David Snyder:

Welcome to all of you here today, both in Downtown Chicago as well as those joining us virtually from your offices and homes around the country. Again, I'm David Snyder, President and CEO of the Economic Club of Chicago. I'm delighted to be joined by two ECC members for today's program. First, our moderator Ann Dwyer. In 2019, Ann was named Editor of Crain's Chicago Business, the first woman to lead the newsroom since Crain's founding in 1978. She joined Crain's from the Chicago Tribune in 1995 as a copy editor. Eventually, moving to the news desk and later running some of the publication's highest profile features including 40 Under 40, Best Places to Work, and the Fast 50.

An award-winning journalist and not only leads the newsroom operations, but writes many of Crain's weekly editorials. In addition, she's currently the broadcast voice of Crain's regularly appearing on the BBC, WTTW Chicago Tonight, and WBBM's Noon Business Hour. Ann is a graduate of the University of Illinois Urbana-Champaign, where she studied English and journalism and was both a reporter and editor for the Daily Illinois Illini. Now, on to our speaker, Austan Goolsbee is the recently named President and CEO of the Federal Reserve Bank of Chicago, which gives him a seat on the Federal Open Markets Committee. The body that sets the nation's monetary policy, including the Fed's funds rate.

The Chicago Fed District made up of Iowa, Most of Illinois, Indiana, Michigan, and Wisconsin conducts research and monitors local economic conditions in support of the formulation of monetary policy, supervises, and regulates banks and organizations and others that provide financial services to bank. Austan previously served in Washington as a member and then later as chairman of the Council of Economic Advisors, where he was a member of President Obama's Cabinets between 2009 and 2011. A longstanding professor at the University of Chicago's Booth School of Business, he has a doctorate in economics from the Massachusetts Institute of Technology and studied for his master's in bachelor's degree in economics at Yale.

His research has earned him recognition as a Fulbright Scholar and an Alfred P. Sloan fellow. He was named 100 of the most powerful global leaders of tomorrow by the World Economic Forum and one of six gurus of the future by the Financial Times. His ability to explain economics has made Austan popular in the media as well. John Stewart described him as Elliot Ness meets Milton Friedman, and he's been twice named as the Star Professor by Business Week's Guide to the Best Business Schools. First, we'll hear remarks from Austan, then he will sit down for a moderated discussion with Ann. Austan, welcome to the Economic Club and we look forward to your remarks.

Austan Goolsbee:

Thank you, David, for that lovely introduction. Not to ruin a good lunch, but before we sit down to discuss the economic chat, as David said, let me take 20 minutes and talk to you about monetary policy. Seems like some things never change. The Economic Club of Chicago, for the 2656th time or whatever, is here to discuss the issues of the day. This past weekend marked the start of Chicago's heralded 10 days of spring and our beloved Cubs and White Sox have had their home openers. If the playoffs started today, they would both be eliminated. Some things are new though. I started as the President of Chicago Fed in January. That's been quite an experience in my short time on the job.

I've already voted to increase the Fed funds rate two times, and I can't help but note that my predecessor, Charlie Evans, took him more than eight years to do that. The environment is, of course, much different now than it was when he started in 2007. The first thing I did when I got to the Chicago Fed is I've been traveling around the district to hear from people, from businesses, community organizations, et cetera, about the economy. As David said, the district really covers the heart of the Midwest, and I've heard from a lot of people in a lot of places. It turns out people have a lot of strong opinions about the Fed right now. Now, speaking of opinions, this is the spot at which I will officially say and our general counsel's here, and he's like, good, okay.

I need to say that the views I am expressing are my own and not necessarily those of my colleagues on the Federal Open Market Committee or in the Federal Reserve system. Without further ado, the law, literally the law assigns the Fed two monetary policy jobs, maximum employment and stable prices. When inflation gets too high, as it has been for the last couple of years, the Fed fights it with really the only main tool that it has, cool the economy with tighter financial conditions. That's why, of course, the Fed has increased the federal funds rate as aggressively as it has. Almost five full percentage points, almost 500 basis points in the Fed language over the last year. We all know that it takes time for these policy moves to work their way through the economy.

We all know it's hard to figure out how long it will take and how much is enough. That is why we always say that central banks need to be data dependent, which literally just means to watch how things are going and adjust the policy accordingly. Fast-forward to the data at the end of last year in 2022, in the beginning of 2023, I said fast-forward, rewind, rewind to the end of 2022, beginning of 2023. The data were surprisingly strong. Despite almost 500 basis points of raising the interest rate, spending held up. Job growth was truly remarkable. Inflation did not come down by very much. Based just on the data, you would think that the Fed would be now pressing more aggressive policy moves than we were say six months ago or in past times, just based on data dependence.

