them in surveys or you look at who is leaving, it's really moms with small children or even grown children really who need help in Zoom schooling. And so even women who are able to telework have left the labor force in order to help their children. So that's a Covid, pandemic-related response to the school closures. My anticipation is once schools reopen, then many of those women will be freed up to go back to work and an economic opportunity will be there for them if the economy is growing and the expansion is sustained.

Now there are also women who have left the labor force and discontinued any relationship they had with their employer, but they too, once they have an opportunity to return to work because school will be back in session, they can go and find new jobs. We find that, you know, job finding goes up when the economy recovers and expands. So both of those groups are helped by the economy being strong and being sustained in its strength, like we saw in the last expansion. And there we've seen people who really were written off, people who thought would never come back to the labor force, came back in. So I'm very confident that these women will be able to reenter once we get schooling back in place. But that probably won't be all of it.

You know, if you listened to Chair Powell's testimony the other day in the hearings to Congress, you heard him talk about childcare. I mean we also have this other bigger issue in the nation that if we want to get our labor force participation of women particularly up to levels of our industrialized competitors, we're going to really have to think about childcare options in the United States and think hard about those. So those are the fiscal agents that will be doing that, but really it's going to be important for firms to participate in those kinds of decisions. But I'm optimistic that women are going to come back for the reasons I just said.

VICE CHAIR PETER BLAIR HENRY: I want to come back, maybe a little bit later to talk about some more structural issues in the labor market and structural things that affect the labor market. But I want to go on to some of your remarks about inflation now if we might. So you mentioned this tug of fear and the danger of letting the fear of inflation past be too much of a weight on the future. And clearly you don't share kind of the over-weight of those fears of the past but with so much fiscal stimulus sort of imminent – it seems – in the pipeline, how can you be so confident that inflation won't rise substantially?

MARY C. DALY: So I'm going to go back and put my public finance hat on and tell you how I think about it given, you know, my training. I mean you could be just putting your Keynesian hat on, but when aggregate demand is depressed because, in this case a pandemic, then the government doesn't crowd out private buyers. And so it's a demand shock that we're trying to offset and so fiscal stimulus is actually supporting that. So it's supporting in this case, by and large, by ensuring that households have income in their pockets so that they can spend in the ways that they choose. So I see this right now as the fiscal stimulus is really designed to continue to have a bridge over the coronavirus. So I think fiscal stimulus is a misnomer. I would call it fiscal support. So fiscal support is what we need right now to ensure that as many people get to the other side of the virus intact and ready to re-engage when the virus is behind us.

The future, when we think about fiscal aid or fiscal stimulus – if you will – well, that will be either hopefully something that's very purposeful, thinking about things that the government typically takes its hand in, building public infrastructure, whether that's digital infrastructure or roads and bridges or investing in schools and training technologies. And again all of that is traditionally less inflationary than other types of fiscal stimulus that is crowding out private suppliers.

So right now I don't see this argument of fiscal stimulus boosting inflation into ways that's unwelcomed. We could use a little inflation overall. I mean just look back to the last decade. We had a near 11-year complete expansion and we struggled to get inflation sustainably up to our 2% target. And that's because of all the pressures that you hear about, global pressures, but also because we just, you know, agents are forward-looking and we know that we're constrained by the zero lower bound and every time we miss on inflation, the agents think that we're less likely to get it back up so they continue to, John Williams has done this work with Thomas Bertans(?), and I just find it very convincing that we're fighting the pressure of pushing it back up.

So I don't see this as evoking runaway inflation in any way, but the reassuring piece is that we have the tools to bring it back if it should spike in a way – not spike, actually sustainably be above – in a way that we find detrimental. We can pull it back. We have not lost our toolkit – it's not constrained – the toolkit that allows us to bridle the economy and pull inflation back. Where we're more constrained and where we have to work harder is keeping inflation up to our target. That's how I put those two things together. But I really want to underline, in case, I know I heard that Rutgers students and other students are here, this really is a misnomer I think to call it fiscal stimulus right now. It's really fiscal support, and support and stimulus don't have the same inflationary impacts if you look at the research.

