
The Need for a Ground-Level View of the Economy

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Federal Reserve System or the FOMC.

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Introduction

Thank you, Dr. Robinson-Cooper, for that introduction. And thank you to the culinary students for our fabulous meal and to members of the community for turning out.

Thanks also to the students I got to meet with in the respiratory therapy lab and the communication, entrepreneurship, and business administration programs. What an impressive group!

And let me give a special thanks to Chris Murphy for his help in setting up this visit to Ivy Tech as well as the tour of the operations at Jayco this morning. Chris is on the board of directors of the Chicago Fed and a mainstay of the community here in the region.

Now, I know perfectly well that some of you are only here because your instructor told you to come. I used to hate stuff like that when I was a student, so I will try not to overstay my welcome. I am going to tell you about who we are and why I came here to Northeast Indiana for my very first speech as president of the Chicago Fed.

Let me get the required part out up front: These are my own views and not necessarily those of others on the Federal Open Market Committee or in the Federal Reserve System.

If you came here wondering about the Fed's role, you aren't alone. In recent polling, a big majority of Americans say they have heard of the Fed, but they don't know what it

does.¹ But that hasn't stopped folks from judging how we are doing. A recent Gallup poll says that only 37 percent think the Fed is doing a good job—just 3 points better than the IRS.²

Since I've become president, lots of folks have told me why: Some people are upset about inflation outstripping their wages, some about all the disruptions caused by the pandemic and the supply shortages making it harder for businesses to grow, others about the risk of unemployment creeping up and the danger that the economy might be headed for a recession. Even if they don't know what, exactly, the Fed does, they know that they want it to fix things that feel broken.

Who we are

So, let's start with what we do. The Chicago Fed serves the Seventh District. It is your local branch of the Federal Reserve System. Geographically, our District covers the heart of the Midwest—all of Iowa and most of Wisconsin, Illinois, Indiana, and Michigan.³ Some people in Northeast Indiana don't appreciate being lumped together with Michigan; imagine how I felt as a Bears fan when they told me the District includes the Green Bay Packers.

The Fed regulates banks in the District. And we serve, basically, as the bank for banks. We wire money. We do direct deposits of your paycheck. If one of our banks needs new bills to restock their ATMs, they get them from us. Our vault has billions of dollars of cash in it. That doesn't look as cool as you would think, though. I thought it would be

¹ Diamond and Sawyer (2022).

² Jones (2022).

³ Further details on the Seventh Federal Reserve District are available online, <https://www.chicagofed.org/region/region>.

stacks and stacks of money piled up to the ceiling. Actually, the money is bound in small bundles wrapped in plastic baggies and sitting on pushcarts. It almost looks like a high school storage room or something. Still, if you look at a dollar bill in your wallet and it has a letter “G” displayed in the circle, it’s from us—the Seventh District.

We also work on community development and ways to foster economic growth that benefit everyone and ensure a safe and inclusive financial system. We are responsible for enforcing consumer protection laws and the Community Reinvestment Act (CRA) to make sure financial institutions work fairly in their communities.⁴ In addition, we work with local partners to promote economic growth in low- and moderate-income communities.

But the Fed is most well-known for monetary policy—basically for setting some of the fundamental interest rates in the economy to meet the specific goals for us that are specified by law. The Federal Reserve Act requires the Fed to use its monetary policy tools to promote maximum employment and stable prices.⁵ This is called our “dual mandate”—to keep both unemployment and inflation low.

If the economy overheats, higher rates can cool it off. If we are in a recession, lower rates can heat it up. Generally, there isn’t any tension between what we need to do to reach our two objectives. However, sometimes they can conflict with each other. Then the job gets a lot tougher, and we have to think about trade-offs.

⁴ Details on the Community Reinvestment Act are available online, https://www.federalreserve.gov/consumerscommunities/cra_about.htm.

⁵ Congress amended the Federal Reserve Act (FRA) in 1977 to provide greater clarity about the goals of monetary policy. More details on the Federal Reserve Reform Act of 1977 are available online, <https://www.federalreservehistory.org/essays/fed-reform-act-of-1977>.

Why I am here

Of course, it's always hard to figure out what's happening in the economy from the avalanche of data coming in. One of the toughest things about monetary policy is figuring out what to pay attention to. And that is the main reason I am here in Northeast Indiana.

You see, most of our economic data come out with a delay—the jobs numbers, the inflation numbers, gross domestic product (GDP)—they all come out a week, a month, a quarter after they happen. Sometimes these data bounce around a lot or give contradictory signals. It can be hard to get a clear picture of what is going on. So, it's important to supplement these traditional data with observations on the ground from the real economy. This is especially true when things are as strange and up in the air as they have been through much of the pandemic times.

The temptation can be to look at what's easy to find and lean more on that—stock market, bond market, and other financial data that give instant reactions to news about the economy and our policy announcements and tell us which way the markets want the Fed to move. But it is a danger and a mistake for policymakers to rely too heavily on market reactions.

The thing is, our job is ultimately judged by what happens in the real economy. We need to know how things are going in places like here in Elkhart County. We come here to find out the latest information: How is the job market? The unemployment rate around here has literally been as low as 1.4 percent, but how much has it been rising as the demand for RVs post-pandemic has cooled off? Are supply chain pressures easing for

the transmissions plants in Kokomo or for the medical device makers in Warsaw? Are wages for middle-class workers keeping up with inflation?

We need this kind of information about the real economy. It's why we do a lot of outreach. Each month we survey about 120 business and community leaders throughout the District—many from right around here; we host scores of industrial and community roundtables and conferences each year.

The best central bankers are ones we call “data dependent.” They decide what to do based on the conditions they see in the economy. They don't start with an ideology. They start from facts. I came here to learn everything I can from you and to hear about how the economy is doing. This is information we need to watch when we make decisions about policy.

Monetary policy can't solve every economic problem. But when the Fed does its job well, it provides a stable environment that makes it easier for you to succeed and helps millions of people achieve their goals.

Conclusion

No doubt there will be bumps in the road to come. It's a strange and unprecedented moment coming out of the pandemic. Lots of things in the economy got turned on their heads, and we need to figure out where they will land and what that means for the future. But we will figure it out. Here in the Midwest, we know how to get the job done no matter what the conditions. We know there is no bad weather, only bad clothing.

So thank you for everything you do for this region and this nation, and thank you for teaching me about what's going on here in Northeast Indiana.

Dr. Robinson-Cooper, if they sat through that, they really deserve full extra credit.

References

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