Yet, if you look at the summary of economic projections, which is a forecast that's made by all the Federal Reserve governors and the Reserve Bank presidents that comes out, it came out at the last FOMC meeting in March. The expectations of where the rates are headed for the rest of this year barely moved from where they were at the end of last year. Of course, that's because those projections include some assessment of this new big hairy elephant in the room, which is the fact that two significant banks failed in a high-tech version of an old timey bank run. That triggered broader financial market turmoil. To restore calm, the FDIC and the Treasury and the Fed together stepped in, guaranteed all the deposits at these banks, not just the ones below the FDIC cap.

They created a massive new lending facility. They enhanced the existing discount window, all of these actions to try to prevent further runs on the system. Today, what I want us to think about is why I think that at moments of financial stress like this the right monetary policy is really caution and watchfulness and prudence. I don't say that because I think we should stop prioritizing the fight against inflation just because markets got upset. That is a perspective that I call financial dominance, which holds that financial issues are more important and they should dominate monetary policy concerns when they conflict. There are people who believe that, who believe that those financial conditions should drive Fed action, but I absolutely don't.

I think Congress gave us a job. Well, it gave us two jobs, maximize employment and stabilize prices. That's the job, that's written into the law. It doesn't say anything about the stock market. It doesn't say anything about always keep the financial markets happy. It doesn't say anything about making sure investors don't lose any money. The reason why I say we should include the financial conditions in our monetary policy discussion is just that history has taught us that at moments of financial stress, even if they don't escalate into a crisis, they often mean tighter credit conditions and have a material impact on the real economy in a way that the Fed absolutely needs to take into account when setting the monetary policy.

As I'll explain, I think that in today's environment actually there is no conflict between our current monetary policy and these potentially tighter credit conditions. Especially if those credit conditions are going to be part of strengthening the financial system. They will in fact work in tandem to cool inflation.

But we also need to recognize that this combination of policies is probably going to hit some sectors and regions of the country in ways that look different than they would if monetary policy was acting alone. First, if you are old enough to remember 2008, and it looks like a few of you are old enough to remember 2008, or if you aren't old enough to remember, but you are a student of financial history, then you know that when financial stress snowballs into a full-blown financial crisis, the entire economy suffers immense harm.

The workers, businesses, financial institutions, consumers, everybody. That is why when financial crises come, central bankers and really all the policy makers act as quickly as they can to provide support to the economy. They cut rates, they expand quantitative easing, they pass stimuli, a variety of things. Side note, moments of financial stress are a particularly bad time to punch yourself in the face by taking actions that could ignite a financial crisis on their own, like say, defaulting on US treasuries in a fight about the debt limit. When I was a kid, I dreamed of starting a guidebook series of places that were awful called Let's Not Go. That dream died when I realized nobody wants to buy a guidebook for a place they have no interest in going.

But if I had started it, I would write one about defaulting on US Treasury and the debt limit, let's not go there back. That's a surprising ovation for the debt ceiling fight. But the thing that's important is even if financial stress doesn't spiral into a crisis, it still often can lead to a pullback in credit and have a material impact on the real economy. The research is really full of studies that show exactly that, across other countries, across time. In US history, think of the fallout from the savings and loan crisis of the 1980s and '90s. That one didn't spiral into a financial crisis, but it did make the 1990, '91 recession significantly worse. It did significantly slow GDP growth in the subsequent recovery.

That's the danger, that's the fear. I'll be the first to admit that these historical episodes are not necessarily perfect analogies to what's happening today. First of all, the bank situation and the market turmoil has definitely quieted over the last couple of weeks. Second, the financial system today in the US is much less reliant on bank credit than most other countries are, or than the US itself was 30, 40 years ago. But still, at the very least, we need to be on watch for the possibility of these tighter credit conditions that banks could pull back on lending in order to protect their balance sheets. The Fed's own senior loan officer opinion survey known in the business as the SLOOS, the SLOOS suggests that there was already tightening of the lending standards going on before Silicon Valley Bank and Signature Bank even had their failures.

If these financial headwinds develop, the Fed would need to account for that when setting monetary policy. In some ways it's almost just mechanical that we've been tightening financial conditions through the Fed funds rate and others to bring inflation down. If the response to these banking problems leads the financial industry to tighten on its own, then monetary policy has to do less. It's not clear yet exactly how much less, but one indicator the private sector analysts have speculated that what's happened so far might amount to the equivalent of raising the federal funds rate by something in the range of 25 to 75 basis points. That is a quarter of a percentage to three quarters of a percentage point.

