The Economic Club of New York

506th Meeting
112th Year

Richard H. Clarida, Vice Chairman
Board of Governors, Federal Reserve System

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Moderator: Peter Blair Henry
W.R. Berkley Professor of Economics and Finance
Dean Emeritus, NYU Stern School of Business

Introduction

Vice Chairman Peter Blair Henry

Welcome to the 506th meeting of the Economic Club of New York in our 112th year. I'm Peter Henry, Vice Chairman of the Economic Club of New York and Dean Emeritus and Berkley Professor of Economics and Finance at the NYU Stern School of Business. The Economic Club of New York is the nation's leading nonpartisan forum for speeches on economic, social and political issues. More than 1,000 prominent guest speakers have appeared before the Club over the last century and have established a strong tradition of excellence.

I'd like to take a moment to recognize the 287 members of the Centennial Society, many of whom are seated at the dais or elsewhere at the front of the room today. Through their support, these members have played a special role in ensuring that the Club remains financially sound and able to offer our wonderful, diverse slate of programming now and in the future. Please give them a round of applause. (Applause)

We'd also like to welcome the table of graduate students joining us from the Columbia Business School as well as our attending members of the 2019 Class of ECNY Fellows, a select cohort of next-generation thought leaders sponsored by members of the Club for our year-long program. Welcome, a warm welcome to all of you.

I'm delighted now to introduce our special guest this afternoon, Richard Clarida, Vice Chair of the Board of Governors of the Federal Reserve System. Prior to his appointment to the Board, Vice Chair Clarida, or Rich, as he prefers to be called, served as the C. Lowell Harriss Professor of Economics and International Affairs at Columbia University, where he taught from 1988 to 2018. From 1997 until 2001, Rich served as Chairman of the Department of Economics at Columbia, which is probably the hardest job he's ever had if I know academia. And he has an MA and PhD in economics from Harvard University.

In addition to his academic experience, Rich served as the assistant secretary of the U.S. Treasury for Economic Policy from February 2002 until May 2003. In that position, he served as chief economic adviser to Treasury secretaries Paul H. O'Neill and John W. Snow. He was awarded the Treasury Medal in recognition of his outstanding service. Rich also served on the Council of Economic Advisers for President Reagan. And from 2006 to 2018, Rich served as global strategic advisor and later managing director with PIMCO.

He received a BS in economics from the University of Illinois with Bronze Tablet honors and an MA and PhD in economics from Harvard University.

Our format today is in two parts. Rich has opening remarks to share with all of us. And then after his speech, he has agreed kindly to join me for a conversation where we will cover a wide range of topics. The topics will include a couple of questions suggested by attending Club members who used the Club portal when registering to share questions that they would like covered. As a reminder, this event is on the record for the media and is being carried live. Rich, the podium is yours. Please welcome Rich Clarida. (Applause)

Richard H. Clarida, Vice Chairman

Board of Governors, Federal Reserve System

Well, thank you Peter, for that generous introduction. I have attended Economic Club of New York events many times over the years and have always enjoyed the programs that feature engaging speakers sharing important insights on timely topics in grand settings. It is a distinct honor to appear before you today from this side of the podium, and I do hope my remarks will contribute to this proud tradition.

In July, the current U.S. economic expansion will become the longest on record – or at least the record dating back to the 1850s, which is as far back as the NBER tracks business cycles. In anticipation of that milestone, I would like to take stock of where the U.S. economy is today, to assess its future trajectory, to review some important structural changes in the economy that have occurred over the past decade, and to explore what all of this might mean for U.S. monetary policy.

The Federal Reserve has a specific mandate assigned to it in statute by the Congress, which is the dual mandate of maximum employment and price stability. As I speak to you today, the economy is as close to achieving both legs of this mandate as it has been in 20 years. My colleagues and I understand that our responsibility is to conduct a monetary policy that not only is supportive of and consistent with achieving maximum employment and price stability, but also, once achieved, is appropriate, nimble, and consistent with sustaining maximum employment and price stability for as long as possible. And thus, the title of my talk today is "Sustaining Maximum Employment and Price Stability."

