THE ECONOMIC CLUB
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Signature Event

The Honorable Jerome Powell

Speaker
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Chairman
Federal Reserve Board of Governors

Moderator
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DAVID M. RUBENSTEIN: So, as I think everybody knows, our special guest is the chairman of the Federal Reserve Board, who has now completed five years as chairman, as of two days ago – your fifth year – and now been on the Fed board for almost 12 years. So, Jay, thank you very much for being here.

Why don't we start with an easy question. [Laughter.] So, you made a speech last week commenting on the FOMC's decision to raise the Fed discount rate by a small amount, relatively speaking, 25 basis points. Some people would say that was small. But at the time, it wasn't clear that the jobs report would be as strong as it turned out to be subsequently. Had you known that the jobs report was going to be as strong, would you have done 25 basis points or something different?

JEROME H. POWELL: David, thank you for that question. [Laughter.] And thank you – thank you for inviting me here today. It's great to be here. So, we don't get to play it that way, unfortunately. We have to – but I'll take it this way. So, the message we were sending at the FOMC meeting last Wednesday was really that the disinflationary process, the process of getting inflation down, has begun. And it's begun in the goods sector, which is about a quarter of our economy. But it has a long way to go.

These are the very early stages of disinflation. So, the services sector really, except for housing services – [coughs] – pardon me – is not really showing any disinflation yet. So, our message really was: This process is likely to take quite a bit of time. It's not going to be, we don't think, smooth. It's probably going to be bumpy. And so, we think that we're going to have to do further rate increases, as we said. And we think that we'll need to hold policy at a restricted level for a period of time.

Then comes the labor market report for January. And it's very strong. It's certainly stronger than anyone I know expected. And so, but I would say we didn't expect it to be this strong, but I would say it kind of shows you why we think that this will be a process that takes a significant period of time. The labor market's extraordinarily strong. And, by the way, it's good. It's a good thing that inflation has started to come down without – that has not happened at the cost of a strong labor market. So, and of course since then the labor market – sorry – financial conditions have tightened significantly since then.

MR. RUBENSTEIN: So, let me ask it another way. [Laughter.] So, by the way, when the number's coming up, the jobs number is 519,000 jobs, does anybody call you up from the government and give you a little heads-up this is going to happen? Or they never do that?

MR. POWELL: So, on some data – sometimes we get data just the night before. And it's only me – only me. And so, but not on all pieces of data. It's a very small amount of data, and we get it just the night before. For example, if we were going to get a big piece of data in the middle of an FOMC[1] meeting, as often happens on the day of an FOMC meeting, it will help me to know it the night before.

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[1] Federal Open Markets Committee

MR. RUBENSTEIN: OK. So, the markets – after your speech last week, the markets assumed that therefore there would probably be another 25 basis point increase in your next FOMC meeting. Was that a bad assumption by the markets?

MR. POWELL: So, again, what we said at the meeting was that we believe that – we anticipate, is what we said – that ongoing rate increases will be appropriate. And the reason is, we're trying to achieve a stance of policy that is sufficiently restrictive to bring inflation down to 2 percent over time. And we don't think we've achieved that yet. So, we said that. And, you know, now you see the labor market report. And I think, again, financial conditions are more well-aligned with that than they were before.

MR. RUBENSTEIN: So, the assumption when you made your speech was that probably the Fed might even consider decreasing rates by the end of this year. And the markets no longer assume that. Do you think the markets are wrong?

MR. POWELL: Well, so let me say, these are – all of these numbers that we're throwing around here are conditional on incoming data and what happens. So we never say this is what we think will happen. You know, we make a tentative forecast and then we let the data come in. For example, if the data were to continue to come in stronger than we expect, and we were to conclude that we needed to raise rates more than is priced into the markets, or that we wrote down at our last group of forecasts in December, then we would certainly do that. We would certainly raise rates more.

MR. RUBENSTEIN: OK. So today, for people who aren't familiar with the FOMC, who is – actually is on the FOMC?

MR. POWELL: So, the U.S. Fed Central Bank consists of a Board of Governors here in Washington. There are seven governors. Those governors are nominated by the president and confirmed by the Senate. And we serve terms that are not synced up with the election cycle. So, we're independent. There are also 12 reserve banks around the country which have a degree of independence. So, each reserve bank is led by a president who works there full-time. All 12 of them sit on the FOMC. So that's 19 people sit on the FOMC. So, it's quite a large committee, of which 12 vote in any given year. The reserve bank presidents vote on a rotating basis, except New York which votes every year.

MR. RUBENSTEIN: So, when you vote, do you vote at the beginning of the FOMC meeting and then just kind of have discussions afterwards? Or do you wait till the very end and then you vote?