We need to get a handle on the size of the financial headwinds, and that's why we need to monitor a wide variety of financial indicators. To me, in a way, this is just the newer funkier version of the same old data dependence moniker that we've always applied. I would also say that out here in the Reserve Banks, not in Washington, DC, we're also going to go out and talk to a lot of people. Because hearing what the households, the banks, the businesses and community groups are experiencing often reveals things that have yet to show up in the formal data, which tend to get released with a lag of at least a week or a month or even a quarter. Given how much uncertainty abounds when these financial headwinds are going, I guess I think we need to be cautious.

We should gather further data and we should be extra careful about raising rates too aggressively until we see how much work the headwinds are doing for us in getting inflation down. Now, let's think for a second about the, what's the first line of defense when you encounter financial stress? There is a branch of the financial dominant school of thought that I mentioned before that takes that argument even further and says that if there's any chance of financial crisis, that we should preemptively cut the rates to try to reduce the odds of it becoming a problem. I think right now we got to be careful with that logic given, A, that we've had substantial trouble getting inflation down in recent years, and B, there are dangers of setting a precedent that we will give in any time the market throws a tantrum.

The main defense for avoiding or mitigating financial stress, in my opinion, should be the supervisory and regulatory tools that we aim at ensuring safety and soundness of the financial system. They include capital and liquidity requirements, stress testing, supervisory examination of the bank portfolios and the risk management practice, and pressing on all of those dimensions to strengthen the financial system will help it weather stress events like these recent bank failures. It's worth noting on the side that our financial situation today is significantly better because of the financial regulatory reforms that we put in place after the great financial crisis some decade ago. Particularly higher capital and liquidity buffers that we required of our largest financial institutions.

Thank goodness that we did that. The last point I'd like to raise, I would lump under the topic of unusual circumstances that there are, it's worth noting that there are a few different ways that the impact of credit conditions and monetary policy right now may look a little different than they normally do. A, the economy's still coming back from bizarro covid times, as you know. Initially, people spent more time at home, let's call it. We saw a huge surge in demand for durable goods like Pelotons and others, and a plunge in the demand for services like travel or going to the dentist or things like that. Looking nothing like a regular business cycle. That's the opposite of what happens in a regular business cycle.

Now, more recently, consumer spending shifting back to those services and that's reflected in the inflation data. Goods inflation has come way down, but now services inflation, especially in the categories where spending is discretionary and was repressed for a few years, like travel, hotels, restaurants, leisure, recreation, entertainment, the economic club, all of these, demand has returned and the inflation has proved particularly persistent. I'm not saying anything, David, about what's happening to dues. That's your own business. Now, did somebody hiss? Somebody hiss when I said dues. That's a cold family, David, I apologize. B, today we do not face a common dilemma that is found in many of the earlier moments of financial stress.

That is our financial stability goals and our monetary policy goals do not conflict. Often, moments of financial stress happen when the macro economy is really struggling and the kinds of actions that the financial institutions need to take or that the Fed or the other regulators force them to take, like tightening the lending standards or conserving or raising capital. Things like that that strengthen the banking sector simultaneously reduce the availability of credit at exactly a moment when the economy cannot afford to be slowed down. But at present, we don't face that dilemma. The actions that we take that strengthen the banking sector's financial position and reduce the likelihood of these financial stresses to spiral into a crisis, they're actually making the job of monetary policy easier.

Because they're tightening credit and bringing inflation down on their own. C, it's worth also remembering that the credit conditions and monetary policy now, their impact might look different than in historic tightening cycles. If only because much of this recent financial turmoil has seemed to be concentrated in the regional bank sector. If a potential credit crunch gets concentrated there, it's going to mean that the sectors and the geographies that are exposed to those regional banks and institutions will probably feel the impact of the tighter conditions more intensely. Those institutions are particularly important sources of credit for credit cards, mid-size business funding and lenders for commercial real estate and autos.

Different parts of the country as well, different parts of the country are more reliant on regional banks than others are. I wouldn't expect things to look like they're going to be felt equally by all. At the end of the day, as I said, the best central bankers are data dependent and the Fed's job is to be more paranoid than anyone else. That's what they pay us for. In lucky times, we don't need to follow that many different data series to decide where we think inflation or unemployment or GDP are headed. But in unluckier times, more interesting times, like the times we're in right now with wild shocks and financial stresses, it means we have to dig into loads of new information to try to figure out where the economy's headed and to set monetary policy.

The Fed must use everything in its toolkit to maximize employment and stabilize prices. That's definitely harder in an unpredictable world that's full of pandemics and wars and cryptocurrencies and bank runs, but we will figure it out. This is Chicago and we know how to get the job done and done no matter what the conditions are. We know that there is no bad weather, there is only bad clothing, so take comfort in this. The financial stress may come and go, but the Fed is forever, unless these conspiracy nuts succeeded abolishing the Fed, at which point you're all going to be on your own. But at that point, Ann, why don't we come up and have a talk?