Midway through the second quarter of 2019, the U.S. economy is in a good place. Over the past four quarters, GDP growth has averaged 3.2%, which compares with an average growth rate of 2.3% since the recovery began in 2009. By most estimates, fiscal policy played an important role in boosting growth in 2018, and I expect that fiscal policies will continue to support growth in 2019.

Over that same four quarters, the unemployment rate has averaged 3.8%, and the most recent reading of 3.6% is near its lowest level in 50 years. Moreover, average monthly job gains have continued to outpace the increases needed to provide jobs for new entrants to the labor force. Wages have been rising broadly in line with productivity and prices and thus, at present, do not signal rising cost-push pressure. Notwithstanding strong growth and low unemployment, U.S. inflation remains muted and inflation expectations – according to a variety of measures – continue to be stable.

In our March Summary of Economic Projections, the median projection of FOMC participants was for GDP growth to average around 2% over the next three years, for PCE inflation to rise gradually to 2%, and for the unemployment rate to edge up to 3.9%. Before I discuss the outlook for monetary policy, allow me to review some important structural changes that have taken place in our economy over the past decade and that will be particularly relevant for future monetary policy decisions.

Perhaps the most significant structural change relevant to monetary policy is that the real neutral rate of interest consistent with full employment and price stability, often referred to as r*, appears to have fallen in the U.S. and abroad from more than 2% before the crisis to less than 1% today. The decline in neutral policy rates likely reflects several factors, including aging populations, higher private saving, a greater demand for safe assets, and a slowdown in global productivity growth. The policy implications of the decline in neutral rates are important. All else equal, a lower neutral rate increases the likelihood that a central bank's policy rate will reach its effective lower bound in a future downturn. Such a development, in turn, could make it more difficult during a future downturn for monetary policy to provide sufficient accommodation to rapidly return employment and inflation to mandate-consistent levels.

Another important potential change in the U.S. economy has been the steady decline in estimates of the structural rate of unemployment consistent with maximum employment, often referred to as u*. This decline in u* may be due in part to higher educational attainment and a larger proportion of older workers in the workforce today relative to past decades. If u* is lower than historical estimates suggest, this would imply that even with today's historically low unemployment rate, the labor market would not be as tight and inflationary pressures would not be as strong as one would expect based upon historical estimates of u*. Indeed, I believe that the range of plausible estimates for u* may extend to 4% or even below.

I also note that the decline in the unemployment rate in recent years has been pronounced by an increase in prime age labor force participation. It has also been accompanied since 2014 by a rise in labor's share of national income. As I have documented previously, in the past several U.S. business cycles, labor's share has risen in those expansions because workers command higher wages in a stronger labor market. And notably, in those cycles the rise in labor's share did not pass through to faster price inflation. Now, the previously mentioned increase in prime-age participation has provided employers with a source of additional labor input and has been one factor restraining inflationary pressures. Notwithstanding these recent gains, prime-age participation rates remain somewhat below levels achieved in the 1990s and may still have some more room to run. If so, then potential output could be higher than many current estimates suggest.

Over the past few years, we have also seen evidence of a pickup in U.S. productivity growth, albeit from a very depressed average pace that prevailed throughout most of the expansion. Indeed, as of the first quarter of this year, productivity in the non-farm business sector rose 2.4%

over the previous four quarters, its fastest pace since 2010 when the economy was coming out of the Great Recession. By contrast, in both the 2001-2007 cycle and the ‘82 to ‘90 expansion, productivity growth was actually slowing relative to its average pace during those expansions. Now, that said, while identifying inflection points in trend productivity growth in real time is notoriously difficult, a pickup in trend productivity growth relative to the pace that prevailed earlier in the expansion is a possibility that we should not, I believe, dismiss.

Another structural change relevant for monetary policy is that price inflation appears less responsive to resource slack than it did in the past. That is, the short-run price Phillips curve appears to have flattened, implying a change in the dynamic relationship between inflation and employment. A flatter price Phillips curve is, in essence, a proverbial double-edged sword. It permits the Fed to support employment more aggressively during downturns – as was the case in the Great Recession – because a sustained inflation breakout is less likely when the Phillips curve is flatter. However, a flatter Phillips curve also increases the cost, in terms of economic output of reversing unwelcome increases in longer-run inflation expectations. Thus, a flatter Phillips curve makes it all the more important that longer-run inflation expectations remain anchored at levels consistent with our 2% inflation objective.

