Federal Reserve Chair Janet Yellen Says U.S. Economy Has 'Recovered Substantially'and Sees 'Continued Economic Growth'

Dr. Janet L. Yellen
Chair
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Excerpts from Dr. Yellen's Remarks

What is the state of the U.S. economy? The U.S. economy has recovered substantially since the Great Recession. The unemployment rate, which peaked at 10 percent in October 2009, declined to 5 percent in October of this year....At that level, the unemployment rate is near the median of FOMC [Federal Open Market Committee] participants' most recent estimates of its longer-run normal level. The economy has created about 13 million jobs since the low point for employment in early 2010, and total nonfarm payrolls are now almost 4 ½ million higher than just prior to the recession
Where is the U.S. economy headed? Let me turn to where I see the economy is likely heading over the next several years. To summarize, I anticipate continued economic growth at a moderate pace that will be sufficient to generate additional increases in employment, further reductions in the remaining margins of labor market slack, and a rise in inflation to our 2 percent objective. I expect that the fundamental factors supporting domestic spending that I enumerated will continue to do so, while the drag from some of the factors that have been weighing on economic growth should begin to lessen next year. Although the economic outlook, as always, is uncertain, I currently see the risk to the outlook for economic activity and the labor market as very close to balanced.
What do you think of proposals in Congress that constrain what you do now? The Federal Reserve is a nonpartisan institution. We are accountable to Congress. We take our responsibility for that accountability seriously. There are Members of Congress, not only Republicans but Democrats as well, who have proposed a variety of ideas both publicly and in draft legislation, as well as privately, about changes that should be made about how the Federal Reserve operates. And, look, it is up to Congress. We are a creature of Congress. The Federal Reserve was established by Congress with legislation. And it is up to Congress to consider if changes are appropriate.

But about audit the Fed and variants of it, while I favor transparency, I have said repeatedly and would like to say again here, that the Fed is audited. This isn't about the Fed's financial statements. We have public accountant. The board and the Federal Reserve Banks are all audited. What this is about is the independence of the Fed. And there are Members of Congress who would like to see diminished independence in monetary policymaking for the Fed, which is something I strongly oppose.

What message would you like to give the American people about the Fed? I'd like to tell the American people that the Federal Reserve is devoted to their interests, and we are doing everything we possibly can to help achieve economic conditions in this country in which American families can prosper and thrive. And trying to pursue the dual mandate that Congress gave us – namely, full employment and price stability – is a very good way to promote those interests.

It's very clear that the ability to find a job that's commensurate with one's skills in a reasonable amount of time is key for families to be able to pursue their dreams and put food on the tables of their families. So we want to make sure we don't have chronic job shortages, situations where one person's success in finding a job essentially deprives someone else of an opportunity to work.

Polls all around the world show that high and unstable inflation is a source of great anxiety and distress to people. So keeping inflation low and stable so people know that they can plan for their retirement, that they can undertake financial transactions understanding what they mean in real terms, I think that improves people's lives.

The Federal Reserve is a public-spirited, nonpartisan institution. We operate in a nonpolitical way. We try to make decisions based on objective evidence and careful analysis that will be in the best interests of the American people. We try to be transparent and explain what we're doing.... I'd like the public to know that the Federal Reserve is filled with good, capable, and dedicated people.

Your predecessor, by the way, once, when he tried to refinance a mortgage on his house, got turned down. That never happened to you, did it? [Laughter.] Not yet. [Laughter. applause.]

DAVID M. RUBENSTEIN: Welcome everybody, members and guests of The Economic Club of Washington. Thank you all for coming. This is an unusually large lunchtime event here at the Marriott Marquis Washington, DC.

We're very honored to have Dr. Janet Yellen, the 15th chair of the Board of Governors of the Federal Reserve System, as our special guest today. She's had a very distinguished career in academic life and in government. Let me briefly give you some highlights of her background.

She's a native of Brooklyn. Went to Fort Hamilton High School in Brooklyn, graduated near the top of her class. Went to Brown University, graduated *summa cum laude* in economics. Got a Ph.D. at Yale in 1971, where her thesis adviser was Nobel Prize-winning James Tobin. She then went to teach at Harvard in the Economics Department from '71 to '76. And then came down to Washington to work in the Federal Reserve Bank in '78 to '79 as an economist. Then went over to the London School of Economics to teach there for two years.

She was recruited to go to Berkeley, the Haas School, University of California, and she became an economics professor there and also taught at the Haas School. She was recruited back during the Clinton Administration to be a member of the Federal Reserve Board, and she served as a member for several years, and then was recruited to be – the latter part of the Clinton Administration – chairman of the Council of Economic Advisers.

She then went back to Berkeley, taught there for a number of years, and then was selected to serve as the president of the San Francisco Federal Reserve Bank. And she did that for about five-and-a-half years, and then was recruited to come back to Washington to serve as vice chair of the Board of Governors of the Federal Reserve. And, in February of last year, she was confirmed as the 15th chair of the Federal Reserve System Board of Governors.

