Working Together to Make the Economy Work for Everyone

Raphael Bostic
President, Chief Executive Officer
Federal Reserve Bank of Atlanta

2021 Consumer Financial Protection Bureau Research Conference

May 6, 2021

Key points

- Atlanta Fed president Raphael Bostic speaks at the Consumer Financial Protection Bureau Research Conference on the importance of partnerships in helping speed change that would increase economic inclusion.
- Bostic notes that the CFPB and Atlanta Fed's shared pursuit of economic inclusion and mutual efforts to empower consumers offer many opportunities for collaboration.
- He says the Atlanta Fed has a long history of partnerships aimed at understanding how markets work and translating research into on-the-ground policies and practices to improve outcomes for households.
- Bostic stresses that the bank's economic inclusion agenda not only helps to lift up economically vulnerable citizens, but also animates his thinking about monetary policy.
- Bringing more people into the labor market, he explains, could allow Federal Reserve policymakers to reconceive maximum employment for the betterment of those precariously attached to the labor market, and for us all.
- Bostic says he firmly believes economic inclusion is among the defining economic issues of our time.

Thank you for inviting me to keynote this important conference. The agenda is packed with timely, stimulating material that reminds me of the numerous parallel interests of our agencies.

The CFPB is housed in the Federal Reserve structure but, of course, operates independently. More importantly, we share a core mission: to expand opportunity, to make this "Everyone's Economy," in our parlance, and to achieve better outcomes for all in the financial marketplace in yours. Indeed, we used to do some of the consumer affairs supervision that is now within the purview of the CFPB.

On a personal note, I was a charter member of the CFPB's Academic Research Council, so I've considered the congruencies in our agencies' objectives before now.

Obviously, our organizations are fundamentally different in important respects. The Fed pursues monetary policy and supervises financial institutions, while the bureau focuses on safeguarding financial products and services for consumers.

Nonetheless, our shared pursuit of economic inclusion and our mutual efforts to empower consumers offer myriad opportunities for collaboration. So, today I will detail why researchers studying issues that fall under the aegis of the CFPB, like financial and economic inclusion, should view the Federal Reserve broadly and the Atlanta Fed in particular as potential partners. Our combined perspectives can yield rich results that neither would be likely to produce separately.

I will recap our experience with existing research partnerships and describe a sampling of our work that I hope illuminates issues and topics our organizations can explore together. You will see that much of that work fits squarely within the framework of the challenges this conference will address. I'll close my remarks with some words on why we are focused on economic inclusion.

Before I get to that, though, let me be clear that I am speaking only for myself. My colleagues on the Federal Open Market Committee and at the Federal Reserve Bank of Atlanta may not share my views.

The Atlanta Fed forms partnerships

So let me start with the subject of partnerships. We at the Atlanta Fed have a long history of engaging in partnerships, and have forged relationships with nonprofits, universities, our sister Reserve Banks, private firms, and research centers of various stripes.

Some are about collecting information that informs our understanding of how markets work. These include the Survey of Business Uncertainty, a monthly survey of a nationally representative panel of businesses done with professors at the University of

Chicago and Stanford, and the quarterly CFO Survey, which asks business leaders to offer their economic and financial outlooks. We partner with the Federal Reserve Bank of Richmond and Duke's Fuqua School of Business to deliver the CFO Survey.

Another set of partnerships we engage in involves community-based work that seeks to translate knowledge gained through research and experience into actual on-the-ground policies and practices that improve outcomes. I'm particularly excited about one of our newest of this type of partnership, which is focused on workforce development.

It's called the Rework America Alliance. Along with the Markle Foundation and a host of corporations, nonprofits, and other organizations, we have set out to harmonize the nation's sprawling but disjointed workforce development system. The alliance's purpose reflects the fundamental aim of our economic mobility and resilience agenda more broadly: to minimize the number of people left behind as the economy evolves.

Rework America aims to unite nonprofits, government, and private-sector firms in creating ready pathways for workers to upgrade skills and stay employed as automation and other forces disrupt the labor market.

We have deliberately chosen to not go it alone in these efforts. Rather, we sought partnerships because we recognized that working closely with others allows us to leverage our collective expertise and produce richer, more nuanced, and, ultimately, higher quality results, which in turn leads to higher quality policy.

A call to collaborate

So in that spirit, I invite you to join us in the research enterprise. Looking over the agenda for the conference, I see many opportunities for us to find common ground across almost every panel.

Take the panel on responses to COVID-19 that just finished. Very early in the pandemic, staff across the Federal Reserve System quickly developed a survey to document the pandemic's impact on low- to middle-income, or LMI, communities. The results of this survey revealed a stark difference in how the public health crisis affected these communities as compared with other, more affluent areas. While our survey focused on institutions rather than consumers, the results provided insights as to how consumers are responding. For example, in our October survey, 64 percent of nonprofit organizations reported that the demand for their services had increased since August. Even more worrisome, 37 percent reported a corresponding decrease in their ability to provide those services.