Now, textbook macroeconomics teaches us that understanding the economy and getting monetary policy right requires that we do our best to understand if – and if so, how – the forces of aggregate demand and supply are evolving relative to historical experience and the predictions of our models. While predicting the future is, of course, difficult, with available data it does appear that in 2018 and in the first quarter of 2019, the supply side of the economy – employment, participation, and productivity – expanded faster than most forecasters outside and inside the Fed expected. Notwithstanding robust growth in demand over those five quarters, PCE price inflation in the U.S. actually fell somewhat short of the Fed's 2% objective. So with this background, let me now turn to the outlook for U.S. monetary policy.

As I mentioned earlier, my colleagues and I on the Committee understand that our priority today is to put in place policies that will help sustain maximum employment and price stability in an economy that appears to be operating close to both of these objectives. In our most recent statements, we have indicated that "the Committee will be patient as it determines what future adjustments to the federal funds rate may be appropriate to support these objectives." What does this mean in practice? To me, it means that we should allow the data on the economy to flow in and inform our monetary policy decisions.

I believe that the path for the federal funds rate should be data-dependent for two distinct reasons. Monetary policy should be data-dependent in the sense that incoming data reveal at any point in time where the economy is relative to the ultimate objectives of price stability and maximum employment. This information on where the economy is relative to the goals of policy is an important input into interest rate feedback rules. Data dependence in this sense is well understood, as it is of the type implied by a large family of policy rules, including Taylor-type rules, in which the parameters of the economy needed to formulate such rules are taken as known.

But, of course, in the real world the key parameters needed to formulate policies such as u* and r* are unknown. As a result, in the real world, monetary policy should be – and in the U.S., I believe is – data dependent in a second sense. Policymakers should and do study incoming data and use models to extract signals that help them to update and improve their estimates of r* and u*. Consistent with my earlier discussion, the Committee's Summary of Economic Projections has indicated that over the past seven years the Committee repeatedly has revised down its estimates of both u* and r* as unemployment fell and real interest rates remain well below previous estimates of neutral without the rise in inflation those earlier estimates would have predicted. And these revisions to u* and r* appeared to have had an important influence on the path for the policy rate actually implemented in recent years.

In addition to u* and r*, another important input into any monetary policy assessment is the state of inflation expectations. Indeed, I believe that price stability requires that not only actual inflation be centered at our 2% objective, but also that expected inflation be equal to our 2% objective. Now unlike realized inflation, inflation expectations themselves are not observable and they must be inferred from econometric models, market prices, and surveys of households and firms. As I myself assess the totality of all the evidence, I judge that, at present, indicators suggest to me that longer-term inflation expectations sit at the low end of a range that I myself consider consistent with our price stability mandate.

So, where does this leave us today? As I already noted, the U.S. economy is in a very good place with the unemployment rate near a 50-year low, with inflationary pressures muted, with expected inflation stable, and with GDP growth solid and projected to remain so. Moreover, the federal funds rate is now in the range of estimates of its longer-run neutral level and the unemployment rate is not far below many estimates of u*. So plugging these inputs into a 1993 Taylor-type rule produces a federal funds rate between 2.25 and 2.5%, which is in the range for the policy rate that the FOMC has reaffirmed since our January meeting.

Most recently, the Committee judged at our May meeting that the current stance of policy remains appropriate, and that decision reflected our view that some of the softness in recent inflation data will prove to be transitory. This judgment aligns with some private sector forecasts, which also project that PCE inflation will return to 2% by next year. However, if the incoming data were to show a persistent shortfall in inflation below our 2% objective or were to indicate that global economic and financial developments present a material downside risk to our baseline outlook, then these are developments that the Committee would take into account in assessing the appropriate stance for monetary policy.

Let me talk a bit about the balance sheet. Since the beginning of the year, the Committee has made several important decisions about how it will implement policy and how it will conclude the process of normalizing the size of its balance sheet. These decisions have been made over several meetings and have been part of an ongoing process of Committee deliberations. Please allow me to summarize them now.

