Fed Unfiltered, Transcript
4/14/22 – Jerome Powell, Interview: David Rubenstein at the Economic Club

Speaker 1:

Ladies and gentlemen, please welcome David Rubenstein, president of the Economic Club of Washington, DC.

David Rubenstein:

Hello, I'm David Rubenstein, president of the Economic Club of Washington DC. 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. Before I begin the interview of chairman Powell, I'd just like to recognize a few special guests, our international ambassadors who are with us. Ambassador Ashok Mirpuri, ambassador of Singapore, Rosemary Banks, ambassador of New Zealand, Philippe Etienne, ambassador of France, De Dianous, ambassador of the Republican Panama, Martin Weiss, ambassador of Austria, Arthur Sinodinos, ambassador of Australia, and Manasvi Srisodapo, ambassador of Thailand.

David Rubenstein:

Our upcoming events on Thursday, May the 13th at 12:00 PM, we'll have a discussion with Rochelle Walensky, the director of the Centers for Disease Control and Prevention and the Honorable Muriel Bowser, mayor of Washington DC. May the 20th, we'll have Mellody Hobson, the co-CEO and president of Ariel Investments. On Thursday, June the 10th, we'll have John Stankey, the chief executive officer of AT&T and on July 13th at 12:00 PM, we'll have Scott Kirby, the chief executive officer of United Airlines. Please watch your inbox for invitations to additional upcoming events. And now it's my pleasure to welcome Jerome Powell, J. Powell to our conversation. Thank you very much for being here Chairman Powell.

Jerome Powell:

Thanks, David. Great to be here.

David 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% this year. Is that a correct announcement of your views?

Jerome 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 evermore widespread vaccinations with strong fiscal policy with continued support from 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're going into a period of faster growth and higher job creation. And that's a good thing. I would point out there's still risks. In particular, I would say the main risk is that we'll have another spike in cases, perhaps in one of the virus strains that maybe 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.

David Rubenstein:

Okay. When the Fed does it's 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?

Jerome Powell:

Well, we do have experts now. I would tell you a year ago we, 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.

David 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?

Jerome Powell:

So at the Fed we have very specific jobs. We're a creature of statute and we have very specific jobs that we handle 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 payment 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 Cuts and Jobs Act, and we didn't do it for really any of these acts. 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.

David Rubenstein:

Okay. Well, let's just talk about, let me try it another way. Are you worried about debt and deficits? The debt is pretty high, 27 trillion or so and the annual deficit is now about two and a half to three trillion or so. Is that a concern to the Fed in terms of impacting inflation?

Jerome Powell:

So yes. In the over time and in the longer run, the US 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 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 is 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.

David 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 2022. Is that a correct view of what you've said?

Jerome 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% 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% 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 raise interest rates, until then we won't.

Jerome Powell:

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 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, that 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.

David Rubenstein:

Okay. But based on what you know today, you would not expect to increase interest rates before 2022, or you're just not saying that yet?

Jerome Powell:

Well, before 2022, that would be this year, I think that would be highly unlikely. I don't talk about particular date. I don't think there's any use in that, but it really is outcome based.

David Rubenstein:

Okay. 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 should 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?

Jerome 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 treasuries and mortgage back 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 that 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 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 in all likelihood be before, well before the time we consider raising interest rates. We haven't voted on that order, but that is the sense of the guidance is that it would work in that way.

David 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?

Jerome Powell:

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. Now, then another step, and we took this 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.

David Rubenstein:

Okay. 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?

Jerome Powell:

All of 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 a 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 district you represent, except 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, DC, and is nominated by the president and confirmed by the Senate.

David Rubenstein:

Okay. 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?

Jerome 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.

David Rubenstein:

Okay. I always worry about the secrecy. So I assume that you have somebody coming and sweeping 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?

Jerome Powell:

That is correct. Of course, we realize that we're a very attractive target for hacking and cyber attacks 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.

David Rubenstein:

Okay. So let me ask you about the situation with respect to a couple of 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 it's 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's moving forward?

Jerome Powell:

So there are two different issues and there are differences and similarities. So I'll talk about them in order. 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 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 it's within the scope of that mandate.

