THE ECONOMIC CLUB

OF WASHINGTON, D.C.

Virtual Signature Event

The Honorable Jerome H. Powell
Chairman, Board of Governors
Federal Reserve System

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ANNOUNCER: Ladies and gentlemen, please welcome David Rubenstein, president of The Economic Club of Washington, D.C.

DAVID M. RUBENSTEIN: Hello. I'm David Rubenstein, president of The Economic Club of Washington, D.C., and I'd like to welcome everybody to our 17th virtual event of our 35th season. Today our special guest is the Honorable Jerome H. Powell, chairman of the Board of Governors of the Federal Reserve System.

And now it's my pleasure to welcome Jerome Powell, Jay Powell, to our conversation. Thank you very much for being here, Chairman Powell.

JEROME H. POWELL: Thanks, David. Great to be here.

MR. RUBENSTEIN: So let me begin by talking about the state of the economy. Your public statements to date in recent interviews makes it sound like you feel the economy is in reasonable shape to go forward from here and you're expecting growth of 5 to 6 percent this year. Is that a correct announcement of your views?

MR. POWELL: Generally, yes. I would say that the economy at this point does seem to be at a bit of an inflection point, and that makes sense with every more widespread vaccinations, with strong fiscal policy, with continued support for monetary policy. You see the economy opening. You can see ridership on airplanes going up and people going back to restaurants. I think the March jobs report that we recently got shows what that can look like, which was close to a million jobs in a month. So I think we are – we're going into a period of faster growth and higher job creation, and that's a good thing.

I would point out there are still risks. In particular, I would say the main risk is that we'll have another spike in cases, perhaps in a – in one of the virus strains that may be more difficult to treat. Now, we don't see that yet. We do see cases having moved up a bit. But that's something we need to be careful about, and I think we'd be wise to keep wearing masks and being socially distant at least for a while longer.

MR. RUBENSTEIN: OK. When the Fed does its analysis of the economy, you now have to look at things like vaccination rates. Do you have internal experts that give you that kind of information of whether the vaccination rates is going the way it's supposed to, or do you consult outside people for that kind of information?

MR. POWELL: Well, we do have experts now. I would tell you a year ago we – you know, we've had to learn it. So this was – by far the most important economic policy in this entire event has been medical policy. It's been the treatment of the disease and the success of measures to suppress its spread, and then ultimately vaccination. So that's been the most important driver of the economy.

We, of course, all through this have consulted externally with lots of experts, but we've also developed significant in-house expertise over the course of now more than a year. So we do monitor that still very, very carefully, of course.

MR. RUBENSTEIN: So let's talk about the president's stimulus bill, the $1.9 trillion stimulus bill. At the time that it was proposed Larry Summers, a former secretary of the treasury, said that he thought it might be too big, it might be somewhat inflationary. It was – the output gap is roughly $500 billion; this was $1.9 trillion. You, I believe, supported the legislation, thought it was appropriate for the economy. Do you have any concern that we are going to be producing inflation as a result of this stimulus bill or do other things that might get you to be more worried about the economy because of the size of that stimulus bill?

MR. POWELL: So we – at the Fed we have very specific jobs. We're a creature of statute and we have very specific jobs that we handle on – that Congress has given us. And that's – for monetary policy, it's stable prices and maximum employment. We also supervise and regulate banks, we deal with the payments systems, and all that.

One thing we don't do is give Congress or the administration advice on fiscal policy. So I've never – and we don't traditionally take a position in favor or opposed to legislation. We didn't do that for the Tax Cut[s] and Jobs Act and we didn't do it for, really, any of these acts. You know, that's just not something that we do. We have a narrow mandate and precious independence, so we try to stay in our lane and not comment on things that Congress might do on fiscal policy.

MR. RUBENSTEIN: OK. Well, let's just talk about – let me try it another way: Are you worried about the debt and deficits? The debt is pretty high, $27 trillion or so, and the annual deficit is now about $2.5 to 3 trillion or so. Is that a concern for the Fed in terms of impacting inflation?

MR. POWELL: So, yes, in the – over time and in the longer run the U.S. federal budget is on an unsustainable path, meaning simply that the debt is growing meaningfully faster than the economy, and that's by definition unsustainable over time. It's a different thing to say that the current level of the debt is unsustainable. It's not. The current level of the debt is very sustainable, and there's no question of our ability to service and issue that debt for the foreseeable future.

I would also say, though, that as a – as a nation, we will have to eventually get back to a sustainable path. That is something that is best done in very good times, when the economy's at full employment and when taxes are rolling in. This is not the time to prioritize that concern, but it is nonetheless an important concern that I believe we will ultimately have to return to again when the economy is strong.

MR. RUBENSTEIN: Now, you have previously said – I just want to ask you if you feel the same way now – that currently you do not expect the Federal Reserve to increase interest rates before the end of the 2022. Is that a correct view of what you've said?

MR. POWELL: So here's what we've said. We've said that we would expect to keep interest rates where they are today until three particular outcomes are achieved in the economy. The first is that the recovery in the labor market is effectively complete. The second is that inflation has reached 2 percent – and really reached it; not just sort of tapped the base, as I like to say, but has reached it sustainably. And the third thing is that inflation is on track to run moderately above 2 percent for some time. Those are the tests.

So we are really focused on the progress of the economy toward those goals and not on a particular timeframe. When we get those three boxes checked, that's when we'll consider raising interest rates and that's when we'll – that's when we'll raise interest rates. Until then, we won't.

So what you're referring to, I think, is we all write down these projections every quarter in the March, June, September, and December FOMC[1] meetings – write down individual projections and we submit those, we tabulate them, and publish them. And most members of the committee did not see raising interest rates until 2024. But that isn't a committee forecast. It isn't something we vote on or act on as a group. It really is just our own assessment. And so I think there's a tendency of markets to focus too much on what we call the dot plot, the Summary of Economic Projections, and I would focus more on the outcomes that we've described and the best assessment we can make of our progress toward achieving those.