The Committee decided at its January meeting to continue to implement policy in a regime with an ample supply of reserves – a regime sometimes referred to as a floor system. Such a system, which has been in place since 2008, does not require the active management of reserves through daily open market operations. Instead, with an ample level of reserves in the banking system, the effective federal funds rate will settle at or slightly above the rate of interest paid on excess reserves. Now, this system has proven to be an efficient means of setting the policy rate and effectively transmitting the stance of policy to a wide array of money market instruments and to broader financial conditions. The Committee continues to view the target range for the federal funds rate as its primary means of adjusting and communicating the stance of monetary policy, although in doing so, we must and do take into account how our balance sheet size, composition, and trajectory impact broader financial conditions. And as we stated in January, although adjustments in the target range for the federal funds rate are our primary tool for adjusting the stance of monetary policy, we are prepared to adjust the details of our plans for the balance sheet based upon economic and financial developments.

At its March meeting, the Committee announced that it would allow the pace of the runoff of the securities holdings in its portfolio and that it plans to cease the balance sheet runoff entirely by

September of this year. Since starting the process of balance sheet normalization in 2017, the Federal Reserve's portfolio has shrunk by about $500 billion and the level of reserve balances declined by about $700 billion. Consistent with our decision in March, we began to slow the pace of runoff in our balance sheet earlier this month. When the process of normalizing the size of our balance sheet concludes in September of this year, we expect that our reserve liabilities will, for a time, likely remain somewhat above the level necessary for an efficient and effective implementation of monetary policy. If so, we plan, after September, to hold the size of our holdings constant for a while. And during this period, reserve balances will continue to decline gradually as currency and other non-reserve liabilities increase. At the point that the Committee judges that reserve balances have declined to a level consistent with the efficient and effective implementation of monetary policy, we plan to resume periodic open market operations to accommodate the normal trend growth in the demand for our liabilities.

As balance sheet normalization has progressed, the effective federal funds rate has firmed relative to the interest rate we pay on excess reserves. Last year, after the funds rate moved up to the closer top of the target range set by the Committee, we made technical adjustments in our operations by lowering the IOER rate relative to the top of the range by 5 basis points in June and again in December of 2018. At our May meeting, we made another technical adjustment in the IOER rate, reducing it by another 5 basis points to 2.35%. Since then, the effective federal funds rate has been trading close to the level where it began the year.

Before I conclude my prepared remarks, allow me to say a few words about the review of our monetary policy strategy, tools, and communication practices that we are undertaking this year at the Fed. Now, while we believe that our existing approach to conducting monetary policy has served the public well, the purpose of this review is to evaluate and assess possible refinements that might help us best achieve our dual mandate objectives on a sustained basis.

With the U.S. economy operating at or close to our maximum employment and price stability goals, now is an especially opportune time to conduct this review. We want to ensure that we are well positioned to continue to meet our statutory goals in coming years. Furthermore, the shifts in r* and u*, as well as the flattening of the Phillips curve, suggest that U.S. and foreign economies have evolved in significant ways relative to the pre-crisis experience.

The Federal Reserve System is currently conducting town hall-style Fed Listens Events, in which we are hearing from a broad range of interested individuals and groups, including business and labor leaders, community development advocates, and academics. In addition, we are holding a System research conference next week at the Federal Reserve Bank of Chicago that will feature speakers and panelists from outside of the Federal Reserve System. Building on those perspectives that we hear and staff analysis, the Committee will conduct its own assessment of its monetary policy framework throughout the rest of this year. And we will share our conclusions with the public in the first half of next year.

In sum, the economy is constantly evolving, bringing with it new policy challenges. And so it makes sense for us to remain open-minded as we assess current practice and consider ideas that could potentially enhance our ability to deliver on the goals that Congress has assigned to us. For this reason, my colleagues and I do not want to prejudge or predict our ultimate findings. But what I can say is that any refinements or more material changes to our framework that we might make will be aimed solely at enhancing our ability to achieve and sustain our policy objectives of maximum employment and stable prices. Thank you very much, and I look forward to my conversation with Peter. Thank you. (Applause)

Conversation with Richard H. Clarida

PETER HENRY: Thank you, Rich, for a really stimulating and informative set of remarks. Now, when we think about where we are in the economy – and you gave a terrific overview – think back to the end of 2018. We had incredible volatility in the markets. Beginning of the year, the market seemed to stabilize and recover. And we're now back into a period which feels, it's starting to feel a little bit choppy again and we've got major global trade tensions. Could you just speak a little bit about how you think at the FOMC and from your perch about these data and how that affects your outlook?