Jerome Powell:

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 of hold the economy back. We all want an economy where everyone has the ability to contribute to and benefit from the prosperity that we have in our great economy.

Jerome Powell:

So really our focus is on the gaps that we face. We call them out. 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 can't be the primary policy organization that treats either climate change or inequality. 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.

David 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% inflation, but really hasn't been able to get 2% inflation in our economy. Why do you think it's been so difficult to get inflation at 2% 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?

Jerome Powell:

So 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 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% 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%. We want it to average 2% over time. And that means that we want to overshoot 2% after we've been through a period moderately and for some time, after we've been below 2% for a while.

David 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 make sure I understand and everybody watching understands. If inflation were to go a little bit above 2% over the next year or so, you wouldn't regard that as a calamity, is that fair?

Jerome Powell:

So we seek, because inflation has run below 2% for some time, we seek inflation that is moderately above 2% 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 that is moderately above 2% and that's very well known. And so for quite some time, many people were saying, well, you'll never get above 2%, because it has been very hard to get back to 2%. Now more of the discussion is on the other side, as you know.

David Rubenstein:

So you are the first person in quite some time to be the chairman of the Fed who was not a PhD in economics. I think the last one might have been, well, I think Paul Walker didn't have a PhD, but he was trained as an economist. But since that time you've had trained economists, you have been trained as a lawyer. Is that why you are able to speak in the King's English much better than the economist who've had that job? Because you tend to speak in ways that people actually 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?

Jerome 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 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 transparent.

David Rubenstein:

I've known a number of your predecessors and I wouldn't say they relish dealing with members of Congress. It wasn't the part that of the job they liked the most, but you seem to actually, don't dislike it. You've talked to a lot of members of 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're trying to be polite to them?

Jerome Powell:

It was very conscious. Part of it just was after the hard work done by Ben Bernanke and Janet Yellen, 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 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.

David 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 30 seconds would be long?

Jerome Powell:

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. That's just part of the deal. We work for them. I mean, we're a creature of Congress. 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.

David Rubenstein:

Now, as you pointed out earlier, there are six members of the Federal Reserve, there's supposed to be seven. We haven't had seven for quite a while. Do you 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 okay to operate with five or six?

Jerome Powell:

It's certainly okay to operate with five or six. We were down to three for a while. I would say that was more like, we had to go to zone defense. 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. Traditionally administrations have, after they've vetted candidates, they will perhaps send that candidate to be a governor over to meet with the Fed chair. 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 okay? And you sort 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.

David 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 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?

Jerome Powell:

It's not awkward at all. So I think, I worked at treasury and I've worked at the Fed. Secretary Yellen worked in the White House on the council, she was chair of the Council of Economic Advisers. 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 clear lines, stay in your lane kind of thing. And I think we do have exactly that kind of a relationship. I mean, I have no concerns about that at all.

David 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 in the White House staff, or the president? How are you doing that?

Jerome 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. Meetings with presidents and Fed chairs are very infrequent and not on any sort of a schedule and I have not met with the president.

David 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?

Jerome Powell:

I think I've shaken his hand, but I have not really met him and talked to him.

David Rubenstein:

Okay. Let's talk about what it's like to be the chairman of the Fed. One day you're a private citizen and you can go to a restaurant. You can say whatever you want. You can do 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? And if 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? So how is life as the chairman of the Fed?

Jerome Powell:

So people don't come up and say inappropriate things. That's the thing. In fact, mostly they don't come up at all. I 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 anything inappropriate, even sort of unknowingly. But it is a different, you have security and you have to be very careful about what you say in public places. And it's just part of this life, is the things you can do are limited and you just have to accept that for the time that you have this job. But it's such a great job and it's such an honor to do it. I really don't think about that.

David Rubenstein:

So if you want to talk to somebody on a cell phone, you have to have a, I assume a secure cell phone and so forth, and all of those things, right?

Jerome Powell:

Yes. And 24 security and all those things.

David 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?

Jerome Powell:

So we had a pretty significant FOMC meeting on March 15th, 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 15th, 2020 have mostly worked from home. Although lately I'm coming in, I find myself coming in two, three 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. I would tell you, 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.

David 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?

