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Executive Conversation

Tom Barkin

Speaker

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Interviewer

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BARBARA HUMPTON: Welcome. Welcome, Economic Club of Washington and friends. I'm Barbara Humpton. I'm CEO of Siemens USA. And I chair the global initiative here at the Club. Thank you to the ambassadors for joining us today.

And it is a real honor and privilege to have the opportunity to lead this discussion with Tom Barkin, the president and CEO of the Federal Reserve Bank of Richmond. Now, I will tell you that I've had the privilege of serving on the bank board for a little over a year now. And in general, Tom is the one asking the questions. His whole purpose in bringing us together as a board for regular conversation is to get that pulse check. What's happening in the economy? What are we hearing? What are we feeling? But today the tables are turned. And, Tom, I'll be the one doing the asking. How's that?

TOM BARKIN: That's good. And, Barbara, thank you for your service on our board. Also, I saw Cecilia Hodges and Linda Rabbitt, and Catherine Meloy, and I'm probably missing some who served. With all these connections, I thought I would get invited on a day that we didn't have this much going on. [Laughter.]

MS. HUMPTON: My heavens. You know, Mary picked this date. And, Mary, I don't know if you had any concept of exactly how much news we would be dealing with. And that's really where I want to start, Tom. I think all of our members would love to hear your take on the current economic conditions and how you, at the Fed, are thinking about it.

MR. BARKIN: OK. So, we'll start at the beginning. So, if you just remember three months ago things seemed pretty good. Unemployment was 4.1 percent, inflation was all the way down to 2.6 percent from its peak of 7.2, GDP grew 2½ percent last quarter, business optimism spiked after the election. Seemed like things were in pretty good shape. And I should probably stop there. [Laughter.] But I'll keep going, because what's happened since then is – there's just this deep fog of uncertainty that's surrounding businesses and, I think increasingly, consumers. And I gave a speech last week where I sort of teased that if you're driving in really dense fog there are two things you don't want to do. And one is to step on the gas, because you don't know who's in front of you. And one is step on the brake, because you don't know who's behind you. And so really the only strategy is to pull over and, you know, put on your hazards.

And that's kind of, for sure, what I hear businesses saying across all of the various policy things, whether it be immigration, or trade, or government spending, or deregulation, energy policy, fiscal policy. There's just so much going on and such a wide range of possible outcomes, and so much unclarity about how it all nets out, that businesses are saying I'm not sure I'm quite ready to cut back, but I'm certainly not yet ready to lean in. And then the thing that I'm watching the most closely is consumers, because consumers, you'll remember, are almost 70 percent of the economy. So, it's not business investments. It's consumer spending. The U.S. is the most robust consumer spending country on the planet.

And consumers have been spending now for the last several years because unemployment is low, people have jobs. Over the last couple years real wages are going up. Equity values are up. House values are up. People feel like they've got money, and they can spend. And so, the thing you want to – you worry about, and you want to watch, is, are you anywhere close to one of those moments where consumers decide, almost in unison, to pull back? And so that's the thing we're watching now. I want to caution; I look at credit-card spending every week. With the exception of D.C., where it's definitely happened, across the country it has not happened. I mean, consumers are still spending. But that's the thing we're watching. And that, to me, is really the trigger on the economy.

MS. HUMPTON: Yeah, OK. So, you're in the fog. And, honestly, if we had LiDAR,[1] you know, we'd be able to see through fog.

MR. BARKIN: Well, sometimes the high beams come back and flash right back at you.

MS. HUMPTON: So, actually, what I'm curious about, you're hinting at this a little bit, what are those leading indicators? What are the things we can and should be looking for right now? Consumer spending, clearly. Are there others the Fed will pay attention to?

MR. BARKIN: Well, I'll come back to consumer spending, but maybe dial it back one level and just say, what drives consumer spending? So, you know, one thing that drives consumer spending is having a job. And so, looking hard at unemployment claims, unemployment rates, you know, layoff announcements, those sorts of things, will tell you will people have a job? Because if you don't have a job, you're cutting back.

The second piece is consumer confidence. Even though you might have a job, you might be worried about whether you're going to have one. And, you know, the economists call that precautionary behavior. But you're watching for precautionary behavior. And that's why I'm looking at the weekly spend data, which you can get from the various credit card companies, to see, you know, whether you're seeing any signals there.

And then the third thing is the wealth effect. And I want to say, you know, a lot of stuff gets talked about when the equity market corrects, but, you know, an equity market correction is not the thing that leads to a consumer pullback. It's sort of broad-based conviction that this thing is going south. It's Lehman Brothers. It's not – I was around in 1987 – 1987 didn't cause a lot of consumer pullback. It's the bigger story. And that's the risk. So, you look at all of those drivers of what causes spending and then see what happens.

MS. HUMPTON: Well, I think we do, though, need to stop and think about those indicators that we're looking at and asking, are they lagging indicators or are they leading indicators? One of the questions that I'm pondering a bit now is, are we in a situation now with true changes to global structure that are a similar kind of supply chain shock to, say, COVID? And that, you know, COVID was something we hadn't seen before. And the question was, are we looking at the right figures? Is any of this kind of dialog going on amongst the economists?

MR. BARKIN: Yeah. So, I'll say you can't really trust the data right now because it is lagging. And I like to say, it comes, you know, 45 days late and then it's revised three times. And so, it's hard to make too many judgments. Which is why – and you know this, and many of you know this, because I like to call on everybody I meet here as best I can, you know, you're always

[1] LiDAR — Light Detection and Ranging — uses laser light to measure distance.

trying to get into the economy and figure out what happened. So, I spent the last two days in West Virginia. We did six different small business roundtables with various sectors trying to figure out are people coming into your ice cream shop? Are people pulling back? I'm in North Carolina and South Carolina doing the same thing next week. I'm in the Eastern Shore tomorrow.