MR. RUBENSTEIN: OK. But based on what you know to date, you would not expect to increase interest rates before 2022, or you're just not saying that yet?

MR. POWELL: Well, before 2022, that would be this year. I think that would be highly unlikely. I don't – I don't talk about a particular date. I don't think there's any use in that, so. But it really is outcome based.

MR. RUBENSTEIN: OK. Let me ask you, last time the Fed did increase interest rates, it did so by a little bit and then it started shrinking its balance sheet a bit. Do you have any view on whether that's the right way to proceed? When you begin to increase interest rates, should you increase interest rates and then shrink the balance sheet later, or would you begin to shrink the balance sheet and then increase interest rates? Do you have any view on whether one policy or the other is better?

MR. POWELL: So what we did after the global financial crisis was, first, we were buying assets, and then we gradually slowed the pace at which we were buying Treasurys and mortgage-backed securities, and then we held the balance sheet constant for a while. After that, we started raising interest rates. We raised them gradually. And at some point we actually – and we held the balance sheet constant, so we don't sell bonds into the market and we either – when they mature, we either reinvest them or we allow them to run off. So that's what we did last time.

I think if you look at the sense of our guidance, it is that we will reach – we will reach the time at which we will taper asset purchases when we've made substantial further progress toward our goals from last December when we announced that guidance. And that would – that would, in all likelihood, be before – well before the time we consider raising interest rates. We haven't, you know, voted on that order, but that is the sense of the guidance, is that it would work in that way.

[1] The FOMC is the Federal Open Market Committee, a committee within the Federal Reserve System.

MR. RUBENSTEIN: In other words, you are likely to follow the same policy of not selling into the market the bonds you already have or other securities, but just let them mature and then that's the way you'd shrink your balance sheet. Is that right?

MR. POWELL: You know, these are questions which lie ahead of us. But essentially, though, I would say it this way. The first thing we do is we say that we will gradually reduce the pace of our purchases. And then, when the purchases go to zero the size of the balance sheet is constant, and when bonds mature you reinvest them. Then another step – and we took this late in – late in the day the last cycle – was to allow bonds to start to run off, and we haven't decided whether to do that or not. We didn't then and I don't think we now would ever actually sell bonds into the marketplace.

MR. RUBENSTEIN: OK. Let me ask you a little bit about the FOMC. People probably don't really know how it works that much, but how many members are there of the FOMC?

MR. POWELL: All 12 Reserve Bank presidents and all of the sitting governors, which is currently six, are what we call participants in the FOMC. So it's the Federal Open Market Committee and we meet eight times a year. We're doing it virtually now, but I do it from this beautiful boardroom we have upstairs.

So all of the governors vote at every meeting, that's the six of us, and then five of the Reserve Bank presidents vote on a rotating basis, on a two- or three-year cycle depending on which – on which district you represent. Except the New York – the New York Fed president always votes as well. So it's a little bit complicated. But the sense of it is that it's a balance between the Reserve Banks, which are all around the country, and the board, which is here in Washington, D.C., and is nominated by the president and confirmed by the Senate.

MR. RUBENSTEIN: OK. So in the Supreme Court, when they have conferences among the members, I think the chief justice gives his view first and others, according to seniority, give their views. How does it work at the FOMC? Does the chairman of the board, you, give your views first? Or do others speak and then you give your views?

MR. POWELL: It really depends on the issues and what we're talking about. And it's sort of up to me. The order changes. It's not in order of seniority, or anything like that. People say – let's say we're going to have a go-around on the economy. People will say I'd like to go in the middle, I'd like to go at the beginning, I'd like to go at the end. And we sort of make up a list and we hand the list around. So I will sometimes go first if I really want to make a point. Often I'll go last and I'll try to sum up and then say what I think the path forward is. It really depends on the situation.

MR. RUBENSTEIN: OK. I always worry about secrecy. So I assume that you have somebody coming in and sweeping the – where all these discussions are going to occur? Or when they're being done virtually you have the best cyber people in the world to make sure that nothing leaks out. Is that correct?

MR. POWELL: That is correct. You know, of course we realize that we're a very attractive, you know, target for hacking and cyberattacks of all kinds. And so we invest a great deal of time and money in trying to make ourselves as safe as possible. We also have very strict rules for FOMC participants and their staff for the handling of confidential materials. I would just say you never feel like you've done enough. I'm sure you feel the same way in business. You just never feel like you've done enough. But we try very hard to be as robust against those kind of penetrations as possible.

MR. RUBENSTEIN: OK. So let me ask you about the situation with respect to a couple issues you've talked about – climate change, for example, or racial inequality. The Fed has not historically been somebody that's supposed to be focused on climate change. And you're focused on the unemployment rate, but not under the statute whether it's minority unemployment rate or white unemployment rate. How do you assess those issues? Do you get criticized from members of Congress when you say we have to worry about – or if you do say that – climate change or its impact on the economy? How do you assess these issues that are not really in your statute but are now important in terms of determining how the economy is moving forward?

MR. POWELL: So they're two different issues and there are differences and similarities. So I'll talk about them in order. So both – but the point is, both of them we see only through the eyes – through the lens of our existing mandates. We haven't gotten any new mandates. So take climate change, for example. The reason we're focused on climate change is that our job is to make sure that financial institutions, banks, particularly the largest ones, understand and are able to manage the significant risks that they take. And the public will expect us to do that.

Climate change is just another one of those risks. And increasingly, the large banks very much realize that. If you talk to leaders of these large financial institutions, they're very focused on what climate change is going to mean for their business, for their business model over time. So that's – it's within the scope of that mandate. In addition, we have responsibilities for the broader financial system. How will climate change affect the broader financial system and markets? And so we see it only through the lens of that existing mandate.

It's similar with inequality. We have these persistent disparities – racial, gender, and other disparities in economic outcomes in our economy. And they kind hold the economy back. You know, we all want an economy where everyone has the ability to contribute to and benefit from prosperity that we – that we have in our great economy. So really our focus is on those – the gaps that we face. And we call them out, and we talk about them. We've tried to incorporate into our monetary policy framework the thought that maximum employment, our statutory goal, is a broad and inclusive goal. That's a reference to those issues. And also, I think we now realize that unemployment can go low for quite a long time without inflation being a problem, which will also tend to help those groups.