VICE CHAIR PETER BLAIR HENRY: It's a very clear explanation. And to kind of take your terminology, fiscal support is a very appropriate term. And if we kind of add that to your metaphor of a bridge across the pandemic – if you will – so we've got these sort of fiscal supports supporting this bridge trying to get us through the pandemic and my question is, for you and your colleagues, and you made it very clear, you're looking at average inflation and you're very confident you've got the tools to respond in time, because you're not trying to respond to deviations, short-term deviations from inflation, you just need to get the average right over time. Help us think about how you're going to look at the data and, in particular, what kinds of real data in terms of vaccination rates or other things are you looking at, do you have access to, to help you think about how we're doing? What is your view on how we're doing in terms of getting to the other side of this bridge?

MARY C. DALY: That's a great question. So let me talk through that. I'll tell you how I think about it. So, you're right, we do look at vaccination data. We look at Covid, rates of infection, hospitalization, etc., all of those things. Let me put this down a second...and not have a yellow glare on my face. But we look at all of those things and what we're doing when we're looking at all those inputs, we're looking at the data published on employment, on prices. We're talking to our contacts, every Fed president, many of the governors. We'll spend a lot of time talking to contacts who are business and community leaders. You put all of this together and you're trying to produce a modal forecast. So when I look at vaccination rates, for instance, that goes into my modal forecast. And when I look at those things, I come out with a modal forecast that looks something like this.

By the end of, for the second half of the year, right now it looks like we're going to be vaccinating people at a rate that's gaining momentum as we get better at vaccination and supply constraints are relieved, that we're going to get people vaccinated. We're going to be able to reenter economic activity, at least at some level by the second half of the year and we'll have a bounce-back in the economy very similar to what we saw last summer when the rates of Covid had subsided at bit and people could go out.

But I don't yet know, there's a lot of uncertainty, so I don't yet have this as truth. I just have it as my modal outlook. And I would adjust my modal outlook as I get incoming information about how many businesses have failed, whether Covid is really getting behind us, whether the vaccination rates are improving as we get more experience. If those things get disrupted, then of course I would back off my modal outlook. If those things happen more quickly, if businesses rebound more quickly or we get vaccinated more quickly than I suspect, or expect, then I would move my outlook up.

But either way, when I think of the overall, sort of profile of economic growth, I see a bounce-back in the second half of the year, and then getting to a level of more regular growth, more steady progress, very similar to what we saw last summer when we saw that pretty big, sharp increase in output growth and employment growth, and then things

– I wouldn't say they plateaued, but we got to a level of more like, you know, 2 to 3, 4% as opposed to something like 15% or more percent per month. So I think that's where my outlook is and every one of the data you mentioned and many, many others are important.

You know, Fed policymakers at this juncture and maybe this is, we looked at a lot of data when I started in 1996, but the amount of data we have access to, and the amount of data we look at has just, you know, it's blossomed. We really have a dashboard and we have these very detailed remarks from our contacts who, sometimes data are backward-looking, the individuals in business – many of you – you're very forward-looking people so we need to look at, talk to them as well.

VICE CHAIR PETER BLAIR HENRY: So I want to take our conversation even a little more macro, even though we're talking about macro, President Daly. So, beyond this recovery there's deep concern in our society, not just in the United States but globally, about frankly the increasing impacts of growth on the sustainability of the environment. And central banks have recently begun to sort of, you know, wade into this discussion and becoming increasing vocal about the threats of climate change. So why would you argue is this an economic issue, and why should central banks get involved in responding to it?

MARY C. DALY: So, for me, this is a very clear answer that the Federal Reserve, let's take the Federal Reserve, and you can generalize this to other central banks but I'll speak about our role in the economy and in society, we are charged, we have three key missions. We have the payment system. We have, with other regulators, the stability and soundness of the financial system. And then we have the economy through monetary policy. Each one of those is affected by climate risk.

And for climate risk, just let's think for a moment about severe weather events, whether those are the wildfires we had here in California and the orange sky, or it's the terrible, you know, wintry weather in Texas that knocked out the power grid and had a variety of other struggles. Those are all events that we have to think about because they affect, you know, where we should plan to have cash. When people get in a crisis, they actually use cash. And so we need to know where to store our cash, what the backup plan is going to be, how we're going to get our inventories around because we're responsible for the payment system. So we need to understand climate risk and understand how it affects those business lines so that we can put risk mitigants into those things.