We're very honored to have Janet Yellen as our special guest. And she'll make some presentations, and then we'll have some questions. So now it's my honor to introduce Dr. Janet Yellen. Thank you. [Applause.]

DR. JANET L. YELLEN: Thank you, David. And thank you to The Economic Club of Washington for inviting me to speak to you today.

I'd like to offer my assessment of the U.S. economy nearly six and half years after the beginning of the current economic expansion, and my view of the economic outlook. I'll describe the progress the economy has made toward the Federal Open Market Committee [FOMC] goals of maximum employment and stable prices, and what the current situation and the outlook imply for how monetary policy is likely to evolve to best foster the attainment of those objectives.

The U.S. economy has recovered substantially since the Great Recession. The unemployment rate, which peaked at 10 percent in October 2009, declined to 5 percent in October of this year. At that level, the unemployment rate is near the median of FOMC participants' most recent estimates of its longer-run normal level. The economy has created about 13 million jobs since the low point for employment in early 2010, and total nonfarm payrolls are now almost 4 ½ million higher than just prior to the recession. Most recently, after a couple of months of relatively modest payroll gains, employers added an estimated 271,000 jobs in October. This increase brought the average monthly gain since June to about 195,000, close to the monthly pace of around 210,000 in the first half of the year and still sufficient to be consistent with continued improvement in the labor market.

Despite these substantial gains, we cannot yet, in my judgment, declare that the labor market has reached full employment. Let me describe the basis for this view. To begin with, I believe that a significant number of individuals now classified as out of the labor force would find and accept jobs in an even stronger labor market. To be classified as unemployed, working-age people must report that they have actively sought work within the past four weeks. Most of those not seeking work are, appropriately, not counted as unemployed. These include most retirees, teenagers and young adults in school, and those staying home to care for children and other dependent family members. Even in a stronger labor market, it's likely that many of these individuals would choose not to work.

But some who are counted as out of the labor force might be induced to seek work if the likelihood of finding a job rose or if the expected pay was higher. Examples here include people who had become too discouraged to search for work when the prospects for employment were poor and some who retired when their previous jobs ended. In October, almost 2 million individuals classified as outside the labor force because they had not searched for work in the previous four weeks reported that they wanted and were available for work. This is a considerable number of people, and some of them undoubtedly would be drawn back into the workforce as the labor market continues to strengthen. Likewise, some of those who report they don't want to work now could change their minds in a stronger job market.

Another margin of labor market slack not reflected in the unemployment rate consists of individuals who report that they are working part-time but would prefer a full-time job and cannot find one – those classified as "part time for economic reasons." The share of such workers jumped from 3 percent of total employment prior to the Great Recession to around 6 ½ percent by 2010. Since then, however, the share of these part-time workers has fallen considerably. It's now less than 4 percent of those employed. While this decline represents considerable progress, particularly given secular trends that may over time may have increased the prevalence of part-time employment, I think some room remains for the hours of these workers to increase as the labor market improves further.

The pace of increases in labor compensation provides another possible indicator, albeit an imperfect one, of the degree of labor market slack. Until recently, labor compensation had grown only modestly, at average annual rates of around 2 to 2 ½ percent. More recently, however, we have seen a welcome pickup in the growth rate of average hourly earnings for all employees and of compensation per hour in the business sector. While it's too soon to conclude whether these more rapid rates of increase will continue, a sustained pickup would likely signal a diminution of labor market slack.

Turning to overall economic activity, U.S. economic output as measured by inflation-adjusted gross domestic product, or real GDP, has increased at a moderate pace, on balance, during the expansion. Over the first three quarters of this year, real GDP is currently estimated to have advanced at an annual rate of 2¼ percent. That's close to its average pace over the previous five years. Many economic forecasters expect growth roughly along these same lines in the fourth quarter.

Growth this year has been held down by weak net exports, which have subtracted more than a one half-percentage point, on average, from the annual rate of real GDP growth over the past three quarters. Foreign economic growth has slowed, damping increases in U.S. exports. And the U.S. dollar has appreciated substantially since the middle of the year, making our exports more expensive and imported goods cheaper.

By contrast, total real private domestic final purchases – which includes housing spending, business fixed investment, and residential investment, and currently represents about 85 percent of aggregate spending – has increased at an annual rate of 3 percent this year. That's significantly faster than real GDP. Household spending growth has been particularly solid in 2015, with purchases of new motor vehicles especially strong. Job growth has bolstered household income, and lower energy prices have left consumers with more to spend on other goods and services.

These same factors likely have contributed to consumer confidence that's more upbeat this year than last year. Increases in home values and stock market prices in recent years, along with reductions in debt, have pushed up the net worth of households, which also supports consumer spending. Finally, interest rates for borrowers remain low, due in part to the FOMC's accommodative monetary policy, and these low rates appear to have been especially relevant for consumers considering the purchase of durable goods.