RICHARD CLARIDA: Well, Peter, you are right. There's a lot to keep track of on my Bloomberg screen in the mornings, and those are several of the items that we're looking at. Let me say a couple of things on that. You know, first of all, as I indicated in my remarks, you know the economy is in a good place, and our baseline outlook is very constructive – solid growth, a strong labor market, gradual rise in inflation. However, let me be very clear that, you know, we're attuned to potential risk to the outlook. And if we saw a downside risk to the outlook, then that would be a factor that could call for a more accommodative policy. And so that's definitely something in the risk management area that we would think about.

PETER HENRY: So, as you think about that and just to generalize a question even more, over the past year, we saw four interest rate increases. You talked about u*, you talked about r* and your general approach to sort of the data dependency. What are things that you can talk about? What are some specific changes in the...because it seems that there's been a change in the...the priors were strongly leaning towards more rate increases? And as a famous economist once said, the facts change, when the facts change, I change my mind. Sir, what do you do? And it seems that you guys have changed your minds a bit. What are some of the data that have specifically led you to sort of change your predisposition?

RICHARD CLARIDA: Well, I would point to a couple of factors. And here I think the discussion in the speech about, you know, thinking about reaction functions as useful. Obviously, we're not handcuffed to any one particular mathematical formula but it's useful to think about what has happened in the data and what we see, in fact, is U.S. inflation has been coming in lower than we expected and lower than many private forecasters expected. I mean year over year PCE inflation is running at about 1.6% right now which is softer than we expected last year. I think the other development, Peter, that's very relevant to the Fed, if you just go back and look at where folks were thinking about the global outlook a year or so ago, we have a pretty significant slowdown in growth forecasts for the global economy in say the last nine months. Now, it is true, as both you and I know as international macroeconomists, the U.S. is not the most open economy in the world. But when there is a slowdown in the rest of the world, it does show up in our data. So those are the two things I'd really point to. The inflation data has just been softer. We think some of that, a lot of that may be transitory, but the reality is it has been softer and the global economy outlook has been marked down relative to last fall as well.

PETER HENRY: You put your finger on something which is really interesting, which I think is somewhat underappreciated which is the global slowdown or slowing – let's not call it a slowdown, it's slowing – is related to some of the structural issues that you talked about. So we've seen relatively little, frankly, kind of major economic reforms in the last five, ten years, putting aside kind of quantitative easing on the monetary side. And so, from your perspective, it's interesting that you're going out now and talking to stakeholders about how they're seeing the economy. It seems, from my perspective – I'm waiting for your perspective – that the public, generally speaking has become overly reliant – if you will – on monetary policymakers to drive growth. There's a lot that needs to happen on the structural side that frankly isn't related to monetary policy.

RICHARD CLARIDA: Peter, I think that's an excellent point. And I think part of the goal of these Fed Listens Events is so we can have a two-way conversation about the sorts of things that the Fed is charged by Congress to focus on and what our tools can accomplish, but also, as you mentioned, there are a lot of structural challenges and really those are in the domain of, you know, the Congress and the President in terms of economic policy. And certainly we try to focus on, you know, what is in our domain, which is monetary policy. But you are correct. I think in part because of the severity of the global recession and the actions taken by the Fed and other central banks, you know, there may be this view that the mandate of central banks has expanded more broadly. And certainly at the Fed, we're very focused on what our job is, which is maximum employment and price stability and we try not to wander into those other conversations.

PETER HENRY: It's good to stay focused. Speaking of focus, I want to ask a question which came in through the ECNY portal because it touches on something that you talked about in your speech. And the question is the following: is the Federal Reserve concerned about the inversion of the EFF, the effective federal funds rate, over the IOER, interest on excess reserves? You talked about it. Are you concerned about this inversion?

