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Thomas Barkin
President and Chief Executive Officer
Federal Reserve Bank of Richmond

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Webinar

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Trustee, The Economic Club of New York
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Introduction

Chairman John C. Williams

Good afternoon and welcome to the 563rd meeting of The Economic Club of New York in our 113th year. I'm John Williams. I'm Chairman of the Club and I'm President and CEO of the Federal Reserve Bank of New York. For more than a century, the Club has served as the premier public form for thought leaders of the United States and the world to express diverse sets of views and opinions in a free and open environment. And by embracing and promoting free expression of diverse views and opinions, the Club effectively acts as a catalyst for innovation and thought and ideas impacting social, economic and political issues facing society.

So I'd like to take a moment to recognize those of our 312 members of the Centennial Society attending today as their contributions continue to be the financial backbone of support for the Club and help enable us to offer our wonderful, diverse programming now and in the future. We'd also like to welcome members of the ECNY 2020 Class of Fellows, a select group of rising next-gen business thought leaders as well as graduate students from the CUNY Graduate Center and Rutgers University.

Now, it's an honor for me to introduce our special guest today, my colleague Tom Barkin. Tom is the President and Chief Executive Officer of the Richmond Fed. In this

role, he is responsible for the Bank's monetary policy, bank supervision and regulation, and payment services as well as the oversight of the Federal Reserve's information technology organization. Tom served as a voting member in 2018 on the Federal Reserve's monetary policy body, the Federal Open Market Committee.

And prior to joining the Richmond Fed, he was a senior partner and chief financial officer at McKinsey & Company, as you know a worldwide management consulting firm. And Tom oversaw McKinsey's offices in the southern United States and provided strategic counsel to a diverse portfolio of clients. He also served on the board of directors for the Federal Reserve Bank of Atlanta in 2009 to 2014 and was that board's chairman from 2013 to 2014.

Tom is a member of the Emory University Board of Trustees and the Greater Washington Partnership. He earned his bachelor's, master's and law degrees all from Harvard University.

So the format today is going to be remarks by Tom and then followed by a conversation. And we're very fortunate to have one of our trustees of the Club and managing partner at co-founder of Recognize and that's Charles Phillips, who will be doing those honors. Now, as usual we're going to end promptly today at 2:45. And so any questions that were sent to the Club from members in advance were shared with Charles. So, as a

reminder, this conversation is on the record. We do have media on the line. So I think I'll turn it over to Charles for you to begin the session.

Conversation with Thomas Barkin

CHARLES PHILLIPS: Great! Well, this is going to be a fun session. As many of you may know, I'm on the board of the Federal Reserve of New York. I know John well, and certainly all the Federal Reserves rely on a lot of the work that Tom does running the central IT system for the entire system. We'll get into that in just a moment, but Tom, it's great to have you on, and thank you for doing this. I think a good place to start is people wonder how do you become head of a Federal Reserve. So, maybe tell us your journey to getting where you are first before we jump into the economy and some other topics, a little background.

THOMAS BARKIN: Okay, glad to. So I studied economics in college. I, like many others, followed the Fed kind of passionately as an observer and a part of the economy but I never, for 100 years, thought I would ever be part of the Federal Reserve. I was involved in the Atlanta community. I met Dennis Lockhart who was the President of the Atlanta Fed. And just like you, Charles, a couple of years later he invited me to join the board so I got to see it. I was pretty impressed, I have to say, with the way the Fed handled the crisis. You know, just as a person in business, the proactivity, the

responsibility, the initiative they took and what it did for the economy (I didn't assume I'd ever have to be in the middle of doing it again like we are now), but I thought that was incredibly impressive. And I served my time on the board, enjoyed it, and stepped off. And in my professional life, I'd hit the retirement age, so I was in the process of retiring and I got called by a headhunter. And so I went into a process, they always have a big nationwide search and I got asked a bunch of questions and eventually got offered the job. And I thought it would just be a great way to give back. I obviously have a different background than most of my colleagues, but hopefully on the margin it's a little bit helpful. And, you know, the Fed is a great institution with well-meaning people, really trying to do the best for the economy, and I'm really privileged to have been invited to join them.

CHARLES PHILLIPS: Great. I think...no, go ahead John...