On that, I would just stress, of course, we aren't – we can't be the primary policy organization that treats either climate change or inequality. You know, we see it through the lens of our existing mandates. But those are very much issues for elected representatives and for other parts of the government more than they are for us.

MR. RUBENSTEIN: You mentioned inflation. Let me talk about that – or, ask you about inflation. The Fed, for quite some time, has tried to get 2 percent inflation but really hasn't been able to get 2 percent inflation in our economy. Why do you think it's been so difficult to get inflation at 2 percent or higher? When I worked in the government many years ago we had double-digit inflation. I don't think we're getting that again. But why is inflation so hard to get when we have large deficits and a lot of government spending?

MR. POWELL: The economy has really changed since those days. That's when I was in college. And I think people generally attribute the quarter of a century of low inflation that we've had to a number of factors. One is globalization. One is spread of technology. Another is demographics and the aging population. All of those tend to lead to lower inflation.

So what we have – and in fact, since the global financial crisis, for the last decade, you've seen central banks around the world really struggle to reach a 2 percent goal and, in some cases, are fighting outright deflation. The reason that's a difficult thing is that reduces the scope of central banks to react to the economy when it turns down, which can lead to still weaker economic outcomes, lower interest rates, lower inflation.

So you can get into a cycle, if you will, that's not a productive one. So we really want inflation to be at 2 percent. We want it to average 2 percent over time. And that means that we want to – we want to overshoot 2 percent after we've been through a period – moderately and for some time – after we've been below 2 percent for a while.

MR. RUBENSTEIN: Well, as you know, bond traders tend to focus on every nuance of everything you say. And so they tend to sometimes exaggerate what you might have meant. But to make sure I understand and everybody watching understands: If inflation were to go a little bit above 2 percent over the next year or so, you wouldn't regard that as a calamity. Is that fair?

MR. POWELL: So we seek – because inflation has run below 2 percent for some time, we seek inflation that is moderately above 2 percent for some time. That's our objective. Now when you say moderately, that means moderately. We're not going to put numbers on it, but so – we'd be comfortable for, indeed we seek, inflation as moderately above 2 percent. And that's very well known. And so for quite some time many people were saying, well, you'll never get above 2 percent, because it has been very hard to get back to 2 percent. Now more of the discussion is on the other side, as you know.

MR. RUBENSTEIN: So you are the first person in quite some time to be the chairman of the Fed who was not a Ph.D. in economics. I think the last one might have been – well, I think Paul Volcker didn't have a Ph.D. but he was trained as an economist. But since that time you've had trained economists. You've been trained as a lawyer. Is that why you are able to speak in the King's English[2] much better than the economists who've had that job? Because you tend to speak in ways that people can understand. Is that a conscious effort, or you just didn't learn how to speak like an economist and therefore you're more easily understood?

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[2] King's English, according to Merriam-Webster means "standard, pure, or correct English speech or usage."

MR. POWELL: So I do consciously think it's very important to speak to the interested public in a way they can understand and to avoid jargon. So every discipline has jargon. And it's a way members of that discipline speak to each other to be very precise about what they mean. But when you use it with the general public it's just annoying. It's irritating. And it's exclusive. It feels bad. So I try very hard to avoid using jargon.

And I do think – I think if you look at surveys, you've seen these, large public and private institutions around the world are really struggling to hold the faith and support of the public. And I think for the Fed, it's terribly important that we do engage with the public proactively. We don't look at this as something we got to do. It's absolutely essential to what we do, is to speak to the public and the public's elected representatives in Congress a lot, and sort of gain our democratic legitimacy through that. We need accountability. We need democratic legitimacy. And to do that, we've got to speak clearly and transparently.

MR. RUBENSTEIN: I've known a number of your predecessors. I wouldn't say they relish dealing with members of Congress. It wasn't the part of the job that they liked the most. But you seem to actually, you know, don't dislike it. You've talked to a lot of members on both sides. Is that a conscious effort to talk to more members of Congress than maybe some of your predecessors? And do members of Congress tell you all the time you should be doing this or that? And how do you respond when, you know, you're trying to be polite to them?

MR. POWELL: It was very conscious. And part of it just was after the hard work done by, you know, Ben Bernanke,[3] and Janet Yellen,[4] and everyone who was involved to get the economy back to a better place and get the Fed back to a better place, I thought there was an opportunity to really raise our engagement. And I have. And so I do spend as much – a great deal of time. I actually enjoy it. I go into people's offices and I say: I want to hear what's on your mind. And I think they really do appreciate the dialogue and all that. And I appreciate it too. I feel like I learn about them. And they tend to be very interesting people. And they're interested in what we do. So it seems to work, and I'm certainly going to keep doing it.

MR. RUBENSTEIN: So when I go see members of Congress from time to time I sit in their waiting room for quite a while to get in. Do you spend more than 30 seconds in a waiting room? Or that 30 seconds would be long?

MR. POWELL: No, it happens all the time. Sometimes you go up there and they're voting, and you sit there for an hour, and they can't go, and you go back, and it's fine. You just – that's just part of the deal. We work for them. I mean, we're a creature of Congress. We were – effectively the House Financial Services Committee and the Senate Banking Committee are the statutory oversight over this agency in our government, so I take that very seriously. We take our relationships with them seriously and we want to understand their concerns. And we work hard at that.

MR. RUBENSTEIN: Now, as you pointed out earlier, there are six members of the Federal Reserve. There are supposed to be seven. We haven't had seven for quite a while. Do you

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[3] Ben Bernanke served two terms as the 14th Chair of the Federal Reserve (2006 - 2014).
[4] Janet Yellen served as the 15th chair of the Federal Reserve (2014 - 2018).

recommend a seventh person to the president, or do you stay out of that? And how does the Fed operate without seven? It hasn't had seven for a long time. Do you think it's OK to operate with five or six?