And I think if you can talk to people who are selling things in the economy and ask them the question about what's happening, you get a lot of signals. Now, there are places today where you're hearing those signals. Airlines would be a good example, for those of you who followed the recent earnings announcements. They were on a big climb – I know that's a very bad pun – and they've really flattened off. I'm not going to finish the analogy. [Laughter.] And I think it's – you know, people are pulling back on air travel. But you don't hear that on what I'll call everyday spend just yet. And so, you know, to me that'll be a signal. When you start talking to businesses who say, boy, I mean, traffic just dried up, you haven't heard that yet. But we'll see.

MS. HUMPTON: OK. Yeah. I think we all need to be paying attention to those leading indicators in our own businesses. And then, of course, getting that information back to the folks at the Fed who are – who are going to have to make really important decisions on all our behalf. I do want to pause for a minute. It's going to feel a little bit like, you know, back to college, because a lot of people, as I talk to them tend to conflate fiscal policy with monetary policy, right? And so, I do want to spend just a moment setting the stage of the dual mandate of the Fed, so that people get reminded of what is this job that Tom Barkin is taking on for all of us?

MR. BARKIN: Does that mean I'm not going to get any questions about fiscal policy? Because that would be awesome. [Laughter.]

MS. HUMPTON: I'm your blocker. I'm the – I'm the front line for you.

MR. BARKIN: Exactly. So maybe I should start at the beginning. The Fed was established in 1913. Our mandate is stable prices and maximum employment. There's a lot of stuff that happens in the world that affects the economy. You could talk about oil, you know, supply shocks. You could talk about a war between Russia and Ukraine. You could talk about fiscal policy. And all those things affect the environment. And then the Fed has to make policy against those. We don't – we're not chartered to make fiscal policy or any other policy of that sort. But we are chartered to try to navigate the economy, given what's happening.

And, you know, for those of you who sail, I kind of equate it – you know, the wind could change, but you've got to, you know, change your – tighten your sail if the wind changes direction. And that's how you have to think about it. So, there's a lot of uncertainties I talked about at the beginning, in and around the fiscal space. As they get clearer both in direction and destination, then you have to adjust policy appropriately, with the pursuit of stable prices of maximum employment.

MS. HUMPTON: So stable prices. And everybody knows that what we've been striving for is about 2 percent inflation. Everybody asks, why 2 percent? Why 2 percent?

MR. BARKIN: So, interestingly, there was a huge debate in the ’90s about this. For those of you who are interested, the debate was not between two and three. It was between zero and two. And those people who wanted zero said stable means stable. So why is that anything other than zero? And the people who argued for two – and, by the way, the president of the Richmond Fed at the time was a guy named Al Broaddus. And he was right in the middle of this debate.

The people who wanted two said, well, there are two issues with zero. One of them is there’s mismeasurement. And so, what you think is two is actually a lot closer to zero than you think. And the example I’d give you is dictionaries or encyclopedias may be even better. You know, encyclopedias were in the index thirty years ago, but nobody buys an encyclopedia today because it’s on your phone for free. And so that’s deflation that doesn’t get measured. And so, this sort of technologically enabled deflation of film and cameras and all these other things that are on your phone aren’t counted in the stats. So, two is probably better than zero.

The other reason you don’t go for zero is you might miss it. And if you miss zero on the high end, that’s not good. But if you miss it on the low end, you have what’s called deflation. And while prices tomorrow sound pretty good, it’s actually unbelievably damaging for an economy. If consumers believe that by waiting everything will be cheaper tomorrow, then they won’t buy today. And so that’s what happened to Japan for about 20 or 30 years. And so, two just gives you a little room against zero.

By the way, every country in the developed world has some version of two. Some have a range. Some have up to two. But it’s basically two. By the way, it’s worked well. The 40 years before COVID we had basically 2 percent inflation. And so, I think it’s a good target. It works very well. It’s the common standard. And all of the talk that we had a year or two ago about how about three, what about four, was just people trying to declare victory when they were on the 20-yard line.

MS. HUMPTON: So, sticking with the discipline. Then I’ve heard you describe it as we lean against the economy, right? So, we see things that are either inflationary or otherwise. We see things that might affect labor, actually unemployment, or et cetera. And then the question is, what needs to be done at the Fed, with funds, obviously? Where does the rate need to go? And we find ourselves in this fascinating position, because we’re hearing two things, right? Certain actions that are being taken in fiscal policy may be inflationary. Ooh, but on the other hand we may actually be facing dire – a dire situation. We may be facing unemployment. So, we – let’s put that into perspective for the audience.

MR. BARKIN: So, are you saying that my job would be a lot more fun if inflation were at 2 percent and unemployment was a four, and nothing was changing? Yes, that would be a lot better. There are also a lot of environments where making policy is very simple. If inflation’s high and unemployment is low, like it was in 2022, you should probably raise rates. And if inflation is low and unemployment is high, like it was in in 2020, then you probably lower rates. I mean, those are the easy boxes.

You know what you’re describing – and it may happen, we’ll see – is, you know, the question of whether the various policy choices that we’ve got in front of us end up driving on the margin somewhat higher inflation and end up driving on the margin somewhat higher unemployment. If they do, then you've got a very, you know, delicate problem as a central bank, because you have a dual mandate. We've described in our framework how we handle that, which is with judgment, and with some insight into how far away you are from each target, and the relative timeframes where you think you're getting at a target. But that's – you know, I wouldn't say that's why we get paid the big bucks, because we don't. But that's why we have the jobs we have.

MS. HUMPTON: Yeah. And are you feeling confident about the tools you've got, the insights you have, the data flows that are needed to help support this decision making?

MR. BARKIN: Sure, but, I mean, we are living in a world with very dense fog. And so, you know, it would be awesome if it were clearer, you know, how – what tariff rate we'd have on what country for what duration on what products, and what retaliation you'd have by those consumers, and how – I mean, sorry – by those countries, and then how businesses were going to react in terms of raising prices or not, and how consumers were going to react in terms of taking those prices or not. We don't have all that. So, if anyone has the answer to all that, I'm all ears.