CHAIRMAN JOHN C. WILLIAMS: Charles, I think I might have tripped up the beginning of this session. I think Tom had some opening remarks he wanted to give at the beginning before we turn to the conversation.

CHARLES PHILLIPS: Well, we don't want to miss those so let's pause now.

CHAIRMAN JOHN C. WILLIAMS: I apologize for that, Tom. I should have handed it to

you. It was my fault.

THOMAS BARKIN: I'm actually easy so I'm glad to do questions, I'm glad to do remarks. So whatever, Charles, you want to go with remarks?

CHARLES PHILLIPS: Yes, why don't you go with remarks and we'll come back to the questions.

Remarks by Thomas Barkin

THOMAS BARKIN: That's too bad because we started sort of informal and now, I'm going to give you some more formal remarks, but I'll go with it. And I think I'll just talk about the economy and where I think it's headed. I have to say, as John would tell you, these are my views, not those of anyone else in the system, including John. And then I'm up for lots of questions.

As I was just saying, I do have a different experience than most of my colleagues. You know three years ago I was the CFO of a $10 billion institution. And so as you think about what's going on in the economy, I'm always going back to that experience and trying to put myself in the shoes of a firm navigating what has been, and I think still is, extraordinary uncertainty, whether that's around the virus, around fiscal policy, or

around politics.

And earlier this spring, in the immediate wake of the shutdown, I think the answer as a CFO would have been easy. You'd want to be thoughtful in hiring. You'd want to be thoughtful on spending. You want to make sure you've got enough liquidity. But now, I think most CFOs are in the midst of developing a budget for next year. And I think the question is how aggressive or conservative are they going to be on hiring or on spending, or on capital investment? If I were a CEO today, would I be pushing to implement a price increase, let's say in January? Would I be effectively stocking my shelves for a strong holiday or would I be trimming inventories to be prudent? Would I be shifting my supply chain out of certain countries? And I think how firms answer all these questions has real implications, whether that be for GDP growth or employment or the pace of inflation.

You know, with my current hat on, I do try to pay attention to what firms are saying. In part, I'm always on the ground talking to the, but also by using surveys. And one thing, the Richmond and Atlanta Feds have partnered with Duke on the CFO survey, which is a quarterly survey that tracks business sentiment for over 25 years, surveying CFOs of firms across all sizes and industries on their health, on the health of the economy, on their expectations for hiring and spending, and investment and pricing, which I think is particularly important given the pace of change during this crisis. We did release the

results of the latest survey last week. And I thought, just for this group, it might be helpful to talk about what, at least I took out of it.

Now, first, CFO's expectations are brightening. While gradual, they are brightening. If you look at their optimism index, they're slightly more optimistic about the U.S. economy and their own economy's prospects. Three months ago, they estimated GDP growth over the next four quarters at under 1%. Now they're estimating at 2.2%. Their own revenue growth in 2021, a quarter ago they estimated 7%. Now, almost 9%. They're still worried about demand and revenue, but a little less so than in the last quarter.

In an open text question we asked about their most pressing concerns. The share that cited slagging demand and declining sales revenue was notably lower. Of course, I'm slightly more optimistic about revenue returning. It doesn't necessary mean revenue growth will be quick. Only about 20% of the firms anticipated being at pre-Covid levels of revenue any time before the middle of 2021. That matches what I hear when I talk to business leaders. In sectors that have largely reopened, the executives tell me they have found a way to operate safely. And with the personal savings rate still elevated, it's at 26% in the second quarter and still 14% in August compared to the pre-crisis level of around 8%, executives see significant consumer spending potential that could bolster demand. So the first thing, expectations are brightening gradually.

The second thing we heard, though, is that firms are still cautious on investing. More than half the firms reported a decreased willingness to spend compared to pre-Covid. Only about a third of CFOs had plans to invest in structures over the next six months. And while 60% were planning to invest in equipment, most were directing that investment to maintenance. Those who weren't investing primarily cited, of course, the uncertainty of the economy and a need to preserve cash. Now this sense of caution is natural given, the breadth of the potential path of the virus, for the government response, and consequently for the economy. I'd like to think this kind of uncertainty at this elevated level effectively acts like an increase in discount rates.

