The Economic Club of New York

497th Meeting
111th Year

Jerome H. Powell
Chairman, Federal Reserve System

November 28, 2018
New York City

Questioners: Peter Henry
Vice Chairman, Economic Club of New York
Dean Emeritus, Berkley Professor of Economics and Finance
Stern School of Business

Marty Feldstein
Professor of Economics
Harvard University

Introduction

Chairman Marie-Josee Kravis

I'm Marie-Josee Kravis, the Chairman of the Club and a Senior Fellow at the Hudson Institute, and I'm happy to welcome you to the 497th meeting of the Economic Club in its 111th year. The Economic Club of New York is probably the nation's leading nonpartisan platform for discussions of economic, social, and political issues. We've had more than 1,000 prominent guest speakers appear before the Club over the last century. And they've established a strong tradition of excellence, which I'm happy we are continuing today with the Chairman of the Federal Reserve System, Jay Powell, who we hope will visit us regularly, at least once a year, but we were saying maybe even once a week. (Laughter)

I'd like to recognize the now-276 members of the Centennial Society, many of whom are seated at the front of the room. These people, this group, support the Centennial Fund, which serves as the financial backbone of the Club, and I thank you for your generosity and your steadfast support. We'd also like to give a warm welcome to students in attendance today from the NYU Stern Business School as well as our attending members of the 2018 Fellows. And I want to remind everyone that on our website you can now submit nominations for the 2019 Fellows. And I encourage you to do so as we'd like to broaden the range of participants in the Club.

And now to Jay Powell. It's quite daunting to introduce Jay Powell, who has had a brilliant and multi-faceted career touching on law, business, government, public policy, and also the not-for-profit world. After receiving an AB in politics from Princeton University, he earned a law degree from Georgetown University, where he also was editor in chief of the *Georgetown Law Journal*. He worked as a lawyer and investment banker in New York. He became Assistant Secretary and Under Secretary of the Treasury under President George H.W. Bush. He was responsible for policy on financial institutions, the Treasury debt market and many other related topics. He, from 1997 to 2005, was a partner at the Carlyle Group and later he was a visiting scholar at the Bipartisan Policy Center in Washington. He became a member of the Board of Governors of the Fed in 2012 and Chairman as of February of 2018.

In addition to serving on a number of corporate boards, Jay Powell has served on the boards of charitable and educational institutions, including the Bendheim Center for Finance at Princeton University and the Nature Conservancy of Washington. Mr. Powell is married with three children, two of whom – Sam and Lucy – are joining us today and I welcome you and happy to have you here today with us.

After an opening speech by the Chairman, we will take questions in alternating fashion from two Club members – Club Vice Chairman, Peter Henry, who is Dean Emeritus and Berkeley Professor of Economics and Finance at the Stern School of Business, and Marty Feldstein, Professor of Economics at Harvard University. As a reminder, this event is on the record and I can assure you that we have journalists in the back of the room covering the event. The podium is yours, Mr. Chairman. (Applause)

Jerome H. Powell

Chairman, Federal Reserve System

Thank you very much, Marie-Josee. It's great to be back at the Economic Club of New York. It's great to see many old and new friends, and family as well. So, I'm going to begin by briefly reviewing the outlook for the economy and then turn to a discussion of financial stability. And my main subject today will be the profound transformation since the Global Financial Crisis in the Federal Reserve's approach to monitoring and addressing financial stability.

Today marks the publication of the Board of Governor's first ever Financial Stability Report. Earlier this month, we published our first Supervision and Regulation Report. And together, these reports contain a wealth of information on our approach to financial stability and to financial regulation more broadly. By clearly and transparently explaining our policies, we aim to strengthen the foundation of democratic legitimacy that enables the Fed to serve the American people.

Congress assigned the Federal Reserve the job of promoting maximum employment and price stability. And I'm pleased to say that our economy is now close to both of those objectives. The unemployment rate is 3.7%, a 49-year low and many other measures of labor market strength are at or near historic bests. Inflation is near our 2% target, and the economy is growing at an annual rate of about 3%, well above most estimates of its longer run trend.