MR. POWELL: No, we vote at the end. I mean, the FOMC meeting process takes, you know, more than a full week. I'm talking to all of the participants, all 18 other ones. And staff has sent around memos. And there's something called the Tealbook, which is the staff's assessment of the – you know, of the economy, and international economy, and monetary policy, and all that. Then we have an extensive discussion on the morning of the first day about the economy. Everybody talks about that. On the second day, we talk about monetary policy. And then we vote on monetary policy around noon on the second day.

MR. RUBENSTEIN: So, does the chairman of the Federal Reserve board speak first and say, here's what I think? Or does he wait until the end and say, well, thanks for what you think, but let me tell you what I think? What do you do, first or last?

MR. POWELL: So different chairs have done it different ways. And so, I tend – I've tended to do what my immediate predecessor did, I think. Well, this is what I do. I speak last on the sort of – on the economic go-round. So, everyone else talks about what they think about the economy, and in their district, for example, if they're a reserve bank president. And I listen to all that, and then give my comments at the end, and I kind of sum up what people have said. And then I speak first on monetary policy.

MR. RUBENSTEIN: OK. So, you've said your inflation rate target is 2 percent. But why 2 percent and not 3 percent? Three percent, you know, could be tolerable, really. I mean, for most of organized history, 3 percent is considered OK. Why do you want 2 percent?

MR. POWELL: So, 2 percent is the global standard. And that is our objective, 2 percent as measured by the PCE index[2]. And that's just – that's not something we're looking at changing. That isn't going to change. It's –

MR. RUBENSTEIN: That's not going to change?

MR. POWELL: Not going to change, no.

MR. RUBENSTEIN: But, OK, so you need to get to 2 percent. And your goal to get there is by what period of time, would you like to get there?

MR. POWELL: Well, we say – we say that we're using our tools to get there over time. If you look at our forecasts, we expect 2023 to be a year of significant declines in inflation. And it's actually our job to make sure that that's the case. But I would tell you that, you know, with inflation – headline PCE inflation is running about 5 percent. This is on a 12-month basis. Core is running at 4.4. My guess is it will take certainly into not just this year but next year to get down close to 2 percent.

MR. RUBENSTEIN: OK. So, 2 percent is firm. That's – you're not going to get off that?

MR. POWELL: Yes. Yes.

MR. RUBENSTEIN: OK.

MR. POWELL: We're not.

MR. RUBENSTEIN: So, the theory of raising interest rates is that it will decrease economic activity and increase unemployment. But you've been increasing interest rates for a while and

[2] Personal Consumption Expenditures

unemployment is now at a record low. So, what's wrong with the theory and why is unemployment not going higher?

MR. POWELL: Well, the labor market is strong because the economy is strong. And as I mentioned, it's a good thing that we've been able to see the beginnings of disinflation without seeing the labor market weaken. It's just that there's a lot of demand for workers. In fact, if you look at the supply of workers versus demand for workers, demand for U.S. workers is now more than 5 million greater than the available supply. And the available supply consists of people who are either working or actively looking for a job.

So, this was not the case before the pandemic. The pandemic really had a significant – left a lasting mark so far on labor supply in the United States. Labor force participation rate came down, and there now is a shortage of workers. And it feels – it almost feels more structural than cyclical. So that's a significant issue.

MR. RUBENSTEIN: Now, you've resisted, I think, saying what unemployment rate would be acceptable to you, I think. But is there an unemployment rate that you think would moderate inflation such that you would tolerate unemployment at 4 percent, 5 percent, 6 percent?

MR. POWELL: I guess I think about it this way, you know, our – we have two goals that Congress has assigned us: maximum employment and price stability. Price stability, as we've agreed, is 2 percent inflation. Maximum employment means if you want a job, you can get one. So right now, the labor market is at least at maximum employment. Many would say that it's out of balance with more demand than there is supply. So, what we're trying to do is get inflation down. We're not – we're not targeting, you know, a different unemployment rate. We're trying – we're trying to use our tools to get inflation to come down over time.

MR. RUBENSTEIN: In hindsight, would you say that when COVID hit the economy – and we injected $5 trillion of fiscal policy into the economy, and the Fed did quantitative easing and other related things, kept interest rates very low – would you say in hindsight that was a mistake, or was the right policy at the time?

MR. POWELL: So, I think you have to go back to the decisions that were made in real time. And it was something nobody had ever seen. The global economy came to a virtual standstill. People were talking about a depression. People were talking – and we didn't think – we had no idea when we would get vaccines that worked. So, Congress took very strong measures, and we took very strong measures. And you see with the economy, as you've got a very, very strong labor market but you have high inflation – as I mentioned we're at the beginning of getting that down.