The third thing I took out of it is that CFOs believe employment is likely to lag spending. In July, they expected employment in 2021 to increase at 4%. That's dropped to 2% despite their increased optimism on revenue. Most businesses, even those less affected by the virus, are telling me they've taken the opportunity to streamline their operations. A number of sectors like food services are still operating at less than full capacity. And you've seen recently a number of sizable layoff announcements from airlines or theme parks and even a major insurer.

At the same time – and this is strange of course – hiring is a challenge. Despite the fact that unemployment is quite elevated, at almost 8%, there was a large increase in the share of survey responses citing availability and quality of labor as a pressing concern.

And I hear that in interviews, particularly in sectors like manufacturing, technology and healthcare. Many of the people who have lost their jobs don't yet have the skills to find employment in a different field. And at a time when many schools and childcare centers and elder care facilities are closed or struggling, we're seeing drops in labor force participation, particularly for prime-age women.

Finally, the CFOs in the survey see price pressure as increasingly tangible. Their expectations for 2021 wage increases have gone from 4% to 5.4%. Their expected price increases rose from 2.9% to 4.3%. Now, I don't take a lot of signal from the numbers themselves, but the directionality does support my view that supply chain challenges amidst all this uncertainty could put pressure on certain prices. We saw that with food over the summer and with lumber more recently. When you go to Big Box retailers, the shelves look a bit bare. And if demand were to re-surge, say as a result of a successful vaccine, while supply chains are still stretched, we could see pressure on near-term pricing.

Speaking of pricing, the FOMC recently announced changes to our 2012 Statement on Longer-Run Goals and Monetary Policy Strategy. We've said that in order to anchor inflation expectations at 2%, the Committee seeks to achieve inflation that averages 2% over time. As you know, it's modestly lagged that target for some time. In a speech announcing the changes, Chair Powell called this flexible average inflation targeting – a

catchy phrase. The flexibility comes from the lack of a specific formula. In addition, the Committee said it'll respond to shortfalls of employment from its maximum level. The previous version referenced deviations of employment. In other words, under the new framework a low level of unemployment alone wouldn't lead to preemptive increase in interest rates. Finally, the Committee made explicit that meeting our mandate requires a stable financial system.

The net of all this is a message that the Fed will aim to keep rates low until we see moderate overshoots of inflation or the development of financial stability risks. Our statement last month reinforced that message, supported by our projections in which the median respondent didn't have a rate increase through 2023. We also continue to engage in significant bond purchases that provide additional accommodation.

I remain hopeful we can put this virus and the related uncertainty behind us. If we can, there's untapped consumption that could give the economy a real lift. My hope then is that reduced uncertainty could get CFOs off the sidelines and propel the virtuous cycle of hiring and investment that moves the economy forward. And in the interim, the Fed continues to do what it can to provide support.

And so, Charles, I think we can go back to the questions now if the timing is right for that.

Conversation with Thomas Barkin

CHARLES PHILLIPS: That was very helpful. I was hoping to elicit a tenth of that. That's a good perspective and I certainly appreciate that overview. I'm glad we got to it. So, why don't we start off with just the breadth of services the Richmond Fed provides and ground people because the Feds are all slightly different and Richmond has some special roles. So maybe just talk about all the things that you offer and describe the organization first before we get into the discussion on the economy.

THOMAS BARKIN: Sure. First and foremost, we cover five states and the District of Columbia – West Virginia, Maryland, South and North Carolina, and Virginia and of course D.C. And we've got a great team of economists who are spending time working hard to understand the economy and to position us best to be a contributing voice at the table on monetary policy. We also supervise the banks in that region which, you know, the biggest would be Bank of America, Truist, Capital One, but there are about 170 banks that we oversee.

We have a cash processing operation in Baltimore and Charlotte and in Richmond that helps process the money that's in circulation every day. And, as John said, or as you said, we oversee the IT organization for the institution as well as a few other things, like we also do procurement for the Federal Reserve System. So if a New York market is

the major system wide role in the wholesale payment office, in Richmond, national IT would be the role we play, I think, on behalf of the system.

CHARLES PHILLIPS: Great. And I want to get to the statement you mentioned about the Fed's different approach to inflation. That was news and has been interpreted many different ways. Should we walk away saying that there could be an extended period of time of above 2% inflation to get back to some average? Is that the way we should be thinking about that?