For seven years during the crisis and its painful aftermath, the FOMC kept our policy interest rates unprecedentedly low – in fact, near zero – to support the economy as it struggled to recover. The health of the economy gradually, by steadily improved, and about three years ago, the FOMC judged that the interest of households and businesses, of savers and borrowers, were no longer best served by such extraordinarily low rates. We, therefore, began to raise our policy rate gradually toward levels that are more normal in a healthy economy. Interest rates are still low by historical standards, and they remain just below the range of estimates of that level that would be neutral for the economy. That is, neither speeding up nor slowing down growth. My FOMC colleagues and I, as well as many private sector economists, are forecasting continued solid growth, low unemployment, and inflation remaining near 2%.

There is a great deal to like about this outlook. But we know that things often turn out to be quite different from even the most careful forecasts. And for this reason, sound policymaking is as much about managing risks as it is about responding to the baseline forecast. Our gradual pace of raising interest rates has been an exercise in balancing risks. We know that moving too fast would risk shortening the expansion. We also know that moving too slowly – keeping interest rates too low for too long – could risk other distortions in the form of higher inflation or destabilizing financial imbalances. Our path of gradual increases has been designed to balance these two risks, both of which we must take seriously.

We also know that the economic effects of our gradual rate increases are uncertain, and may take a year or more to be fully realized. While FOMC participants' projections are based on our best assessments of the outlook, there is no pre-set policy path. We will be paying very close attention to what incoming economic and financial data are telling us. As always, our decisions on monetary policy will be designed to keep the economy on track in light of the changing outlook for jobs and inflation.

Under the dual mandate, jobs and inflation are the Fed's meat and potatoes. And in the rest of my comments, I will focus on financial stability – a topic that has always been on the menu, but that, since the crisis, has become a more integral part of the meal.

The term "financial stability" has a particular meaning in this context. A stable financial system is one that continues to function effectively even in severely adverse conditions. A stable system meets the borrowing and investment needs of households and businesses despite economic turbulence. An unstable system, in contrast, may amplify turbulence and prolong economic hardship in the face of stress by failing to provide these essential services when they are needed most.

For Economic Club of New York trivia buffs, I will note that the second ever presentation to this

Club by a Fed official was about this very topic. The date was March 18, 1929. Weeks before, the Fed had issued a public statement of concern over stock market speculation and had provided guidance frowning on bank funding of that speculation. William Harding, a former Fed Chair and then president of the Federal Reserve Bank of Boston, defended the Fed's actions in his talk. He argued that, while the Fed should not act as the arbiter of correct asset prices, it did have primary responsibility to protect the banking system's capacity to meet the credit needs of households and businesses.

At the meeting, critics argued that the public statements about inflated asset prices were "fraught with danger", that the nation's banks were so well managed that they should not "face public admonition", and, more generally, that the Fed was "out of its sphere." Or course, Harding spoke just a few months before the 1929 stock market crash, which signaled the onset of the Great Depression.

Fast forwarding, a host of Depression-era reforms helped avoid, for the next three-quarters of a century, a systemic financial crisis and the associated severe economic dislocation – the longest such period in American history. Those decades saw many advances in monetary policy and in bank regulatory policy, but the appropriate role for the government in managing threats to the broader financial system remained unresolved. Periodic bouts of financial stress during this period – such as the Latin American debt crisis, the savings and loan crisis, and the Russian debt default – were met with improvised responses. Policymakers conjured fixes from a mixture of private sector rescues, emergency liquidity, occasional implicit or explicit bailouts, and monetary accommodation. Outside of these crisis responses, however, systemic issues were not a central focus of policy.