MR. POWELL: It's certainly OK to operate with five or six. So we were down to three for a while, and I would say that was more like we had to go zone defense. You know, it was – that was very, very difficult. But with five or six, we're fine, and with seven we're fine. The way it works, though, is of course the president has the right of nomination and the Senate has the right of confirmation. We have no official role to play whatsoever.

As a matter of courtesy – as a matter of courtesy, traditionally administrations have, after they have vetted candidates, they will – they will, you know, perhaps send that candidate to be a governor over to meet with the Fed chair. It's strictly in their discretion to do that or not, but they have often done that. And then the Fed chair really – they're not asking you to identify people. They're saying: Is this person OK? And you sort of have a nice interview with them and give them your answer. So that's the way it's been traditionally. But really, we have no official role and it's completely up to the administration whether they want to do that or not.

MR. RUBENSTEIN: So I don't think we've ever had a case where a chairman of the Fed later became secretary of the Treasury and somebody who was on the Fed board later became chairman of the Fed, like you have. And so is it a little awkward to be kind of in a situation where your former, let's say, chair, is now the secretary of the Treasury? Or does it make it easier because you know her so well?

MR. POWELL: It's not awkward at all. So I think – you know, I worked at Treasury and I worked at the Fed. Secretary Yellen worked in the White House, on the council – she was chair of the Council of Economic Advisors. And I think both of us understand that Fed and Treasury have different authorities and different roles but have a long history of institutionally working together for the good of the country. And we respect each other, we respect the lines very clearly – very clear lines, stay in your lane kind of thing. And I think we'll have exactly that kind of a – we do have exactly that kind of relationship. I mean, I have no concerns about that at all.

MR. RUBENSTEIN: And how do you relate to the administration? Typically chairs of the Fed will have a regular lunch with the secretary of Treasury. Sometimes even the president of the United States will have some regular contact. How are you relating to this administration? Do you meet with the secretary of Treasury regularly, or people on the White House staff, or the president? How are you doing that?

MR. POWELL: So I think the way it's – the sort of standard way it's happened has been this, that there's a weekly – it had been a breakfast or a lunch between the secretary of the Treasury and the Fed chair, and it rotates back and forth into each building. That's now a phone call. And so that's what I've been doing with Secretary Yellen. In addition, there's been an irregular but roughly monthly lunch with the head of the National Economic Council. So there's a relationship there. You know, meetings with presidents and Fed chairs are very, very, very infrequent, and not on sort of a schedule. And I have not met with the president.

MR. RUBENSTEIN: Had you met him before he was president? You must have met him at some point in his life, or your life? Or you really haven't met him yet?

MR. POWELL: I think I've shaken his hand, but I don't – I have not really met him and talked to him.

MR. RUBENSTEIN: OK. Let's talk about what it's like to be the chairman of the Fed. You know, one day you're, you know, a private citizen and you can go to a restaurant, you can say whatever you want, you can do, you know, anything socially. When you're on the Fed board, and then you become chairman, are you constrained in who you can socialize with, what you can say at a restaurant? Do people come up to you and they innocently say, hey, what's going on, what are you working on, what are you supposed to say? I mean, so how is life as the chairman of the Fed?

MR. POWELL: So people don't come up and say inappropriate things. That's the thing, you know, mostly they don't come up at all. They think – even people that I know are reluctant to come up, which is unfortunate because I like to talk to people. But I haven't had any situation where people have asked me anything inappropriate, even sort of unknowingly. But, you know, it is a different – you have security and you have to be very careful about what you say in public places. And, you know, it's just part of this life is, you're – the things you can do are limited and you just have to accept that for the time that you have this job. But you know, it's such a great job and it's such an honor to do it, I really don't think about that.

MR. RUBENSTEIN: So if you want to talk to somebody on the cellphone you have to have, I assume, I secure cellphone and so forth, and all of those things, right?

MR. POWELL: Yes. Yeah. And, you know, and 24-hour security, and all those things.

MR. RUBENSTEIN: So when you are running the Fed in a pandemic, are you doing it remotely from your home? I know you're now in the Fed building now, but have you been the last year or so mostly working from home? Or have you been coming into the Fed and working from there?

MR. POWELL: You know, we – so we had a pretty significant FOMC meeting on March 15, which I think was a Sunday. And that was the last meeting that I did from this building. I went home after that and, since March 15, 2020, have mostly worked from home. And although lately I'm coming in – I find myself coming in two, three, four days a week, as a matter of fact, more than I used to. I'm not sure why that is, but that is the case. And it was – I would say it was surprising how well our business and our business model were able to adapt to doing work remotely. I think many organizations had that experience. We certainly did.

MR. RUBENSTEIN: So most of the Fed staff people who work at the main building of the Fed, are they coming in now more frequently, or are they still working from home?

MR. POWELL: Almost everyone works – just about everyone works from home exclusively. Or, you know, from wherever they are exclusively. Some people have – some people live elsewhere now, where they're calling in from a home someplace that isn't the one they have in the Washington area.

MR. RUBENSTEIN: You're coming in more frequently because your wife is saying finally it's time to get out of the house and go to the office more, is it some of that? Or she's happy for you to be home?

MR. POWELL: There may be some of that involved. There may be some of that involved, absolutely.

MR. RUBENSTEIN: So how do you coordinate with the heads of the central banks in Europe and other countries that are important? Obviously, it's remote now. But do you find that you can still communicate with them what they're doing? And do you communicate as well what you're doing remotely?

MR. POWELL: You know, it's a very, very important part of the job – more important than I had really understood, I think, before I started doing it. And we need to know each other – the heads of the major central banks need to know each other pretty well, and meet regularly, and talk. And so that's what we do in Basel, Switzerland. Six times a year we go to Basel and we have two and a half days of meetings. And there's no press or anything like that. So that's what we do.

