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Chicago Federal Reserve president on inflation, uncertainty

Interview Transcript

GEOFF BENNETT: As we reported, inflation is easing, but still high. The Federal Reserve has been laser-focused on bringing down prices, raising interest rates 10 times in the last 14 months. But economic uncertainties remain, including the consequences of much higher interest rates, a debt limit standoff, and recent bank collapses. To discuss the challenges ahead, we are joined by Austan Goolsbee, president of the Federal Reserve Bank of Chicago. It is great to have you here. And let's start with this...

AUSTAN GOOLSBEE, President, Federal Reserve Bank of Chicago: Geoff, thank you for having me.

GEOFF BENNETT: Absolutely. Let's start with this news on inflation, because inflation slowed for a 10th straight month in April, according to the Consumer Price Index. That is great news for families who have been struggling with higher costs. But inflation still remains too high. What indicators do you and other Fed policymakers need to see to know that we are finally breaking the back of inflation?

AUSTAN GOOLSBEE: Well, you described it exactly right. Inflation was way, way too high. It is still too high, but it is at least coming down, and so that part is encouraging. Mostly, when the Fed looks at prices and inflation, they don't look at this looking backward for a year, which is what the number is usually quoted as. They are usually -- we are looking at the monthly inflation, what is the new information, and we are tending to not look at food and energy prices, because they are so volatile. And by those measures of core prices, we have seen progress, but it still shows that inflation is too high, and we are just trying to balance out the dual mandate. That is, the law gives the Fed two jobs, maximize employment and stabilize prices. Employment has been going very well. That is the strongest part of the economy. And the inflation has not been going as well. That's been, let's call it the weakest part of the economy. And I think we have to just keep getting more price information across these categories before we can say with comfort we are on a path back to normal.

GEOFF BENNETT: Can I draw you out on the Federal Reserve's dual mandates, the maintain maximum -- maximum employment and keep prices stable? Can the Fed keep prices stable without tilting the economy into a recession?

AUSTAN GOOLSBEE: We certainly hope so. And that's the goal. And in -- the complication with that is, we all know that it takes time for the monetary policy choices, like the 10 interest rate increases you described over the last year, 5 full percentage points in the interest rate. It takes time for that to work its way through the economy. So, in a way, it's like having a conversation with somebody in Asia where there's a little bit of a delay. And it's sometimes hard to have a conversation like that. You don't want to land the plane nose down. So we're trying to balance off, can we slow the inflation without sending it into a

recession? We have had some promising indicators on that -- on that front. But it's always a possibility when you're in a rate-rising environment like this, and you have had bank stresses like the ones we have seen with Silicon Valley Bank and others, and you add on top of it wild cards like fights about the debt ceiling and stuff like that. You cannot rule out that recession is a possibility.

GEOFF BENNETT: Well, you were chairman of then-President Obama's Council of Economic Advisers back in 2011, when just the mere notion of brinkmanship led to the U.S. having its credit rating downgraded. What do you see as the impact of this current debt limit standoff or a potential default on this economy that's still recovering from the pandemic?

AUSTAN GOOLSBEE: Yikes. You're giving me indigestion to think back to what that was like. Let's hope we don't get into that environment. The -- as Chair Powell said, there really isn't any alternative. We have got to raise the debt ceiling. How Congress is going to sort that out, and the two parties are going to have their negotiations or legal strategies, I don't know. If you look back at times when we encounter these crises, there's -- there was in 2011, dramatic drop in consumer confidence. You could see interest rate spikes. And I guess I have still can't get past, what is going to happen? Are we not going to pay the military, we're not going to pay Social Security, we're going to add on top of already the financial stresses about bank capital, that the safest asset in the world, Treasuries, is going to somehow be questioned, the value of treasuries, that we -- that we might default? I just think it doesn't -- it doesn't make sense. If you think through the actual practical details of how it would affect the economy, there's nothing good about it. It would be really bad for the economy.

GEOFF BENNETT: Yes. We have got about a minute left.

AUSTAN GOOLSBEE: I'm just hopeful we don't get to there.

GEOFF BENNETT: Yes. We have got about a minute left. And I want to ask you about how the Fed sort of navigates raising interest rates, because you in a speech last month said that the Central Bank should proceed cautiously with any additional interest rate increases. You said: "At moments like this, the right monetary approach calls for prudence and patience." And you voted with all of the Fed policymakers earlier this month to raise rates by a quarter-point. Why? Why was that the right approach?

AUSTAN GOOLSBEE: I did. I mean, the second sentence in the speech that I gave before the meeting was, the most important thing is to gather as much data as you can, because we're in an environment where the tightening in the bank sector and the credit squeeze that takes place when banks are trying to conserve their capital and trying to raise their lending standards, that does a lot of the work that monetary policy would normally do in a moment like this, when inflation is high. And so it is totally appropriate to watch the conditions to figure out how much of your work has already been done for you. In this last meeting, I felt that, if you looked at the conditions, you had yet to see that the credit tightening had -- the credit crunch was not on the minds of people yet. And so the -- two meetings ago, we had outlined a plan, taking somewhat into account that credit was going to be tightening, and it made sense to stay on that plan. I think now you're starting to get more information that the credit squeeze is beginning. And so we -- let's be on alert and be prudent and patient in our decisions.

GEOFF BENNETT: Prudence and patience. Austan Goolsbee is president of the Federal Reserve Bank of Chicago. Always good to speak with you. Thanks for being with us.

AUSTAN GOOLSBEE: Great to see you.