Ann Dwyer:

Thank you. Thank you for that. Before we get started, I just want to thank David Snyder for that lovely introduction. I don't know if people know David hired me at Crain's a long time ago. When David calls, the answer is always yes. I know people in this room feel the same way. I know you do too. But the bonus for me is I get to talk to you. Among the things I wanted to do today is to drill down a little deeper into some of your remarks and localize them if we can. But first, I wanted to start with just a little bit of just biographical background on you. Born in Waco, Texas, correct?

Austan Goolsbee:

Indeed.

Ann Dwyer:

Raised in Whittier, California?

Austan Goolsbee:

Where is this going? Yes, that's accurate.

Ann Dwyer:

Well, I understand that that's where one Richard Nixon was raised?

Austan Goolsbee:

Richard Nixon. That's right.

Ann Dwyer:

I see the connections immediately. Yeah, I'm going to go home now and add another string of red yarn to my conspiracy theory chart. It's all making sense.

Austan Goolsbee:

There is a Fed connection with Richard Nixon. The Watergate break-in took place in Watergate Hotel, but was discovered, the Fed has a law enforcement unit, there are Fed police officers, and the break-in was discovered by a Fed police officer.

Ann Dwyer:

Is that right?

Austan Goolsbee:

The conspiracy nuts have this whole thing that the Fed did Watergate and it was an inside job.

Ann Dwyer:

Uh-uh, and we're feeding that. Sorry. Just to back up to young Austan child star, Whittier, California, what drew you to become an economist to begin with? Most kids aren't dreaming about, they're like an astronaut, baseball player, economist?

Austan Goolsbee:

I knew I liked math and science and I knew I liked debate and politics and policy. In my younger days, I wasn't totally wrong, it seemed like economics was a combination of those. I went to the high school guidance counselor who said, "What do you want to be when you grow up?" I said, "Maybe I want to be an economist." She started laughing and I said, "Why is that funny?" She said, "Because my husband is an economics professor." You can find out about it, and that her husband took me in and took me to seminars and would show me economics and I got into it from that. Like a lot of people, even if you hadn't necessarily intended to get into something, if you have mentors and great teachers, you take it up. That was the path. That was the path I've chosen.

Ann Dwyer:

Here you are today making that professor proud, I'm sure. I was going to ask you if the transition from being tagged as America's funniest economist to being in your current role has been a difficult one for you. I realize that America's funniest economist is a low bar.

Austan Goolsbee:

First of all, let's have a fact check. It was DC's funniest celebrity, and it was a contest, and I won the contest.

Ann Dwyer:

You're very proud of that, I could tell.

Austan Goolsbee:

But as always, I say that the central question of economics is compared to what, and nowhere was that more true than at the DC's funniest celebrity contest, where I was the winner and the runner up was Grover Norquist, the tax guy. My wife who's here now, was at the contest and I was the last person to go. She whispered, "Honey, if you can't beat these people, you're going to have to slink out here because nobody's gotten a single laugh the whole night."

Ann Dwyer:

I know, yeah. That would be sad. It does seem, and we joked about this in the green room earlier, that as a communicator you're no Alan Greenspan. You say what you mean and mean what you say, but truly, what you say can potentially move markets.

Austan Goolsbee:

You're making our Fed people sweat here. They already were very nervous about me getting up here.

Ann Dwyer:

That's why I'm here. How circumspect do you need to be in moments like this where what you have to say could potentially really have an impact done?

Austan Goolsbee:

I've always liked to carry myself with a certain quiet dignity. Look, the thing that I outlined in the remarks or tried to, I think that for the central bankers of the world, as you know there's emphasis, especially in the business media, of just like, "Does that mean you're for 25 or you're for 50?" They want to know that.

Ann Dwyer:

Yeah, guilty.

Austan Goolsbee:

I think rather than just asking the opinion of everybody on the FOMC, it's more interesting maybe is the right word, what are you looking at? What data are you watching when making that decision? You don't have to be circumspect about that, I don't think, because that's what's the reaction function of the central bankers.

Ann Dwyer:

Well, I could take a hint.

Austan Goolsbee:

It's good that we have that.

Ann Dwyer:

All right.

Austan Goolsbee:

No. You're like, is it 25 or 50?

Ann Dwyer:

No, but I was going to say, and you're jumping ahead a little bit in my notes, but I was going to ask you, your assessment of the situation obviously comes from various qualitative factors, including reports from members of your own board and discussions with CEOs and business owners, other constituencies in the district. You're just starting in your role, but how do you personally get that feedback? If you had three questions you want to ask a room full, I don't know, of CEOs and executives here, what would they be? We could even do a show of hands. Is there data that you can gather from this group?