THOMAS BARKIN: I think we'll know better, if and when we get there. I don't see it, though, so much as a formula. I see it more as a commitment, which is to say that 2% is not a ceiling in terms of inflation. The 2% is a target. And the difference between a ceiling and a target is if it's a ceiling, you think you're going to start making all kinds of moves as you approach it as opposed to, you know, you want to get somewhere around it. Our old language was symmetric around 2%. I think it was trying to get to the same point, but of course symmetry isn't exactly the concept. It doesn't have to go up down, up down, up down. And so average perhaps is a better way to describe the objective. But I don't think the objective is to last for a long time over 2%, just like the objective is not to last for a long time under 2%. The objective is to move expectations and keep expectations at 2%. And we think if it's average over time, that's the best way to do it.

CHARLES PHILLIPS: I think we're all kind of tracking whether there will be another stimulus bill, but based on what you see now in the economy, what would you do differently? I mean we did what we did last time, everybody was in a hurry to get the stimulus out and so it helped but maybe did not perfectly optimize. And so if you had a magic wand, how would you adjust it going forward?

THOMAS BARKIN: First of all, I'll just agree with you. I have a lot of empathy for the challenge that lawmakers had in March to get out a stimulus bill of that size and magnitude with money delivered as quickly as it was delivered and to try to do it perfectly. I think no one could do it perfectly in that scenario. If you did have time and you said I want to put more money into the economy where it would have the most impact, I'd focus very much on the workforce. You know unemployment is still very high, at almost 8%. If you add in those people who have dropped in participation, you could describe it as 11%. So that's how much has come out of the workforce.

As I said, there are mismatch issues and so I think there's real value to thinking about how we help the people who have been displaced into their next job or their next career. At a time when healthcare and manufacturing and technology are hiring, how do we get more people into those careers? I think there are people at the bottom, left without jobs, who would benefit from some support and there's probably a way to give that support in a way that doesn't dis-incent work as some people were concerned with the last

unemployment insurance increase. And, of course, healthcare and health supplies and everything clearly have a need as well as local services.

So all those things that I think focus on workers, their health, their ability to get back in the workforce, their ability to get to the next job, I think that's actually the biggest need of all. And if you made me a legislator for a day, which I'm not one, that's the place I'd encourage some focus.

CHARLES PHILLIPS: Yes, I guess whether we get a stimulus deal or not is pretty binary. It would lead to very different scenarios on the recovery so it would be good to hear you discuss kind of with and without a stimulus, how does the economy recover? When do we get back to kind of pre-pandemic levels under each scenario?

THOMAS BARKIN: Yes, and I guess at this point I don't really have a stimulus bill in my forecast. As you said, it could end up, there could be one, there might not be. If there is one, it could go in lots of different ways. It's just hard to imagine it now. And so I've sort of gone the other route. As I said, I think spending is going to come back a lot quicker than employment.

On the spending side, you already have a lot of stimulus at play. I think you do have a lot of businesses that are fully recovered and many more to come. As I said, there's a

lot of savings on the sidelines. And I think as the virus starts to lessen its effect on consumption, it's going to put more money into the economy. I think businesses are going to get through some of this uncertainty and start investing again. So I think spending will come back faster than employment.

I do have a much slower, and so sometime let's say by the end of 2021, but I do think employment is going to be slower. And again, that's because you've got a lot of companies that have chosen – even though they're doing fine – to streamline. That's because of these mismatches in the workforce. And you can't ignore the fact that this virus went at the bottom end of the barbell. We've been talking for years about losing middle income jobs, surrounded by growth at the very top and growth at the very bottom. Those very low-income jobs were disproportionately high-contact, personal service workers in places like restaurants and hospitality. And those are the jobs that have been surplus. And I think those people unfortunately may take longer to get back into the workforce and be as productive as they were.

CHARLES PHILLIPS: Yes, let's talk about that point a little bit more because it's so visible, hospitality, maybe travel, transportation, retail, that you just see tons of people who are used to seeing activity, it's hard to put that in context of what's the impact on the broader economy. Can you have a recovery if hospitality and retail, these very large industries, aren't participating? Or do those people move over time, I guess, to other

jobs? But can you start a recovery without those sectors?