If you look around the world, though, at other countries, they're also experiencing high inflation, including countries that didn't – that didn't do as much as we did, either from a fiscal or monetary standpoint. So that tells you, though, that a big part of this inflation is actually related to the – you know, the pandemic itself, the shutdown and then the reopening. That's a big part of it.

MR. RUBENSTEIN: Now, the quantitative easing program has increased the balance sheet, I guess, for the Fed. And what is your balance sheet now?

MR. POWELL: I think it's $8.4 trillion.

MR. RUBENSTEIN: It sounds like you know. [Laughter.] $8.4 trillion?

MR. POWELL: That was yesterday's number.

MR. RUBENSTEIN: OK. OK. All right. $8.4 trillion. What would you like it to get down to over the next year or two? Is there some lower number?

MR. POWELL: So, we are in the process of shrinking the balance sheet actively – actually, passively, I should say. So, what happens is as treasury securities on our balance sheet mature, up to a cap – a monthly cap – we – the balance sheet shrinks in that amount. Same thing with mortgage-backed securities, as they are prepaid or – so we – the balance sheet is shrinking.

In terms of the target level of it, we haven't put a specific dollar number on it. The idea is we're in a regime of ample reserves. Reserves are basically deposits at the reserve banks. And when we get close to that level, where we feel that we're – reserves are ample, kind of where we were before the pandemic, then we'll slow down, and we'll sort of test where we are. But it'll be a couple of years, we think, till we get to that level.

MR. RUBENSTEIN: The Fed does not sell securities. It waits for them to mature, and then you just cash them in, right? You're not in the market selling securities that are not yet mature, is that correct?

MR. POWELL: That is correct. It's also correct, though, that we've said we would consider sales of mortgage-backed securities. But I will tell you, that's not something that is on the – on the list of active things – things being actively considered.

MR. RUBENSTEIN: So, there's some people that are worried about the federal debt limit, and that we might not be able to extend it on time. We have $31.4 trillion of debt. Are you a little worried about the debt limit not getting extended?

MR. POWELL: So, the debt limit is really something for the fiscal authorities to deal with. The Fed, our only role in this is that we're the fiscal agent of the Treasury Department. We're not a policymaker on that. And I will just say this: This really can only end one way, and that is with Congress raising the debt ceiling in a timely fashion, so that the U.S. can pay all of its bills when and as due. That's what has to happen. And if that doesn't happen, no one should think that the Fed has the ability to shield the financial markets or the economy from the consequences of moving too slow.

MR. RUBENSTEIN: So, you don't have any program in place ready to go if, in fact, the debt limit isn't passed in time?

MR. POWELL: This is something that Congress has to deal with.

MR. RUBENSTEIN: And the so-called trillion-dollar gold coin solution is not one you're in favor of, I guess?

MR. POWELL: As I said, this ends in only one way. And that way is Congress voting to raise the debt ceiling so that the U.S. can pay all of our bills.

MR. RUBENSTEIN: OK. In terms of consultation, do you consult regularly with the Treasury secretary, or the head of the National Economic Council, or the president of the United States? How do you kind of relate to the administration?

MR. POWELL: For a long, long time – you know, 60 or 70 years, I think – there's been a weekly breakfast or lunch with the Treasury secretary and the Fed chair. And that's what I've had with Treasury secretaries that I've had as Fed chair. I've also had a regular – or call it irregular – lunches with the head of the NEC. We also have regularly scheduled lunches with the Council of Economic Advisors. And that's really the – that's the institutional structure of our contacts with the administration.

MR. RUBENSTEIN: So, and the way the Fed works today, if you could reconstruct the operations of the Fed, you know, would you change the legislation in any way? Would you think the Fed operates in a way that's as efficient as you can realistically operate?

MR. POWELL: We're not looking for any changes to the Federal Reserve Act. I mean, I think it does work. The structure that I discussed earlier where you've got the 12 reserve bank presidents coming in, what that assures really – it institutionalizes diversity of thought. So, we get different people coming in who've got different backgrounds, different careers, and they think different ways. And I think that's enormously beneficial to our decision-making process.

MR. RUBENSTEIN: So, there's been discussion recently about the Fed – some Fed members, Fed board presidents, selling their securities and maybe not doing everything they were supposed to do in terms of disclosing it. What have you done to fix that process?