Besides this survey, the researchers in our Community and Economic Development team (CED) that led that work pursued an array of other pandemic projects, including briefings on childcare policy and its impact on the workforce, and a series of webinars, reports, and resource guides for small businesses with an emphasis on owners of color.

We also joined the Boston Fed and the Stanford Center on Poverty and Inequality in the American Voices Project to track trends during several concurrent crises: the COVID-19 pandemic, the ensuing economic downturn, and the protest movement that has intensified in response to systemic racism. One product of the Voices Project is a report about how a split between in-person and remote workers created unequal risk and therefore could have exacerbated inequality and created tension between frontline and remote workers. Instead, the interviews with frontline workers generally revealed stoicism, fortitude, and even acceptance of class inequalities and disproportionate risks.

In more COVID-related research, another of our economists, Brent Meyer, and his coauthors employed the Survey of Business Uncertainty I mentioned earlier to track and quantitatively assess a reallocation of sales and labor across economic sectors brought about by the pandemic.

Finally, some of our bank's COVID-related work touches on mortgage refinance, forbearance, and household consumption responses. On this front, I will call out work by our own Kris Gerardi. You will hear from one of his coauthors later today about their paper on racial differences in refinancing behavior. Kris and his coauthors have other work focusing on refinancing, defaults, and forbearance during the pandemic period. A bit of good news here is they find there are reasons to believe we probably will not suffer another foreclosure crisis even after forbearance policies and foreclosure moratoriums are lifted.

The first session tomorrow focuses on borrowing and spending among the economically vulnerable, and we have numerous initiatives focused on attacking the stressors that confront people in precarious financial straits.

Notably, our [Advancing Careers for Low-Income Families] project tackles benefits cliffs. Benefits cliffs have long been recognized to create financial disincentives for low-income workers to earn more income. But we think we are making a unique contribution using a new methodology to study benefits cliffs in the context of career advancement.

As you know, many public assistance programs have an incentive structure that involves an income-eligibility threshold, such that increases in income above the threshold result in a loss of benefits on a dollar-for-dollar basis. This becomes a cliff when a person is on multiple sources of assistance because each dollar gained can be associated with a multiple-dollar loss in benefits.

This is clearly a disincentive for people participating in assistance programs. As our research director, Dave Altig, puts it, the incentive to earn an additional dollar is worse for those in the lowest wealth quintile than for everyone else. Consequently, high effective marginal tax rates, which can exceed 70 percent for low-wealth households, discourage some workers from investing in their own human capital and thus advancing from lower-wage work to jobs that lead to economic self-sufficiency.

This happens all too frequently to the millions of families receiving public benefits. And the cliffs disproportionately burden Black and Hispanic families. So, we're developing tools forged from evidence-based research to support community and state efforts to dismantle benefits cliffs, strengthen families' economic security, and meet the talent needs of employers.

I also thought of our work when I saw this conference included a liquidity, wealth, and housing panel. Here we have a number of tools created by staff from various departments that offer insights on trends in housing and other markets. As one example, we maintain a gauge to monitor affordability trends in rental housing across our southeastern district. We also developed an eviction tracker that for now covers the Atlanta region. We hope to expand its geographic scope.

On the wealth side, Ann Carpenter, one of the leaders of our CED team, has collaborated over several years with academics and nonprofits to study how unequal access to legal and financial services can produce negative outcomes, including contract-for-deed arrangements and heirs' property resolution. Those predicaments have stripped real estate wealth from generations of families, particularly African American families.

And, of course, there is access to credit, which is the subject of the conference's final panel. This is the area where I cut my teeth as a young economist, and substantial issues remain. Perhaps the Fed's most significant tool for promoting equal access to credit is the Community Reinvestment Act (CRA), which charges us with ensuring that banking institutions serve their entire service area, including LMI communities.

The Federal Reserve recently solicited comments on a proposed update of the CRA and is reviewing the ample feedback to determine how best to modernize the CRA's regulatory framework to reflect today's banking and lending practices. Much research has found the "old" CRA to be effective, and I'm hopeful the new CRA will even surpass that. If you have thoughts on ways the CRA can be more helpful, please do not hesitate to pass them on to someone in the Federal Reserve System.

Much of the work focused on access to credit looks at differences in the experiences of people of different races. On this point, I would like to make sure you are aware of a series of webinars the Federal Reserve System launched in 2020 called *Racism and the Economy*. Each session focuses on one area where structural racism is limiting economic outcomes and economic potential and facilitates dialogue about potential solutions to overcome these barriers. We bring together academics, advocates, practitioners, elected officials, and private-sector leaders for new conversations about these old issues. To date, we've held sessions on housing, education, the labor market, and the economics profession itself. I think the sessions have been fantastic.

