Federal Reserve Bank of Cleveland President and CEO Loretta J. Mester
Transcript: Audience Q&A at the 50 Club monthly meeting, Cleveland OH

Q: Thank you for a great presentation. Thanks for being here. I don't know whether you can comment on this, frankly, but we have an unprecedented situation in the country with a leader of the executive branch who has threatened to fire the chairman of the Fed for adopting policies that the president didn't approve of. I guess my question is simply, do you pay any attention to that or do you simply do your job and focus on what you think you need to focus on?

Mester: So, I've been going to FOMC meetings since a long time, end of 2000, so that's a long time. I can tell you that we focus on setting monetary policy to meet and promote our dual mandated goals, which are given to us by Congress. We don't let these other things that are going on affect our decision-making, and I've been going to meetings before I was sitting at the table, and over many chairs of the Fed, and I can tell you that it just doesn't become part of the calculus. We really focus on trying to do the best work we can in terms of analyzing the economic information that we receive, using our models, using data collection, survey data, understanding financial market developments, so that we're always setting policy to promote price stability and maximum employment, and that's how we go about our business and I have every confidence that that's going to continue to be the way we go about our business.

Q: In a rational economic universe, the levels of government debt and fiscal and monetary stimulus that we've seen in recent years would be highly inflationary. Historically that's been true but at this time, in this economy, it's not. Why? Or are we in for a very unpleasant surprise ahead?

Mester: I don't think we're in for a very unpleasant surprise ahead. You're right, it used to be that a very tight economy, tight labor markets, extra stimulus which made us grow above trend, could be inflationary, we've seen that in the past. This time it doesn't appear to be that's the case. Part of it is because our inflation expectations have been very stable. That's why it's important to maintain our focus on doing policy to hit our goals, because basically you then can have inflation remain at 2 percent even though by all indication, labor markets are tight, the economy is growing strongly. So, it's going to be important that the Fed going forward when they're looking at what the policy decisions we make to maintain that stability and inflation expectations. But that's been the anchor. We've been able to do that, and the way I like to explain this is if you think about how deep we were in a hole in the recession, there were very bad times, very sharp declines, you could've said that we could've been in a deflationary period during that. And we did not see that. Yes, inflation went down, but we didn't get into a bad deflationary problem. That's because inflation expectations were maintained at 2 percent, so again that's going to be the key going forward. We need to set policy that, so that people and businesses understand that we're going to maintain--set our policy to keep focused on those goals. And I think that explains what's going on in the inflation. The Cleveland Fed just started a new center on inflation precisely because there are these changes in inflation dynamics and we want to better understand them and want to promote work in that area, so you were right to point out that there's been this change, and it's something that obviously as monetary policy given our goals, that we need to be aware of and keep on top of.

Q: What work does the Federal Reserve do in the area of stability on capital markets, liquidity. So with the advent of market participants using ETFs, and arguably, some of them are already mismatched on the liquidity side, whether it's an ETF for high-yield bonds, or leveraged loans, it's easy to see a stable market with markets going up, the natural seller is the one with the profit, and buyers are there. Markets going down could have very adverse effects, without proprietary trading there could be huge pockets or holes with lots of liquidity in these types of things. Has the Fed studied that in the way of looking at stability in capital markets?

Mester: We do look at market stability. We do look at financial market stability. And we do try to look at liquidity issues in these markets. So for example, the Fed has been rolling off securities in our portfolio, and there have been some who question whether that's led to tightening financial conditions in the market and liquidity issues. Our analysis suggests that that's not the case, that markets have remained liquid and that's not a cause of some of the changes that happened in the markets in the fourth quarter but we are focused on making sure that markets stay liquid, that there aren't these disruptions in the markets, and that is a focus of our work. The New York Fed, of course, being in the center of things, has a group that actually focuses on, and markets, and focuses on our own participation in those markets.

Q: Maybe you could brief us how the Fed impacts or speaks into the conversation around tuition costs and how you invest in education, you spoke of the transformative power of education. Does the Fed have a role in this? When we think about Pell funding and other funding coming to students and the investment in education, the return on investment, could you speak to that as well please?

