Transcript of Chairman Bernanke's Press Conference
March 20, 2013

CHAIRMAN BERNANKE. Good afternoon.

The Federal Open Market Committee concluded a two-day meeting earlier today. As always, my colleagues and I reviewed recent economic and financial developments and discussed the economic outlook. The data since our January meeting have been generally consistent with our expectation that the fourth-quarter pause in the recovery would prove temporary and that moderate economic growth would resume. Spending by households and businesses has continued to expand, and the housing sector has seen further gains. The jobs market has also shown signs of improvement over the past six months or so: Private payrolls are growing more quickly, total hours of work have increased, the rate of filings of new claims for unemployment insurance has fallen, and the unemployment rate has continued to tick down. However, at 7.7 percent, the unemployment rate remains elevated. The Committee also remains concerned that restrictive fiscal policies may slow economic growth and job creation in coming months.

We continue to monitor the recent increases in gasoline prices, which appear to be due mostly to passing factors such as refinery shutdowns for maintenance. Apart from temporary variations in energy prices, inflation is running somewhat below the Committee's longer-run objective of 2 percent. Importantly, longer-term inflation expectations remain stable. Overall, still-high unemployment, in combination with relatively low inflation, underscores the need for policies that will support progress towards maximum employment in a context of price stability.

In conjunction with this meeting, the 19 participants in our policy discussion—the 7 Board members and 12 Reserve Bank presidents—submitted individual economic projections.

As always, each participant's projections are conditioned on his or her own view of appropriate monetary policy. To summarize, the participants' projections for economic growth have a central tendency of 2.3 to 2.8 percent for 2013, rising to 2.9 to 3.7 percent in 2015. The central tendency of their projections of the unemployment rate for the fourth quarter of this year is 7.3 to 7.5 percent, declining to 6.0 to 6.5 percent in the final quarter of 2015. Most participants see inflation gradually increasing toward the Committee's longer-run target; the central tendency of their projections for inflation is 1.3 to 1.7 percent this year and 1.7 to 2.0 percent in 2015.

As you already know from the policy statement, we are continuing the asset purchase program first announced in September. This decision was supported by our review at the meeting of the likely efficacy, costs, and risks of additional purchases. Let me briefly summarize the cost–benefit analysis supporting our decision.

Although estimates of the efficacy of the Federal Reserve's asset purchases are necessarily uncertain, most participants agreed that these purchases—by putting downward pressure on longer-term interest rates, including mortgage rates—continue to provide meaningful support to economic growth and job creation. However, most also agreed that this monetary tool would likely not be able on its own to fully offset major economic headwinds, such as those that might arise from significant near-term fiscal restraint or from a sharp increase in global financial stresses.

We also had a thorough discussion of possible costs and risks of continued expansion of the Federal Reserve's balance sheet. The risks include possible adverse implications of additional purchases for the functioning of securities markets, and the potential effects—under various scenarios—of a larger balance sheet on the Federal Reserve's earnings from its asset holdings and, hence, on its remittances to the Treasury. The Committee also considered possible risks to financial stability, such as might arise if persistently low rates lead some market participants to take on excessive risk in a "reach for yield." In the Committee's view, these costs remain manageable but will continue to be monitored, and we will take them into appropriate account as we determine the size, pace, and composition of our asset purchases.

As for today, our policy decision had two main elements. First, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. It bears emphasizing that the Committee has described this program in terms of a monthly pace of purchases, rather than as a total amount of expected purchases, and has tied the evolution of the program to economic criteria—specifically, to the achievement of a substantial improvement in the outlook for the labor market in a context of price stability. Within this framework, the Committee could vary the pace of purchases as progress is made toward its economic objectives or if its assessment of the efficacy and costs of the program changes. At this meeting, the Committee judged that no adjustment was warranted.

Second, the Committee kept the target for the federal funds rate at 0 to ¼ percent and reaffirmed its expectation that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, we anticipate that this exceptionally low range for the funds rate will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's longer-run inflation goal of 2 percent, and longer-term inflation expectations continue to be well anchored.

I should note, as I have on other occasions, that the economic conditions provided in this forward guidance are thresholds, not triggers. Crossing one or more of these thresholds will not lead automatically to an increase in rates. Rather, the Committee will assess at that time whether the outlook justifies raising its target for the federal funds rate. This guidance will help market participants assess how the Federal Reserve's interest rate policy is likely to respond to economic developments, but its broader purpose is to assure households and businesses that monetary policy will continue to support the recovery even as the pace of economic growth and job creation picks up. In their individual projections, 14 of the 19 FOMC participants saw the first increase in the target for the federal funds rate as occurring in 2015 or 2016.