MR. POWELL: We put a new system and a new set of rules in place, which I think are best in class for a public institution like the Fed. And, you know, the innovations were that if someone wants to sell something that they own or buy something, they have to clear that in advance with staff at the Board of Governors. And then you've got to wait 45 days for that to execute. Also, you can't own individual stocks.

And you can only do these – you can only authorize these transactions or execute them during specific times. And, you know, it's a – and we disclose – of course, all of these are disclosed. If your idea is to trade things, buy and sell them because you think – you know, you think this stock is cheap and that kind of thing, that's just not something that will work at the Fed.

MR. RUBENSTEIN: So, what is the salary of the chairman of the Federal Reserve Board?

MR. POWELL: It's around $190,000, I believe.

MR. RUBENSTEIN: OK. So, you live on the $190,000. If you need to sell something, what do you do? You have to clear it for 45 days?

MR. POWELL: Yes, sir. That's right. We have to. If we have family expenses that – if we have them – that exceed my salary, then we have to sell an asset.

MR. RUBENSTEIN: Do you think that's a fair salary for the job, or?

MR. POWELL: I do, yes.

MR. RUBENSTEIN: OK. So today how do you coordinate with central banks, let's say in England, or Japan, or China? Do you have regular conversations with them about what they're doing?

MR. POWELL: We do, yeah. And I meet six times a year in Switzerland with the heads of all of – of many, many central banks, you know, even the small- and medium-sized ones, in Basel at the Bank for International Settlements. In addition, among the major central banks I have regular dialogues going with most of them. So what we're talking, though, about is really what's happening in the economy and how are you thinking about policy, and that kind of thing. It's very important that we keep those discussions going because, particularly in a crisis, you're going to need to know each other and you're going to need to know – you need to be able to trust each other.

MR. RUBENSTEIN: And do you think the U.S. economy is pretty much in control of its own inflation rate? Are there events outside the United States, like what China is doing or the Ukraine war, that are affecting inflation and make you nervous about where inflation might be going?

MR. POWELL: We have the tools – the Fed has the tools to achieve our 2 percent goal over time. But inflation in the United States is, of course, very closely related to things that happen here, including the balance between supply and demand. It's also affected by, for example, commodity prices that are really set on the global markets. You know, oil and many agricultural commodities are priced globally. So there are – certainly it's an integrated global economy and global markets. And we – you know, are part of that.

MR. RUBENSTEIN: So you get data from all the various government agencies, but do you ever use anecdotal things? Like you go to the supermarket, and you see prices are high, and say, this price is high? Or how do you get – do you ever get anecdotal things? Or do people ever call you up who are friends and say: By the way, you should do this or that? Do you ever get that kind of information? Or do you only get it from the government reports?

MR. POWELL: I mostly get data. But I will say, the – I do believe that anecdotal information very useful. And one of the things the reserve banks are great at is all 12 of them have big operations where they talk to businesses and nonprofits, universities, every sector of the – of the country and the economy. And they bring that back to the FOMC meetings. And they talk about what they're seeing because often – you know, staring at data is great, but you need to – you need to have a story. And I think hearing the stories that people tell, it does help me to sort of, you know, assess what's going on out there.

MR. RUBENSTEIN: So, as the chairman of the Federal Reserve, it's obviously an important job. How do you reduce the stress level you have? I mean, you can't be watching economic numbers all the time. So, what do you do to relieve the stress, other than interviews like this?

MR. POWELL: [Laughs.] You know, the usual things. I read pretty light fiction – detective and spy fiction. I exercise as much as I can. As you know, I like to ride my bike. I play the guitar, I play music.

MR. RUBENSTEIN: Is that safe? Is that safe, riding a bike? You know, dangerous and –

MR. POWELL: It's safe. Sorry. It's safe if you stay on the bike. [Laughter.]

MR. RUBENSTEIN: And you're good at that?

MR. POWELL: That's what I try to do.

MR. RUBENSTEIN: And do you still play the guitar?

MR. POWELL: I do. I do, yeah.

MR. RUBENSTEIN: Your hair is awfully short for playing guitar. Don't you need longer hair?

MR. POWELL: Yes.

MR. RUBENSTEIN: Was your hair longer when you were younger?

MR. POWELL: It's gotten grayer. It's too gray too, so.

MR. RUBENSTEIN: OK. So let me ask you about the issue of what it's like to be chairman of the Fed. You can't go have, you know, regular friendship kind of dinners or meetings, can you? People treat you much differently, I assume, than they used to, right? When you go to a restaurant, are people listening to what you're saying, or something like that?

MR. POWELL: I have always thought that my jokes were funny, David. [Laughter.] But no. So, yes, it's – I've never been a public figure before like this. It's very different. But, you know, it's a great honor to serve. But, yeah, if you go in public places, you have to be very careful about what you do.

