THE ECONOMIC CLUB OF CHICAGO

The Honorable Jerome H. Powell gave his first official speech as Chairman of the Federal Reserve to Club members and guests at a Special Luncheon Meeting at the Hilton Chicago Hotel on April 6. Chair Mellody Hobson presided over the meeting and interviewed Chairman Powell after his remarks. The Club was excited to host a livestream of the program on our YouTube channel, along with multiple media outlets.

Chairman Powell spoke to the state of the economy, noting that unemployment fell from its peak of 10 percent in October 2009 to 4.1 percent as it stands in the latest report from the Bureau of Labor Statistics. He also mentioned that inflation continues to run below the Federal Open Market Committee's (FOMC) objective of 2 percent.

When considering longer-run problems, Chairman Powell cited that GDP growth averaged just over 2 percent per year in the current economic expansion, which is slower than other economic expansions. Additionally, the average pace of labor productivity growth since 2010 is the slowest since World War II and about one-fourth of the average postwar rate.

With those factors in mind, Chairman Powell explained the Federal Reserve's current monetary policy set forth after the FOMC meeting last month. The transcript of his full remarks along with charts and figures can be found *here* on The Federal Reserve website.

After his remarks, Ms. Hobson asked questions of Chairman Powell, including those suggested by the Club's Questions Committee. See excerpted questions and answers below.

Chair Mellody Hobson: Both houses of congress are working towards Dodd-Frank roll backs. How might these regulatory efforts impact the economy and what risk do you see?"

Chairman Jerome Powell: Let me start by saying in 2008 and 2009, we had a big shock to the financial system, and the financial system was not strong enough to hold up against that shock and a number of institutions had to be bailed out by the government. So, we set to work to make sure that doesn't happen again. We look back and now we have an incomparably stronger financial system with higher capital, higher liquidity, better risk management and better governance, so we feel good about the strength of the financial sector now. But, the time has come where we can now look back over that handy work and ask ourselves, 'are there ways we can be more efficient about that, particularly for small and medium sized institutions?' We're doing that pretty carefully. We're looking at smaller institutions and working our way up to the larger institutions and asking them if we can make things less burdensome without undermining safety. You mentioned the legislation that passed in the Senate for certain institutions whose failure could threaten the financial stability of the United States. We have the legal authority to impose enhanced prudential standards on them, but the threshold set for that was $50 billion, and there's wide agreement – and that's the Fed's position – that that's too low. An institution of that size is not likely to threaten the financial stability of the United States, so Congress is looking to raise it to $250 billion but also give us the authority we need to reach below $250 billion."

MH: Could the gold standard disadvantage the big American banks?

JP: Our expectations of the largest, most complex, systemically important firms are the highest, and they are very high and remain very high. If you look around the world, U.S. Banks are competing very successfully, they're very profitable, they're earning good returns on capital, their stock prices are doing well, so I'm looking for some kind of evidence – and I'm open to this – that regulation is holding them back. I'm not really seeing that case as made, but we're open to what evidence comes in.

MH: So there's been a lot of discussion about the national deficit and large projected deficit going forward. What are the ramifications for the Fed and the U.S. economy?

JP: The U.S. federal budget is not on a sustainable path. That is widely understood and accepted, and we do need to do things to put it on that path and this is a good time to do it because the economy is strong, government revenue is strong. That is a longer run problem though. That is a problem associated with health care costs and the ageing of the population. What the Fed does is at a much more business-cycle frequency. That unsustainability is not an issue for us as we think about how to conduct monetary policy or financial supervision in the near term, it's more a long run thing and of course we don't have a voice in fiscal policy.

MH: But does it affect some of your growth expectations?

JP: Only at the margin. When we talk about potential growth we're talking about the next 5-10 years, and the U.S. debt to GDP is now in the high 70s. It's going to move up to 100 percent in the next couple of decades, so it's a bit further out still and it doesn't today affect how we think about potential growth. Over time, it will be very important to potential growth and it's something we need to address as a society.

MH: How do you think about inflation being affected by the web? People talk about the Amazon effect, Alibaba in China, the ability to comparatively shop in most everything has driven prices down. Companies used to brag about pricing power, and now companies are trying to create more affordability in order to expand their client base. What role does the online aspect of our economy, which didn't exist in this way 20-30 years ago, affect some of this inflation conversation?

JP: It makes all the intuitive sense in the world that being able to price shop like that would give price setters a bit of a pause in raising prices, and it may very well be a part of the psychology of our time. It makes so much sense. It's very hard to prove it to the economists. You have to be able to conduct some kind of natural experiment, or to look at a place that didn't have the web, then did, to see. It's very hard to prove that. But I will say, it almost has to be true.