Let me comment briefly on how the two main pieces of our policy accommodation—asset purchases and guidance about future changes in the federal funds rate—fit together. The purpose of the asset purchases is to increase the economy's near-term momentum, with the goal of improving the outlook for the labor market and helping to promote a self-sustaining recovery with price stability. The forward rate guidance, in turn, provides information about when the Committee will begin considering the removal of policy accommodation through increases in the target for the federal funds rate. Importantly, the Committee expects a considerable interval to pass between the time when the Committee will cease adding accommodation through asset purchases and the time when it will be appropriate to begin removing accommodation by moving the federal funds rate target toward more normal levels. As always, in deciding on the appropriate stance of policy, the Committee will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

In sum, the Committee anticipates moderate economic growth, supported by household and business spending and a strengthening housing sector. The labor market has shown signs of improvement in recent months, but the unemployment rate remains elevated. Inflation is expected to remain low, and fiscal policy has become somewhat more restrictive. In light of its outlook, and following a review of the efficacy and costs of additional asset purchases, the Committee today reaffirmed its asset purchase program and its federal funds guidance.

Thank you very much. I would be glad to take your questions.

YLAN MUI. Hi. Ylan Mui, *Washington Post*. My question is around QE. Obviously, we've seen some of your colleagues give more-specific criteria, give some color around what they're looking for before they would consider exiting from QE. Can you give us any additional color on what you're looking for specifically in terms of substantial improvement in the labor market? And does the fact that there aren't thresholds associated with QE say anything about the level of disagreement among the Committee members over what that exit should look like?

CHAIRMAN BERNANKE. Well, to take your second question first, the lack of thresholds comes from the complexity of the problem. On the one hand, we have benefits, which are associated with improvements in the economy, but there are also costs associated with unconventional policy, such as potential effects on financial stability, which are hard to quantify and which people have different views about. So, to this point, we've not been able to give quantitative thresholds for the asset purchases in the same way that we have for the federal funds rate target. We're going to continue to try to provide information as we go forward. In particular, as I mentioned today, as we make progress towards our objective, we may adjust the flow rate of purchases month to month to appropriately calibrate the amount of accommodation we're providing given the outlook for the labor market.

In terms of further color, again, given the complexity of the issue, we've not given quantitative analysis or quantitative thresholds. I would say that we'll be looking for sustained improvement in a range of key labor market indicators, including, obviously, payrolls, unemployment rate, but also others like the hiring rate, claims for unemployment insurance, quit rates, wage rates, and so on. We'll be looking for sustained improvement across a range of indicators, and in a way that's taking place throughout the economy. And since we're looking at the outlook—we're looking at the prospects rather than the current state of the labor market—we'll also be looking at things like growth to try to understand whether there's sufficient momentum in the economy to provide demand for labor going forward. So that will allow us to look through, perhaps, some temporary fluctuations associated with short-term shocks or problems.

ROBIN HARDING. Robin Harding from the *Financial Times*. Mr. Chairman, to follow up on that last point, what—you referred to the possibility of varying purchases, the rates of purchases per month. What's the difference in the conditions that would induce you to do that, as opposed to the substantial improvements in the labor market that would induce you to stop the program altogether? Thank you.

CHAIRMAN BERNANKE. Well, the problem with having just a single criterion is that it's all or nothing. We maintain full speed ahead until we hit a certain target, and then, you know, we stop. That would be, I think, very difficult for the markets to understand, to anticipate. We think it makes more sense to have our policy variable, which is the rate of flow of purchases, respond in a more continuous or sensitive way to changes in the outlook. So, as we make progress towards our ultimate objective of substantial improvement, we may adjust the rate of flow of purchases accordingly. Now, we won't do that every meeting; we won't do that frequently. But when we see that the condition or the situation has changed in a meaningful way, then we may well adjust the pace of purchases in order to keep the level of accommodation consistent with the outlook, and, secondly, to help provide the markets with some sense of progress—how much progress is being made so that it can make better judgments.

ROBIN HARDING. Could you define "progress towards" at all, how you deal with that?