Other components of private domestic final purchases, including residential and business investment, have also advanced this year. The same factors supporting consumer spending have supported further gains in the housing sector. Indeed, gains in real residential investment spending have been faster so far in 2015 than last year, although the level of new residential construction still remains fairly low. And outside of the drilling and mining sector, where lower oil prices have led to substantial cuts in outlays for new structures, business investment spending has posted moderate gains.

On balance, the moderate average pace of real GDP growth so far this year and over the entire economic expansion has been sufficient to help move the labor market closer to the FOMC's goal of maximum employment. However, less progress has been made on the second leg of our dual mandate, price stability, as inflation continues to run below the FOMC's longer-run objective of 2 percent.

Overall consumer price inflation, as measured by the change in the price index for personal consumption expenditures, was only a quarter of a percent – rose only a quarter of a percent over the 12 months ending in October. However, this number largely reflects the sharp fall in crude oil prices since the summer of 2014 that, in turn, has pushed down retail prices for gasoline and other consumer energy products.

Because food and energy prices are volatile, it's often helpful to look at inflation excluding those two categories – what's known as core inflation – which is typically a better indicator of future overall inflation than recent readings of headline inflation. But core inflation, which ran at one-and-a-quarter percent over the 12 months ending in October, is also well below our 2 percent objective, partly reflecting the appreciation of the U.S. dollar.

The stronger dollar has pushed down the prices of imported goods, placing temporary downward pressure on core inflation. The plunge in crude oil prices may also have had some small indirect effects in holding down the prices of non-energy items in core inflation, as producers passed on to their customers some of the reductions in their energy-related costs. Taking account of these effects, which may be holding down core inflation by around a quarter to a half percentage point, it appears that the underlying rate of inflation in the United States has been running in the vicinity of 1 ½ to 1¾ percent.

Let me now turn to where I see the economy is likely heading over the next several years. To summarize, I anticipate continued economic growth at a moderate pace that will be sufficient to generate additional increases in employment, further reductions in the remaining margins of labor market slack, and a rise in inflation to our 2 percent objective. I expect that the fundamental factors supporting domestic spending that I enumerated will continue to do so, while the drag from some of the factors that have been weighing on economic growth should begin to lessen next year. Although the economic outlook, as always, is uncertain, I currently see the risk to the outlook for economic activity and the labor market as very close to balanced.

Turning to the factors that have been holding down growth, as I already noted, the higher foreign exchange value of the dollar, as well as weak growth in some foreign economies, has restrained the demand for U.S. exports over the past year. In addition, lower crude oil prices have reduced activity in the domestic oil sector. I anticipate that the drag on U.S. economic growth from these factors will diminish in the next couple of years as the global economy improves and the adjustment to prior declines in oil prices is completed.

Although developments in foreign economies still pose risks to U.S. economic growth that we are monitoring, these downside risks from abroad have lessened since late last summer. Among emerging market economies, recent data support the view that the slowdown in the Chinese economy, which has received considerable attention, will likely continue to be modest and gradual. China has taken actions to stimulate its economy this year, and could do more if necessary. A number of other emerging-market economies have eased monetary and fiscal policy this year, and economic activity in these economies has improved of late. Accommodative monetary policy is also supporting economic growth in the advanced economies. A pickup in demand in many advanced economies and a stabilization in commodity prices should, in turn, boost the growth prospects of emerging-market economies.

A final positive development for the outlook that I will mention relates to fiscal policy. This year the effect of federal fiscal policy on real GDP growth has been roughly neutral, in contrast to earlier years in which the expiration of stimulus programs and fiscal policy actions to reduce the federal budget deficit created significant drags on growth. Also, the budget situation for many state and local governments has improved as the economic expansion has increased the revenues of these governments, allowing them to increase their hiring and spending after a number of years of cuts in the wake of the Great Recession. Looking ahead, I anticipate that total real government purchases of goods and services should have a modest positive effect on economic growth over the next few years.

Regarding U.S. inflation, I anticipate that the drag from the large decline in prices for crude oil and imports over the past year and a half will diminish next year. With less downward pressure on inflation from these factors and some upward pressure from a further tightening in U.S. labor and product markets, I expect inflation to move up to the FOMC's 2 percent objective over the next few years. Of course, inflation expectations play an important role in the inflation process, and my forecast of a return to our 2 percent objective over the medium term relies on a judgment that longer-term inflation expectations remain reasonably well-anchored.

In this regard, recent measures from the Survey of Professional Forecasters, the Blue Chip Economic Indicators, and the Survey of Primary Dealers have continued to be generally stable. The measure of longer-term inflation expectations from the University of Michigan Survey of Consumers, in contrast, has lately edged below its typical range in recent years. But this measure often seems to respond modestly, though temporarily, to large changes in actual inflation. And the very low readings on headline inflation over the past year may explain some of the recent decline in the Michigan measure.