THOMAS BARKIN: Well, there are real sectors in this economy that are showing great strength and there are sectors that traditionally have – and we've done some research at the Richmond Fed on this – that are multipliers. You know construction is a multiplier. And if construction is strong, that has downstream impacts on lots of other places. Manufacturing is strong. And in particular as people have pivoted toward goods – you can't spend on services the way you used to – now you're spending more on goods, I do think the manufacturers have done very well.

I haven't seen evidence that suggests that the leisure sectors, the hospitality sectors, the travel sectors are necessarily, you know, critical sectors in terms of multipliers. But they are critical sectors for a lot of workers. And again, disproportionately those workers are young. Those workers are women. Those workers are people of color. And often those are people who are later into the workforce rather than earlier in the workforce.

And so that's really what I worry about, which is if you used to work at the Gap and you lost your job, maybe you get a job at a restaurant. You probably weren't going to move to a small town and try to get a job at a manufacturing plant. You probably weren't going to be able to get a job in healthcare because of the training needed. You probably weren't educated, equipped to get a job in technology. So what are we going to do with

the people who are displaced from J.C. Penney or, you know, New York City restaurants? What are their next jobs? And that's really what I worry about there.

CHARLES PHILLIPS: I'd like your view on the impact of this downturn on the housing market because on the one hand you have people wanting to spend more on existing homes, maybe get larger homes and move out to the suburbs so that's creating some demand in some areas. On the other hand, they're leaving, I guess, urban areas, and maybe that'll depress prices in New York City or somewhere. So what's the net effect on the housing market?

THOMAS BARKIN: The housing market is very strong net. And I used to say if I ever had a friend who started to work from home for a while, within six months they'd have a home renovation project underway. And I think the whole country is in the middle of that. I mean we've all been working from home. That makes you understand better that you don't like your carpets or your paint or you need a new kitchen or a bathroom or your study area is not quite right or you want patio furniture or a pit or maybe even today I think they're flying off the shelves, those outdoor heaters.

But, you know, all of that stuff has led to a huge boom in housing renovation. It also makes you think, hey, this current house isn't up to what I need. And so you've got people, you know, moving to the suburbs and moving to other houses. You definitely

see when you talk to folks in resort destinations, and we have a number in my district, Pawleys Island, Hilton Head, Virginia Beach, or even the mountains of North Carolina, you hear stories of lots of people fleeing the bigger cities and at least buying second houses in those places. So all of that is happening to the housing market.

Obviously, rates are low too which has probably been relevant. And unlike ten years ago, the housing market is not overbuilt. If anything, it's been under-built for the last ten years. And so there are shortages which are keeping prices strong and meaning more and more people are going into house construction. So I think all of that is part of a big dynamic.

Now, there's a lot of speculation about big cities, smaller towns. And I have to say I'm a little more wait-and-see on that topic. There are lots of reasons people live in New York, for example. And, you know, if you decided, yeah, we're going to have a pandemic for years and you could never go to a restaurant, never go to a show and never go to a museum, etc. you might think differently about it. But I guess I just don't think that's the most likely path that we're headed. I do take some comfort about the increasing proximity of vaccines, reducing death rates, hospitalization rates. And so I think we're going to get to a place that's more normal sometime soon. And so I think the attractiveness of the big cities is still going to be there. You may, on the margin, have some people more attentive to where they live and that'll be good for the housing

industry.

CHARLES PHILLIPS: Let's switch to state and local governments because a lot of them are struggling with their budgets. Tax revenues are down, obviously not surprisingly. There's been a reluctance to bail a lot of them out because maybe they were overspending in the past. At least that's the line that we've been getting. What do you think happens going forward? Do they borrow a lot more? What are their options if there's no SALT deduction and we just end up; they have to fend for themselves from here?

THOMAS BARKIN: Well, you know I watch closely the governments in our district. So I'll be more knowledgeable about their finances than, you know, New York or other states. But I have to say so far, the impact hasn't been nearly as big as the projections have been. You know, for state governments their biggest revenue source is income tax and, of course, this year everyone paid income tax based on 2019, which was an extremely strong year. So their revenue sources have been stronger than you'd think. For school systems, you know, the biggest funder in most places is property taxes. And, as I said, the housing market stayed strong and so that stayed funded.

