Christopher Waller:

I'm willing to take Q&A as long as it's on the presentation. Do not talk to me about monetary policy. Do not talk to me about banking crisis. Don't talk to me about... I'm just going to talk about that slide deck, if you have any. Alex?

Alex:

What didn't appear too much in your discussion was the possible role of supply shots in the '70s in making [inaudible 00:00:32]. There wasn't much discussion in Chris' presentation about the role of supply shocks, which featured heavily in the attempt to understand what was going on in the '70s. And is also figured in discussion of the current situation in terms of container shortages and ship shortages and so on. So, does that play a role in your thinking or is that all resolved and we should just ignore them at this point or what?

Christopher Waller:

Yeah. The typical supply shock story is output falls, employment falls, prices go up. That's not what we saw. We did not see a downward GDP growth negative. We did not see employment falling.

Alex:

In the recent episode?

Christopher Waller:

In the recent episode. That's what you have to kind of struggle and ask. Now, I'll give you a simple example. Long Beach Port in 2021, pictures of ships blocking out into the sea, processed more goods and services than they did pre-pandemic. What? What were all those ships doing out there? That's demand. That's not supply problems.

Everybody was ordering stuff and having it shipped in. That's what goods demand does. It's going to clog up your port. So, there's this issue of, "What's a supply shock and what's a demand shock?" That a lot of people have been trying to sort out. I've joked, if all of us walked into a little bistro across the street that had five tables and they'd run out of food, would we call that a supply shock, that they ran out of food?

No. We'd say that's a demand shock because we all walked in there wanting food. I think just that kind of evidence tells me that a lot of what we've seen the last... Despite all the stories on aggregate supply, a lot of this was aggregate demand. You have fiscal stimulus, monetary policy, and a hell of a lot of excess saving that people stored up and are now letting out. So, that alone is just a huge demand, and I think that's more consistent with the story.

Speaker 3:

Michael.

Michael:

It's very related, so you may just want to refer back to your last answer. But one of the stories we heard in the last decade about the apparent disappearance of Phillips curve was the McLeay and Tenreyro's story, which I think at least I attribute to being a demand shock-driven world where monetary policy does its job. How does that fit with your current reading of the current situation?

Christopher Waller:

Well, I'd say in that world, there wasn't really big shocks. We saw some really big shocks. You could look at monetary policy at St. Louis. This is a St. Louis view, I'm just going to repeat the St. Louis you, not mine. But you basically monetized about $2.5 trillion in national debt, about 40%. That is one big helicopter drop. And what do we all know about helicopter drops? They cause inflation.

So, that's a very different animal than what kind of demand shocks you may have been dealing with in the prior decade. And this would be the Larry Summers' argument, "How could you not have seen that this was coming?" It's just pretty clear when you think about what happened. Not that I'm agreeing, but just...

Speaker 3:

[inaudible 00:03:52] has a question.

Speaker 5:

Yeah, picking up on the same thread. I was wondering if you've thought much about pricing power. So, precisely on the example you gave with the shipping, I happened to meet someone who works for one of the 10 biggest shipping firms in the world while I was skiing, and he mentioned in essence that they had a lot of pricing power. He went so far as saying they had monopoly power during COVID, right? And they were charging higher prices than normal. How is the Fed thinking about not just the frequency in changes, but the changes in pricing power?

Christopher Waller:

Yeah. I have always thought of this. If you just took a perfectly competitive market, there's an equilibrium price, and now you put a supply constraint on. Price that the households are willing to pay is above the marginal cost, so you're going to get a profit margin. Competition just eliminates that eventually. That's what a competitive market does.

I don't know if you want to call that pricing power, if it's just a competitive market that suddenly there's an excess demand and the quantity doesn't adjust. I just call that there's excess demand, the price is going to respond to deal with the fact that quantity's not moving.

I don't really call that pricing power. The pricing power story is somehow this time, in a way that firms never were, ever, thinking about being able to do, decided, "Wow, I can actually raise my prices a lot more." Why didn't they do that five years ago? If they have pricing power, what gave them the pricing power? Furthermore, it's going to go away.

You have demand pressures come off, supply things get resolved, the pricing power's going to go away. My dad used to always say, "These damned insurance companies, they're just screwing me by raising prices." I said, "They're not doing a very good job because if they can do that, they should just keep going."

That's what I said, the pricing power story, it's certainly true, but you would get this even in a perfectly competitive market, you'd have what looks like pricing power that eventually goes away.

Speaker 6:

I think it's related, but is it something this potential price change related to people's more use of online shopping, especially because of pandemic? Much more people are accustomed to use online shopping.

That's why maybe the sellers [inaudible 00:06:17] easier to change price, at the same time shoppers also easy to compare prices. So the questions, it's more structured or is it just temporary?

Christopher Waller:

Right. So I've tried to explain that in a normal world when you don't have a lot of things, if a firm, your buying firm raises its price, you think it's an increase in the relative price. So you go searching for something cheaper. But what we saw in the last two years is you saw the price go up, but everywhere you look, the prices were going up. What was the point of going to search? Because you're going to get the same higher price no matter which way you go.

The stories I'm starting to hear, or the anecdotes I'm starting to hear from private firms is people are going back saying, "Wait a minute, your price is out of line," and they're starting to search around. So I'm hearing that from private sector firms. Firms are increasingly more worried about market share that they're going to start losing market share if they raise because it's this relative price argument. So once that starts happening, you should see a lot more of the competitive pressure and downward effects on pricing.

Speaker 7:

So there were a lot of questions about price setting and firms happening differently right now and this recent period. I'm wondering about labor markets, what I'm thinking is there. So when the pandemic happened and after pandemic, you heard about the great resignation. So maybe demands for jobs or supply of labor wasn't happening the same way. But now we also hear about labor having the power to demand different circumstances. So all these office buildings here in San Francisco are free and they are demanding to work from home.

Well, maybe they can actually work in different states, maybe different type of firms will hire more, which had constraints before. So there's some uncertainty about how employment, unemployment functions being very different, having very different sensitivities, elasticities. Is there any thinking about that?

Christopher Waller:

Yeah. This to me, the beverage curve is the weirdest thing that... You have two jobs basically open from every person looking. The normal is the reverse. There's one job for every two people. Some of that's just a demand, a booming economy. And the other side is clearly there's got to be something on the supply side that's constraining it. The biggest effect that's still lingering out there is early retirements. We're still about one and a half to 2 million workers down just from early retirement.

So when COVID hit, you had this burst of early retirements. But what happened was every wave, you got another burst. It wasn't like there was a one time level effect that eventually those people disappeared and you were back on trend. Every wave brought another wave of retirement as it went. So basically the view we have is that you're still really short on older workers. When I say older, I mean over 55 who took early retirement and are not coming back.

Retirement's an absorbing state. Only something like 3% of retired workers ever come back. So that's really where the... And if you think about it, those are the most experienced workers. So in terms of productivity, skill, knowledge, manage everything, just cut a whole layer of really highly productive people out of the labor force, which is not a good outcome.

Speaker 3:

Any other questions?

Christopher Waller:

All right. Straight to the pub.

Speaker 3:

[inaudible 00:09:44]. Thank you so much [inaudible 00:09:46].