INTERVIEW WITH PHILADELPHIA FED PRESIDENT PAT HARKER

Jeremy Schwartz – Global Chief Investment Officer
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Over the last three years, I have had the pleasure of hosting a weekly SiriusXM Wharton Business Radio program, "Behind the Markets" (channel 111), every Friday at 1:00 p.m. EST.
Wharton Professor Jeremy Siegel, my co-host, and I discuss the market trends and economy with strategists, economists and the investment community. Recently we spoke with Philadelphia Federal Reserve president Pat Harker. You can listen to the full podcast here.

Harker, a former dean of Wharton, brings a fresh perspective to the Philadelphia Federal Reserve. He has a background in operations and information management. He is a self-described "quant," but his background is not in the traditional econ Ph.D. mold of monetary policy.

Harker is a voting member of the Federal Open Market Committee (FOMC) this year. This means he can dissent on policies if he finds the Federal Reserve (Fed) is not moving fast enough—or if it starts moving too fast—so it was interesting to hear his views on where the economy stands and how many interest rate hikes he sees coming.

Three Hikes

Harker penciled in three hikes on his "dot plot" for 2017, subject to a lot of uncertainty and revision. He had above-average estimates for growth in the economy: 2.3% in 2017 and 2.1% in 2018 and 2019—a bit higher than the rest of his Fed committee but not by a large amount. He also mentioned that these estimates do not factor in any additional stimulus from the incoming administration. Harker sees unemployment continuing to drift below the natural rate and thus more wage pressures.

Wage Pressures Mounting

Harker provided an interesting anecdote on wage pressures that could cause the Fed to tighten policy more aggressively. There was a hospital in his third district that last year had given a nice wage hike to its nurses, but this year pushed through another 9% wage hike to retain and please the staff. This is a sign of more tightness in the labor market. Harker points out that these wage pressures are coming from a continued secular, demographic-driven decline in the labor force participation rates. And he sees these pressures in labor force declines continuing in other industries as well.

On Student Debt: Too Many Attending College?

In addition to some general talk on Fed policy, inflation and growth, Harker has been commenting on areas he feels have reached the limits of monetary policy in helping the economy and that need other measures.

One area he focused on is human capital growth—and the training and education we invest into young people. As former dean of both Wharton and the University of Delaware, he speaks with a unique voice here.

It was thus very interesting to hear Harker say that he thought too many young people are going to college. One practice he sees as a potential solution to all this student debt: a model similar to Germany, where they use apprenticeship programs to give high school graduates more on-the-job training and then have fewer people attending college.

While Wharton would certainly not endorse this view, I often consider my education there as being mini-trade school-esque. It prepared me well for a career in finance. Yet even

if that was perhaps among the most practically minded programs, I still did not learn anywhere near as much as when I started my hands-on work on real-world projects in my job. Harker's model has a deep intuitive appeal to me, and now at the Philadelphia Fed he has a platform to influence policy in this direction. It will be interesting to watch his efforts.
We greatly enjoyed the conversation and encourage you to subscribe to our podcast to stay in touch with future shows.

Listen to the Podcast: Interview with Philadelphia Fed President Pat Harker
The shows can be found as podcasts titled "Behind the Markets" on traditional podcast applications.

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DEFINITIONS

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Dot Plot : a chart based on the economic projections of the Federal Reserve board members that illustrates their views on the appropriate pace of policy firming and provides a target range or target level for the federal funds rat.

Inflation : Characterized by rising price levels.