But the financial system, we regulate banks, supervise and regulate banks with other regulators of course. But in our role we need to be talking to our banks and thinking about how they're pricing risk. You know in my own district, the 12th District, after the wildfires that have been, you know, year after year now, banks have to think hard about where they lend, how do they price risk future losses, what are they going to do with stranded assets that are now victims of climate change? These are all important things that affect the financial solvency of the system and so being ahead of that, not waiting for it to happen and react to it but being ahead of it is important.

And then I'll just bring it back to the final piece about the economy. I mean our role is to promote a healthy, sustainable economy and achieve our dual mandate goals. And when severe weather events are so frequent and growing in frequency so that Texas, they could just easily turn around in the summertime – I'm not predicting this nor wishing this so please, if you're from Texas, don't send me nasty emails but, literally, Texas has been victims of heat waves and droughts as well. So if you go from wintry weather to heat and drought, I mean think of the impact on the economy that that causes. And so we have to be thoughtful about those things as we take our policy.

So my view on this is that these are our responsibilities. The public depends on us to do that. And by doing it, we are completely fulfilling our mission to serve the American people.

VICE CHAIR PETER BLAIR HENRY: So if I've heard you correctly, tell me if I'm characterizing fairly what you just said, the role of central banks is not to proactively make climate policy, but to get the financial system, economic players who are affected potentially by changes in climate to internalize those potential changes and to think about how to price those risks and so forth.

MARY C. DALY: Beautifully said. And indeed we are decidedly not making climate policy. Climate policy is the job of our elected officials, our fiscal agents, and that's squarely where it should be, but our job is to assess the risks and help people, the payments, and the financial system and the economy develop risk mitigant tools and understanding where those risks lie.

VICE CHAIR PETER BLAIR HENRY: So taking our conversation now more generally to leadership, you're an extraordinary leader and have, I think, demonstrated your vision just in the way you connect the human soul, through the artist, to monetary policy. But talk a bit about, there's an article in the *New York Times* recently, actually written by a student of mine from my class last semester, Jeanna Smialek, you talked about the importance of diversity at the Fed and you shared a specific example of your experience with a former employee, Monroe Gamble. Could you talk about what you're doing to drive more diversity at the Fed and why that's important?

MARY C. DALY: Yes, absolutely. Let me start with why it's not just important or nice to have, but why it's critical. It's a responsibility, I would argue. So policymaking is endogenous to the people who make it. It reflects the people around the table, but I'd say even more than who is around the table, who has a voice at the table. So I see it as our responsibility, you know, as a public institution, to ensure that we have a reflection of the community sitting at the table having a voice.

Of course, that's not something we've always been able to achieve historically and in many ways we're far behind. If you think about the economics profession, the numbers are staggeringly disappointing. Over three decades, we've made almost no progress. We had low numbers of diverse voices measured by race, ethnicity and even gender in the group of economists and those have stayed pretty flat despite the fact that the STEM areas have been able to make improvements.

So this I see as a critical problem for economics and ultimately for policymaking. So what we're trying to do is what I think every Federal Reserve Bank in the system I know is trying to do, what the Board of Governors is trying to do, is really have a no-excuses policy. You know when John was the President of the San Francisco Fed, he gave a speech that is one that today is still one of my favorites of his. And it wasn't on monetary policy specifically, it was on policymaking generally, and it was on diversity and inclusion, no excuses. And I really think of that as something that I believe in completely. I hope each, all of you believe in completely. And it's so critical that we need to not worry or say, well, the pipeline's not good enough so we're doing the best we can.

We need to change the pipeline. And each and every one of us can do that.

You know Monroe Gamble came to us and he was the first African American research assistant that the San Francisco Fed had ever had. And that was hard, hard to think about he was the first, hard for him to be the first, and a great lesson to all of us that he can't be the last. So I'm really proud of Monroe as everybody who read the article probably observed but, you know, I'm really proud of him but the onus is on us to make those changes. So whether you're connecting with HBCUs, whether you're out there trying to convert people who are trying to major in biology to be an economist. Whatever it takes, I'd like to see, you know, ten years from now the economics pool of PhDs and people who are interested, master's level people, even undergrads be as diverse as the populations we serve. That would be a big win, so hopefully we'll make that progress.