Austan Goolsbee:

Okay, so they're going to be yes-no questions? Okay, both of these are quite important. One, the Chicago Fed itself has an amazingly distinguished research department of a lot of people, I think 125 people, that have for sure kept me on my toes, and I can't get away with, if you're an economics professor, you can have a loose opinion of, it seems like all of this came from supply shocks. The research department of Chicago Fed will come back and be like, "Here's a five-page memo of why you need to stop saying that. I love that. Their quality is super high. Then, the second style of information is what you say, I like talking to our board. We have a very distinguished board and some of the members of the board are here this afternoon, that will give us, every time we have a board meeting, we go through and gather the conditions.

What they're seeing in terms of demand, in terms of credit, in terms of supply constraints. Then, we have a very robust formalized effort to reach out and talk to businesses and community groups of many forms that go into what the Fed calls a beige book, which is regional intelligence, let's call it. We'll talk to major employers and manufacturers and service companies because like I say, the data tend to come out with a one-month lag. When the jobs numbers come out, it's for last month.

Ann Dwyer:

Then, they adjust them.

Austan Goolsbee:

When the GDP comes out ... and then they adjust them for two years, they adjust them. The GDP comes out a month after the end of the quarter. If you're just waiting to be data dependent on data that's actually applying way back when you're behind the eight-ball. We like to supplement with that. If we were in a setting right now, the foremost thing on my mind before our next meeting in May is trying to get a handle on this question about credit. Is it actually credit tightening? Until the financial stress, the puzzle was, we raised interest rates as fast as they've been raised in decades, and yet the data continues to come in extremely strong. Does that mean there's a big anvil floating around over us that is about to drop, it's just taking a while?

Or, was it paper mache and it was not an anvil? I would've, three months ago, asked about that but now I think it would be about credit conditions, and is that going to be a limiting factor on expansion?

Ann Dwyer:

I think here in Chicago and certainly in the loop it feels like we're in the shadow of anvil.

Austan Goolsbee:

You feel like they shadow?

Ann Dwyer:

Yeah, I'm just speaking for myself, you could ask these folks. Especially with the downtown office market, we're seeing-

Austan Goolsbee:

The whole space of commercial real estate, this is what I was hinting at a little. We've gone through a totally bizarro time through covid, and if you look at the folks that do the surveys of downtown office buildings and how many people have returned to work, Chicago actually has had the highest return to work ratio outside of Texas, of any of the places that they measure.

Ann Dwyer:

I read about it, 48%.

Austan Goolsbee:

Yet, it's still about 50%. That's what I was going to say, but 50% seems super low, and yet that's higher than most other places. We're going to have to work through this. I don't know. At the Chicago Fed, we are confronting the issues just like everyone else of how many days a week are people going to come back and how much of the job needs to be done on site or from home? We were just going to have to work through that.

Ann Dwyer:

Well, so much of the answer to the equation, I think, and I agree that it's going to take a while for it to really work its way out, but so much of that does seem to be tied to talent and demand for talent and what people in the workforce are willing to do.

Austan Goolsbee:

Indeed.

Ann Dwyer:

Talk about that a little bit, just workforce demand and where you see that headed.

Austan Goolsbee:

The job mark has been almost literally unbelievably strong. If I had told you the unemployment rate was down to around three and a half percent again, as it was, as we came to the end of last year and I asked you to predict, what will happen to the jobs numbers? Everyone thought we're going to run out of bodies, we're going to run out of people. This is a full employment. It has to stop growing faster than population growth. The baby boomers are retiring. Labor force participation is supposed to be coming down. We've put up epically huge jobs numbers even from starting at that point. It certainly feels like the job market is extremely tight. Yet there are other, the GDP slowed down and there are others like wages are up, but they're not up faster than prices.

Business margins actually expanded over the time when the job market was supposed to be as tight as it ever was. There's just weird puzzles. They're weird puzzles. It feels like the job market is cooling a bit. You've seen some layoffs, you've seen some slowing of the growth rate, let's call it.

Ann Dwyer:

In certain sectors.

Austan Goolsbee:

In certain sectors, but it feels more like the overall economy, rather than the traditional Fed induced tightness, goes at the interest rate sensitive parts of the economy. Those interest rate sensitive parts of the economy are the most cyclical, so it's usually easier. That part is not as easy now because the service sector being overheated, the service sector is the less interest rate sensitive. Do you care what the Fed funds rate is when you decide whether to go to the dentist? Nowadays, maybe you do, but historically not.

Ann Dwyer:

Exactly.

Austan Goolsbee:

That's [inaudible 00:37:41].