It's been particularly gratifying, and I think productive, that the external speakers have not held back because we are the Fed. Rather, they've been quite blunt in their views about the root causes and effects of racism that in some cases is not overt or intentional but nonetheless has calcified over decades in our institutional structures. Bond markets and housing are but a couple of examples.

All of the sessions are available on YouTube, so please take a look. I think you'll find the one on the economics profession particularly interesting. I would also encourage you to subscribe to our mailing list and attend future sessions. The series will extend at least through the end of this year.

When I think about access to credit, because of my background, my mind quickly gravitates toward issues facing the economically vulnerable. And this brings me to the last opportunity for collaboration that I will talk about.

Promoting safer payments innovation and financial inclusion

As many of you know, the Federal Reserve System has significant responsibilities in payments. The Atlanta Fed houses the Fed's Retail Payments Office, one of the nation's core payments operations. In addition to operating payments processing infrastructure, the Fed is charged with keeping the nation's payment systems secure, reliable, and efficient.

To that end, a couple years ago, the Atlanta Fed made ensuring safer payments innovation a strategic priority. From there, we began exploring the financial inclusion implications of advances in payments technology.

They cut different ways. They clearly can democratize access to services. But, when stores or entertainment venues go cashless, they effectively exclude the 5 million American households with limited access to banking services, who are among the least economically mobile and resilient households.

Our work on safer payments innovation organically led to a related initiative to encourage inclusive innovation—that is, working to ensure equitable access to new, more convenient payments services without discouraging that very innovation.

To advance this cause, our Atlanta Fed team formed what we are calling the Special Committee on Payments Inclusion. This is yet another collaboration involving payments industry participants and researchers. The committee will work over the next two years to formulate policy recommendations to help chart a path toward inclusive innovation.

We had our first meeting this week, and what emerged was a clear recognition that there are important unanswered questions. For example, what are the features of credit, debit, and electronic payment methods that lead some people to turn almost exclusively to cash? Is it transaction costs, privacy concerns, the complexity of products, lack of awareness, all of the above? Without knowing this, it will be impossible to design strategies that move the dial. This is where you might come in, as we will need research that can help us understand which frictions are most important.

One reason I'm excited about this is that we've done it before. A similar work group in the early 1970s led to the creation of the Automated Clearing House, which became and remains a linchpin of the nation's payments system. The Federal Reserve was part of those early discussions and offered to provide the computer systems to process and settle the ACH items between banks. (In 2020, the Fed processed $123 billion in ACH payments a day, on average.)

An inclusive economy is a strong economy

Now that I've talked your ear off about the broad range of research at the Atlanta Fed, I thought I'd close by telling you why we are active in so many fields. As you well know, the forces shaping the macroeconomy encompass far more than just financial markets. If we are to make good policy, we must recognize and understand those other forces. Our concept of the Fed's dual mandate of maximum employment and price stability must include everyone who participates in the macroeconomy. Broad opportunity fosters a more stable economy and more effective monetary policy in achieving our dual mandate.

I want to stress that this emphasis, which I sometimes refer to as an economic inclusion agenda, is not some vanity project. In addition to its inherent worth in lifting up our fellow citizens, what we learn there animates my thinking about monetary policy. Bringing people off the economy's sidelines and into the labor market could allow us to reconceive the maximum employment half of our dual mandate, for the betterment of those precariously attached to the labor market, and for us all.

You all follow the literature, so you understand researchers from the Fed, academia, and the private sector are building a persuasive and practical case that a more inclusive economy is indeed a more prosperous economy.

Couple of quick examples: According to a study funded by JPMorgan Chase & Co., eliminating longstanding racial inequities in income could boost U.S. economic output by $2.3 trillion a year. Our colleagues at the San Francisco Fed produced a paper for the *Racism and the Economy* webinar series suggesting that racial and gender disparities in opportunity robbed the nation's economy of $2.9 trillion in potential output in 2019 alone, in 2019 dollars.

Economic inclusion, I firmly believe, is among the defining economic issues of our time. We have a chance to make fundamental change and progress, but progress will be hard won.

Your research can help speed the pace of this change and progress. I strongly encourage you to look to us in the Federal Reserve System as potential partners as you advance your research agendas. Visit our website and other Fed sites and scrutinize the research. Explore the many data sets that we produce and maintain. As an aside, the Fed's 2020 Survey of Consumer Payment Choice and 2020 Diary of Consumer Payment Choice, both helmed by the Atlanta Fed, will be published this month, adding to the data you'll find. Read about our people and reach out to those you might be interested in building relationships with. They will be glad to hear from you.

Thank you for your time and attention. I look forward to the conversation to come and to future partnerships.