MR. RUBENSTEIN: And does the president of the United States ever call you with any advice? Or you don't really – did President Trump ever call you, or President Biden ever call you, or?

MR. POWELL: Well, I think it's a matter of public record that President Trump did used to call me from time to time. [Laughter.]

MR. RUBENSTEIN: OK. What did he call you?

MR. POWELL: [Laughs.] No, I haven't had that kind of – I haven't gotten any calls from President Biden.

MR. RUBENSTEIN: OK. So, the biggest challenge you have now is being able to keep a straight face, not telling people what you're going to do in the future, and look into data, and then come up with the right solution, right? That's mostly it?

MR. POWELL: I think the biggest challenge we face at the Fed is completing the process of getting inflation down to 2 percent. And what I want to point out is that we're seeing disinflation in the goods sector. We expect to see it in the housing services sector. And that's – these are the three parts of the core PCE inflation index that we look at. There's 56 percent of the economy, which is the rest of the services sector. It's the biggest part, obviously. And we're not seeing disinflation there yet. And that's going to take some time. Just we need to be patient. And we think we're going to need to keep rates at a restrictive level for – you know, for a period of time before that comes down.

MR. RUBENSTEIN: So, when you made your speech the other day, when you talked about the Fed discount rate, you used the word "disinflation" 11 times. Not that I'm counting, but 11 times. So, you were saying that disinflation is beginning to appear. Would you use that word 11 times again today, after the jobs report? Or you would be less inclined to use that word so much?

MR. POWELL: I might use the – I might say – I would certainly use the word "disinflation," yes, which means declining inflation. And I would call it declining inflation too.

MR. RUBENSTEIN: And today what about the debt – total debt of the United States, which produces some inflation, $31.4 trillion. Leave aside the debt limit. Are you worried about the total indebtedness of the United States producing inflation, or you don't think that's a big problem?

MR. POWELL: Yeah. It's not the level of debt. I would say – the thing I'd say about the level of debt is really it's not – first of all, it's not the Fed's job, but I would say that we're on an unsustainable fiscal path at the federal government level. That has been the case for some time. And it's something we will have to deal with. And better to deal with it sooner rather than later.

MR. RUBENSTEIN: Now, many of your predecessors were economists. You were trained as a lawyer. So, they spoke in what I call "Fed speak," which is to say, incomprehensible kind of economic language, which was done intentionally, I think, sometimes they would say. So, you tend to speak in English. Has that been a plus, would you say, when you're dealing with members of Congress, so they can understand what you're saying?

MR. POWELL: I like to think so. You know, I've made it a real priority to engage a lot with Congress. In our system of government, unlike the parliamentary system, our accountability is to the legislature. It's to Senate and the House, and particularly the two oversight committees – Senate Banking and House Financial Services. And I think it's very important that we respect that, and explain what we're doing, and listen to their concerns, and share with them how we're thinking about things. And I think they appreciate that.

But that is – you know, we have this precious independence. We can't be removed from office. We serve these long terms. The other side of that has to be accountability. And the way for us to get accountability is to be as transparent as possible and try to reach, you know, the people of the United States, through their elected representatives. So, this is a very high priority. And we're going to keep doing it.

MR. RUBENSTEIN: So, when you testify in front of Congress, how much time does it take to prepare for that? Is that a one-hour preparation session, or is it a one-day session, or a one-week session?

MR. POWELL: You know, they're supposed to – these are supposed to be monetary policy hearings, under the Humphrey-Hawkins Act. And they're actually on anything that's – any political issue. So, it's quite extensive. You have to prepare for everything that the Fed is involved in, and many things that the Fed is not involved in. So, it's a lot of preparation.

MR. RUBENSTEIN: So, when you get questions from some members, do you have to bite your tongue and say, why are you asking a question like that? Or you never have that problem?

MR. POWELL: That never happens.

MR. RUBENSTEIN: Never happens? [Laughter.] OK. OK. All right. Well, good. So today as you look at the country's economy, what is the biggest worry you have about inflation? Is it just that the fiscal policy is not completely under control? We have exogenous events outside? What is your biggest worry about inflation today?

MR. POWELL: Well, it's kind of what I was saying earlier, which is we're just at the beginning of this process, right? Goods inflation. So, we need that process to continue. Goods – the whole thing began – the whole inflation began with people not being able to buy services, instead buying goods, and then global supply chains collapsing. So, you couldn't get goods, and prices of goods went up, and that's where it started. But that is now starting to get better as supply chains are improving and as people are rotating their purchases back to services.