Market-based measures of inflation compensation have moved up some in recent weeks, after declining to historically low levels earlier in the fall. While the low level of these measures appears to reflect at least in part changes in risk and liquidity premiums, we will continue to monitor this development closely. Convincing evidence that longer-term inflation expectations have moved lower would be a concern, because declines in consumer and business expectations about inflation could put downward pressure on actual inflation, making the attainment of our 2 percent inflation goal more difficult.

Let me now turn to the implications of the economic outlook for monetary policy. Reflecting policy – reflecting progress toward the Committee's objectives, many FOMC participants indicated in September that they anticipated, in light of their economic forecasts at the time, that it would be appropriate to raise the target range for the federal funds rate by the end of this year. Some participants projected that it would be appropriate to wait until later to raise the target funds rate range, but all agreed that the timing of a rate increase would depend on what the incoming data tell us about the economic outlook and the risks associated with that outlook.

In the policy statement issued after its October meeting, the FOMC reaffirmed its judgment that it would be appropriate to increase the target range for the federal funds rate when we had seen some further improvement in the labor market and were reasonably confident that inflation would move back to the Committee's 2 percent objective over the medium term. That initial rate increase would reflect the Committee's judgment, based on a range of indicators, that the economy would continue to grow at a pace sufficient to generate further labor market improvement and a return of inflation to 2 percent, even after the reduction in policy accommodation.

As I've already noted, I currently judge that U.S. economic growth is likely to be sufficient over the next year or two to result in further improvement in the labor market. Ongoing gains in the labor market, coupled with my judgment that longer-term inflation expectations remain reasonably well-anchored, serve to bolster my confidence in a return of inflation to 2 percent as the disinflationary effects of declines in energy and import prices wane.

Committee participants recognize that the future course of the economy is uncertain, and we take account of both the upside and downside risks around our projections when judging the appropriate stance of monetary policy. In particular, recent monetary policy decisions have reflected our recognition that, with the federal funds rate near zero, we can respond more readily to upside surprises to inflation, economic growth, and employment than to downside shocks. This asymmetry suggests that it's appropriate to be more cautious in raising our target for the federal funds rate than would be the case if short-term nominal interest rates were appreciably above zero. Reflecting these concerns, we have maintained our current policy stance even as the labor market has improved appreciably.

However, we must also take into account the well-documented lags in the effect of monetary policy. Were the FOMC to delay the start of policy normalization for too long, we would likely end up having to tighten policy relatively abruptly to keep the economy from significantly overshooting both of our goals. Such an abrupt tightening would risk disrupting financial markets and perhaps even inadvertently push the economy into recession. Moreover, holding the federal funds rate at its current level for too long could also encourage excessive risk-taking, and thus undermine financial stability.

On balance, economic and financial information received since our October meeting has been consistent with our expectations of continued improvement in the labor market. And as I've noted, continuing improvement in the labor market helps strengthen confidence that inflation will move back to our 2 percent objective over the medium term. That said, between today and the next FOMC meeting we will receive additional data that bear on the economic outlook. These data include a range of indicators regarding the labor market, inflation, and economic activity. When my colleagues and I meet, we will assess all of the available data and their implications for the economic outlook in making our policy decision.

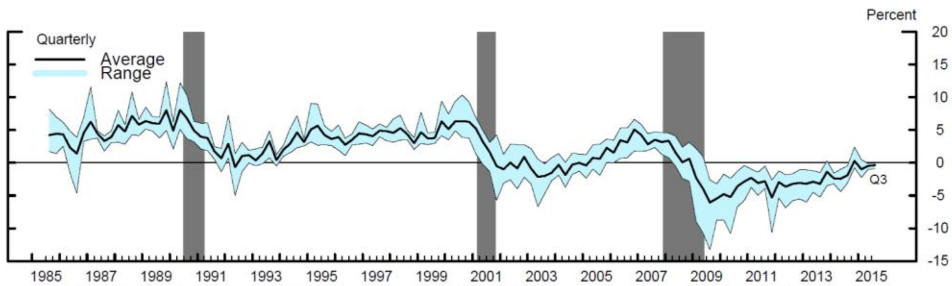
As you know, there has been considerable focus on the first increase in the federal funds rate after nearly seven years in which that rate has been at its effective lower bound. We have tried to be as clear as possible about the considerations that will affect that decision. Of course, even after the initial increase in the federal funds rate, monetary policy will remain accommodative. And it bears emphasizing that what matters for the economic outlook are the public's expectations concerning the path of the federal funds rate over time. It is those expectations that affect financial conditions, and thereby influence spending and investment decisions. In this regard, the Committee anticipates that even after employment and inflation are near mandate-consistent levels economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

This expectation is consistent with an implicit assessment that the neutral nominal federal funds rate, defined as the value of the federal funds rate that would be neither expansionary nor contractionary if the economy were operating near its potential, that that rate is currently low by historical standards and is likely to rise only gradually over time. One indication that the neutral funds rate is unusually low is that U.S. economic growth has been quite modest in recent years despite the very low level of the federal funds rate and the Federal Reserve's very large holdings of longer-term securities. Had the neutral rate been running closer to the levels that are thought to have prevailed prior to the financial crisis, current monetary policy settings would have been expected to foster a very rapid economic expansion, with inflation likely rising significantly above our 2 percent objective.