CHAIRMAN BERNANKE. Well, you know, as I just described what I mean by "substantial improvement," it's a broad-based improvement in a range of indicators as well as improvement in output and labor demand. So, as we move—we see partial improvements, see modest improvement, as we see a period in which the labor market is doing better, and we have reason to think it might be stronger, then we might reduce accommodation at that point. But it works in both directions. If, subsequently, the labor market were to weaken, the outlook were to get worse, we could, of course, bring back accommodation back to the previous level.

STEVE LIESMAN. Steve Liesman from CNBC. Mr. Chairman, I have to keep coming back to this issue of adjusting the flow rate. Are we near that time right now? And how can the markets calibrate the number to changes in economic improvement? For example, let's say, theoretically, we did 236,000 jobs in a month, and the unemployment rate fell by 0.2 percent. Would that be sufficient to begin to adjust the purchases downward? Thank you.

CHAIRMAN BERNANKE. Well, that's going to be obviously a decision that the Committee has to make, and we will—at each meeting, we'll look at progress that's been made since the last meeting, try to assess the outlook, try to determine whether there's been a sufficient change to warrant a change in our policy stance. Internally, we'll use models and other indicators of the state of the labor market to try to make a good estimate of how much we need to change the rate of flow. But, again, the point of this is to let the market see our behavior, to let them see how we respond to changes in the outlook. And that way there will be a better ability, I hope, for the markets to anticipate either a return to higher levels of purchases or the ultimate phasing-out of the program.

STEVE LIESMAN. Are we near that level now?

CHAIRMAN BERNANKE. That's an issue for—obviously, there has been improvement, let me say that. We've seen improvement in the last four or five months. The last five months, for example, we've seen over 200,000 jobs a month in the private sector. Unemployment rate has come down four-tenths since September. Unemployment claims, insurance claims are at the lowest level they've been since the crisis, so we are seeing improvement. I think one thing we would need is to make sure that this is not a temporary improvement. So, we've seen periods before where we had as many as 300,000 jobs for a couple of months, and then things weakened again. So, I think an important criterion would be not just the improvement that we've seen, but is it going to be sustained for a number of months?

PEDRO DA COSTA. Pedro da Costa from Reuters. Mr. Chairman, I wanted to ask you about Cyprus a little bit, because you guys removed the reference in the statement referring to easing financial conditions, suggesting that you are alert to these new risks that seem to have emerged. Doesn't the fact that a country as small as Cyprus can set off such global reverberations suggest that the financial system is perhaps a lot more fragile than the Fed stress test suggests? And then, separately, you discounted the estimate of the "too big to fail" subsidy that Elizabeth Warren threw at you during the Senate hearing a couple weeks ago. I was wondering, does the Fed have its own estimate of what that subsidy is, and could you tell us what it is, if that's the case?

CHAIRMAN BERNANKE. Well, first, on the reverberations, it's a difficult situation in Cyprus. You've got a situation where the banking system is a large multiple of the size of the economy. And so, in the financial sense, it's bigger than it is in a GDP sense. And it's a difficult problem because the country faces both fiscal and bank capitalization issues. And you've seen that there's political stress in terms of trying to figure out how they're going to meet the demands of the euro group for contributing to their rescue. So, there are a lot of uncertainties and difficulties, and there's questions about how—the way Cyprus is treated, what implications that might have for other countries and the like. So, it does have some consequence. But, having said that, you know, the vote failed and the markets are up today, and I don't think that the impact has been enormous. I mean, I think it's something we're paying attention to. We hope that the Europeans will come up with an efficient and equitable solution. We are monitoring very carefully, but, at this point, we're not seeing a major risk to the U.S. financial system or the U.S. economy.

On the benefits of being too big to fail, no, we don't have an estimate. It's pretty difficult to control for all the factors that go into determining the size of the subsidy. I think there is some evidence that financial markets are, at least to some extent, taking into account the possibility that large financial institutions will fail. You see, for example, spreads in the credit default swaps that indicate some probability of failure. You see some discrimination among different institutions according to the bond market—interest rates that they get charged, and so on. So there is some evidence of market discrimination.

That being said, I certainly never meant to say to Senator Warren—and I share her concern about too-big-to-fail, I think it's a major issue—I never meant to imply that the problem was solved and gone. It is not solved and gone; it's still here, but there's a lot of work in train. We're putting in the Basel capital standards. We're putting in the orderly liquidation authority from Dodd–Frank. We're working with our international partners. And I hope that we'll make progress against too-big-to-fail, because I agree with her 100 percent that it's a real problem and needs to be addressed if at all possible.