RICHARD CLARIDA: I wouldn't use the word concerned. What we understand is that there have been major changes in the U.S. financial system in the last decade. And one of them that's very relevant to this particular topic is that for a variety of very sound reasons banks hold a lot more liquid assets than they did before the crisis. Now, reserves are not a unique liquid asset. Treasury bills are also a liquid asset. But one of the things that we've learned at the Fed, as we've operated our current ample reserve system, is that the desire of banks in the U.S. to hold a large quantity of reserves for liquidity purposes is stronger than we would have thought a couple of years ago. And what that means is that even though the size of the balance sheet is certainly large, much larger than it was before the crisis, we are at a point now where in the federal funds market, the sort of market-clearing funds rate, is no longer always going to be equal to that four level. It does pop a basis point or two above, and it's certainly something that we watch. And, as I mentioned in our remarks, we've made some technical adjustments to our framework. So I wouldn't say that we're concerned, but we're alert to the fact that the U.S. financial system demands a lot of liquid assets in reserves and that's going to be a factor in terms of implementing policy.

PETER HENRY: Got it. I want to ask you another question related to financial market conditions and to your broader point about underlying changes in the structure of the U.S. economy and the extent to which we can rely on, you know, sort of parameters which have been stable in the past may be changed. So, think about the yield curve. As you well know, and folks in this room know, the inversion of the yield curve historically has predicted slowdowns. So we've recently seen, as recently as March – I haven't looked at today's data, an inversion in the yield curve. Is that a relationship that you still have in the forefront to remind to the FOMC? Or do you think that's another potential sort of underlying sort of structural change that's taken place?

RICHARD CLARIDA: Well, it's a good point, and I think that my own personal view on this is I certainly pay attention and look at the yield curve. I tend to distinguish between a flat curve and a curve that is inverted and remains inverted for a period of time. You know we really haven't seen that yet. We've had some brief inversions, and I think it's important for us to understand why the curve flattens or inverts. That can occur for different reasons. I interpret a lot of the recent flattening of the curve as related to some of the global and financial developments I alluded to earlier. But it's certainly something that we're alert to. You know, we don't just focus on that exclusively. There are a wide range of indicators. But certainly it's something that's relevant as we consider appropriate policy.

PETER HENRY: A question I want to ask you, as a fellow academic, I alluded to you having been chair of the Columbia Economics Department. It's probably the hardest job you've had in your life. Those of us in academia understand that it's very...

RICHARD CLARIDA: You were a dean...

PETER HENRY: I was a dean and I had black hair before I was dean. Now I'm gray. But you operate by consensus at the Fed. Talk to us, if you will, just a little bit, in your role as Vice Chair, about leadership and how you go about marshaling data to drive conversations versus, you know, facts versus feelings and human beings? How do you play that role?

RICHARD CLARIDA: Well, thank you. I'm flattered that you would ask because by Fed standards I'm still relatively a rookie. I've only been in the job since last September so I have only a few data points. But maybe a couple of initial impressions, as someone who was a student of monetary policy for 35 years, I have found refreshingly that I think that the Committee's structure actually is very effective, and to be honest, more effective that I might have thought as a Fed watcher on the outside. We have an excellent group of reserve bank presidents who bring very important perspectives and obviously we have a complement now of five governors. And luckily the transcripts come out with a five-year lag and so people who are interested can read. But I would say that so far all of the decisions that we've made in my brief time at the Fed have been unanimous. So obviously we've been able…the ___ has been able to achieve that, that's not required, obviously. Historically there are dissents. There may very well be dissents in the future. But I think you are correct, Peter, that there is a culture at the Fed of collegiality and trying to seek a common ground. But in terms of facts and evidence and data, you know, we're really policy and data wonks in the building and we have models. I think – maybe as an aside – one of the things that I have, that's occurred to me in my time at the board is, as someone who developed a lot of models as an academic, I do think they have a use, they're a starting point, but they're not a destination. And ultimately we've got to make policy based upon where the economy is today and where we think it's going, not upon what a model estimated over old data indicates. And so there's probably more judgment required than you would think as a professor drawing equations on the board. But I think the Committee's structure really promotes good judgment in that case.

PETER HENRY: Speaking of new data, new changes, one of the things that's really, I think, very sort of uncharted in some sense is the way sort of price formation in a digital economy. There's been a lot of conversation about, you know, whether the PCE remains low just because there's more competition online, Amazon effect and so forth. If you would, just take us a little bit inside the, kind of the debates and the sifting through of data at the Fed.