Mester: Our Bank and several of the Reserve Banks around the country do have people who are looking at student debt problems and the issue of student debt and how to finance, and some policies that might actually examine the problem and address sort of what could be a solution to those problems. Of course, we don't set policy in those areas, but what we can do is contribute to the research in those areas, document how much of it's a struggle for students and their families and then think about solutions to that problem. So there's an ongoing research effort both at the Cleveland Fed and at other Federal Reserve Banks that try to actually look at how much of an impact that is and if there's better solutions to try to solving some of that. So yeah, that's something that it's certainly on our research agenda for our community development work.

Q: Thank you. Our country is very blessed to have a Fed and a System, and the Fed is very blessed to have some wonderful leadership and staff and over the years. The Fed however has limited tools and it seems to me that those tools are a barrier to handle the typical inflationary forces that come about from imbalances in supply and demand in the marketplace. But as I look out longer term, maybe 20 years, what worries me most is that the inflationary forces will be caused by our own politicians. A combination of the annual deficits, the accumulated deficits, and the unfunded liability, are measured in over a hundred trillion dollars, and when I say how are we going to solve that, I'm afraid that politics being what it is, it will not be solved by causing the root causes, overpromising what we can deliver, and changing that, but that it will be solved by printing money. And every country I can see that has fallen into this situation and printed enough money has run into hyperinflation. Does the Fed have the tools to deal with that?

Mester: So I agree with you that coming up with a sustainable federal fiscal situation position is going to be important. So I agree with you that if we don't get that control that we may end up into a bad situation, so I don't disagree with that. The question is, is the country ready to do it, and how they would do it. That's certainly not a role for the Federal Reserve, but I agree with you that that's something, putting our fiscal situation in, on a sustainable path is going to be important for the future, and it does impact, flow back into the Federal Reserve in terms of what long term interest rates are, which of course then affect what we do, so I agree with you.

Q: My question is about high technology and its impact on the workforce. As we all know, we lost a lot of well-paying blue-collar jobs in the past, because of advancements in technology. Now with artificial intelligence and robotics and maybe some other new technologies, I think we're probably going to see that in the white-collar sector as well, and I think that blue-collar job losses has really stoked a lot of the tensions in our politics, and I'm concerned that losing a huge number of jobs in the white-collar workforce will add to that tension. So how closely is the Fed monitoring this and what do you think about this problem for the future?

Mester: I do agree that we have to be cognizant of these transitions into new kinds of work, and new kinds of jobs, and new technology. I think a lot of areas that have not been focused on that have been harmed by the fact that they haven't been prepared, and I think the educational system and the training has to come with it, but I don't think it's all doom and gloom because if you think of other industrial revolutions, you ended up being better off and better jobs and more jobs. So again, I'm hopeful and I'm a positive person in the sense that I think the technological change that we're having is going to be a positive for the economy and for the nation. On the other hand, you have to prepare everyone for that. So the transitions from getting where we are to where it's going to go doesn't necessarily have to go smoothly unless you focus on it. So it's really important that we make sure that people have access, which is why the student debt issue is relevant. People have to have access to the right training, people have to have opportunity to actually educate themselves, and people have to be willing to sort of re-educate themselves all through their lives now. It's not just you go to school and you're done, right? It's going to be changing rapidly. So I'm hopeful because I think in all the past periods where we've had these big technological advances, it's been good for the country. I do think we have to be cognizant of it and we have to make the transition easier for people to be able to get there.

Q: So what are you excited about?

Mester: What am I what?

Q: What are you excited about? Give us one good fabulous thing to end the evening.

Mester: Barbara (Snyder) mentioned I'm on the board of the orchestra. I'm excited about the Cleveland Orchestra. I think it's a fantastic organization, and that gets me very excited. I'm excited about the opera. You've got to love the opera. They're doing the Ring cycle at the Met this year--I'm excited about the opera!