JON HILSENRATH. Jon Hilsenrath from the *Wall Street Journal*. Mr. Chairman, I'd like to change the subject a little. Your predecessor served as Fed Chairman for 19 years. By contrast, the European Central Bank and the Bank of England have 8-year term limits on—for their top people. I wanted to ask you two questions related to that. First, as a matter of governance, do you think 8 years is the right amount of time for a central bank leader to serve, or should it be less or more, or undefined? And, more specifically, as it regards to you, your term is 10 years from completion. How are you thinking about what you will be doing next year after your term is completed?

CHAIRMAN BERNANKE. Well, on the latter question, I don't have anything for you. I'll certainly be informing the *Wall Street Journal* and other publications if I come to some decision or some developments in that front.

In terms of term limits, I don't have a strong view on that. Different countries use different approaches. Of course, the President always has the option to reappoint or not reappoint Fed Chairmen, and the Senate always has the option of confirming or not confirming. So, in that respect, term limits are redundant. And, indeed, if you had term limits on the Fed Chairman, that would be, I think, the only office in the federal government besides President and Vice President that would have that restriction.

But that being said, again, I don't view this as a major issue, nor have I seen it actively discussed in, I think, in the Hill. Perhaps I missed it. But I don't have a strong view about that. My 10-year term, of course, is not as Chairman. My 10-year remaining term is as a Governor, so that's not relevant, really, to the question that you asked about.

BINYAMIN APPELBAUM. Binya Appelbaum, the *New York Times*. I want to go back to asset purchases. You've spoken a lot about the power of forward guidance, the power of clear communication. I understand that it's a complicated issue, but why would you leave on the table the additional power of saying to markets, "We're going to keep doing this for a while"? And, separately, there's been a lot of conversation about the risks associated with quantitative easing. I wonder if you could tell us, when is the last time you spoke with someone who is unemployed?

CHAIRMAN BERNANKE. Pretty recently. I have a relative that is unemployed. But I come from a small town in South Carolina that has taken a big hit from the recession. Last time I was there, the unemployment rate was about 15 percent. I think it's better now. The home that I was raised in had just been foreclosed upon when I was visiting there. I have great concern about the unemployed both for their own sake, but also because the loss of skills, the loss of labor force attachment is bad for our whole economy. It reduces tax revenues. It reduces productivity. So I think it's very, very important that we act to address unemployment, and I think the Federal Reserve—I think most people would agree—the Federal Reserve has been fairly active in that regard.

In terms of costs, there are a number of different costs, and I mentioned some of them in my remarks. I think one that has recently been discussed—Governor Stein brought it up in a speech—is the issue of financial stability. Clearly, financial instability, if it were allowed to be sufficiently serious, would be a threat to employment, a threat to jobs, and a threat to production. So, obviously, given the experience of the past few years, we want to be sure that we're not unnecessarily encouraging excessive risk-taking or other problems in the financial markets. We do address that through a number of means, including monitoring the financial system, regulation, supervision, communication, and the like. But this is a potential concern that a number of my colleagues are worried about, and it's one of the things we talked about in our discussion of the costs and risks of balance sheet policies.

BINYAMIN APPELBAUM. Then why would you leave forward guidance on the table?

CHAIRMAN BERNANKE. I don't know what you mean by "on the table."

BINYAMIN APPELBAUM. Why not use it as a tool to increase the power of asset purchases?

CHAIRMAN BERNANKE. Well, again, I don't—we've not been able to come to an agreement about what guidance we should give. And part of the concern is—is that as we go forward, we—you know, we'll have to factor in the efficacy, which is another issue. I mean, there's a wide range of views about how effective asset purchases are in terms of moving the economy. So, as we move forward in time, we'll be learning about how effective the policy is, and what costs and risks there may be associated with it. And, as we do that, perhaps we will be able to give more-explicit guidance. And I agree with you 100 percent that that would be more effective if we could give numerical guidance. But, you know, I think the Federal Reserve has come a long way. You know, in 1994, we didn't even tell people when we changed the federal funds rate. Now, we're telling you when—you know, what the state of the economy is going to be when we raise the federal funds rate. So, we are making progress in terms of forward guidance.