MS. HUMPTON: Yeah, and – [laughs] – well, and hence the listening that is so important here. And this is where I want to take you next, to us in the Washington metropolitan region. We are in your district. The district, the fifth district, where the Federal Reserve Bank of Richmond, you know, holds its headquarters and surveys, you have the Carolinas, you have Virginia, D.C., Maryland, and a big part of West Virginia. And you've been out and about. It strikes me that we've got recently the efforts in the federal government to reduce costs. And so, we are seeing people actually being separated from the federal government. What are you hearing from constituents about the impact so far in the economy?

MR. BARKIN: Well, so, nationally the federal government workforce is 2 percent of the workforce. But in D.C., it's roughly a quarter. And so, wherever you go in D.C., and you guys all know this because you're here, you know, you hear a lot of dismay. Everyone – people who either, you know, fear losing their own jobs, or has a spouse, or someone in their family losing their jobs. And for sure a neighbor at risk of losing their jobs. And so, there's a lot of that going on.

I'd say there's a couple knock-on effects that may not be as obvious as that. One is – we do track retail spending, I mentioned earlier. Retail spending in D.C. is way down. And you can imagine, you know, why that would be. If people are worried about losing their jobs, maybe you don't quite go out or feel like going out. A lot of folks in D.C. thought that the commercial real estate market would rebound significantly with a return-to-office mandate, but there's now concern on the other side about leases being canceled and what's going to happen to the federal government footprint. So that revival that a lot of folks were hoping for, they now have questions about.

There are then knock-on effects with additional sectors. Federal government spending is roughly 10 percent personnel expenses, roughly 90 percent checks that are written to state and local governments, and universities, and hospitals, and individuals, and nonprofits. And people down the – and contractors, of course. And people down that chain are starting to feel that too. And a lot of uncertainty as to whether the federal government workforce changes are going to affect the spending. But a lot of fear in the nonprofit community. A lot of fear in the university community.

You know, in the contractor community it's a little different based on where you sit. Some agencies have been hit a lot harder than others. Some functions feel a lot more disposable than others. And so, you know, the contractors are a little more balanced, especially the large ones. The smaller ones, I think lots of concern. And if you're exposed to USAID or HHS, obviously, you know, much bigger. And so, you know, from a local geography, you know, situation, you've got the fear of a restructuring that looks and feels like a lot of regions went through – Texas in the '80s, the Rust Belt in the '90s – where a whole sector, which is, of course, the sector of this city, is, you know, having significantly lower revenues, if I could call it that, and a lot less employment. And that's a real challenge.

MS. HUMPTON: Yeah. I think we'll see this throughout. I do want to say that I've been delighted to hear about all the economic activity, though, happening, particularly the Carolinas. Up until now, there's been a tremendous focus on new manufacturing going in. And of course, we had announcements last night about a goal of providing additional economic activity to West Virginia. So, I think that you'll be on the front row of seeing the impacts of those things.

There's a second effect, though, that's going on right now, and that's the effect of this technology that's changing before our eyes. And you've put a lot of time and effort into understanding what's going on with AI. We've heard from economists who've spoken to us as a board, but you've also been polling us about, you know, who's using AI. I'd love to hear, as you put all of that data together, how you're viewing it.

MR. BARKIN: Well, so AI – and I'll even think about it broadly, robotics and other technological innovations – are big. Everyone's talking about it. And for sure, they're being deployed and used in ways that will create jobs, eliminate jobs, and enhance jobs. All that's very clear. There's a famous moment in the late '80s where an economist named Robert Solow said, you know, I can see the productivity impact of all this computer technology everywhere but in the statistics. And the point he was making is it was all getting deployed, but we weren't getting more productive. And so, the way we think about it is not will it get deployed, but in the end will we get more output per worker? And that has lots of implications for things like wages, and efficiency, and unemployment, and all the rest of that.

And, you know, if I just reflect on the last 30 or 40 years, I would just say that it seems to me that when you finally get the productivity impact of this new technology is when a bunch of businesses almost in unison say: I got to do something, and now I've got a technology that can help me. And I would say that was true of computers during the re-engineering period of the early '90s. I would say that was true of e-commerce in the post-9/11 world. I would say that was true of offshoring in the aftermath of Lehman Brothers. And so, if we do have a difficult economic time, particularly if you've got a bunch of companies facing margin challenges because of some of these changes, well, then I could see those companies find this one set of tools and deploy them wildly.

Productivity has been up significantly over the last two years. I don't think that's because of AI. You can't really find it in the productivity sets yet. I do think it's because, if you didn't have any workers in 2022 you rolled out automation, and you started – or you changed your staffing processes, or you, you know, changed your protocols. Because when productivity is imperative, people will invest in productivity. And I think you've got a set of tools out there which are front and center in every environment. And if productivity becomes the word of the day, which it may well, then I think you'll see them deployed at some scale.

MS. HUMPTON: Yeah. I'm thinking so too, although what I want to call everybody's attention to is some work done by an economist at the Fed who looked at productivity comparing the U.S. and Europe, post-COVID. Now she drew an interesting conclusion. She said, look at the way Europe and the U.S. thought about aid during COVID. In Europe, what Europe did was provide funding to companies to keep people employed. What the U.S. did was provide funding to individuals in order to make sure that, you know, their own balance sheet stayed whole. And her observation was in the U.S. more people started jobs, started businesses. And that what we got post-COVID was this almost 2X the productivity game that we saw in Europe.

So, I'm excited about the fundamentals in the United States, and what's the art of the possible. We've been talking in board meetings a lot about the things like the underlying infrastructure that is being built out now, whether it's infrastructure for datacenters. We've got a member of the board who is a utility. And we got a member of the board who provides equipment into the utility. It gets a little dicey when Tom starts asking about our pricing strategies, and in front of a customer.