The Global Financial Crisis demonstrated, in the clearest way, the limits of this approach. Highly inventive and courageous improvisation amid scenes of great drama helped avoid another Great Depression, but failed to prevent the most severe recession in 75 years. The crisis made clear that there can be no macroeconomic stability without financial stability, and that systemic stability risks can take root and blossom in good times. Thus, as the emergency phase of the crisis subsided, Congress, the Fed, the other regulatory agencies all began developing a fundamentally different approach to financial stability. Instead of relying solely on improvised responses after crises strike, policymakers now constantly monitor vulnerabilities and require firms to plan in advance for financial distress, in a framework that lays out solutions in advance during good times.

We can divide this new approach into three parts. First, build up the strength and resilience of the financial system. Second, develop and apply a broad framework for monitoring financial stability on an ongoing basis. And third, explain the new approach as transparently as possible so that the public and its representatives in Congress can provide oversight and hold us accountable for this work. Although I will focus mainly on the stability efforts of the Fed, a number of federal regulatory agencies have responsibilities in this area. All of these agencies are represented on the

Financial Stability Oversight Council, or FSOC, which is chaired by the Treasury Secretary and which provides a forum for inter-agency cooperation in responding to emerging risks.

After 10 years of concentrated effort in the public and private sectors, the system is now much stronger, with greater capacity to function effectively in stressful times. In the banking system, we've implemented a post-crisis regulatory framework based on robust capital and liquidity requirements, a strong stress-testing regime, and mandatory living wills for the largest firms. As a result, firms now have much more high quality capital than before, as you can see on the first figure. The most recent stress tests indicate that, even after a severe global recession, capital levels at the largest banks would remain above regulatory minimums, and above the levels that those banks held even in good times, before the crisis. The most systemically important financial institutions also now hold roughly 20% of their assets in the form of high quality liquid assets – that is, safe assets that could be readily sold at short notice. The share of these assets, as a percent of total assets, is about four times its pre-crisis level.

Compared with other economies, lending and borrowing in the United States depend less on bank loans and more on funds flowing through a wide array of capital market channels. The crisis revealed that this capital market centric system, despite its many benefits, also provides more places where systemic risk can emerge. In response, Congress and the regulatory agencies have made many stability-enhancing changes outside of the banking system. For example, many derivative transactions are now required to be centrally cleared, which, through netting, has reduced exposures and enabled better management of counterparty risk. Tri-party repo reforms have substantially improved the resilience of that marketplace, in particular by eliminating intra-day loans.

Before the crisis, prime institutional money market funds were permitted to report a constant $1 share price as long as the value of the underlying assets remained near $1. This reporting convention, combined with the implicit support of the plans' sponsors, led investors to treat those funds like bank deposits, even though they're not insured. These same funds are now required to report floating net-asset values, and after this reform investors chose to migrate to government-only funds, which are safer and less susceptible to runs, as you can see. These and other measures have reduced the risk that key non-bank parts of the system would freeze up in the face of market stress.

Innovation and risk-taking contribute to the dynamism of our financial system and our economy. As Hyman Minksy emphasized, along with the many benefits of dynamism, comes the reality that the financial system will sometimes evolve toward excess and dangerous imbalances. This reality underscores the vital importance of the second part of the post-crisis reform: monitoring for emerging vulnerabilities.

As is laid out in our new Financial Stability Report, we have developed a framework to help us monitor risks to stability in our complex and rapidly evolving financial system. The framework distinguishes between shocks, which is to say, trigger events that can be hard to predict or influence, and vulnerabilities which are defined as features of the financial system that will amplify those shocks. The report is organized around four broad vulnerabilities that have been prominent in financial crises through the centuries. Each of these vulnerabilities is found often to some degree even in healthy market-based systems, and there is not, at present, any generally accepted standard for assessing at what level the vulnerabilities begin to pose serious stability risks. In lieu of such a standard, we flag cases in which vulnerabilities rise well beyond historical norms, and then we form judgments about the stability risks these cases present.