Empirical support for the judgment that the neutral federal funds rate is low comes from both academic research and Federal Reserve staff analysis. These figures employ four macroeconomic models used by Federal Reserve staff to estimate the natural real rate of interest, which is a concept closely related to the neutral rate.

Figure 1

Estimates of the Real Natural Rate of Interest from Different Macroeconomic Models



Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.
Source: The estimates are drawn from four models: (1) a dynamic stochastic general equilibrium (DSGE) model developed by the staff of the Federal Reserve Board and described in Kiley (2013); (2) a DSGE model developed by the staff of the Federal Reserve Bank of New York and described in Del Negro and others (2013); (3) a DSGE model developed by the staff of the Federal Reserve Board based on Christiano, Motto, and Rostagno (2014); and (4) a DSGE model developed by the staff of the Federal Reserve Board based on Guerrieri and Iacoviello (2013 [rev. 2014]).

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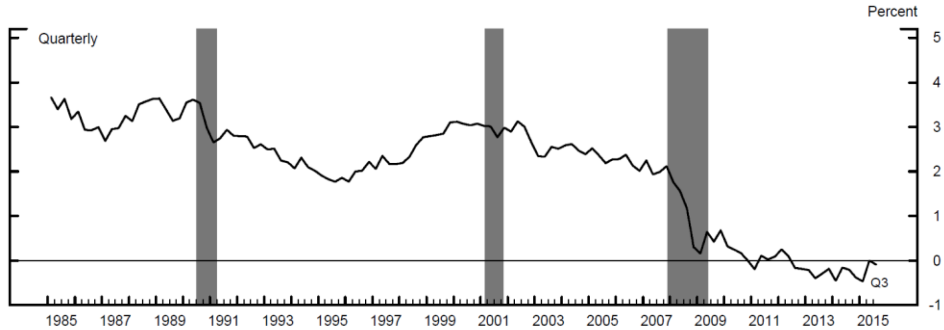
Figure 2

Estimates of the Real Natural Rate of Interest from the Laubach-Williams Model



Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.
Source: The estimates are drawn from a statistical macroeconomic model described in Laubach and Williams (2015).

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The measures of the natural rate shown in this figure represent the real, or inflation-adjusted short-term interest rate that would prevail in the absence of frictions that slows the adjustment of wages and prices to changes in the economy. Under a variety of assumptions, this interest rate has been shown to be – to promote full employment. The shaded band represents the range of the estimates of the natural real rate at each point in time. This analysis suggests that the natural real rate fell sharply with the onset of the crisis and has recovered only partially. These findings are broadly consistent with those reported in a recent paper by Thomas Laubach and John Williams, which is shown in this figure.

The marked decline in the neutral federal funds rate after the crisis may be partially attributable to a range of persistent economic headwinds that have weighed on aggregate demand. These headwinds have included tighter underwriting standards and limited access to credit for some borrowers, deleveraging by many households to reduce debt burdens, contractionary fiscal policy at all levels of government, weak growth abroad coupled with a significant appreciation of the dollar, slower productivity and labor force growth, and elevated uncertainty about the economic outlook. As the restraint from these headwinds further abates, I anticipate that the neutral federal funds rate will gradually move higher over time. Indeed, in September most FOMC participants projected that in the long run the nominal federal funds rate would be near 3 ½ percent, and that the actual federal funds rate would rise to that level fairly slowly.

Because the value of the neutral federal funds rate is not directly measureable, and must be estimated based on our imperfect understanding of the economy and the available data, I would stress that considerable uncertainty attends our estimates of its current level and even more to its likely path going forward. That said, we will learn more from observing economic developments in the period ahead.

It is thereby important to emphasize that the actual path of monetary policy will depend on how incoming data affect the evolution of the economic outlook. Stronger growth or a more rapid increase in inflation than we currently anticipate would suggest that the neutral federal funds rate is rising more quickly than expected, making it appropriate to raise the federal funds rate more quickly as well. Conversely, if the economy disappoints, the federal funds rate would likely rise more slowly. Given the persistent shortfall in inflation from our 2 percent objective, the Committee will, of course, carefully monitor actual progress toward our inflation goal as we make decisions over time on the appropriate path for the federal funds rate.