Of course, we haven't done that since January of 2020. So we're doing it by telephone. And I really highly value those interactions. And I know my international colleagues do too. So we're doing it on the telephone now, and by – you know, by the secure equivalent of a Zoom call. It's fine. That's what we'll keep doing for as long as we have to do it that way. I'd say it's better to be in that tower in Basel having lunch with people, you know, seeing people in the hall, going for walks. You know, there's just more time to really meet privately and talk than there is on the telephone. But I say in touch with a good number of my international colleagues. And, again, I place a high value on it. I think that is a good thing to do.

MR. RUBENSTEIN: The Fed director for the area of – that has – I guess includes Wyoming often holds an event, I guess it's in August or July, where the major finance people come together in Jackson Hole. And that's, again, in July or August. Is that going to happen this year in person, or do you think it's remote again?

MR. POWELL: I think they're thinking about that right now. So that's the Kansas City Fed, and our great Kansas City President Esther George will be making that decision. I 'm not sure where they're going to come out on that, but we will hold it. It will be held virtually, I think, as it was last year [unintelligible].

MR. RUBENSTEIN: I think you said recently that the biggest problem that you're worried about how is cyber – cyberattacks and so forth. Can you elaborate a little bit more about why you are so worried about it? And how does the Fed protect itself? I assume you are subject to lots of people wanting to know what's going on and cyberattacks. I assume you've got great ways to prevent that. But can you give us – without telling secrets you can't tell – some of the things that you are worried about in terms of cyber and how you protect your information?

MR. POWELL: Sure. You know, the question I was answering was really will we see a rerun of the global financial crisis, with the banks failing and all that. And you know, we spent 10 years – literally 10 years strengthening the banks with much higher capital. I can't stress how much higher. Higher levels of liquidity. Much better risk management. Severely adverse annual stress tests. And I have to say that the banks held up to what was a pretty significant real-time stress test over the course of 2020.

So that isn't the main concern I would worry about it. And it really is some kind of a cyberattack. So we have a great game plan now for banks making bad loans, and, you know, housing bubbles, and things like that. We've got that game plan. We've got a really strong financial system and capital markets. Cyber is just the – it's the new frontier. And, you know, that isn't – that's not a new insight. We spend a great deal of time and money making sure that we are resilient, making sure that the banks, they spend a lot of time and money. All of these institutions are, you know, constantly under cyberattack.

And you know, there's – within the government – tremendous resources, very, very capable resources, that we work with. I wouldn't want to go much into it. And, you know, historically we've run these exercises, sometimes, you know, scenario analysis where we run an exercise and see how it happens. We imagined that X happened and that we get together in a group. So we'll do – we'll keep doing that, I'm sure. But as I said before, it's one of those things where you never feel like you've done enough, you know.

MR. RUBENSTEIN: OK. Let's talk about fintech.[5] Since you first got into the financial world the fintech revolution has really changed banking and financial services. How does the Fed regulate some of these new fintech companies that are really not subject under the traditional rules to your regulation? Are you worried about your inability to kind of control some of these companies that might have an enormous impact on the economy?

MR. POWELL: I would say it this way, we – first of all, you know, innovation is a positive thing. It brings with it many potential benefits, greater financial inclusion, more efficiency, greater options. You know, technology can do terrific things. In the financial area, the key thing is that equal activities – the same activities should be regulated the same way no matter where it is, what kind of business it's in. That's one thing. Another is, it needs to be regulated in way that gives consumers and users of that service the protections that they need. And so they have to understand what the risks are, what they're doing, and that sort of thing.

So I think with the growth of the, you know, non-bank financial players, we have some work to do to understand and, you know, deal with those challenges. In the meantime, we have the legal authority that we have over banks, really – also some of the payment utilities. And we'll use that. But we don't have authority over many other companies that are – that are now very much engaged in payments business and dealing with – dealing with the public. And I

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[5] Financial technology is an emerging industry that uses technology and innovation to improve activities and methods in the delivery of financial services.

think Congress is looking at the question of whether there is enough there – whether there's – the sort of regulation and supervision that they need is really there.

MR. RUBENSTEIN: Related to that would be cryptocurrencies, which is not quite fintech. Maybe some people might say it is. But cryptocurrencies have blossomed, mushroomed, depending on your observation of the size of it. It's hard to know exactly how big it is. Are you worried about the impact of cryptocurrencies in terms of the impact on the economy and the ability of people to use these things for nefarious purposes?

MR. POWELL: So a couple things. We think of them more as crypto assets because crypto – what people call cryptocurrencies, they're really vehicles for speculation. No one is using them for payments, for example, like the dollar. What they're using them for is to speculate. It's a little bit like gold. You know, for thousands of years human beings have given gold this special value that it doesn't have from an industrial standpoint. But nonetheless, for thousands of years they've done that. So bitcoin is much more like that, and the cryptocurrencies are much more like that. They're not – they're not really being actively used as payments.

MR. RUBENSTEIN: Let me ask you about your own balance sheet. I didn't really follow up before. What is the size of the Fed's balance sheet at this point?

MR. POWELL: You know, it's between $7.5 and $8 trillion total. I want to say $7.7, 7.8, something like that.

MR. RUBENSTEIN: So is that the highest it's ever been?

MR. POWELL: Yes. Yeah, it is.

MR. RUBENSTEIN: And under President Trump a legislation was passed giving you more authority to, in effect, buy securities, buy bonds. Have you used all that authority, or has it been taken away? And do you need any more authority to do anything you want to do?

MR. POWELL: So what you're – what you're talking about is the CARES Act. We still have – the CARES Act really gave us funding, which we needed. Backstop funding, backstop funding, to absorb any losses. We had the – we've always – we had the same authorities we've always had, but these are emergencies authorities with a very high standard required for using them. It has to be unusual and exigent circumstances. Actually, what that means is it's an emergency and regular way credit intermediation has just stopped. And so that was the case for corporations and for states and municipalities. And we stepped in.

We still have that authority. We wouldn't have been able to do the things that we did without Congress providing, you know, monetary backstop – fiscal backstops to absorb the losses. Because we thought we were going to make trillions of dollars' worth of loans. The truth is we didn't, because when we announced the facilities, the private capital markets started working again. That's what happened. Effectively, our facilities became a backstop and pretty much right away corporate bond markets and the municipal bond markets began to work ultimately very well. So we actually didn't have to make very many loans.