So, the four vulnerabilities. The first vulnerability is excessive leverage in the financial system. If a highly leveraged segment of the financial system is buffeted by adverse events, the affected entities may all need to deleverage at the same time by selling assets, leading to what we call a "fire sale." Both the resulting decline in asset prices and the impaired ability of that segment to play its role in the economy can amplify the effects of a downturn. We saw this chain of events play out repeatedly in various parts of the financial sector in the weeks following the failure of Lehman Brothers in 2008.

In our surveillance, we examine leverage across many different kinds of financial institutions, including banks, insurance companies, hedge funds, and various funding vehicles. Currently, we do not detect a broad-based buildup of abnormal or excessive leverage. As with banks, capital levels at insurance companies and broker-dealers appear robust. In addition, securitization levels are far below their pre-crisis levels, and those structures that do exist rely on more stable funding. Our view into leverage and risk-taking outside the banking system is admittedly incomplete – and less than it is for banks – however, and we are always working to get a better view of emerging leverage excesses.

The second vulnerability is funding risk, which arises when banks or non-bank financial entities rely on funding that can be rapidly withdrawn. If depositors or market participants lose faith in the soundness of an institution or the system as a whole, unstable funding can simply vanish in what is called a “run.” During the crisis, we saw widespread runs, including at broker-dealers, some segments of the repo market, and money market mutual funds. These runs did severe damage, contributing to a generalized panic at the time. Had the authorities not stepped in, the damage could have been even more severe.

Today, we view funding-risk vulnerabilities as low. Banks hold low levels of liability that are able and likely to run, and they hold high levels of liquid assets to fund any outflows that do occur. Money market mutual fund reforms have greatly reduced the run risk in that sector. More generally, it is short-term, uninsured funding that would be most likely to run in a future stress event, and the volume of that funding is now significantly below pres-crisis peaks.

So, taken together, the evidence on these first two vulnerabilities strongly supports the view that financial institutions and markets are substantially more resilient than they were before the crisis.

Indeed, the American financial system has successfully weathered some periods of significant stress over the past several years.

Turning to the third vulnerability, which is excess debt loads at households and businesses. Credit booms have often led to credit busts and sometimes to painful economic downturns. When the bust comes, those who have overborrowed tend to sharply reduce their spending. Defaults typically rise faster than expected, which may put financial institutions into distress. And these effects may combine to bring a serious economic downturn.

This boom-bust pattern was clear in measures of household debt around the crisis period, with mortgage debt rising far above its historical trend and then contracting sharply. After the contraction, though, household debt has grown only moderately. The net increase in mortgage debt has been among borrowers with higher credit scores. So while heavily indebted households will always suffer in a downturn, put all this together and it suggests that household debt would not present a systemic stability threat if the economy sours.

Non-financial business borrowing presents a subtler story. With corporate debt, the US has not faced a massive credit boom like that experienced with residential mortgages before the recent crisis. Instead, after controlling for its trend, business borrowing relative to GDP has generally risen during expansions, no doubt reflecting business optimism, and then it has fallen when the cycle has turned, as some of that optimism has proven unfounded. By this measure, the ratio of corporate debt to GDP is about where one might expect after nearly a decade of economic expansion. It's well above its trend, but not yet at the peaks hit in the late 1980s or late 1990s. Further, the upward trend in recent years appears broadly consistent with the growth in business assets relative to GDP.

There are, however, reasons, for concern. Information on individual firms reveals that, over the past year, firms with high leverage and interest burdens have been increasing their debt loads the most. In addition, other measures of underwriting quality have deteriorated, and leverage multiples have moved up. Some of these highly leveraged borrowers would surely face distress if the economy turned down, leading investors to take higher than expected losses – developments that could exacerbate that downturn.

The question for financial stability is whether elevated business bankruptcies and outsized losses would risk undermining the ability of the financial system to perform its critical functions on behalf of businesses and households. For now, my view is that such losses are unlikely to pose a threat to the safety and soundness of the institutions at the core of the system, and instead, are likely to fall on investors in vehicles like CLOs with stable funding and less threat of a damaging fire sale. Of course, we will continue to monitor developments in this sector carefully.