So, in closing, I'd like to again thank The Economic Club of Washington for this opportunity to speak about the economy and monetary policy. The economy has come a long way toward the FOMC's objectives of maximum employment and price stability. When the Committee begins to normalize the stance of policy, doing so will be a testament also to how far our economy has come in recovering from the effects of the financial crisis and the Great Recession. And in that sense, it is a day that I expect we are all looking forward to.

Thank you. [Applause.]

CONVERSATION WITH DAVID RUBENSTEIN

MR. RUBENSTEIN: Thank you very much for those comments. We have time for a few questions. And let me start by asking you about quantitative easing. When quantitative easing was begun, did you expect it would be in effect for such a long period of time? And what would you have done, and what do you think the Fed might have done differently, in light of hindsight?

DR. YELLEN: Well, quantitative easing was a policy that we adopted when the economy was weak in the aftermath of the crisis, and we had already reduced the funds rate to zero. What we wanted to do was to see if it was possible to push down longer-term interest rates. So we undertook large-scale purchases of both Treasury and agency mortgage-backed securities. And I think the impact of those purchases was to push down longer-term rates.

We did that in conjunction with another policy, which was to offer forward guidance concerning the likely path of short-term rates. I think markets at the time and the public thought it wouldn't be very long. Now we know it's been seven years. They thought it wouldn't be very long before short-term rates were rising. And by – in conjunction with those long-term asset purchases, discussing the fact that we thought it would be a long time before it would be appropriate to raise short-term rates.

Both things worked in tandem to push down longer-term rates. And I do think that our policy was effective. We saw the yields on private borrowing rates went down across the board, asset prices moved up, both stock market prices and housing prices. And that helped to boost aggregate spending and to check disinflationary pressure that could even conceivably have led to disinflation.

Now, we're not the only country that undertook such policies. The U.K. and more recently the ECB have been engaged in Japan as well in similar kinds of asset purchases. There have been studies in all of the countries. And they show essentially similar results, that these policies were effective. At the very outset, I think the asset purchases we undertook had a very large effect. And I think it's probably because financial markets were very stressed at the time, and our purchases really seem, in a turbulent environment, to have a big effect.

Over time, we scaled back our estimate of the effect somewhat, but still think it's effective. And to give you a sense, one pretty recent Fed study suggests that if we hadn't undertaken those purchases, we probably now would have an unemployment rate over 6 percent. So that might be a gauge of what it accomplished. So I do think the policy was effective. Would we – would I have done anything differently?

I think the one thing that I would mention is that over time I think we learned that our first couple of – two programs had fixed quantities that we announced we would purchase a certain volume of securities. Our second program, for example, was targeted at $600 billion. I think something that turned out to be more effective is what we did with our third program, which is to make it open-ended, to tie our purchases to a goal that we wished to see considerable improvement in the labor market and, in effect, we were willing to do what it takes to achieve that. So I think that had a confidence-boosting effect. And it suggested that if the data was weak, well, we would then do more, or vice versa. So I think that was – I wouldn't say I regret what we did in the first two programs, but I think the third approach was particularly effective.

MR. RUBENSTEIN: When you were a young economist in the Fed, transparency wasn't the coin of the realm then at the Fed. [Laughter.] And under Ben Bernanke and under you transparency's become more common. So in hindsight though, do you think transparency is as much of a virtue as you thought at the time that you joined the Fed as the vice chair – [laughter] – or do you think the old days are better?

DR. YELLEN: So I will say that just after I became a governor in my first stint – so that was August of '94 – February of 1994 was the first time ever, to the best of my knowledge in its history, that the Fed even announced a change – publicly made an announcement that there had been a change in policy, after a decision was made at a meeting to do that. Alan Greenspan thought when, for the first time in many years, the Committee was going to raise rates from the 3 percent level they were at in '94, that it was important to actually tell the world that such a decision had been made, rather than allowing people to infer it from movements in money markets. And it's been a long road since then to ever-greater transparency.

It is definitely something that I support. I think it's been a virtue. And I think we have made very important strides in becoming more transparent. And it's important for two different reasons. First of all, we're an independent central bank, have a great deal of impact, our decisions, on the economy. And in a democratic society, especially an independent organization like ours, has a duty to explain its actions to the people and also to their elected representatives in Congress. So now we have press conferences four times a year, we present economic projections. We have speeches, congressional testimony, and talk a great deal more.

Something we've done that I think has been very effective and is important is that in 2012 the Committee for the first time agreed to an explicit statement concerning our money policy goals and strategies. And in it, we articulated our interpretation of price stability, which is an inflation rate according to this PC, price index, of 2 percent. And in conjunction with that statement of here are our goals and here's how we'll manage tradeoffs if we face them, we also offer every three months – now, this isn't a Committee-wide statement – but each individual, we publish the individual forecasts, both economic forecasts and accompanying policy assumptions, the views of each participant as to what would be an appropriate policy to accomplish that path of the economy that they're projecting.

