Neil Cavuto:

I haven't had a chance to congratulate him on this. He is now the president of the Federal Reserve Bank of Chicago. He's a voting member as such of the Federal Open Market Committee, the folks that determine interest rates, and the folks who have just raised interest rates for the 10th time in this cycle to around the 5, five and a quarter percent neck of the woods. Austan, very good to have you, and belated congratulations.

Austan Goolsbee:

Yeah, old friend, thank you for having me back.

Neil Cavuto:

No, it's good. And by the way, Adele sends along her congratulations, but I digress. I'd be curious however, were you among those members who said, "Yeah, raise it another quarter point."

Austan Goolsbee:

I was. It was unanimous decision, so I was in that.

Neil Cavuto:

You get a good jobs report like this, and there's no other way you can look at this job, sir. I know they talk about the revisions of the prior months. Fact of the matter is, it was a stunningly good jobs report. So now the question is, is it so good, it puts pressure on you and your colleagues to keep that interest rate spigot moving?

Austan Goolsbee:

I mean a little, that's partly ... As you know, before the banking stresses began, the economy was looking quite hot, and inflation's above where we want it to be. It hasn't come down as fast as we wanted, and the job market has been by far the strongest part of the economy. So you got to take that into account. At the same time, we know that credit conditions like the ones we're seeing now, in the past have been correlated with recessions, credit crunches, kind of have done the tightening work of monetary policy. So in our phrase, as you know, data dependents. We got to be data dependent. We got to watch a lot of indicators, not just the unemployment.

Neil Cavuto:

Because I've already seen ... I don't know how much stock you put in things, because you guys decided, not the markets. There seems to be a higher expectation now that we will see a hike in June. Too premature to say that?

Austan Goolsbee:

I think way too premature to say that. As you know, Neil, even before I was in this job, I was not a fan of the Fed paying that close attention or primary attention to what the stock market says. I think the real economy is what we all got to be watching, and it's way too premature to know what to do with monetary policy, especially because we're up, we're down on this credit, the issue of how our credit condition's going to be, and what's going to be the fate of our regional banks in the immediate term. Those are going to matter a lot.

Neil Cavuto:

That's interesting, because that does seem to change the equation a bit here. What's been going on with these regional banks, and First Republic, and all these others and the mergers and everything on PacWest a good day then it's a bad day then it's a questionable day. With a backdrop like that, does that give you pause on raising rates, that you could make that situation worse?

Austan Goolsbee:

Yeah, well, it has to give you some pause. I gave a speech before this last FOMC meeting where I said, "Even if you don't think that we should use the interest rate as a way to fight off financial crisis, which I don't think should, I think you should use your prudential and regulatory tools to do it." Things like that, even if they don't spiral into a crisis, they are correlated with banks raising their lending standards as they're trying to raise more capital.

There's just going to be less to go around for business expansion, and that's likely to slow the economy and for sure you should think, take that into account. And so that's what we all got to keep an eye on that part of credit conditions because as I view it, that's doing the work of monetary policy. If you feel like the economy's still very hot, the unemployment rate is 3.4%, the whatever tightening that you're going to need to do, it's got to be taking into account of what the banking system's impact.

Neil Cavuto:

Let me ask you a little bit about the debt ceiling debate back and forth. We're told Treasury Secretary Janet Yellen has said that June 1st is the cutoff period. At that point, we don't have any more money under the couch cushions, and we could be on the brink. Do you agree with that? That June 1st is the time by which this has got to be settled?

Austan Goolsbee:

I don't know the exact dates. I know the revenue that comes in is very lumpy. April 15th, a bunch of revenue comes in. June 15th, supposed to be revenue come in. So there is a balancing act about what the exact date is. Rather than get into that, I would just say, look, is the banking stress and crisis not enough? Do we really have to do this? I mean, Chair Powell said it best when he said, look, "He's not going to get involved in negotiation. They have to raise the debt ceiling." You can't default on treasuries. That's the safest asset in the world. I mean, that would be a mess.