MR. BARKIN: Yes, it's actually an intentional inflation-reducing strategy. [Laughter.]

MS. HUMPTON: Thanks so much, Tom. So, anyway, we – in essence, you get the economy in a room. And we start sharing observations. And the bottom line is, I've got this theory that says the economy can only grow as fast as the grid anyway. And so, you know, the fact that we have some people right now pausing and making some slow decisions, I think the tie is going to go to the runner. It's going to be the people who sprint forward now and say, you know, I'm building that manufacturing site. I'm building that datacenter. And I'm bullish on good old American ingenuity to work our way through this.

Now, I know that the room is going to have a ton of questions for Tom, you know, broadly about the economy. But before we go there what I want to do is probe a little into Tom Barkin. Tom Barkin, the leader. And then we're going to talk a little bit about what we can learn from Tom's leadership at the Federal Reserve Bank of Richmond, and some lessons we can draw for our own businesses. But, first of all, I've heard you describe yourself not as an economist, but as a practitioner. So, an absolutely skilled consultant with McKinsey, rising all the way to CFO of the firm, and as I understand it actually consulting a bit with the Federal Reserve system. What made you make the decision to join – other than Linda Rabbitt inviting you – to become the president of the Federal Reserve Bank of Richmond?

MR. BARKIN: To be clear, I never consulted to the Federal Reserve System. So that would be –

MS. HUMPTON: OK. I misunderstood that. Thank you. Want to clarify that.

MR. BARKIN: Well, so I was on the board. I had the same role you did. I was on the board of the Atlanta Fed. And this was from ’09 to –

MS. HUMPTON: You never raised or lowered rates, is my understanding.

MR. BARKIN: I was there for six years, from 2009 to ’14. Linda was in Richmond at the same time. And over this six-year period, literally, the Fed never raised or lowered rates. So, it was an incredibly high-impact period of time for me. [Laughter.] But what I – and I had been an economics major undergrad, and really loved it, but had gone into consulting and had a business career. But I will say we were right in the middle of what happened after 2008. And it was really very interesting – stress tests, you know, quantitative easing, how this stuff was going to play out, or not.

And it did sort of reawaken, I’ll call it, the economics gene in me. So, I was very interested in that. I saw a bunch of really talented people working very hard on behalf of the country. And I was impressed, you know, with the talent. And never for a second did I think I was going to go work at the Fed. [Laughs.] So, I was very, very impressed. Had a great time, great experience, good chance to give back and learn. And then I stepped down. And three years later I was in the retirement window at McKinsey, because I think I’m still a very young person but apparently, I’m not. And I didn’t really want to not work. I wasn’t sure what I was going to do. If you had asked me what I was going to do I would have said something that gave back, but I didn’t know what that was.

And I got a call from a headhunter. And they were doing a search in Richmond. And I said, sure. And I called the head of the Atlanta Fed at the time and said, do you think I should put my name in? And he goes, well, I hope so, because I gave them your name. [Laughter.] So anyway, so I went in the interview process. I was lucky enough to get picked. And, you know, different people have different views on what you want to do in retirement. When I was a consultant I spent a lot of time talking to people about their retirement. I know you don’t think I’m retired, and I don’t think I am either, but I was – I mean, it’s great if you want to play golf. My body’s probably not in good enough shape to do that every day.

What I really had never done was to give back in the way that I’m giving back. And it was the chance to do it at a place that’s intellectually vibrant, where you’re doing something that matters for the country, with a set of talented colleagues. It felt like a no-brainer to me.

MS. HUMPTON: No-brainer. And, boy, are we fortunate to have you. And this is where I want to go next, this talent. Because anyone who interacts with the bank will quickly discover the leadership team that Tom has built. And I know that these are, many of them, Federal Reserve professionals, who’ve been there – have dedicated their entire career. But Becky Bareford, for instance, is the first vice president and actually leads the Council of First Vice Presidents for the for the whole system. You’ve got Ghada, who is your CIO, who leads the national system as well. I’m curious about your view of, sort of, the individual banks, and I think the audience would really appreciate hearing a bit about, you know, kind of that dynamic between individual banks across the country, and then how do you make decisions to lift things up to a national level?

MR. BARKIN: OK, so some of you may think of the Federal Reserve as a highly efficient, organized, and productive institution. And I welcome you to continue that point of view, but you may not be inspired by what I'm going to say.

So we were set up in – a in a very unique way that I think has served us and served the country well for 110 years. Which is, we have a central Board of Governors in D.C. Those are seven people nominated by the president, confirmed by the Senate. Jay Powell, who of course has been here several times, is the chair. And then there are 12 individual bank presidents, like me, one in each of 12 districts. Those districts were designed in 1913, so they represent the country as it existed then, you know, not today. San Francisco has 13 states, for example. That's what the West was in 1913.

And we serve on the Federal Open Market Committee. We vote on interest rates in a rotating manner. But we're not named by the president. We're not confirmed by the Senate. And the theory of that public-private partnership, local-national partnership, was that monetary policy is too important to be just done by a few people in a room in D.C. And so, what I see my job as, as I sort of alluded to earlier, is making sure I deeply understand on the ground what's actually happening.

Not in a representative sense. I don't think I'm, you know, voting for Charlotte. You know, and if Charlotte wants something that we should do. I don't think – it's not – but it is true that you don't understand the economy if you don't understand what's happening close. And I'm a lot closer to the market than anybody is in D.C. I'm also allowed – not allowed – I'm able, because of where I sit, to be in a lot more forums than you are in D.C. And so, bringing that perspective forward, that's what you do. And being independent, very important.

Now, the structure of it is 12 individual banks and the Board of Governors. So, think of 13 entities. And so, we have to try to operate together as efficiently as we can, given independence. And so, there's always a challenge in terms of aligning the 12 banks in a common direction, as there would be in any decentralized organization where you're trying to, you know, have a bunch of units. Made more difficult because we're all independent and individual and have our own board of directors and whatever. And so, there's a lot of herding cats, I would say, to get us aligned. That was the non-inspiring, non-productive part. But it's true.