To move on though, we're not seeing it yet in housing services, which is either rent or the ownership – the imputed costs of house ownership. But we expect to see that. So, we need that to happen. That's another big part of the economy. It's got to come. It should come in the second half of this year. Then the biggest piece of it, and what I worry about the most, is when are we going to see disinflation or declining inflation in core services X housing? So that's what I worry about. The last thing I worry about is just another exogenous event. It's a risky world out there. You know, with the war in Ukraine, and the reopening of China. And, you know, there are – those are things that can affect our economy and the path of inflation.

MR. RUBENSTEIN: Right. So, the balloon was not your worry, though. You don't care about the balloon.

MR. POWELL: It's not within our ambit.

MR. RUBENSTEIN: OK. So today the Federal Reserve gets data from all over the country. And are you convinced that you get the best data, you have the best data collection methods? Or do you think it's not as modern as what Wall Street gets?

MR. POWELL: So, most of the data that we get are just the same – you know, we don't collect the data on unemployment, or inflation, or most things. And most of that's just government data, and a lot of that's, for example, very high quality. The labor market data is very high quality. What we get, which I think is better and different from what everybody else gets, is what I mentioned earlier. And that is the reserve banks putting together the – Beige – not – yeah, the Beige – no, not the Beige Book[3] –

MR. RUBENSTEIN: Beige Book.

MR. POWELL: Yeah, the Beige Book. Putting together the Beige Book, and also coming in and sharing the anecdotes and, you know, what they're hearing, what's happening with – each district is different. You have agricultural districts, and energy districts. And so that – I think our anecdotal, but just the whole of information we get through that network is – I don't think anybody else has that.

MR. RUBENSTEIN: So, do you consult regularly with some of your predecessors? I mean, obviously one is secretary of the Treasury now, but Ben Bernanke, for example, or?

MR. POWELL: I do. I talk to former Chairman Bernanke. I talk to, you know, Secretary Yellen. I still talk to Alan Greenspan now and again.

MR. RUBENSTEIN: And when you're dealing with the – with your colleagues on the Fed board and you disagree with them, do you say: Look, I'm the chairman of the Fed. I'm the person who has to make the final decision. And this is what we should do? Or you don't quite do it that way?

MR. POWELL: It's a process of reaching agreement. And I hear what people have to say, and I tell them what I think, and then I'm the one who has to bring a proposal in front of the full committee – not just the board – in front of the full Committee on Monetary Policy. And it works. You know, we have to reach an agreement. And, you know, we get to a place. I think you can tell today we are blessed with a diversity of perspectives on the FOMC. With 19 people,

[3] Summary of Commentary on Current Economic Conditions by Federal Reserve District - commonly known as the Beige Book - is published eight times per year.

of course we are. But you have one thing that unites all of us, and that is a very strong commitment to getting inflation down.

MR. RUBENSTEIN: So, in some parts of Washington people say: If you give me this, I'll give you that. I'll trade this for that. You never do that at the Fed when you're coming up with a decision? I'll do what you want if you do what I want. That doesn't happen ever?

MR. POWELL: Not really, no. I mean, OK, you mean a better office, or something like that?

MR. RUBENSTEIN: Well, just, you know, I'll say what you want me to say if you say what I want you to say, or something? That never happens, right?

MR. POWELL: [Laughs.] No, that doesn't happen. I mean –

MR. RUBENSTEIN: And when you want to talk to members of the board – of the Federal Reserve board, do you go to their office, or do they come to your office?

MR. POWELL: I like to do both. I mean, I really don't like to sit in my office all day and just have people come to see me. I like to go barge in on people. And, you know, I think it's much better to get up, and walk around, and see people.

MR. RUBENSTEIN: And the Fed has been pretty good at avoiding leaks of its decisions. How do you do that? Because most people in Washington are not so good at that. How do you avoid leaks?

MR. POWELL: We do have – you know, we've got very strict rules around confidentiality, particularly around the written materials that we have. You know, we publish these things internally for the FOMC meeting – the memos and the Tealbook, and all that. But the other thing to remember though is, you know, we're not trying to hide our decisions from the public. We actually – in the modern – in modern monetary policy, we want the public to understand how we think, how we're thinking. And, you know, if markets really understand how you're thinking and a new piece of data comes in, the markets will go, well, they're going to do this. And it sort of happens organically.

And that happened all last year. As we were, you know, talking about raising rates, the market priced in rate increases long before we actually enacted them. So, it's – we want to be transparent. We're not looking to surprise markets with these decisions.

MR. RUBENSTEIN: But from the time that you make your decision on the FOMC, whatever time it is during the day – your press conference is at 2:00, or something like that?