Jerome Powell:

Almost everyone works, just about everyone works from home exclusively, from wherever they are exclusively. Some people live elsewhere now, or they're calling in from a home someplace that isn't the one they have in the Washington area.

David 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 [inaudible 00:38:40].

Jerome Powell:

There may be some of that involved. Absolutely.

David 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?

Jerome Powell:

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 2020. So we're doing it by telephone and I really highly value those interactions and I know my international colleagues do too.

Jerome Powell:

So we're doing it on the telephone now and 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, seeing people in the hall, going for walks. There's just more time to really meet privately and talk than there is on the telephone. But I stay 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.

David 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 White in Jackson Hole, and that's again, July or August. Is that going to happen this year in person or you think it's remote again?

Jerome 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'll be held virtually I think, as it was last year. [inaudible 00:40:46] in person.

David Rubenstein:

I think you said recently, the biggest problem that you're worried about now is cyber, cyber attacks and so forth. Can you elaborate a little bit more why you were 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 in cyber attacks. I assume you've got great ways to prevent that. But could you give us, without telling secrets you can't tell, some of the things that you were worried about in terms of cyber and how you protect your information?

Jerome Powell:

Sure. 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 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 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 and it really is some kind of a cyber attack. So we have a great game plan now for banks making bad loans and 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, it's the new frontier and that's not a new insight.

Jerome Powell:

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 constantly under cyber attack. And 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 historically we've run these exercises, sometimes scenario analysis, where we run an exercise and see how it happens. We imagine that X happened and then we get together in a group. So 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.

David Rubenstein:

Okay. Let's talk about FinTech. 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?

Jerome Powell:

Yeah. I would say it this way. First of all, innovation is a positive thing. It brings with it many potential benefits, greater financial inclusion, more efficiency, greater options. Technology can do terrific things. In the financial area the key thing is that equal activities, the same activity should be regulated the same way, no matter where it is and what kind of business it's in. That's one thing.

Jerome Powell:

Another is, it needs to be regulated in a way that gives consumers and users of that service the protections that they need. And so they have to understand what the risks are of what they're doing and that sort of thing. So I think with the growth of the non-bank financial players, we have some work to do to understand and deal with those challenges. In the meantime, we have the legal authority that we have over banks really, also over some of the payment utilities and we'll use that. But we don't have authority over many other companies that are now very much engaged in payments business and dealing with the public. And I think Congress is looking at the question of whether there's enough there, whether the sort of regulation and supervision that they need is really there.

David Rubenstein:

Well, 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 in the economy and the ability of people to use these things for nefarious purposes?

Jerome 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. 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 really being actively used as payments.

David 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?

Jerome Powell:

It's between $7.5 and $8 trillion total, that's it. I want to say 7.7, 7.8, something like that. [inaudible 00:45:55]

David Rubenstein:

And so is that the highest it's ever been?

Jerome Powell:

Yes. Yeah, it is.

David 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?

Jerome Powell:

So what you're talking about is the CARES Act. We still have, CARES Act really gave us funding, which we needed, backstop funding, backstop funding, to absorb any losses. We have the same authorities we've always had, but these are emergency 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 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.

David Rubenstein:

So let me ask you about the Volcker Rule. One of your predecessors, Paul Volker, 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 three 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 is it been an administrative burden for the Fed to oversee this?

Jerome Powell:

So it's the law of the land and our job is not to question that, but to implement it. So we've implemented the first try of the Volcker Rule in I think 2013. Then we came back, and I think we learned quite a bit from our first approach. It's a very challenging thing to implement. It's a simple concept that makes a lot of sense, which is, if you want to do proprietary 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 that in place and distinguishing between appropriate hedging activities and underwriting activities is not so easy. So we came back with what we know was a somewhat less burdensome and clearer provision of the Volcker Rule in 2018 or 19. And we think that's working okay 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.

David Rubenstein:

Let's talk for a moment about, there's 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 on the lower ends of economic strata?

Jerome 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 happen 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.

Jerome Powell:

It's grown a great deal. And it really struck me, it strikes me every day as I go by it. So how does that play into what the Fed does? I think we need to keep those people in mind really. We don't have tools that deal directly with them, but those are people, many of them probably were working in February 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 the headline and the aggregate, it's also the people who are at the margins of the economy. Just keep them in mind.