The fourth and final vulnerability arises when asset values rise far above conventional, historically observed valuation benchmarks – a phenomenon popularly referred to as a "bubble."

The contentious term "bubble," however, does not appear in our work. Instead, we focus on the extent to which an asset's price is high or low relative to conventional benchmarks based on expected payoffs and current economic conditions. Historically, when asset prices soar far above standard benchmarks, sharp declines follow with some regularity, and those declines may bring economic misery reaching far beyond investors who are directly involved in the speculative activity. We therefore pay close attention when valuations get to the extreme ends of what we've seen in history.

Looking across the landscape of major asset classes today, we see some classes for which valuations seem high relative to history. For example, even after standard adjustments for economic conditions, valuations on riskier forms of corporate debt and commercial properties are in the upper ends of their post-crisis distributions, although they are short of the levels they hit in the pre-crisis credit boom. We see no major asset class, however, where valuations appear far in excess of standard benchmarks as some did, for example, in the late 1990s dot-com boom or in the pre-crisis credit boom.

The asset class that gets the most attention today is, of course, the stock market. And today, equity prices are broadly consistent with historical benchmarks such as forward price-to-earnings ratios. It's important to distinguish between financial market volatility and events that threaten financial stability. Large, sustained declines in equity prices can put downward pressure on spending and on confidence. From a financial stability perspective, however, today we do not see dangerous excesses in the stock market.

I mentioned the distinction between vulnerabilities and shocks, or triggers. So, in addition to monitoring vulnerabilities under our four-part framework, we also consult a broad range of contacts regarding sources of risk that might trigger distress at any given time. For example, discussions with contacts currently point to risks emanating from the normalization of monetary policy in the United States and elsewhere, the unsettled state of trade negotiations, Brexit negotiations, budget discussions between Italy and the EU and cyber-related disruptions.

Then having identified possible triggers, we can assess how a particular trigger is likely to interact with known vulnerabilities. And a good example is that of Brexit. US banks and broker-dealers participate in some of the markets most likely to be affected by Brexit. The Fed and other regulators, both here and in the UK and the EU., have been working with US financial institutions that have operations in the EU or the UK to prepare for the full range of possible outcomes to the negotiations. In addition, the scenarios used in our annual stress tests routinely feature severe global contractions and show that US banks have the capital to weather even highly disruptive events.

I have reviewed a few of the key facts now that inform our thinking about financial stability, and you'll find a great deal – those of you who look – will find a great deal more detail in our new report. You will also find that the report does not come to a bottom line conclusion. As I noted earlier, we have limited experience with this monitoring, and there is no widely accepted basis for reaching a bottom line. Thus, the purpose of the report is to provide a common platform and set of readings from which policymakers and other interested parties can form their own views. Individual policymakers will sometimes differ in their assessments and on the relative weight they put on particular vulnerabilities. My own assessment is that, while risks are above normal in some areas and below normal in others, overall financial stability vulnerabilities are at a moderate level. That also has been the view of our staff.

In my view, the most important feature of the stability landscape is the strength of the financial system. The risks of destabilizing runs are far lower than in the past. The institutions at the heart of the financial system are more resilient. The stress tests routinely feature extremely severe downturns in business credit, and the largest banks have the capital and liquidity to continue to function under such circumstances. Because this core resilience is so important, we are committed to preserving and strengthening the key improvements since the crisis, particularly those in capital, liquidity, stress testing and resolution.

I'd like to conclude by putting financial stability and our two new reports in a longer-term context. To paraphrase a famous line, "eternal vigilance is the price of financial stability." We will publish these reports regularly as part of our vigilance.

Over time, some may be tempted to dismiss the reports or to over-dramatize any concerns that they raise. Instead, these reports should be viewed as you might view the results of a regular health checkup. We all hope that a report like that will be not very exciting. Many baby boomers like me, however, are reaching an age where a good report is, “Well, there are a number of things we should keep an eye on, but all things considered you’re in good health.” And that is how I view today’s Financial Stability Report.