MR. POWELL: 2:30.

MR. RUBENSTEIN: 2:30. So your decision is made by 2:00, or whenever it is, or something like that. So, you got a half hour, but you have to avoid leaks during that half-hour, because that's very market-sensitive information. How do you make sure nobody is calling their spouse and saying: Guess what we're going to do?

MR. POWELL: Well, you know, we – people take this very seriously. None of that happens. You know, you're taking your professional life in your hands if you do something like that. I think people have a sense of self-preservation. So, they're – you know, people are very careful about this information. There is a period of a couple of hours after the meeting until we announce the decision. But actually, we announce the decision at 2:00. The press conference is at 2:30. I think it's a fairly small group of senior staff and policymakers that kind of know what happened and what we're going to say. And I just think everybody understands that you've just got to be really careful with that.

MR. RUBENSTEIN: To go back to the jobs discussion, if next month you had another 519,000 jobs created, net jobs, would that be good or bad, from your point of view? Having a lot of people working, but maybe producing more inflation?

MR. POWELL: So, we don't – we don't have the luxury of thinking about good or bad. It just is what it is. So, but I would say, again, we – most analysts, most economists, would say that to get inflation down from high levels that we've had, if you look at history, there is some softening in labor market conditions that goes along with that. And that is still, you know, very possible and, indeed, likely here, some softening of labor market conditions.

However, this cycle is different from other cycles because of where it came from. And it's just confounded all sorts of attempts to predict what it would do. So, it is good that we have seen a very strong labor market. But at the same time, we're seeing wages moderating. Wages are still very – wage increases are still very high, but wage increases have come down to a level that is closer to what would be sustainable – still well-above what would be sustainable with 2 percent inflation.

And same thing with inflation. Inflation is starting to come down and the labor market hasn't softened. We do expect that it will soften. But, you know, it will do what it will do. Our job is to get inflation down to 2 percent and preserve maximum employment.

MR. RUBENSTEIN: So, when the FOMC meets, as it does regularly – or eight times a year –

MR. POWELL: Yes.

MR. RUBENSTEIN: Eight times, do you pretty much know how the decision is going to come out before you actually get together, because you've been talking to each other? Or does the meeting of the FOMC change minds in ways that you might not have expected before the meeting started?

MR. POWELL: Well, it depends on the meeting. You know, I do – I talk to each of the 18 other participants at least once. And we go through everything – you know, what's your analysis of the economy, how are you thinking about monetary policy? How are you thinking about the path forward? And all of that. So, in some meetings, I will say, some of the time you get into a discussion at the meeting which suggests that maybe you should communicate differently. And then we'll think about that. And we might actually take a break in the middle of the meeting and then go off with a smaller group and think about that, and come back and make changes. Sometimes, though, everything plays out as expected.

MR. RUBENSTEIN: And when you're having these FOMC meetings, I assume somebody sweeps the room to make sure there's no bugs and anything –

MR. POWELL: Yes, all that.

MR. RUBENSTEIN: No leaks.

MR. POWELL: No.

MR. RUBENSTEIN: OK. And today, as you look forward, as we are going forward for the next remainder of this year, your basic view would be you'd be happy if the inflation rate were to get down by the end of the year to – 2 percent may be unrealistic – but the core inflation now, or overall inflation, you think is about 4, 4 ½ percent, something like that. Or what would you say it is?

MR. POWELL: It's in that range. There are different measures.

MR. RUBENSTEIN: OK.

MR. POWELL: Yes. We expect, you know, significant progress on inflation this year. And again, it's our job to produce it. And I want to say again, you know, we throw these numbers around, but the reality is we're going to react to the data. So if we continue to get, for example, strong labor market reports or higher inflation reports, it may well be the case that we have to do more and raise hikes more than is priced in.

MR. RUBENSTEIN: So if I wanted to go get a mortgage on a house I was going to buy, for example, you would say I'm not going to be any better off waiting to next year than now, because rates aren't going to come down that much at the beginning of next year. So I might as well get the house now, mortgage?

MR. POWELL: Surprisingly enough, I get a lot of requests for advice on those kind of things.

MR. RUBENSTEIN: And you don't give any?

MR. POWELL: But I really can't – [laughs] – I really can't respond.

MR. RUBENSTEIN: OK. So – [laughter] – on the whole, to summarize where you are, you're basically saying that the jobs data was – that came out – was a little bit surprising, but in the end you're taking it into account and you're pretty comfortable with the guidance you gave last time, and you're not prepared to give anything that's completely different guidance than you gave last week?