MS. HUMPTON: But actually, this is an inspiration, because how many of us work in large organizations? We work in large organizations where there's a constant question of who gets to make the call. By the way, who holds the budget? Should we pool our resources in order to accomplish something big, rather than each one of us spending a little bit and doing something small? So that feels like the kind of decision making that's going on right now. Just take us through a couple of examples. We've got IT systems where, you know, up until now, every single bank had its own IT, yeah.

MR. BARKIN: Well, I mean, I will say, McKinsey was much the same way. I ran the southern offices for 10 years. And if you wanted to get anything done nationally you had to talk to the West Coast office, the New York office. And people had different views. I mean, my view on this – and I don't know if this is relevant to other companies or not – but most people aren't really all that difficult. They just want to be listened to. And most of us, as we try to get stuff done in decentralized organizations, are trying to get this done, as opposed to trying to understand where everyone's coming from and then finding a path forward that works for the great majority, or everybody.

And so, I think there's never a substitute for being on the phone and just, you know, making sure you understand. You know, no transaction's worth a relationship. So, this isn't all about driving it through. This is about understanding and building enough equity capital that you can get stuff done. And even when I was a CFO at McKinsey, I didn't have the control that I – that your CFO has. But you could get a lot done by showing up and telling people, I actually want to try to help you. How can I help you get done what you want to get done? And then together you work out how that also gets done what you want to get done. And so there – you know, we – the Richmond Fed leads technology for the Federal Reserve System. But it's not – you know, app dev is decentralized. Which is not how you do it in your companies.

So how do you get that done? Well, you spend a lot of time talking to people and getting people aligned. Nobody wants bad systems. And so, you are all aligned on – you want good delivery of technology in a timely, on-budget fashion. Let's just talk about how we're going to get that done. And I do think there's just a lot of back and forth. That's probably not the most efficient, but it does work for us.

MS. HUMPTON: Well, there is a focus on efficiency right now. And here you are, in a really interesting position, because the Board of Governors obviously has its reporting into the government. And then these – we've got these independent banks. You and Becky have chosen to actually stay aligned with the general direction the government has taken. Take us inside the thought process.

MR. BARKIN: Well, I think historically the Federal Reserve, which is an independent agency, has always tried to align with the spirit of executive orders as they're laid out. There was a compensation freeze in the 2011-2012 timeframe. We did that. There was a hiring freeze in 2016-2017, and we did that. And, you know, we're certainly in the process of aligning with the spirit of the executive orders, as best we can while still delivering on the mission. And so, I didn't feel like that's a complicated thing to do in the world that we're in.

MS. HUMPTON: Yeah, yeah, yeah. Mission first. Mission first. And then – and then alignment. And I love this description of what it takes to get things done in a large, complex organization. I've begun hearing this one phrase, and I hear it all over the place, that partnership is the new leadership. Have you heard that? Something we can all be thinking about right now, because it is going to take a lot of collaboration to work our way through a rapidly changing economic environment. And so, I think we at the club are actually in a position to help forge some of those relationships, some of those partnerships. I know this is one of the things I love most about this club.

Listen, finally, before we do open it up to questions – I hope all of you are getting ready. I hope you're getting ready. Typically, what I'll do is I'll turn to a journalist in the audience and say, what haven't I asked? But I know you guys are going to be forthcoming. I want to turn finally to our actions, things that we in the club can do to support you and your mission at the Federal Reserve. Is everybody aware of the survey that is done by the bank? Maybe if you could take a minute or two and tell us about the survey. And what I'd like to do is make sure that you have the best uptake in new survey participants. I know you track this, so.

MR. BARKIN: Yeah, and I'm feeling bad I didn't bring the exact link or the website.

MS. HUMPTON: We'll get it out.

MR. BARKIN: So, I greatly appreciate, as I said at the beginning, everything that everybody does here for us, because we are desperately trying to understand what's actually happening on the ground. It's one of those if you see something, say something. What we'll do after this, assuming we can get the email addresses and you guys don't put us in the spam filter, is we'll send you a couple pieces of information to link both, and how to contact us. And we do do a monthly survey of businesses – of manufacturing businesses and service businesses. We also do a CFO survey.

And the idea of all those surveys is to give us some analytic support for what we think we're hearing on the ground. And so, it's one thing – I mean, you'll find that economists, if you come and say, you know, I had dinner with my buddy Billy, and Billy told me X, nobody's going to put too much weight on that. And so, you know, I've tried to put weight on it by doing hundreds of these things. And we try to use the surveys to put analytic weight behind what we're thinking.

An example: We started asking about two years ago, are you raising prices at higher, lower, or the same rate as you did before the pandemic? And so, during the period of time where a lot of people were declaring victory over inflation, the second half of 2023, we were saying – I was saying, I'm just not sure we're there yet. And part of why I was saying that is that I was hearing that on the ground, and we were seeing it in the data, that you still had two thirds of people saying I'm still raising prices more than I did before the pandemic. That, by the way, came back down in the middle of 2024.

And so, we're using the data, together with what we're seeing, to try to make the case to the FOMC that we should do the right thing by the economy. So, it's very helpful if you all do it. And like I said, we'll do a follow up where everybody gets the opportunity –

MS. HUMPTON: Yeah. And we can get this into the Economic Club newsletter and make sure that people have a chance to participate, if they're not. Your insights are incredibly valuable to the economists who are supporting this great mission.

MR. BARKIN: And if you're having trouble sleeping, I'll also link you to the speeches that I give.

MS. HUMPTON: [Laughs.] Actually, Tom, your last speech, the dense fog speech, was actually given in my hometown of Lexington, Virginia, at Washington and Lee University. And it's funny how we have this small world thing. Tom came up to me and said, hey, I understand you know, Martha Lee King. Well, it turns out, yeah, you went to high school with the person who became my first roommate when I came to the Washington area. This room is full of these small-world kind of connections.