And so, in effect, that complex of a Committee-wide statement of explicitly here are our goals and our strategies and here's a view on the part of participants on how we think the economy will evolve and how policy will evolve with it, that is really, in a way, a full-blown game plan for conducting monetary policy.

MR. RUBENSTEIN: Why do you think it is, with greater transparency, that some people running for President, who are Republicans and some Members of the Congress who are Republicans, don't seem to like the Fed that much, in some respects, and they want to have legislation that constrains what you do now? Is that a concern to you? And why do you think you have this concern by certain people in the Republican Party?

DR. YELLEN: Well, look, let me just say, the Federal Reserve is a nonpartisan institution. We are accountable to Congress. We take our responsibility for that accountability seriously. There are Members of Congress, not only Republicans but Democrats as well, who have proposed a variety of ideas both publicly and in draft legislation, as well as privately, about changes that should be made about how the Federal Reserve operates. And, look, it is up to Congress. We are a creature of Congress. The Federal Reserve was established by Congress with legislation. And it is up to Congress to consider if changes are appropriate.

We have dialogue with Members of Congress on both sides of the aisle in the House and in the Senate. The Members often come to us and ask us our views. And we provide feedback on their views or legislation they have in mind. Now, you know, there has been a push in Congress among some Members for sounds like greater transparency to audit the Fed. And this in particular, I mean, I always do offer my views about when I'm asked by Members of Congress about particular legislation.

But about audit the Fed and variants of it, while I favor transparency, I have said repeatedly and would like to say again here, that the Fed is audited. This isn't about the Fed's financial statements. We have public accountant. The board and the Federal Reserve Banks are all audited. What this is about is the independence of the Fed. And there are Members of Congress who would like to see diminished independence in monetary policymaking for the Fed, which is something I strongly oppose.

I think countries, not only the United States, in the '70s, when one of my predecessors, Chairman Volcker, had to take very strong actions to bring inflation down. And similar things have had to have occurred around the world. To have a central bank that is able to take tough decisions and not subjected to short-term political pressures we've learned in modern times results in better economic outcomes. So I've been vocal about opposing that.

MR. RUBENSTEIN: Speaking about transparency, I know the FOMC is going to meet in a few weeks. Would you like to give even a more precise hint – [laughter] – what they might do? But if you don't, were you saying in your remarks that whatever the Fed might do, and the FOMC might do in December, that it might do it consistently for another year or so? In other words, the last time the Fed increased interest rates in 2004 to '06, it did it fairly consistently. It didn't just do something one time. It moved fairly consistently through a year. Were your remarks designed to say that you probably would do something like that again?

DR. YELLEN: Well, I appreciate your asking that question because – [laughter] – I think it's very important for me to emphasize that there is no such plan. And what we do, if we decide to raise rates after that, there is no plan to proceed over time in some mechanical or calendar-based way. The actual path the short-term rate will follow will depend entirely on how incoming data influence our assessment of the outlook. So the first step does not mean that we've embarked on some predetermined path of regular moves.

And because, I noted in my remarks, the recovery from the financial crisis has been very slow. The so-called neutral rate of interest that I talked about has – appears to be quite low. And we don't really know where it's going to go. We think it's going to rise over time. This is really – may turn out to be a very different cycle than past cycles. But I would point out that, you know, we are producing, the Committee does publish every three months projections of all of the FOMC participants of the path of policy that they would regard as appropriate if the economy evolves in line with their expectations.

And looking at that, you get a sense of what Committee members are roughly expecting is likely to happen. So I think it's fair to say that most FOMC participants do anticipate a series of interest rate increases, but they anticipate that they would be gradual. And that corresponds to their view that the economy will continue to grow above trend, inflation move back to 2 percent –

MR. RUBENSTEIN: Whatever the FOMC does, do you feel it has to be unanimous or do you need to have, like, a two-thirds/one-third? Or do you have to count heads to get the votes? What kind of policy do you have in terms of going forward? Do you want to have a unanimous view or close to unanimous view?

DR. YELLEN: So I think one of the strengths of the Federal Open Market Committee ‑ and this was built into the design of the Federal Reserve by Congress – is that we've got a range of views at the table. And especially at important points when policy decisions are made, the public should expect that there are a range of views being represented. I think falling into a pattern of groupthink is a very bad thing that can get organizations in trouble. And I will say that the FOMC is an organization that does not suffer from groupthink. [\[Laughter.]

So I don't need unanimity. I think we have to tolerate some dissent. Nevertheless I think, for the FOMC to be successful and to communicate a coherent policy to the public, we do need a certain degree of consensus. And I think one of the strengths of the Committee is we do try to find common ground, we do try to come together. And while there are some dissents – and I wouldn't try to stifle dissent, and I would even expect some at critical junctures – we do try to find common ground and to try to conduct policies that will be supported.

MR. RUBENSTEIN: Is being chair of the Federal Reserve as great as you thought it was going to be when you – [laughter]. I mean, what are the greatest challenges of this job? And what are the pleasures of it, other than this interview? [Laughter.]