We hope that this report and the Supervision and Regulation Report will be important tools, sharing Fed views and stimulating public dialogue regarding the stability of the financial system. Thank you again for coming, and I look forward to questions. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN MARIE-JOSEE KRAVIS: So, thank you very much, Mr. Chairman, and we’ll go right away to questions. And the first question is Peter Henry, who will then be followed by Marty Feldstein. So, Peter, to you...

PETER HENRY: Thank you Marie-Josee. Thank you, Chair Powell, for your remarks. You talked about the interplay between financial stability and macro-stability. And my question harkens back to the macro side. During the speech you gave in Jackson Hole, Wyoming in August, you spoke about the challenges, given the Fed’s dual mandate, of navigating the stars – the u-star, the neutral unemployment rate, and r-star, the neutral interest rate. On the one hand, the wage growth figures reported since then suggest that both the u-star and r-star are below their neutral rates. On the other hand, asset prices, which you mentioned, have fallen significantly since August, leading a number of observers – some louder than others – to argue that financial markets are signaling a weakening economy ahead. In light of the new data since August, have you changed your views about either the true level of r-star or the speed with which you and your colleagues should navigate towards it?

CHAIRMAN JEROME H. POWELL: Thank you Peter. So the point I was getting across, trying to get across at Jackson Hole is that we do make monetary policy, to some extent, by way of these stars. And these starred variables, like the natural rate of unemployment, the neutral rate of interest, give us a benchmark against which to measure policy or to measure unemployment. How do we know whether unemployment is low or high? We have to think that there's a natural rate, and so we need these estimates. But we understand that they're highly uncertain so we have to have them, but we have to also take on board that they're uncertain, the actual locations of them. And so, also we need to constantly update our thinking based on incoming data from the financial markets and from the real economy. So we do constantly update them. In fact, if you look back, each FOMC participant publishes his or her estimate of these variables four times a year in what we call the Summary of Economic Projections. And we'll be doing that again in December. And over the last four years, you've seen estimates of the natural rate of unemployment decline very substantially for just the reason you point to, and the same for the neutral rate of interest. So we're learning all the time that after the crisis these variables are at different levels, and it does complicate policy but that's the world we live in. So, in that world, you know, what do you do when you're uncertain about the variable? And I liken it to, you know, walking into a room full of furniture like this and suddenly the lights go out. So, what do you do? You slow down and you maybe go a little bit less quickly and you feel your way more. That's just the thought is that you feel your way more. So, under uncertainty of this kind, you be careful. And I think that's what we've been doing with monetary policy for some time. We've been moving gradually in a way, it's a way of keeping those risks at bay and learning as you go. So, you ask, so we're always updating those. You made a connection to recent financial market events. You know, I think we're always looking for signals. I think it's too soon to say, you know, these are variables that move slowly over a long period of time. They don't move quickly. These are thought to be underlying, you know, aspects of the economy that are slow moving. So I don't know that you would change based on financial market volatility. But at the end of the day, you'll take into account lots of different information. Marty...

MARTY FELDSTEIN: Well, thank you very much for your remarks. I'm very pleased that you focused your speech on the subject of financial stability. Although the Federal Reserve, under Janet Yellen, was concerned about the capital of banks and their liquidity, she said that monetary policy should focus on inflation and on unemployment and that financial stability was not a responsibility of monetary policy. Do you think that monetary policy, interest rate policy, should take financial stability into account as well as unemployment and inflation?