And so again, the states in my district so far haven't gotten killed. Now they're all forecasting weaker '21s and 2022s. And if they have weaker '21s and 2022s, we have

the risk of what happened after the last downturn which is you had all this fiscal spending but then the states pulled back. And that would be tough for the overall economy because fiscal is a net, not a gross. But it's particularly tough because what states do is, they provide local services. And so, you know, whether it be police, fire, education, housing support, you know when you have to cut back on state and local services, you actually cut back on the services which are needed by the less fortunate and by the broad set of public safety things in the state. And so I certainly hope that's not going to happen, but if it did it would have real consequences on the economy, but I think maybe even more importantly on the services.

CHARLES PHILLIPS: If we looked at the allocation of capital in all these recovery facilities, large companies tended to do well. The Fed responded very well, built out a number of new facilities to stabilize the markets. But the small companies struggled to get access to some of that, certainly some of the CDFIs who, you know, lend to them didn't know how to apply for PPP. Do you think it's time to shift the approach and say that market, the larger market, the larger companies are kind of okay where they are? Some of those facilities were unused. And would you redirect those in some way to small businesses? And what can we do differently to make sure they actually get the capital?

THOMAS BARKIN: I mean I think I have to start by saying there was an awful lot of

PPP money put into the system as grants, not loans, effectively. And I talked to a lot of small businesses that feel that those were a life saver, that Congress passed them and they got out there. And you're talking, you know, I think $600 billion or something like that of PPP money that went out there. And so it did go to a lot of small businesses. It went as grants, not as loans. And I think it's been very effective for those businesses that got it. You know I agree not every business got it, and particularly those that didn't have sophistication or a sophisticated advisor, I think struggled to get through the process. But again, a lot of money went through into the small businesses.

What the Fed did back in March was, you saw a shocking widening in bond spreads among treasuries, among corporates. I talked to a Double A-rated defense contractor so a very sound company and one that was in a sector of defense that clearly wasn't under any threat and they couldn't roll over their debt in the third week of March. So I think that's a real challenge because if those folks can't roll over their debt, they're going to have to do something in terms of their cost structure that's going to add impact for a bunch of employees.

And so the interventions we did in the corporate bond markets, which actually weren't so much from a dollar standpoint, were more from a signaling standpoint, I think were valued and important. And then I would agree with you that they've largely run their course. That market is functioning, you know, well. We're operating as a backstop with

very little activity.

If you then say, okay, what do we do going forward, I think this is an interesting question how you morph the PPP or whatever small business support. There are clearly a lot more small businesses that need help, but it's actually pretty hard to pick winners. It's pretty hard to figure out how to have those funds go to industry A and industry B and not industry C. It's hard to figure out which of those are not going to make it and which of them will in a world where six months ago it was really easy to say this is a V-shaped recession and so let's just give everyone a bridge to the other side. Now you actually have to say which industries are going to be around and are worth funding and which are not. And I can understand why legislators would struggle with that.

And I don't think the Fed's in a position either, from an authority standpoint, from an authority standpoint to make those choices. That's really a legislative choice. But I think it's a hard set of choices because again we're past the point where, you know, there's a big cliff and we've all got to get everybody to the other side. We're now at a point, we're on the back end of this and, all right, we really need the airlines perhaps to keep going, or we really need the hotels to keep going because on the backside we're going to need more of them. But, yeah, we can't really support these sectors or those sectors. I just think that's very tough to do.

CHARLES PHILLIPS: I think, and some of these facilities, certainly people viewed the Fed as kind of expanding its authority from what it normally does. And so that naturally brings up the question, could it be doing more and expand your role to things you probably wouldn't have thought of in the past and taking more risk. One of the key areas is access to capital for entrepreneurs, especially in minority communities because they have trouble getting that capital from traditional sources. Do you see a role for the Fed in, let's say funding, taking some moderate risks, maybe syndicated out in a way to help entrepreneurs who are trying to start businesses?