Ann Dwyer:

Yet those fluctuations do have their impact on certain aspects of the economy, especially here in Chicago maybe are a little bit more sensitive than in other regions of the country, I would wager. We are a middle market town here in a large respects, and obviously, we have large corporations in Chicago, but bulk of the economy is small and mid-size companies. We certainly are a very fragmented banking market as well compared to other major metros. For smaller and mid-size businesses-

Austan Goolsbee:

That was the Crain's flex there.

Ann Dwyer:

Yes.

Austan Goolsbee:

You heard that?

Ann Dwyer:

Yes.

Austan Goolsbee:

This woman knows what she's talking about.

Ann Dwyer:

It's all written down for me, really. These are companies that really do rely on access to loans and lines of credit to get the job done. How do you see higher rates and tighter lending requirements affecting the growth of the local economy here in Chicago and in the Midwest? Your remarks earlier really spoke nationally.

Austan Goolsbee:

You would have thought historically in a way the Chicago land economy has a higher beta, let's call it. It's more of everything that is sick. We got higher manufacturing, we got financial service, we've got a lot of logistics and transportation, though we also have a lot of professional services. I would have thought that as the interest rate goes up, we would have in conversation with our manufacturing throughout the district, not just Chicago, but when we talked to manufacturers, I would've thought they'd be like, "You're killing us. This is the tip of the spear and we're going to suffer." Surprisingly, we hadn't really heard that. Part of it I think is we have a lot of orientation around the auto industry.

The auto industry was massively supply constrained, from the chips, to the ports, to the blah blah, blah. Now, yes, demand is cooling because the interest rate's going up, auto finance getting more expensive, but at the same time you're just like, it's hard to injure yourself jumping from the window of the basement. In this thing, they're saying, "Well, yes, demand is down somewhat, but we finally are getting cars again." Their sales are in some ways going up. That's masking a little bit. The easing of the supply constraints is masking a little bit what I would've thought would be Chicago takes a punch to the gut before others.

Ann Dwyer:

There's no question that these are bizarro times. That's going to be my new technical term for this from now on. Yet, if you listen to epidemiologists and people who are looking at just the covid ramifications that are probably going to echo through our economy for quite some time, we are going to have another pandemic. I'm sorry to be the one to say so.

Austan Goolsbee:

Way to be a downer, Ann.

Ann Dwyer:

I'm sorry. It's been a hundred years since the last one. But there's been predictions that we're going to see this again in some way, shape or form. Hopefully, the response next time will be better and more coherent than the last one. But are there lessons that we can and should be learning out of this? Are there things that you want to underscore and emphasize for the next time we run into a massive event like this? Because it seems likely that we're going to be seeing more.

Austan Goolsbee:

Look, what do I know about epidemiology?

Ann Dwyer:

I don't know.

Austan Goolsbee:

A little, though I was the ... not to mention the competition, David, and I apologize. You will remember that in February of 2020 I spoke at the commercial club and you remember my whole thing was like, "You keep your eye out for this thing in China. Pandemics don't stay where they start. If this gets here, we're going to have a horrible recession." Everybody's like, "What are you talking about?"

Ann Dwyer:

It sucks to be right.

Austan Goolsbee:

But then, everyone went home, so I couldn't go to the next meeting and be like, "See? I told you." Because there were no meetings for two years.

Ann Dwyer:

You're on Zoom.

Austan Goolsbee:

It's worth remembering, there were some positive lessons. We actually came together in a totally unpredicted bipartisan way and did a bunch of things at the beginning and through covid times. The Fed reacted a lot and interacted, I was suspicious at that moment that they were putting too much on the Fed, kind of like Congress is going to hand the Fed, "Here, you do it." Then, if it goes wrong, they'd be like, "Oh, the Fed screwed it all up." I was paranoid about that. But that didn't happen, in a way, despite the environment being as toxic as it is, there was a major accomplishment to work in a crisis moment the way they did. I hope that there would be some lesson that we could do that again. I don't know that there are obvious specific or technological economic lessons like go do X.

Should you give money to the unemployed, should you do PPP style lending to businesses? All of those, I think you got to play by ear, but the main lesson that you want to act quickly when you face shocks like that and you want to rely on enactable facility. The Fed, in a bizarro way, was able to act quickly because we had lived through the 2009 crisis, 2008, 2009, which looked totally different. But the conception of, we can stand up these facilities, we can act in various ways, hopefully would do that. But I got to stay out of the politics of that moment.

Ann Dwyer:

Understood. Would you rather be sitting in the chair you're sitting in now or in 2008?

Austan Goolsbee:

This is a comfortable chair.

Ann Dwyer:

It's a nice chair.

Austan Goolsbee:

But you mean in 2008?

Ann Dwyer:

Yes.