DR. YELLEN: So it's a wonderful job, and I am tremendously honored to have been selected for it. I feel that it's a huge responsibility. But you know, for me, one of the pleasures is – we lived through a terrible financial crisis; I think the economy is on the road to recovery. We're doing well.

A pleasure to me is to sit down and work with my colleagues to try to devise a set of policies that will foster recovery. And I would say, as important, we are working together to try to ensure that the economy will not have another devastating financial crisis – to strengthen the financial system and to greatly improve our ability to spot potential financial disruptions or identify sources of systemic risk.

I'd say the Federal Reserve, I've now spent a good share of my career in it. As I said, it's a nonpartisan organization. It is very much devoted to the public interest, and they're a wonderful group of people. And days when I get to interact a lot with the thoughtful and intelligent and public-spirited colleagues I work with is really one of the pleasures of the job.

MR. RUBENSTEIN: Final question I'd like to ask you is: What message would you like to give to the American people about what the Federal Reserve is actually doing and how it operates? The average person, who may not be an economist, may be confused about what the Federal Reserve does every day and why it does what it does. What message would you like to give the American people about the Fed?

DR. YELLEN: So I guess I'd like to tell the American people that the Federal Reserve is devoted to their interests, and we are doing everything we possibly can to help achieve economic conditions in this country in which American families can prosper and thrive. And trying to pursue the dual mandate that Congress gave us – namely, full employment and price stability – is a very good way to promote those interests.

And you know, it's very clear that the ability to find a job that's commensurate with one's skills in a reasonable amount of time is key for families to be able to pursue their dreams and put food on the tables of their families. So we want to make sure we don't have chronic job shortages, situations where one person's success in finding a job essentially deprives someone else of an opportunity to work.

And we know that polls all around the world show that high and unstable inflation is a source of great anxiety and distress to people. So keeping inflation low and stable so people know that they can plan for their retirement, that they can undertake financial transactions understanding what they mean in real terms, I think that improves people's lives.

Again, some comments I made, let me repeat in this context. The Federal Reserve is a public-spirited, nonpartisan institution. We operate in a nonpolitical way. We try to make decisions based on objective evidence and careful analysis that will be in the best interests of the American people. We try to be transparent and explain what we're doing. And let me also say I'd like the public to know that the Federal Reserve is filled with good, capable, and dedicated people.

MR. RUBENSTEIN: Your predecessor, by the way, once, when he tried to refinance a mortgage on his house, got turned down. That never happened to you, did it? [Laughter.]

DR. YELLEN: [Laughs.] Not yet. [Laughter. applause.]

MR. RUBENSTEIN: I want to thank you very much for an interesting speech and – [applause] – thank you. Thank you very much. Thank you. [Applause.]

DR. YELLEN: Thank you so much. [Applause.] Thank you. [Applause.]

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Janet L. Yellen

Janet L. Yellen took office as chair of the Board of Governors of the Federal Reserve System on February 3, 2014, for a four-year term ending February 3, 2018. Dr. Yellen also serves as chairman of the Federal Open Market Committee, the System's principal monetary policymaking body. Prior to her appointment as chair, Dr. Yellen served as vice chair of the Board of Governors, taking office in October 2010, when she simultaneously began a 14-year term as a member of the Board that will expire January 31, 2024.

Dr. Yellen is Professor Emeritus at the University of California at Berkeley, where she was the Eugene E. and Catherine M. Trefethen Professor of Business and Professor of Economics, and has been a faculty member since 1980. Dr. Yellen took leave from Berkeley for five years starting August 1994. She served as a member of the Board of Governors of the Federal Reserve System through February 1997, and then left the Federal Reserve to become chair of the Council of Economic Advisers through August 1999. She also chaired the Economic Policy Committee of the Organization for Economic Cooperation and Development from 1997 to 1999. She served as President and Chief Executive Officer of the Federal Reserve Bank of San Francisco from 2004 to 2010.

Dr. Yellen is a member of both the Council on Foreign Relations and the American Academy of Arts and Sciences. She has served as president of the Western Economic Association, vice president of the American Economic Association, and a Fellow of the Yale Corporation. An Assistant Professor at Harvard University from 1971 to 1976, Dr. Yellen served as an economist with the Federal Reserve's Board of Governors in 1977 and 1978, and on the faculty of the London School of Economics and Political Science from 1978 to 1980. Dr. Yellen has written on a wide variety of macroeconomic issues, while specializing in the causes, mechanisms, and implications of unemployment.

Dr. Yellen graduated *summa cum laude* from Brown University with a degree in economics in 1967, and received her Ph.D. in Economics from Yale University in 1971. She received the Wilbur Cross Medal from Yale in 1997, an honorary doctor of laws degree from Brown in 1998, and an honorary doctor of humane letters from Bard College in 2000. Dr. Yellen is married and has an adult son.