THOMAS BARKIN: Well, so let's go with a couple of things, there are a couple of questions in there. First of all, I don't think the Fed actually meaningfully increased its authority. In fact, Dodd-Frank, I think smartly constrained the Fed's authority after '08 and '09 to say that, you know, there's a few things that we could do before that we could do now. We did those. There's a few things we did in '09 that we could do again but only with the support of Treasury. So we had to go get Treasury authority and approval to do those. And then Congress passed some laws suggesting we could do some things with the support and authority of Treasury. And so, you know, in that box I think we've tried to do what we could do, but I definitely think we're constrained by that box. I don't think we're in the, we have the authority to start, we don't have the authority to start up targeted funding mechanisms for sectors that we think need funding.

Now, on the other hand, and Congress could authorize that if they wanted to but that's really their call. On the other hand, we do have bank supervision authority. And in the bank supervision world I do think, whether it be fair lending or CRA, we have been in the world for many, many years of trying to push those banks we oversee in the way the legislation suggests we need to, to participate in funding, you know, CDFIs if that's where the CRA money would go or individuals and businesses in disadvantaged communities that they bank. And so we are trying to work on that through the authorities we have. But again, I wouldn't, I don't think it's smart for us to sort of say here's another sector we're going to try to help without legislative authority. And again, I think what Dodd-Frank did was to make very clear where we had authority and where we didn't.

CHARLES PHILLIPS: You mentioned the banks that you monitor. I guess one of the concerns is that they all probably have an increase in non-performing loans. It's kind of hard to see in your region how much. But give us your snapshot opinion on the health of the banks. How do they get through this? Do they have CRA pressure? Do they have non-performing loans, all the things that we know must be going on to some degree? What does it look like in terms of the losses over the next, I don't know, six months?

THOMAS BARKIN: Well, I like to say we never make the same mistake twice in a row. And if the challenges in the mortgage market and subsequently the banking system were the problem of '08 and '09, I don't think so far that looks like the problem of today.

There are a bunch of banks that have reported in the last couple of days. So far it looks like so good. And in particular, they do have a lot more capital than they did before the last downturn and so that's a resiliency buffer that's very important for them to maintain.

I'd say the consumer lending side of the house has really not seen losses grow in the way that you would normally expect with this kind of stimulus because in part – I'm sorry, with this kind of unemployment – because in part of all the stimulus. And it was interesting, the New York Fed actually yesterday published something that suggested that the people who got the stimulus, a third of that money roughly was spent, a third of that money roughly was saved, and a third of that money roughly was used to pay down debt. And so I actually think, on the personal side, those balance sheets seem to be, you know, relatively healthy.

You've obviously got industries, you know, think oil and gas or think hotels, or retail real estate that are challenged but you always have to compare that when you look at the banking system against the capital that they have. And we did a stress test publicly disclosed in the spring. It suggested even with some pretty ugly scenarios, the banks had enough capital. We're obviously on a continuing basis refreshing that. But I haven't yet seen anything that would suggest to me that's the challenge at this time. Again, I think the challenge at this time is actually this mismatch in the labor force.

CHARLES PHILLIPS: Okay, let's switch to another role specific to the Richmond Fed. You're the home of the System IT organization, the whole national IT. You run basically the systems, the technology systems for the whole Fed. So could you kind of summarize what that means? And I think more importantly people want to know that it's all modernized and working and the risks are contained, just kind of describe the role there.

THOMAS BARKIN: Yes, so, the Fed runs a bunch of pretty big and pretty important systems. We run the ACH system so your direct-deposit, you know, or your Social Security checks go through an ACH system. The Fed runs, as you know, the whole self-payment office so the wire system, major big wires between major institutions. We're building a real-time payment system as we speak, which is called Fed Now. And, of course, we have all the systems we need to operate our everyday. And then importantly, you know, we're communicating back and forth on market-moving information, whether that be bank supervision or the FOMC.

And so the first thing that matters is for these things to work. And actually we do have a very high, you know, up-time performance level, a very reliable system. Not because of anything I did, I inherited it. But I think it's a very, very well-run operation, operationally. It doesn't mean we don't have outages or make mistakes but all of the performance stats would be things you'd feel good about in the private sector.

And then, of course, we've got an ongoing set of objectives and concerns around cyber risk and knowledge risk. And those are ever-present. I think in any institution you've got to be worried about it particularly when you've got, you know, the risk of market-moving information like we do. And so we take that very seriously as well.