MR. RUBENSTEIN: So let me ask you about the Volcker rule.[6] One of your predecessors, Paul Volcker, when he retired later was upset after the 2008 crisis about banks doing proprietary trading and private equity investing. And so what was a simple concept became a very elaborate, I think 3-or 400-page regulation. In your view, is the Volcker rule working the way Paul Volcker wanted it, or the way that you're happy with it? And has it been an administrative burden for the Fed to oversee this?

MR. POWELL: So it's – you know, it's the law of the land. And our job is not to question that but to implement it. So we have implemented the first try at the Volcker rule in, I think, 2013. Then we came back and, you know, I think we learned quite a bit from our first approach. It is – it's a very challenging thing to implement. It's a simple concept. It makes a lot of sense. Which is, we don't – if you want to do propriety trading and sort of gamble with the house's money, don't do that in a federally insured bank. Do it in a hedge fund or wherever you want. So that makes all the sense in the world.

Actually putting it in place and distinguishing between appropriate hedging activities and underwriting activities is not so easy. So we came back with what we think was – what we know was a somewhat less burdensome and clearer provision of the Volcker rule in, you know, '18 or – 2018 or '19. We think that's working OK. And that was our intention, was to be faithful to the letter and the spirit of the law, but to make it less burdensome and more efficient.

MR. RUBENSTEIN: Let's talk for a moment about something you said the other day in an interview, that when you come to work sometimes you see people in tents, living in – in effect living in tents, homeless people living in tents. Your mandate is not to go solve that problem necessarily, but is there anything you think the Fed should be able to do, or should be given more power to do to help people who are really suffering in the pandemic and related kinds of issues that hurt the people in the lower ends of economic strata?

MR. POWELL: We're definitely not seeking any new authority, nor are we, as I mentioned earlier, we're not the agency that has the most direct authority over that. I just happened to see it, though, right here on Virginia Avenue. There have often been a couple of tents at this end of town where there's some open space. But now it's big. It's a lot of tents and it's a lot of people. And you can't miss it. You drive by and you think – and it has to be because of the pandemic. It just has grown a great deal. And it really struck me as I – it strikes me every day as I go by it.

So how's that play into what the Fed does? I think we need to keep those people in mind, really. You know, we don't have tools that deal directly with them, but, you know, those are people – many of them probably were working in February of 2020, before the pandemic hit. And I think they need to be in the room with us as we make our decisions about monetary policy. We need to be thinking that it's not just a headline and the aggregate, it's also the people who are at the margins of the economy. Just keep them in mind.

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[6] The Volcker Rule is a federal regulation that generally prohibits banks from conducting certain investment activities with their own accounts and limits their dealings with hedge funds and private equity funds, also called covered funds. The Volcker Rule aims to protect bank customers by preventing banks from making certain types of speculative investments that contributed to the 2008 financial crisis. *www.investopedia.com*

MR. RUBENSTEIN: Speaking of the pandemic, as you asses the economy going forward you are using the best economic models that you have based on prior experience. But those prior experiences often were before we had a pandemic. So how comfortable can you be that the economic models you're now using to assess where the economy is going to go is reflective of what is going to happen post the pandemic? And I assume you think that people are going to work somewhat differently post-pandemic. They may not come to the office as much or other things. How do you assess your economic abilities to assess the post-pandemic working environment and economic environment?

MR. POWELL: I think the first thing to realize is that the structure of the economy is always changing. So the economy that we had back in college was one where low unemployment led to high inflation, and inflation stayed high. It's very different now. And so we have to constantly update our thinking about the way – the way the economy actually works. Now, bringing that to the present, we're coming back to a different economy. It's not going to be the same economy as the one we left. And we don't know exactly what that will be, but we have some ideas and we're going to be finding out, I think here, beginning now.

One of them is that there'll be more – of course, there'll be more remote – working remotely. That's one thing. Another is, we've talked to companies and big consulting firms who have surveyed companies. And many, many companies have spent the last year thinking about how they can use more effective technology, perhaps at the expense of the number of people that they need. So they do their work with fewer people. And that's a lot of the service industry companies that have been traditionally big hirers of relatively low-skilled, low-paid people.

So that's a concern because we still have many millions of people from those jobs who are working in public-facing service sector jobs. They don't have a lot of other skills or wealth. And so we need to be thinking about what they're going to do, and how are they going to find their way back to the lives and the working lives that they had? And it'll be different in other ways as well. We'll be learning about that. And we always try to – try not to settle on one model of the economy and think, oh, we really understand this, because it's ever-changing.

MR. RUBENSTEIN: So when you assess information about the economy, you obviously are gathering data all the time and many of your predecessors really poured over this data with great fervor. Are you convinced that the Fed has the best sources of data? In other words, do you collect the data yourself, or get it from other government agencies? Or do you subscribe to private services? And do you think that the world has changed so much in terms of technology that the data collection methods that you have been using may not be as up to date as they should be?

MR. POWELL: So overwhelmingly the data that we look at are collected elsewhere. Some of it's collected by us, but the vast bulk of it, the big important things that you see – for example, the monthly labor market report, that's the Bureau of Labor Statistics. It's not us. So we don't – it's not like we're the CIA, where we have a lot of private, secret information about the economy. That's really not the case.

More recently, though, things were changing so quickly during the pandemic, and the pandemic – the early part of the recovery from the pandemic – that there were a bunch of sort of real-time indicators of – like, OpenTable[7] is a good example, where you can get data from – you know how many people were using restaurants. Getting much more high-frequency data, we call it. So that became much more important than it had been in the regular economy. So the data evolved.

So but the bottom line is that it's not so much the data. We're all getting the same data. It's really what you can do with it and the analysis. And I would say we have – we have terrific, highly-motivated, highly-capable people, many of whom have been focused on doing this job – forecasting and understanding the economy – for many, many years. So I think our analysis is as good as anyone's pretty much can be. It's pretty much state of the art. There are other outside groups that have excellent analysis too. And, you know, we read – just to get a disparate range of views – we do read those as well.