Austan Goolsbee:

Oh, now feels so much better than in 2008. Maybe it'd be different if you said in March, in February, late February 2020, was that better or worse than 2008? I still think it'd be better than 2020. There was more death. That was the worst part. But just the economic part was intensely scary, but it was very rapid. The month of March 2020, the unemployment rate went up more in that month than in any year in US history, including the Great Depression. We had a great depression for one month and it was awful. But then, it came rebounding back pretty rapidly. Given that you know the world didn't end, it's a lot better to be in that moment.

Ann Dwyer:

Yeah, the world didn't end. We're still here. But you did mention worrying earlier about the Fed perhaps putting itself in a position to be perceived as perhaps not handling that crisis as well as it did. That didn't happen. But lately, since the banking crisis has come up, the Fed has been, come in for some criticism for its handling of supervision of the banks that have struggled and maybe others. Has oversight become too lax? President Biden and many others are calling for tightening supervision over banks. Do you agree with that? I'm just wondering what more can be done.

Austan Goolsbee:

The Fed is the regulator of a lot of financial institutions, not all of them, but that's done out of Washington. It is delegated from Washington to the regional banks. That's what makes us the regulator. But we don't set the policy. The Washington sets the policy and tells us, "Here's what we want you to apply." I do think that Silicon Valley Bank being under the regulatory umbrella of the Federal Reserve system means that the Vice Chair of Supervision, Michael Barr, who is a person that I respect a lot and who I worked with closely through the financial crisis in 2009, he's now the Vice Chair of Supervision in Washington for the Fed. He said that by May 1st they're going to release a thorough report to figure out what went wrong and did they identify it?

Should they have done something else? How did the changes to regulations over the last four years affect things? I realize it's a punt as an answer to the question, it's a double punt. A, that's not our job. We just do what Washington tells us. But B, Washington doesn't have an answer to that yet. It's supposed to come on May the first. I think we got to see what that is.

Ann Dwyer:

I'll call you on May 1st, see what you think then. Getting back to the flex earlier about Chicago and the Midwest having a more balkanized banking market than perhaps other cities do, does the Fed have any role in helping to instill confidence in those smaller banks, especially in a moment like this, where people might be rattled and do the flights of safety to large banks that are perceived to be more stable?

Austan Goolsbee:

Yes, and not yes, at the same time.

Ann Dwyer:

Again, with the balking.

Austan Goolsbee:

Yes, the Fed system, if you're a bank, an actual bank, not a shadow bank, from the beginning the Federal Reserve Act of 1913 is created in response to banking panics. They set up a discount window, which is the lender of last resort that the Fed has. The reason the Fed is the lender of last resort is you can stop banking panics if people say, "Oh, wait a second. If the bank is solvent, they just can't get cash right now. They could go to the Fed and they could borrow money from the discount window?" In that sense, the Fed is a critical linchpin for confidence in the whole banking system, especially at small banks. You don't have to worry. You got FDIC deposit insurance. If your bank is solvent, they can go to the Fed and borrow at the discount window, and that's a well established, more than a hundred years system.

The sense in which not yes is it's not the Fed's job, and it would not be appropriate. It would probably be illegal to get up and say, "Bank so-and-so is totally safe." The supervisory information is classified secret, whatever. I'm going to get in trouble for saying the wrong level.

Ann Dwyer:

You're in so much trouble already.

Austan Goolsbee:

It's SCI clearance, whatever it is. We can't say that and it wouldn't be appropriate. If you're the supervisor, you shouldn't be supervisor plus cheerleader of go out and say, "Oh, everything is great." You should evaluate what the conditions are. If banks mess up, you should correct them and say, "You're deficient level two, and whatever it is." I think the Fed is critical for the system of confidence in the financial system, and credibility of the Fed is super important. My old great mentor was Paul Volcker, and I went through the financial crisis as the chief economist for Paul Volcker's advisory board. Paul Volcker's thing, always, I would constantly ask him of what, "Was it like in 1982 when you raised it? You've raised the interest rate to 20%. Were people mad?" "Yes, they were mad."

Ann Dwyer:

Yes, they were mad. They were mad.

Austan Goolsbee:

But his thing is, when a crisis comes, the only true asset is your credibility. His view was, he didn't mind making himself look bad in non-crisis times. If people go like, "Oh, he said that, that's embarrassing for yourself." If it was putting coins into the credibility piggy bank, he was okay with that, because his view was, one of these days, we're going to need it. You're going to believe me because I always tell it like it is even when it makes me look bad. I do think that same Fed credibility is, in a weird way, quite influential on the confidence that people have in regional banks, in small banks. They know it's backed by the Fed.

Ann Dwyer:

Yeah. Well, and credibility and confidence is really what keeps financial markets rolling no matter where you are. It's all built on faith.