CHARLES PHILLIPS: You mentioned Fed Now, that was one of my questions, the new real-time payment systems. I mean a lot of the fin-tech startups basically believe they can do it cheaply, more quickly. They can do real-time a lot of services that the Fed doesn't provide, at least theoretically today. How do you think that changes the market once this is delivered? One, when will it be delivered? And two, does it really change the whole, __ value-added, some of these fin-techs who are trying to do similar things?

THOMAS BARKIN: Or it may be supportive to the fin-techs. You know Venmo lives in a world where they access bank accounts and so that helps Venmo have a place as opposed to somehow being in competition. I would think of it much more as a backbone. You know we're a B to B institution, not a B to C institution. If you think what real-time payments requires, it requires you pressing a button and somebody else getting the money immediately. It feels like that with Venmo but it doesn't actually happen like that. They settle it later. And, of course, there are mistakes that are made and it's hard to get your money back. So I think there is a real value to a high-quality backbone, you know, in the system that actually works on the settlement issues across

financial institutions. And that's not something that I think the fin-techs are really focused on. In fact, I think they think they'll get value from it.

CHARLES PHILLIPS: That's great. Well, why don't we wrap with your final outlook and tell us something optimistic that we can look forward to. I'll leave some time for Barbara to speak since she didn't get to kick off much. But what's the upside here?

THOMAS BARKIN: So the thing I keep trying to think hard about is the savings rate. And I saw an analysis the other day, I think I mentioned it, that said, you know, there's $1.1 trillion in "excess savings" in people's pockets today versus before the downturn. And, you know, if you want to normalize it, maybe the CARES Act was $3 trillion all in all. You know $1.1 trillion is a pretty big number.

The last time we had a savings rate anywhere close to this was World War II. And if you come back from World War II, you know, and again maybe it's different, there was rationing. Maybe that's similar. There was rationing. There was resources diverted to other places. But if you go to 1946 and '47 and '48 and '49, the U.S. economy grew like a weed and the spending was strong.

If you go back after 911, I think I remember President Bush saying your patriotic duty is to go shopping and that holiday season was very strong. So, you know, on the

optimistic side I am asking myself the question, what would it take to get that $1.1 trillion into the economy? I definitely think something about putting this virus behind us, you know, would be part of it. I'm not suggesting people who have skipped five haircuts are going to go get five haircuts all at once – certainly I'm not – or five dentist appointments or whatever. But I don't know, I mean I think if you start feeling really good about the economy and you had a lot of extra money in your pocket, maybe that car that you've been looking at and wanted to buy, you might be willing to buy it. Maybe that house that you've been looking at and wanted to buy. Maybe you'll be a little more generous this holiday season. I don't know. But I think the question of how and when that money comes into the economy, even if it's over four or five years, not four or five months, I think is a pretty meaningful upside for us.

CHARLES PHILLIPS: Well, Tom, I want to thank you for all these insights. It was fascinating stuff to hear and we certainly appreciate all the work you're doing on behalf of the country and your service and helping the economy move forward.

THOMAS BARKIN: And thanks for your service to the New York Fed. We appreciate it.

CHARLES PHILLIPS: I'll turn it back over to John and Barbara.

CHAIRMAN JOHN C. WILLIAMS: Thanks Charles. That was a terrific, deep, broad

range of questions you asked. And Tom, that was a terrific conversation. I really, I mean obviously this is stuff that I'm really interested in. I thought it was a fascinating conversation. So thanks, both of you, for participating.

And so my job now is to talk about the speakers we have coming up in the future. We've got a whole bunch of events lined up. This is a record-breaking year for the Club in terms of events and we've got a whole bunch of really interesting speakers like I said. We've got Charlie Cook from The Cook Political Report. We have Deanna Mulligan from Guardian Life. We got James Gorman from Morgan Stanley, Mark Zandi from Moody's. We got Jay Clayton, the Chairman of the SEC. And we have LL Cool J, the Chief Executive Officer of Rock the Bells. So like I said, we've got a very robust fall calendar of events. We'll be adding more in coming days. So please check your website, check your emails because we'll be sending updates. So again, thanks for joining us today and we look forward to seeing you at future Economic Club of New York events. Have a great day and stay well.