I do want to end my questions with one I like to ask all of our guests. I'd like to ask for your leadership advice for us as leaders in the Washington economy. Are there things that you would advise us to do and take into account as we move forward?

MR. BARKIN: Well, so I'll say this. We grew up in business in, I think, a pretty privileged era. If you go from the time the wall fell to, you know, maybe five years ago, what you see is, you know, with one or two small blips, the economy grew and kept growing. The workforce grew and kept growing. Unemployment was low, inflation was low, the assumptions were stable. I mean, yeah, we had – we were in the Balkans a little bit, we were in Iraq for a while, but, you know, there were no big global wars. The world was flat. And that was all very clear.

And I would just say with hindsight, it looked pretty damn certain in that period of time. That you were making strategy and policy for your companies, your institution, in a pretty stable environment. And I've been asking myself the question of whether the next 30 or 40 years are going to feel like that or are going to feel like a different level of stability, more instability. And I think, you know, if you go back before the 40 years, and then another 40, and, you know, you're not going to find that many periods that were as stable as the period we've just – the 35-year period we've just been through.

And I think what that means then, if you run a company, is a lot of the ways that you used to do things aren't the same. I mean, you know, I think about if I were a company trying to figure out where to put my supply chain now, how would I think about that exactly? In worlds of, you know, who knows what the tariff rate is going to be on country A, B, or C, what the labor availability is going to be in country A, B, or C, whether countries are going to be friends and allies or competitors. That's a very difficult thing to do. It didn't seem that difficult in 2006 if you decided to move a bunch of manufacturing to China. It feels a lot more difficult today.

And so, I just think it's going to be – so then there's something about resilience, there's something about optionality. There's something about how you run your business that gives you more ability to navigate instability. I think that's something I'm spending a lot of time thinking about.

MS. HUMPTON: Navigating instability. I've learned a concept, anti-fragile. How do we get stronger through disruption? I, myself, am looking forward to continuing to work with you, Tom, on the board of the Federal Reserve Bank of Richmond. But more importantly, I look forward to working with all of you on the days ahead as we build this economy.

Now what I'd like to do – we've got runners with mics. What I'd love to do is turn to our audience for questions. And as you get your microphone, please introduce yourself. Let us know what organization you're from. And I'll be the judge of whether your question is appropriate for Mr. Barkin. [Laughter.]

MR. BARKIN: Perfect.

Q: Hey, Tom. Rob, with the American Bankers Association.

Thanks for your leadership at the Richmond Fed. And thank you for being here today as well. At our table, it's comprised of industry leaders representing your entire district – West Virginia, North and South Carolina, Maryland, and Virginia. And you'd imagine we're talking about our economic prospects going forward. Acknowledging – one thing we haven't talked much about yet is tariffs. Acknowledging we don't know how durable or long-lasting they will be, so grant you that, have you guys at the Fed begun to model what potential economic impacts the tariffs could have on your region?

MS. HUMPTON: Great question. You're free to answer.

MR. BARKIN: Sure. OK, good. [Laughter.] Tariffs. I didn't even know if it was on anybody's mind. [Laughter.] So actually, there's a pretty good thing on the Richmond Fed website from yesterday or day before that, first of all, tries to size tariffs. The way I keep saying is, you know what the direction is, you just don't know what the destination is. And so, let's start with just the direction.

Obviously, we've got tariffs on a lot of countries. If you think back to 2018 and '19, there were a bunch of tariffs on certain countries then too. That increased the net tariff rate by about 1.7 percent, so sort of, like, 1.3 to 3 (percent). Today we're at 22 (percent). And so, you know, it's increased at 15 times the rate of the last one. We know what the impact of the last one was. There have been a lot of good studies that would suggest, you know, maybe 0.3 percent, 30 basis points, on inflation. Just the modestest of negatives on GDP growth, largely through investment spending being down. That was 2018 or 2019. But, you know, I think it's anybody's guess what it is today.

So, there's a lot of modeling going on. And a lot of it's been published. And I don't, frankly, know how to believe any of it yet. And I'd just – I'd put it like this. So, you're a company. You're being hit by a tariff from whatever. So, the first thing you do is ask yourself, what can I do to mitigate it? You know, I make ladders. They're aluminum. They're tariffed. Maybe I could put fiberglass in the ladder, so it's not tariffed. Or I've got a manufacturing operation that's onshore. Maybe I can move it from offshore to onshore. Or I'm in a country that's being tariffed 45 percent, can I move my manufacturing place to a place that's 10 percent, in an already pre-existing facility?

So, there's a bit of how can I reduce the net landed cost to me, redesign the product? All of those are the first step. Then the second step is – and everyone I talk to says, if I'm hit by a tariff, I'm passing it on. OK. That was not the case in 2018. A lot of people had been beaten down by 30 years of 2 percent or less inflation, and they didn't have the confidence to pass it on. Everyone says they're going to pass it on today. That doesn't mean they're going to pass it on. That just means they're saying they're going to try to pass it on. And so, you know, that's the – so first thing is, you try to mitigate the impact. The second thing is, you go to your – you either go on the market or go to your retailer and you try to pass it on.

I'll say you've got an emboldened manufacturer but you've also got an exhausted consumer, because we've all been paying higher prices for the last two or three years. And what you saw in the last year is frustrated consumers finally saying I've had enough, and trading down, or cutting consumption, or moving to lower-cost retailers. And so, it's not at all clear that the retailer will accept it, or the consumer will accept it. And so, you've got an effort to try to raise prices here, and over here you've got resistance on the other side. I've been calling it a cage match between the emboldened manufacturer and the exhausted consumer.