VICE CHAIR PETER BLAIR HENRY: Well, we'll do it together. I'm happy to say that Monroe is actually a fellow in a program that I run that has the goal of getting more underrepresented minorities into PhD programs. So I'm looking forward to working with the San Francisco...

MARY C. DALY: He's in good hands. I'm glad to hear it.

VICE CHAIR PETER BLAIR HENRY: I like to think so. I like to think so, President Daly.

So we're coming close to the end of our time, so I wanted to just get another question, though, if I might. Covid-19 has had such a huge impact on all of us, and you've already alluded to some of the potentially scarring effects that it may have on the economy. Could you talk about what you think our priorities should be to prevent that scarring and what, if anything, the Federal Reserve can do to help with that?

MARY C. DALY: Absolutely. So, you know, if you think about the economy now, I remember going through the financial crisis and its aftermath and I feel like for eight or nine years, I worked on trying to figure out if there was a real scarring effect on the labor market of the financial crisis and whether that scar was a permanent one or just looked really bad for a long time. And what I learned is that it wasn't a scar that stays forever. It was just a big blow that took a while to get past. And I would argue that's the same thing with the pandemic.

And, in fact, these are not, don't, I would argue we shouldn't think of it as scars. If you think of it as scars, then it feels like it can't be changed and it's structural. And economists, I would say, are biased to put everything that feels like it's hard to change into structural and say cyclical is the easiest to change so that must be what we can control. What we learned, and I think we had to learn it humbly, look back at that SEP chart that I showed in my talk, what we learned in the last expansion was that many more people are cyclically responsive in the labor market than we ever thought was true. We have relegated people to structurally impair, not able to get to the labor market, having some deficiency that would keep them out and the Federal Reserve couldn't do anything, and what we learned is that was completely wrong. They came back. Employers wanted them. In the Fed Listens event, so many employers told us these individuals are very loyal and very good workers and learned quickly. And of course they do.

So my, I guess my final word is let's put as much into the cyclical bucket as possible. We can always find ourselves at the end saying, well, we really need fiscal agents to help those individuals because we can't do this alone at the Federal Reserve. Fiscal agents, we have to work together. But I am confident we can do more than we often think.

VICE CHAIR PETER BLAIR HENRY: We finished right on time. President Daly, thank you for your tugging role. We're all very fortunate to have you tugging us in the direction of hope.

MARY C. DALY: Thank you. It was my pleasure.

CHAIRMAN JOHN C. WILLIAMS: Well, thanks Mary. That was absolutely terrific. Thank you Peter. It was a great conversation. I love the optimism and thanks for sharing all of your insights with us today. So my role now, over the last two minutes, is to remind everybody that we have a whole series of great speakers lined up. We encourage you to attend, invite your guests to our events.

So let me just quickly to through March. We've got incoming Citibank CEO, Jane Fraser, and GM CEO, Mary Barra as well as the Managing Director of the Women's Forum for the Economy and Society, Chiara Corazza and more joining us on March 11 as part of our Women in Business Conference. Then on March 18, we have Alex Gorsky, Chairman and CEO of Johnson & Johnson. And then on March 23, we have Ken Langone, Founder and CEO of Invemed Associates. And then on March 25, we have our colleague, Raphael Bostic, the President and CEO of the Federal Reserve Bank of Atlanta. On March 30, Caryn Seidman-Becker, Chairman and CEO of CLEAR. And then turning to April, on April 7, we have Tal Zaks, the Chief Medical Officer of Moderna. And then on April 8, we have Neel Kashkari, the President and CEO of the Federal Reserve Bank of Minneapolis. So you can see that we've been really busy lining up great speakers and a number of really important topics and timely topics. So hopefully you'll be able to attend those events.

Finally, I'd like to take a moment to recognize those of our 328 members of the Centennial Society who are joining us today as their contributions continue to be the financial backbone of support for the Club and that helps, enables us to offer our wonderful, diverse programming now and in the future. So everyone, thank you again. Please stay healthy and safe until our next meeting.