CHAIRMAN JEROME H. POWELL: Thank you Marty. So the question of whether monetary policy should be used to address financial stability is one in which there are really two schools of thought among monetary policy thinkers and policymakers. And I think the majority view is what Marty just articulated, is that monetary policy has already got two goals – stable prices, maximum employment. Best to use regulatory and macroprudential regulatory policies to address financial instability. And so I would certainly agree that monetary policy is not a great tool to address that third concern and that it's far preferable to use supervision and regulatory tools to address financial stability to the extent that we can. It's not ideal to add a third objective and it's not a tool that fits particularly tightly with the objective of financial stability. On the other hand, you have to, I think it's hard not to keep in mind as a policymaker that the last several business cycles in the United States have not ended because of high inflation. They've ended because of financial imbalances – if you will - the savings and loan crisis, the dot-com bubble popping, and then the mortgage bubble popping and, you know, the Global Financial Crisis. These were not the traditional way business cycles generally ended which was high inflation and that sort of thing. So, it's hard not to have that in the back of your mind. And there is a theoretical and, to some extent, an empirical connection between low rates and credit growth and asset prices. It's not clear, it's not decisive. But ultimately I am in the camp of thinking that monetary policy is not at all the ideal tool to address these questions.

PETER HENRY: You presented very convincing data that the US financial system is on more stable and sounder footing than it was pre-financial crisis. My second question is to what extent do you share that relatively sanguine view about the financial systems of our major trading partners, particularly the EU? And in a time when we're seeing certainly less cooperation in global trade and international issues more generally, what's your outlook for our ability to continue to have a productive dialogue in terms of international financial regulation?

CHAIRMAN JEROME H. POWELL: So I think, you know, we're responsible for the United States policy and that's what we look after. We don't look for opportunities to criticize our fellow regulators. But I would say generally there's been a lot of progress around the world on these matters. International financial regulation is critical because markets are global, many of these companies are global, financial activities generally are global. And so you need some form of, you need a place to meet and agree on common standards so that we can trust each other's regulation and supervision. And that's what we have in the form of the Basel Committee and other forums – the Financial Stability Board – where, for example, we agree on, you know, sort of broad parts of the regulatory and supervisory framework and then we go back to our home countries and we implement it in the context of that country. And I think that works. I also think, you know, I think we, the United States remains strongly committed to being an active and constructive participant in these international regulatory forums. I would point out that my colleague and Vice Chair, Randy Quarles, was just named Head of the Financial Stability Board, which is probably the senior post in this area in the world. And so that's great and I think it shows that the United States is still committed and engaged strongly in these forums. Because they're essential, you know, it's not, we can't just look at domestic regulation anymore. We have to have a level playing field. We've got to be able to trust each other's, different countries' regulatory and supervisory schemes. So that's, I think, something we're still strongly committed to.

MARTY FELDSTEIN: For my second question, I want to come back to the issue of instability. Do you think that when the next downturn comes, it will be caused by the effects of instability in the financial sector, particularly a downturn in equity prices as long-term interest rates rise substantially from where they are today?

CHAIRMAN JEROME H. POWELL: So, as I, thank you Marty, as I mentioned I don't see vulnerabilities as elevated overall today in financial markets or in the financial system. In terms of what, you know, business cycles don't last forever, I guess unless you're Australia where they're in year 27 of their expansion, which sounds like forever. So I don't know what it'll be. Often there's some exogenous event that nobody sees coming. You know, when I was in the government before, the Iraq War happened, and I think that was a big part of the recession that happened in the early 90s. And then 911, you know, was probably part of the trigger the next time. So I don't know what it'll be. I don't. I think our job is to try to conduct monetary policy, supervisory and regulatory policy, to keep the economy close to our objectives and sustain the expansion. Are we done?

CHAIRMAN MARIE-JOSEE KRAVIS: We could go on and on.

CHAIRMAN JEROME H. POWELL: Thank you.

(Applause)

CHAIRMAN MARIE-JOSEE KRAVIS: So, thank you to Jay Powell for being so clear and so informative and also for giving us a relatively reassuring checkup. And I'd like to thank Peter and Marty for your insightful questions that allowed us to broaden the topic of discussion. And I want to remind everyone that we have our final event next week, December 5, where we'll have Secretary Paulson and Secretary Geithner coming to address the issue of the 2008 financial crisis, lessons learned. And as a special feature, they will be presenting also a preview of their HBO documentary on that same topic. So I hope that many of you – all of you, in fact – will join us, and enjoy your lunch. (Applause)