Neil Cavuto:

But I can remember, Austan, there time, I think we were talking that I be in 2011 when you were with Barack Obama, and of course we had our debt downgraded. We avoided a default, but it was all the craziness prior that prompted that slash in our AAA credit rating. Some are saying the same thing could be poised to happen now. What do you think?

Austan Goolsbee:

Well, I don't know if it was the crisis or if it was the fact that I left the government, but two hours after I left the government was when we got downgraded. As you look now, this to not be flip about it, this is a nightmare. Do we really want to pay more in higher interest costs and have financial crises or big recessions or cast doubt on the full faith and credit of the U.S. government? I don't know how they're going to sort it out to be Congress and the president and whatever. They just need to sort it out. This is not something that we can play games with.

Neil Cavuto:

But we play games with again and again.

Austan Goolsbee:

What's going to happen?

Neil Cavuto:

I guess what I'm asking here is what's a little different now is Kevin McCarthy and Republicans trying to push an immediate quid pro quo. We don't touch the debt ceiling or raise it until we've got some spending cuts. Now in the 2011 experience, if memory serves me right, we got some budgetary commitments, promises to address these issues, but not tied immediately to the debt ceiling hike. So that's a big difference. I'm just wondering how you see it settled.

Austan Goolsbee:

You know far more about the politics of this, Neil, than I do. And the Fed is not a political position. So however they sort it out, whether whatever the negotiations, whatever the details, they just need to do it before we're going to default on treasuries because what are we going to pay? The military's got to be paid, the veterans benefits, Medicare, Social Security. I mean, it really does not make sense.

Neil Cavuto:

No, you're right. You hope cooler heads on both sides prevail. But Austan, what I have you, I just want to get your thoughts. I know with all the banking stuff going on, you can't address individual banks. I get that. But the irony of this situation is that bigger banks seem to be getting bigger. Could you have envisioned at the time of the meltdown and coming out about institutions considered too big to fail, that now we have a JP Morgan Chase that now accounts for about one out of five deposits in this country? And I just wonder whether that's a good thing.

Austan Goolsbee:

Yeah, look, there is a cruel irony to that. There is another side of it though, which is, you'll remember when we talked, if it was 2007, 2008, 2009, as we went into the financial crisis. Our fear was that the biggest banks are the ones that everyone's afraid of and the bailouts and the rescues so that they don't collapse. It is a little bit of testament, I think, to the re-regulation of the financial sector that we had these biggest financial institutions build up their capital. They got some of the riskiest activities out of the biggest banks so that now it's not just an automatic financial crisis when financial institutions start having trouble. It is money going from-

Neil Cavuto:

But if you have a stock market free fall ... If you have a stock market, I'm sorry to bump on that all sudden, but you have a stock market free fall, that's the capital for a lot of these guys too. So when that starts swooning, it's like everyone heading to the exits at the same time, right?

Austan Goolsbee:

Yes, yes. Look, these issues of too big to fail, but also of just bank concentration in general, they have been with us for a long time. This has been a trend for 30, 40 years, trending against the smaller and the regional banks. But issues like deposit insurance and how they're going to be treated, that's got to, Congress got to sort that out. The Fed for sure cannot make decisions like that on its own. It's the American people and the policy makers that got to decide that.

Neil Cavuto:

I'd said that was the last question. I lied, but not intentionally Austan. But you're coming to this position on the Federal Reserve, very influential position as someone who is more sensitive to the knee-jerk reaction, jobs go up, rates go up. That you are going to have a different point of view about how you go about your job. Is that true?

Austan Goolsbee:

Well, I take that as a compliment. That's what I aspire to. There's some people who view that as an insult, but I'm going to take it as a compliment. I believe that the Federal Open Market Committee is in this century, the world's greatest deliberative body, and it is a committee and there are people with a lot of different views. And I'm come to it from a different perspective, but I've been really impressed. The seriousness with which everybody takes their job is exemplary.

Neil Cavuto:

And you should be proud of that. Congratulations again. Austan Goolsbee, the president of the Federal Reserve Bank of Chicago.