Q&A...

with Andrew Hertzberg, an economic advisor and economist here at the Philadelphia Fed.

Andrew Hertzberg

Economic advisor and economist Andrew Hertzberg joined the Philadelphia Fed in 2017, after researching and teaching economics and finance at Columbia University and Northwestern University. He holds a bachelor's degree in economics from the University of Sydney, a master's degree in economics from Queen's University, and a doctorate in economics from the Massachusetts Institute of Technology (MIT). He's particularly interested in oft-ignored topics in consumer finance, such as household decision-making.

Where did you grow up?

I grew up in a working-class neighborhood an hour west of Sydney, Australia. Out of economic necessity my parents left school early to work for a bank. My mom was a secretary and my dad managed basic admin services. They met at one of the branches. They were normal, hard-working, working-class people.

Do you now work for a Federal Reserve Bank because your parents were in the banking industry?

Not exactly. When we got the chance to study economics in high school, I thought, "This must be what Dad does," and that excited me. Later I realized that I didn't understand what he did. All I knew was that he worked at a bank, and banks had something to do with money. But then there was a major recession in Australia and my dad was laid off. I saw him struggle for work. Those few years were tough. This impressed upon me that economics is about more than just money. It can deeply affect people's lives and have far-reaching social consequences.

How did you become interested in consumer finance?

At MIT I was initially a macro economist studying financial frictions. Over time, I realized that what I was really studying was corporate finance. So, I wrote papers about corporate finance, and a few of them even won awards. But consumer finance had an intuitive appeal to me. I had seen in my own family how financial decisions were complicated by intra-household negotiations and different opinions. There's the economics that newspapers talk about—unemployment, GDP, and so on—but when you describe how a financial decision is made in your house, you're talking about decisions made between people.[1] Family members care about each other but often keep secrets or want to preserve their independence on some matters. The household has a complicated mix of economic forces and incentives that doesn't bear much resemblance to standard economics. These issues drew me to consumer finance. Corporate finance economists have tools for thinking about incentives and information problems within firms, and I use those tools to think about how people in a family make economic decisions.

Your article in this issue isn't about consumer finance. What led you to write about labor markets?

We were having discussions about economists' role in addressing racial inequality. Often, economists and policymakers act as though policies have the same effect on everyone, but that's an assumption. This article simply discusses the facts. I show basic patterns in how different groups experience the labor market, and tentatively suggest that policies used to affect the economy can have heterogenous effects across groups. It's a first step in addressing those issues, even though it's not what I'm expert in.

You end your article with, "[Black] workers, as compared to most other workers, may benefit from an economic expansion only later in an economic recovery when total unemployment is low." Shortly after you wrote your article, inflation—and the argument in favor of interest rate hikes—increased. Where do Black and Latino workers stand now in relation to the recovery?

The unemployment rate for all groups returned to its prepandemic average within two years of COVID's onset. There is no evidence up to the end of 2022 that the unemployment rate has increased in total or for any racial group. However, although Black and Latino workers have, since March 2022, returned to work at roughly their prepandemic level of participation, this is not true for the labor market as a whole, where labor force participation has settled below its prepandemic level in what might be a long-term change. The same pattern exists in the employment-to-population ratio. The open question is, what will happen to different groups if the labor market shows signs of a pronounced slowdown?

Notes

1 See his previous article, "Kitchen Conversations: How Households Make Economic Choices."