RICHARD CLARIDA: No, we're thinking through that. We're being briefed on it. And, of course, what we try, Peter, to do is to distinguish between, you know, level effects and inflation effect. And so if you have an increase in composition or the web lowers prices once and for all, that's not really disinflationary. It's a one-off effect. There is some evidence that that effect is there. It's more difficult to tease out whether or not there's an underlying downward pressure on inflation from that, but it could be. And we're certainly looking at that as our, you know, folks outside of the Federal Reserve System. Because ultimately, you know, our task is price stability, and if there is that factor that's impacting inflation, we need to try to understand it as well as we can. Of course, another factor that you and I have discussed on previous occasions is we can't dismiss the fact that the globalization of the U.S. economy integrating into the world has had significant impact, I think, if you just, if you think back to, you know, the economy 40 or 50 years ago, which was less open to trade and outsourcing and supply chains. That's obviously had a big factor as well and we need to be alert to that.

PETER HENRY: Take me from financial conditions to labor markets for a second, you mentioned labor market participation. The wage shares is getting better. It's in line with productivity growth and so forth. But there's a lot of talk about the U.S. worker. From all the data that you've seen and your staff has seen, your teams have seen, what's your underlying sense, if you will, the structure with respect to the U.S. worker. Is productivity really kind of, are these productivity gains, do they seem to be broad in the sense of affecting a lot of U.S. workers in a positive way? Or is there still sort of unevenness and sort of a barbell economy that people have referred to?

RICHARD CLARIDA: I think that is relevant and that's something that we try to think hard about at the board. You know we have a limited set of, in the system, the Federal Reserve System, we have a pretty limited toolkit and it tends to be, have an impact on aggregate and average variables. And obviously there are a lot of dimensions to the labor market in terms of who shares in the gains for more productivity, the distribution, distributional effects. And I should say that just in the time I've been there that the staff has been spending more effort to get at that and in some cases with some data that didn't exist, which I think the board will be putting up and make available to others. So I think that is relevant. And part of the Fed Listens Events, the benefit of those is that we hear from folks in different parts of the labor market and how a robust economy is either benefitting or not benefitting them. So that's an important perspective, but again, within the context of a pretty limited toolkit that tends to impact average or aggregate variables.

PETER HENRY: I really applaud you for the broader listening tour you're doing. I think it's really important.

RICHARD CLARIDA: I've done five of them. Seven more to go, my colleagues and I will be doing. They're all great.

PETER HENRY: Good for you. So, let me come to the last question here, which is a question which came in again from a member. And it's a big question. Do you think the Federal Reserve is capable of eliminating the economic cycle? (Laughter)

RICHARD CLARIDA: Well, honesty compels me to say no. You know, as a student of macroeconomics, as far back as we have data there have been business cycles. In past centuries they were caused by weather and other factors, but the cycle is sort of a common of economic activity. I may have one or two folks here who hail from Australia. I acknowledge Australia has gone 28 years without a recession. But even the Australian economists I talk to don't think that they've ruled out the business cycle. So, you know, the Fed's job and policy job more broadly is to take a view on full employment and price stability and to provide assistance to nudge the economy in those directions, but there's ultimately still going to be a cycle that we'll have to confront and think about.

PETER HENRY: Well, Rich, we're a little disappointed you can't solve all our business cycle problems, but we're delighted that you spent time with us here today. Your remarks were really insightful. We wish you luck. And thank you for the leadership you're providing and the work you're doing.

RICHARD CLARIDA: Thank you Peter. (Applause)

PETER HENRY: So, again, Rich, thank you for being with us, and we look forward to having you back soon. Please give another round of applause. (Applause) And I'm pleased to report that we have quite a few interesting speakers coming up on the summer schedule of the Club. Starting with the following: On June 3, we have a reception with Stanley Druckenmiller, CEO of Duquesne Family Office, who will be interviewed by Scott Bessent, Founder and Chief Investment Officer of Key Square Management, LLC. And then on June 4, we have a luncheon with Brian Moynihan, CEO of Bank of America. On June 19, we have a luncheon with General David H. Petraeus, former Director of the CIA. And on June 24, we have a luncheon with David Malpass, the new President of the World Bank Group. So we look forward to seeing you at more events. Thank you again for joining us today and now please enjoy your lunch. Thank you. (Applause)