Austan Goolsbee:

You're making me think you're a financial dominance person. I'm like, "Whoa, wait a second. What?"

Ann Dwyer:

But let me ask you this, we only have, oh geez, we only have almost four minutes left, so I did want to ask you a big picture question before.

Austan Goolsbee:

That was a polite way to say, I got to be tighter.

Ann Dwyer:

No, no, no, you can talk all day. I'm happy to listen. But no, because I know we have kids who are probably about the same age, and I've just was having a conversation with them recently, they're in their 20s about, I've been telling them really ever since Donald Trump took that golden escalator ride, I've been telling my kids, "Pay attention to everything that's happening right now because your kids and your grandchildren are going to be asking you what was it like to live through this time?"

Austan Goolsbee:

Yes.

Ann Dwyer:

It's just been wild. Let's face it. Occasionally, I've had to also tell them the arc of history, try to rely on some of those big picture takes to help them get through some of the stress of this moment. What do you tell the young people in your life about the time that we're living through and how to think of it and how to prepare for what's ahead?

Austan Goolsbee:

Wow, that's a deep question. I guess we have two minutes, so I'm like, "What am I going to say?"

Ann Dwyer:

Let's see.

Austan Goolsbee:

Our kids have a tendency to say ... We are walking our kid to school, somebody says, "Hi, Addison." He doesn't say anything. Our son Addison really doesn't say anything. My wife say, "When people say hi, you got to say hi." "This isn't the 1980s mom."

Ann Dwyer:

What was it about the '80s?

Austan Goolsbee:

I'm like, people don't say hello anymore? I actually have been, from my time teaching at Chicago Business School, I'm a huge fan. You hear people say, "Ah, millennials, they don't want to work. They don't have ambitions." I haven't found that to be true at all. I've been super impressed.

Ann Dwyer:

Same.

Austan Goolsbee:

I guess in a way my inner message, I'm not going to say it to the kids because it would connote them, don't listen to what I'm telling you, but I hope that kids their age, they do it a different way. Look at all the stuff we screwed up. Maybe they can do it different. I think at one point somebody's great grandmother who's a hundred, covid had begun and they asked, they lived through the Depression, or World War II, and like a bunch of stuff and said, "Where does this rank in all the stuff that's happened in your life?" The great-grandmother said, "This is the biggest thing that's ever happened. This is bigger." She was like, "I was in World War II. I lived through the Depression. It wasn't as crazy as this." I was like, "Oh, no." It's like my parents one time got stuck in the elevator and the door open.

They were a bunch of people in the elevator. The door opens and they're in between the floors. They ring the alarm and the repair guy comes running up and they just hear him say, "Oh, no." That's the last thing you want to hear from the elevator repair guy. I'll say that. Let me say one thing. In a way, it is about posterity, not exactly geared to young people, but it comes from your thing. You said, we actually have a lot of small companies and we have a lot of small banks. Sometimes there can be, you can look at Chicago and you can be a little nervous and look at urban areas. As we come out of the pandemic, there's been this argument, is this the death of all cities and is Chicago doomed?

All I will say is there's a urban economist at Harvard named Ed Glaeser who has this paper which looked over 80, 100 years at cities and metro areas around the United States, and who have succeeded decade after decade and who have gone down. He actually found that three things characterize cities that grow versus cities that fail. The first is not a ton we can do about, since the invention of air conditioning, places that are warmer in January have done better. They they've moved to hot places. Two is what's the average educational base of the workforce? Three is how diversified is the economy, in both industry and size of company? One company towns have not done as well.

Ann Dwyer:

Exactly. Yeah.

Austan Goolsbee:

If you look at Chicago, January still stinks, but we actually have had pretty successful urban education compared with other large urban areas. We can't neglect it. We took huge blows through the pandemic, all urban areas have. But that's not a point of problem for us. We're a very diverse local economy.

Ann Dwyer:

Absolutely.

Austan Goolsbee:

We have a lot of small firms as well as big firms and medium size firm. Our financial system is spread. In a way, I don't exactly know how it plays out. People are like, "Ah, but the parking meters, we sold off the parking meters." They're like, "Fine." Argue about any policy, the fundamentals are not bad as a urban area if those factors continue going forward. I'm still pretty bullish on it.

Ann Dwyer:

It's good to talk to someone else who's long on Chicago and bullish on Chicago too. Thanks so much. I see David.

Austan Goolsbee:

Speaking of long one.

Ann Dwyer:

Yeah.

David Snyder:

Austan, Ann, thank you so much for being with us today. Thank you to all of our members and guests for joining us. We hope you can see our upcoming programs. Enjoy the rest of this beautiful day. The meeting is adjourned. Thank you everyone.