MR. POWELL: Well, I mean, this is a world in which we've had the labor market report. And I think that does – I think it underscores the message that I was sending at the press conference and in the meeting, that we have a significant road ahead to get inflation down to 2 percent. And I think there's been an expectation that it'll go away quickly and painlessly. And I don't think that's at all guaranteed. That's not the base case. The base case is it will – for me – is that it will take some time and we'll have to do more rate increases. And then we'll have to look around to see whether we've done enough.

MR. RUBENSTEIN: OK. And 2 percent is the rate we've had for the last 25 years, before inflation came along. But prior to that, for most of U.S. history, we were higher than 2 percent. Is it that 2 percent is – we're now so used to 2 percent after 25 years of it that you think that's the appropriate level?

MR. POWELL: So, for – we went through this long period where inflation was really anchored around 2 percent. And we think that – you know, economists think that that's because people start to expect 2 percent inflation. And inflation, in a way, if everyone expects that prices are going to go up – prices and wages are going to go up 2 percent per year, that plus productivity in the case of wages, then it will. That's what'll happen. Having that – having price stability, real price stability for an extended period of time, is just enormously beneficial to the public, because you can then – on the back of that, you can build a very strong labor market, as we had.

We had a labor market with really 3 ½ percent unemployment in 2018 and '19. And we had inflation running, you know, just barely getting to 2 percent. Wages moving up the most for people at the lower end of the spectrum. And so, this was – we all want to get back to that place. But the bedrock of the whole thing is to get inflation under control.

MR. RUBENSTEIN: The unemployment rate hasn't come down as much as people – or, gone up as much as people thought. In part, some people say, because we don't have as many immigrants coming into the country, legal immigrants coming in, taking some of the jobs they otherwise would take. Do you think immigration is an issue in terms of giving us more labor workers? Or you think that's not a factor?

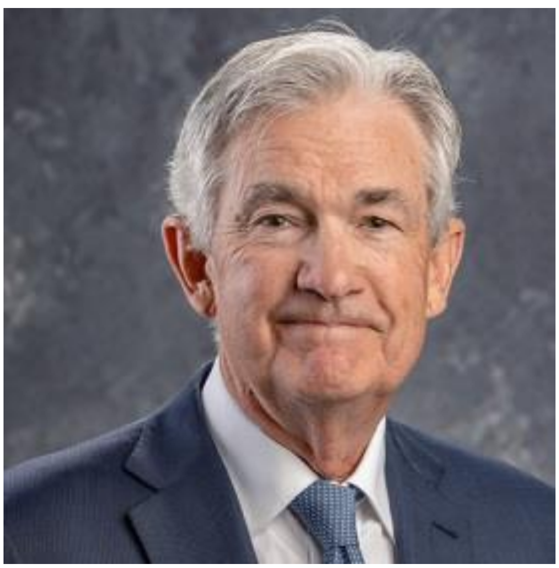
MR. POWELL: So just as a matter of arithmetic, it was a factor, because there was very little migration across borders during the pandemic. And that was part of what was happening, particularly in certain sectors like the agricultural sector, and food service, and things like that, where there just weren't the people However, just very recently here the immigration data have turned up again. And so, I think that may be part of why people are feeling somewhat less pressure in the labor market to find workers. This is an issue not for the Fed, though. This is – immigration is obviously a political issue. We do not seek to be a player on this. But it's just a fact, though, that, you know, right now the United States has fewer available workers than it has jobs plus job openings.

MR. RUBENSTEIN: And when you increase interest rates, the traditional effect is to increase the value of the dollar versus other currencies. Do you have any concern about the value of the dollar going up too much? Or that's not something you comment on?

MR. POWELL: So actually, the responsibility for the exchange rate is – really rests with the Treasury Department and the administration, not with us. Of course, that's another financial variable that goes into every economic model. But we don't – we don't look at it as something that we're working on.

MR. RUBENSTEIN: All right. Well, I think I haven't been able to get you to say anything you didn't want to say. [Laughter.] So, I would say, Jay, I've known you a long time. I think you've done a great job in a difficult situation. I appreciate your service to the country at $180,000 a year, or whatever the salary is, something like that. So, thanks very much for being here. And thank you for your service.

MR. POWELL: Thank you, David. It's great to see you. Thank you.



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

Jerome Powell took office as Chair of the Board of Governors of the Federal Reserve System in February 2018 for a four-year term. He was reappointed to the office and sworn in for a second four-year term on May 23, 2022. He has served as a member of the Board of Governors since 2012, and was reappointed for a 14-year term in 2014. He also serves as Chairman of the Federal Open Market Committee, the System's principal monetary policymaking body.

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 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.