MR. RUBENSTEIN: To keep up with what the major banks are doing, do you call the CEOs of major banks, or do they call you with ideas from time to time? Or is it done at a more junior level, so you're not really day-to-day calling Jaime Dimon[8] or the equivalent?

MR. POWELL: I talk on the phone with a number of bank CEOs from time to time. In my case, it's always about higher level – it's about the economy and what you're seeing out there. And I would want people to call me if they see something that's worth talking about. I don't get into talking about, you know, regulation or supervision of their bank. There are other people at the board who do that, of course. But that's not – that's not what I do. You know, these are – they're in positions in our economy and our society where they see a lot. And I find it valuable to hear what they have to say about what's going on in the economy.

MR. RUBENSTEIN: Let's talk about your life outside the Fed for a moment. You're a golfer. You know, you aren't a single handicap golfer, you've told me, but you're a golfer and you've played golf for a while. When you're the chairman of the Fed do people give you putts that they wouldn't have given you before? Is that very common or not?

MR. POWELL: I would certainly hope so.

MR. RUBENSTEIN: That would help your –

MR. POWELL: I would expect it, frankly, just for – just for the record. No, I haven't been able to play. I've not been able to play a lot of golf, unfortunately. But that's part of the deal.

MR. RUBENSTEIN: And you are a bike rider, a cyclist. Isn't that dangerous, for the chairman of the Fed to be riding a bike when cars are coming along? And do you have a lot of strong people to protect you from cars that might be coming along?

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[7] OpenTable is an online restaurant-reservation service company.
[8] Jamie Dimon is the chairman and CEO of JPMorgan Chase and was previously on the board of directors of the Federal Reserve Bank of New York.

MR. POWELL: You know, I don't – I don't tend to ride on busy streets. I do tend to – I like to ride – I love to ride my bike. And I do commute to work sometimes. But I don't do it on heavily traveled streets or times of day when there's a lot of traffic. Because that's – whoever you are, you don't want to get hit by a car – Fed chair or not Fed chair. So I'm pretty careful.

MR. RUBENSTEIN: And the most constraining part of your life now is it's just very difficult, leaving the pandemic aside, to really have conversations with people in the way you did before you were chairman of the Fed. You can't, you know, talk to people about what you're working on at work so much. So what do you talk about? And how do you have – maintain your friendships?

MR. POWELL: You know, I'm lucky to have some great friends. And, you know, it isn't such a great burden. There's plenty to talk about in the world, although there are a lot of things I don't like to talk about, like politics in particular. I try to stay away from that. But, you know, it's a fine life. And I've got a great family as well. I have four brothers – four sisters and one brother. So there's enough to talk about just right there.

MR. RUBENSTEIN: Do they laugh at your jokes better than they did before, or nothing's changed?

MR. POWELL: Yeah, they don't laugh at my jokes. [Laughs.] But other people do, so, fortunately.

MR. RUBENSTEIN: So if you were an average person sitting in Dubuque, Iowa or somewhere, and you wanted to know more about the Fed, what would you want to communicate, as the chairman of the Fed, to the average person who might be watching this about the Fed, why it's a well-functioning institution, why people should be happy about the Fed? And what is it that you would, I'd say, boil down about the essence of the Fed that you want the average American to know about the Fed and the way it works?

MR. POWELL: So I'll say two things. First, the Fed is a nonpolitical, nonpartisan organization that tries to serve all Americans in a way that's really important – you know, to try to keep – to achieve maximum employment and price stability. So, you know, a great jobs market and low inflation, two really important things. And that's what we do. We try very hard to succeed at that. But the other thing I would – I would love people to know, though, is you hear about the Fed a lot. You know, we get a lot of notice and people write about us all the time. The truth is the really important things about our economy are not things that we can affect.

We have a relatively short-term perspective, a business-cycle perspective, on the economy in the things that we can do. Really what matters for the country's economy over the longer term is – are things like investment and education, which is investment in people, and having a more inclusive economy. So there are – those are the things that matter for the longer run much more than the Fed. So we get all this attention, but in reality it's the things that Congress can do and that the private sector can do that will matter much more for people's children than what the Fed does.

MR. RUBENSTEIN: Is it surprising to you that a system that was set up about 100 years ago, the Federal Reserve System, is still operating largely under the initial statutes, and that basically the way that it was structured then is more or less the way it operates today? Is that a surprise to you? And if you were sitting down today and given the power to redo the way the Fed operates, is there something you would suggest maybe could be improved?

MR. POWELL: You know, this was the third try at a central bank in the United States. There was the first bank of the United States and the second bank of the United States, and they basically failed because people didn't want to bestow a lot of power on a government agency in a major city on the East Coast. You know, there were the agricultural interests and the big country, they just weren't comfortable with it. In any case, both of those died after about a quarter of a century each. And then there was a long time without a central bank.

The reason this one succeeds and is thriving, I think, is because we're a balance between a board of governors here in Washington, nominated by presidents and confirmed by the Senate, with terms that are not coterminous with presidential cycles. So we're nonpolitical. We're not part of the political cycle. But also, 12 Reserve Banks all around the country who are deeply grounded in their communities and understand their communities, the states, and the cities and towns where they are. So it's a much more balanced and sustainable model.

And I think it really works. And I think – you know, I think because of that we keep in better touch with the whole country and what's going on in the whole country. So I wouldn't – I wouldn't change – there isn't a fundamental thing about the Fed I would change. Really, I think it's – I think it's a great model for this very large country, you know, with quite a disparate economy and, you know, different regions and states. So I think it works.

MR. RUBENSTEIN: As we get towards the end of our time, I'd just like to talk a little bit about lessons learned. You joined the Fed in 2012 initially as a board member, and later were appointed chair in 2018. I wanted to ask you, what have you learned as a member of the Fed board member that you didn't really know before, that surprised you, perhaps? And what have you learned about the pandemic and the way it's affected the economy that might have been a so-called lesson learned, that the Fed has learned about how the economy operates in a pandemic?