And I think it'll be very different by product line. If you've got a product line where there are competitors who are largely domestically sourced, you can't increase your price at all. If you've got a product line where customers are just not going to buy, then you're going to not be able to do it at all. But there'll be other places where, you know, there's enough receptivity that it passes through.

I guess I should say one more thing, that I said it's not 2018, where manufacturers didn't have courage. It's also not 2022, when consumers had money, right? In 2022, you had, you know, higher wages because inflation had led to merit increases. You had excess savings from the pandemic. You had stimulus dollars that people had saved. You had the stock market booming. And so, people felt they had money. And it was just after COVID, and you needed to spend, and someone raised your prices, and you just accepted it.

That's not what we're walking into either. And so, you know, you've got people trying to raise prices, people not all that receptive. I think where you're going to end up is this mix, very different by product, where you've got some amount of higher prices that are accepted, you've got a large amount of higher prices that are not accepted as, you know, volume goes down, and then you've got some other people not able to raise prices and taking it out on a margin. We talk a lot about inflation when we talk about tariffs, and we should, but we also need to talk about employment when we talk about tariffs.

Because if you're a company with less volume or lower margins, you're going to be investing in productivity the way that we've talked about. Some of it offshore, to be clear. It's not that it all has to hit unemployment here. But some of it onshore as well. And I think this cage match, that's what we're going through. A lot depends on where the destination is for these tariffs. And so, it's really hard to – I mean, I wouldn't even trust a model at this point because, I mean, I think the China tariffs went up last night. And it was 104 last night, but it was 54 on Monday. It's just – I don't know how you – I guess we do have guys who can run models that fast, but I'm not sure I'd give you –

MS. HUMPTON: Pull over. Turn on the hazards.

MR. BARKIN: Yeah, a little bit.

MS. HUMPTON: Yeah. Just to show you that I do my homework, the Fed actually puts out a newsletter – and I think it's open – it's available to all of us. And I was reading a couple of Fridays ago. And it was a – it was a March analysis of various tariff scenarios. And it was one through four, with four being sort of the extreme case. And what has been announced a week ago is actually far beyond what that extreme case showed. So, it's – yeah, not – we don't know yet. We don't know where yet where this is going.

Where is my next question? I see pointing – yes, we have one. Yeah.

Q: Yeah. My name is Prashant Kothari. I'm a private investor.

So, you know, historically monetary policies always work with a lag. There's a duration mismatch between the actions the Fed can take in what's happening in the economy out here. Now, because of the tariffs and because of the dense fog and everything else, at least it seems to a layperson like me that the duration mismatch is greater than ever. And I'm assuming, obviously, that part of it is modeling. But is there anything else the Fed is thinking about doing to try and – because, to me, it's almost seems, like, 9:00 a.m. you think things are going a particular way, and by noon it's going a different way. Is there anything that the Fed is thinking of to try and mitigate this duration mismatch?

MS. HUMPTON: Well, let me build on this question. Because it's occurred to me that people use AI to, like, predict the weather. And have you noticed, we can now predict the weather to within 10 minutes of when the rain is going to start. How come we don't have that for the economy yet?

MR. BARKIN: Yeah. Well, the weather is really easy. [Laughter.] Actually, there is a joke out there that economic forecasting was invented to make weather forecasting look good. [Laughter.] So, I mean, we do have economic models. The code to one of them is actually published on the Fed's website. It's called FRB/US. And it's an incredibly sophisticated model that takes everything that's happening in the economy and builds you into a forecast. And so we do have those models. That is AI. And we're constantly working to make that model ever better. I will say that there's a lot of butterfly effect in the U.S. economy. And if you're going to try to run a model on the question of whether consumers might read headlines one day and all of a sudden start pulling back, I'm not quite sure how to – how to model that.

MS. HUMPTON: And there's these animal spirits. How do you model those?

MR. BARKIN: Exactly. But, I mean, we do aspire to, and should, try to get ever better – ever better on our modeling. You know, to the question of the lags, it's a totally fair point. You know – I guess, how would I put it? You know, we can't control, nor try to control, short-term movements in the economy. I mean stable prices is stable prices over the medium term, not over today or tomorrow. If egg prices go up, which they have, you don't want us jerking interest rates around because of bird flu, right? That's not the right tool for that measure.

And so, you're trying to look at medium-term movements in things like inflation, unemployment. And then you have a medium-term tool that tries to move things back to normal in the medium term. It's just not – our charter isn't and our tools aren't short-term tools to try to make the economy an equilibrium on the short term, if that makes any sense. And I know that's dissatisfying if you paid $4.50 a dozen for eggs. But that's actually – it's not controllable through interest rates, nor do you want it to be controlled through interest rates.

MS. HUMPTON: But we hope that we have plenty of supply going forward, so there will be some price competition and get us back.

MR. BARKIN: Well, sometimes supply is the issue. And, you know, I'll say demand in excess of supply is something that interest rates are nicely calibrated to do something about. Similarly, demand that's weak and wants to be stimulated, that's what interest rates are for. Supply that's too little or too much, interest rates don't do much with supply.

MS. HUMPTON: There we go. There we go. Do we have a next question? Yes, we do.

Q: Hi. Matt Kelly, JBG Smith.

Thank you both for being here with us today. Love hearing you speak, Tom. You're an economist who talks like a normal person, so the rest of us can understand what you're saying. My question relates to some comments that Chair Powell made during the height of rate hikes. And I think it was when he was testifying before Congress. He was asked about this dual mandate. And I recall him saying that the commitment to price stability was absolute, to mean that it would be pursued whether or not it precipitated an increase in the unemployment rate. That was how I interpreted that.

The talk about coming rate cuts, and the dot plot, and all of that, seems to be kind of out the window without knowing where tariffs might drive inflation. Is it accurate to think that the Fed will remain absolute in its commitment to price stability? Or is the employment rate going to creep in and potentially limit the adherence to that – one of the two mandates, in particular, if we're in a stagflationary environment. How do we reconcile that, think about that as it might relate to our expectations of where rates might go?