David Rubenstein:

Speaking of the pandemic. As you assess 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?

Jerome 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 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 they'll be more, of course they'll be more working remotely. That's one thing. Another is, we've talked to companies and big consulting firms who have who've 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 [inaudible 00:52:02].

Jerome Powell:

So 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 were 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 not to settle on one model of the economy and think, oh, we really understand this because it's ever changing.

David 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?

Jerome Powell:

Overwhelmingly the data that we look at are collected elsewhere. Some of it 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. 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, the early part of the recovery from the pandemic, that there were a bunch of, sort of real time indicators of, like OpenTable is a good example where you could get data from and 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.

Jerome Powell:

So the data evolved. 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 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 we read, just to get a disparate range of views, we do read those as well.

David 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 Jamie Dimon or the equivalent?

Jerome 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, 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 regulation or supervision of their bank. There are other people at the board who do that, of course, but that's not what I do. They're in positions in our economy, in 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.

David Rubenstein:

Let's talk about your life outside the Fed for a moment. You are a golfer. You weren'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 chairman of the Fed, do people give you parts that they wouldn't have given you before? Is that very common or not?

Jerome Powell:

I would certainly hope so.

David Rubenstein:

Is that [inaudible 00:55:43].

Jerome Powell:

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.

David 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 you have a lot of strong people to protect you from cars that might be coming along?

Jerome Powell:

I don't tend to ride on busy streets. 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.

David 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 talk to people about what you're working on at work so much. So what do you talk about and how do you maintain your friendships?

Jerome Powell:

I'm lucky to have some great friends and 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 it's a fine life and I've got a great family as well. I have four sisters and one brother. So there's enough to talk about just right there.

David Rubenstein:

Do they laugh at your jokes better than they did before or nothing's changed?

Jerome Powell:

No, they don't laugh at my jokes, but other people do, fortunately.

David Rubenstein:

So if you were an average person sitting in Dubuque, Iowa, 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, 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?

Jerome Powell:

So I'll say two things. First, the Fed is a non-political, non-partisan organization that tries to serve all Americans in a way that's really important to try to achieve maximum employment and price stability. So 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 love people to know though, is you hear about the Fed a lot. 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.

Jerome Powell:

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 things like investment and education, which is investment in people, and having a more inclusive economy. So 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.

David 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?

Jerome Powell:

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. They 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, then there was a long time without a central bank. The reason this one succeeds and is thriving, I think is because of, 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 cycle. So we're non political, we're not part of the political cycle.

Jerome Powell:

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 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 change, there isn't a fundamental thing about the Fed I would change. Really, I think it's a great model for this very large country with a quite disparate economy and different regions and states. So I think it works.

David 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?

Jerome Powell:

Well, I'm just about to have my ninth birthday here at the Fed. So I've 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 regulations. So there's a lot to learn. And 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 healthcare policy, which starts with the things that we did to shut down the economy, not we, but that 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.

Jerome Powell:

The second most important thing was fiscal policy. This was a situation where 30 million households are suddenly without an income and Congress had to replace that. That isn't a matter for monetary policy. It works by stimulating aggregate demand by lowering interest rates. 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 a stabilize thing, which I think we seemed to stabilize markets after what we did on March 23rd 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 we hope to learn no more about that going forward, because we hope to have no more pandemics.

David Rubenstein:

So if somebody is 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 PhD 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 reporters, what is it you think is a really good skillset would make a good chairman of the Fed for a future chairman of the Fed, let's say?

Jerome 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 macro economists and non macro economists. We've had people who are micro economists too over time. So 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 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.

David Rubenstein:

So for those people who are wondering, how does one get to do an interview with the chairman of the Federal Reserve Board? 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 okay. No problem. I understand [inaudible 01:05:19. But had we not met at that dentist, we might not have done 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.

Jerome Powell:

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

David Rubenstein:

Okay. Bye.

Jerome Powell:

Bye, bye.

David Rubenstein:

Okay. Well, thank you all for paying attention. We have our sponsors now on our screen and I appreciate everybody who tuned in today. Thank you.