MR. POWELL: Well, I'm just about to have my ninth birthday here at the Fed, so I learned a lot in those nine years. I think you have to master the specific economics around monetary policy and also you've got to master payments and regulation. So there's a lot to learn. And I did – I went through all of that in my early years at the Fed and continue to learn a ton every day.

So in terms of the pandemic I would say this, the first and most important thing about the pandemic was health care policy, which starts with the things that we did to shut down the economy – not we, but that, you know, the government did and that the private sector did to get the pandemic under control, and then to get people to socially distance, and then ultimately vaccines. All of that was and is more important than anything we can do.

The second most important thing was fiscal policy. This was a situation where, you know, 30 million households are suddenly without an income. And Congress had to replace that. That isn't a matter for, you know, monetary policy. It works by stimulating aggregate demand by lowering interest rates. That wasn't – you know, that would become important later, but that was not what was needed. It was fiscal policy. Fiscal policy came in and made the difference in this cycle.

Then us. We were third. And I think we had three goals from the beginning, the first of which was just to stabilize things, which I think we seemed to stabilize markets after our – what we did on March 23 of last year. And also, to provide some comfort and then support the economy when the expansion began, and then over the long run try to avoid longer-run damage to people's working lives and to smaller businesses going out of business, and things like that. So those were the things we tried to achieve. Clearly, we've learned a lot about the way pandemics work. And, you know, we hope to learn no more about that going forward because we hope to have no more pandemics.

MR. RUBENSTEIN: So if there's somebody who's watching and says: I really admire Jay Powell. He's working hard for the country, and so forth. I'd like to be chairman of the Fed someday. What do you think are the skillsets that somebody should have to be a good chairman of the Fed? Should they be trained as a lawyer, get a Ph.D. in economics, maybe do investing work? What do you think is a really good background to be chairman of the Fed? Like members of Congress? Like other – reporters? What is it you think that's a really good skillset, would make a good chairman of the Fed for a future chairman of the Fed, let's say?

MR. POWELL: Interesting. So I think if you look around the current membership of the Federal Open Market Committee, we have a pretty disparate group of people. There are people who were attorneys, people who worked in the financial markets. We have a good number of macroeconomists and non-macroeconomists. We've had people who were microeconomists too over time. So I think – I think any background – I think you can do this job with any of those backgrounds.

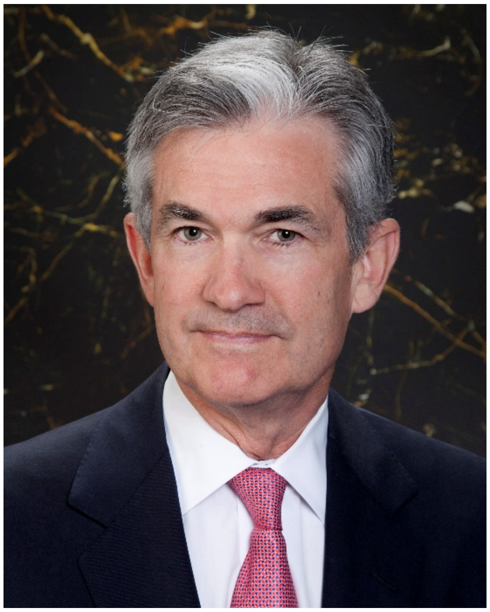
I think it really helped me to spend almost six years here as a governor before I became chair. So I spent – and I did almost every job here under Chairman Bernanke and then Chair Yellen. So I knew a lot about the operations of the Fed. I knew the people. So I think all of those things came together to make me comfortable in wanting to do this job in the first place.

MR. RUBENSTEIN: So for those people who are wondering how does one get to do an interview with the chairman of the Federal Reserve Board, well, I have interviewed Chairman Powell before. But most recently it was a matter of coincidence. And I'll just end with that, you can comment on it. I had to go in early to see my dentist and the only other person early that day coming in to see the same dentist was Chairman Powell.

Of course, I knew when he was there that I wouldn't be getting my teeth cleaned as quickly as his would, because he'd be ahead of me. So that's OK, no problem. I understand Washington. But had we not met at that dentist, we might not have gotten this interview. So I want to thank you for using the same dentist that I'm using, who's a very good dentist. And thank you for agreeing to let this interview go forward. And I appreciate your hard work and your public service. And, Jay, thanks very much for doing this.

MR. POWELL: David, thanks very much. Always a pleasure. Great to see you. See you at the dentist.

MR. RUBENSTEIN: OK



The Honorable Jerome H. Powell
Chairman, Board of Governors
Federal Reserve System

Jerome H. Powell took office as Chair of the Board of Governors of the Federal Reserve System on February 5, 2018, for a four-year term. Mr. Powell also serves as Chairman of the Federal Open Market Committee, the System's principal monetary policymaking body. Mr. Powell has served as a member of the Board of Governors since taking office on May 25, 2012, to fill an unexpired term. He was reappointed to the Board and sworn in on June 16, 2014, for a term ending January 31, 2028.

Prior to his appointment to the Board, Mr. Powell was a visiting scholar at the Bipartisan Policy Center in Washington, D.C., where he focused on federal and state fiscal issues. From 1997 through 2005, Mr. Powell was a partner at The Carlyle Group.

Mr. Powell served as an Assistant Secretary and as Under Secretary of the U.S. Department of the Treasury under President George H.W. Bush, with responsibility for policy on financial institutions, the Treasury debt market, and related areas. Prior to joining the Bush administration, Mr. Powell worked as a lawyer and investment banker in New York City.

In addition to service on corporate boards, he has served on the boards of charitable and educational institutions, including the Bendheim Center for Finance at Princeton University and the Nature Conservancy of Washington, D.C., and Maryland.

Mr. Powell was born in February 1953 in Washington, D.C. He received an AB in politics from Princeton University in 1975 and earned a law degree from Georgetown University in 1979. While at Georgetown, he was editor-in-chief of the *Georgetown Law Journal*.

Mr. Powell is married with three children.