MR. BARKIN: So, first is whatever Jay said, you should just listen to him. [Laughter.] And I'll stand with whatever he said. You know, this is all complicated. I do believe strongly that you can't have maximum employment without price stability. And so, the spirit of how, you know, I think through these goals is if you've got price stability, you can do more to help on the employment side. If you don't have price stability, you can do less on the employment side. And so, I think that's the way I think about that, that question, which is if you see inflation expectations start to move up, that gives you a lot fewer degrees of freedom than if you've got very anchored inflation expectations. So, I do start with price stability. But, you know, we're charted by Congress to think about both of them. So, you try to think about them jointly.

MS. HUMPTON: But let me ask you a question about interest rates, while we get a microphone to our next question here in the audience. I mean, we're seeing curves behaving differently than they have in the past. So, it used to be the federal funds rate and the 10-year would track together. We're seeing differences now. Do you have a perspective on that? And so, when we're talking about refinancing the national debt, for instance, I think people are really looking for ways that they can make positive, constructive change that will lower the cost of refinancing.

MR. BARKIN: Mm hmm. Well, thank you for asking about interest rates. I haven't looked at my phone in the last hour, so I don't actually know where they are. I hear they've been moving around. So, there are lots of historical relationships, but they're not uniform. And so, I saw a good article the other day that showed, you know, it's rare that the stock market goes down and the long bond – the long yield goes up at the same time. But it's not unprecedented. And there are times when it happens. And so, the markets move in ways the markets move. I really don't find that I can take much signal out of any day or two. I try to look at, you know, a month or two, and then try to take the signal.

So, in the fourth quarter, we had this situation where we lowered rates and – lowered short-term rates, but long-term rates went up. And so, there's a lot of questions about that. And I feel now with 20/20 hindsight you can say, well, it wasn't inflation expectations, because market measures of inflation expectations stayed quite stable. It could well have been supply and demand of treasuries. There's a lot more on the market and maybe somewhat less foreign demand. And so, you can look backwards and sort of say, OK, I can eliminate a couple hypotheses and focus on this one. I couldn't tell you much about today. I've read the same things you have. So, I don't know.

MS. HUMPTON: Fair enough. Fair enough. All right. And I realize that – all right, I'm looking to see if we have any other questions pending. Oh, yes, there's one more.

MR. BARKIN: There's one back there.

Q: My name is Jim Moran. I represented Northern Virginia in the Congress for 24 years.

MS. HUMPTON: Thank you for your service.

Q: Thank you, Barbara.

I'd like to segue a bit about on Barbara's last question, because what seems to be a nexus between monetary and fiscal policy is facing us. Congress is going to have to raise the debt ceiling shortly to over $37 trillion. It'll be the largest component of the federal budget, of course. But that compounded with what's happening with tariffs, it would seem to create a situation which may compromise the U.S. dollar as the world's reserve currency. There's talk about setting up a reserve fund. I was talking with Mark Warner last night. He's talking about the possibility of using bitcoin as a reserve. The Federal Reserve must be thinking about this, the stability of the U.S. dollar internationally, because it is under pressure from a lot of the countries that are being most adversely affected by the tariffs. And it seems to be compounded by a level of indebtedness that's unprecedented. Can you address that, Mr. President?

MR. BARKIN: There was a lot in that question, Congressman. So, I mean, a few things that I think are clear. I mean, the dollar is the reserve currency of the world. That's not an entitlement. We've earned it. And we've earned it through a combination of strong economy, high liquidity, rule of law, low inflation, trust by people around the world. And I think we kind of have to keep earning that every day. Like I said, it's not an entitlement. It gives us lots of advantages, including the ability to borrow in our own currency and relatively low longer-term interest rates, because people want to have dollars.

I will say that the world doesn't love the fact that we're the world's reserve currency. Mark Carney, now prime minister of – or, I guess, prime minister of Canada, then head of the European Central Bank, gave – or, the U.K. central bank – gave a speech at Jackson Hole about five or six years ago saying: We don't like the fact that you use this to put sanctions on European countries who now can't sell things to Iran. And we're going to find other ways to get around it. So, I think people don't like sanctions. People don't like the power that the reserve currency gives us. So, there's a lot of work being done by other countries to see if they can't change the game there.

Now, it's hard to find an alternative. I mean, the euro has fragmentation risk. The yen economy is not that strong. People don't really want to use the Chinese yuan. There's a lot of less liquid assets out there. And so, we've benefited from that. But we still have to earn it every day. And to your point, part of how you earn it is, you know, running a country in a way that has low inflation and, you know, strong debt service, and all the rest of it. And so, you know, federal debt as a percent of GDP – which was 106 percent after World War II and then worked down to 37 percent by the mid-2000s – and is now back up to 100 percent, budget deficits that keep growing, that puts that, you know, at risk. And there are other, you know, initiatives out there. So, again, I think all I can say is we've got to keep earning it every day, because it does give us real advantages.

MS. HUMPTON: Thank you. And there is real challenge in the fiscal policy of these United States.

If there's not one last question – I find it hard to believe nobody asked us about cryptocurrency. And with that, I'm going to thank Tom Barkin for an incredible conversation. It's been a delight. [Applause.]

MR. BARKIN: Thank you. Thank you, Barbara.

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Tom Barkin is the president and CEO of the Federal Reserve Bank of Richmond. He has held this position since 2018.

Tom serves on the Fed's chief monetary policy body, the Federal Open Market Committee, and is also responsible for bank supervision and the Federal Reserve's technology organization. He is "on the ground" continually in the Fed's Fifth District, which covers South Carolina, North Carolina, Virginia, D.C., West Virginia and Maryland. His engagement in the region has brought real attention to areas facing economic challenges.

Prior to joining the Richmond Fed, Tom was a senior partner and CFO at McKinsey & Company, a worldwide management consulting firm, where he also oversaw McKinsey's offices in the southern United States.

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