DONNA BORAK. Chairman, Donna Borak with *American Banker*. There have been a number of policies that have been floated in the last few months regarding of strengthening U.S. banks, one being increased—perhaps making adjustments to the Basel III's leverage ratio, requiring banks to hold long-term unsecured debt in the event of a resolution, and then, also, placing a cap on banks' nondeposit liabilities. Firstly, is—do you agree with these policies and whether or not the Fed should be pursuing them along with supervisors? And, secondly, in the context of this question of too-big-to-fail, I mean, do you think these policies would actually help to finally convince the market and the public that too-big-to-fail doesn't exist?

CHAIRMAN BERNANKE. Well, I think capital is an important element in addressing too-big-to-fail. One of the things that will be proposed, and is not in effect yet, will be surcharges on the largest banks—that is, the largest financial institutions will have to hold more capital as a percent of their risk-weighted assets than smaller banks do. That will increase their cost of funding and, to some extent, will both equalize their cost of funding with other banks and make them safer so that the risk of their failure is limited. So I think that's an important step. And there are many other restrictions in both Dodd–Frank and Basel, including liquidity restrictions and so on, that apply most strictly to the largest institutions.

In terms of the financing, it is true, I think, that excessive reliance on short-term uninsured funding does present some risks. And there are different ways to address that. But one way to address it is through liquidity regulation. And both in our 165–166 rule and now through Basel III, we will be putting forward restrictions on the kinds of financing, the limits on how much illiquidity and liquidity risk firms can take.

Again, I don't think too-big-to-fail is solved now. We're doing a number of things, which I think will help. We need to keep assessing that, and we'll be able to tell by looking at market indicators, by doing our own stress tests and the like. And if we don't, you know, if we don't achieve the goal, I think we'll have to do additional steps. It is important. I mean, it's not something we can just forget about. It may take some time, but too-big-to-fail was a major part of the source of the crisis. And we will not have successfully responded to the crisis if we don't address that problem successfully.

JEFF KEARNS. Thank you, Mr. Chairman. Jeff Kearns from Bloomberg. Looking at the level for credit scores for new home loans rising into the 700s—is that something you would consider to be a successful transmission of monetary policy, and the—especially given how well the Fed says that banks are capitalized?

CHAIRMAN BERNANKE. Well, the tightening of credit in mortgage markets—I mean, our sense is that it's gone too far. I mean, some tightening was obviously needed. There were people who bought houses prior to the crisis who really couldn't sustain a mortgage. So, terms and conditions have been tightened up, and we're now seeing much higher credit quality requirements on potential borrowers. We are concerned that a variety of factors, such as concerns about putbacks the banks may have, uncertainties about regulation—which we're working on to get done as quickly as possible—may have tightened the mortgage credit box more than would be desirable in a long-run healthy economy. That does have some effect on monetary policy. One of the most powerful tools we have is bringing down mortgage rates and stimulating homebuying, construction, and related industries. So that is an issue that we take into account. I would say one thing, which is that as the housing industry has strengthened and home prices have gone up, that has actually brought some people into the credit box in the sense that the number of people, for example, who are underwater on their mortgages is declining as house prices go up. So, as people have bigger down payments, bigger equity in their homes, they become more creditworthy. So, to some extent, not—I don't want to overstate it—but to some extent, monetary policy—by strengthening the housing market, helping support house prices—is bringing more people into the mortgage market.

PETER BARNES. Peter Barnes of Fox Business, sir. The stock market has been hitting all-time highs. It's recovered all of its losses from the financial crisis. I just want to know if I—

from you, if I still have time to get in. But seriously, how do you feel about that? Is it good? Is it bad? Mission accomplished? And are you worried about bubbles? We're still at 7.7 percent unemployment. I mean, is the—what do you think?

CHAIRMAN BERNANKE. That's right. We're not targeting asset prices. We're not measuring success in terms of the stock market. We're measuring success in terms of our mandate, which is employment and price stability, and that's what we're trying to achieve. We do monitor the entire financial system, not just the parts that we supervise or regulate. It includes the stock market and other asset markets. We use a variety of metrics. And I don't want to, now, be pulled into going through every individual financial market and assessing it. But, in the stock market, you know, we don't see at this point anything that's out of line with historical patterns. In particular, you should remember, of course, that while the Dow may be hitting a high, it's in nominal terms, it's not in real terms. And if you adjust for inflation and for the growth of the economy, you know, we're still some distance from the high. I don't think it's all that surprising that the stock market would rise, given that there has been increased optimism about the economy and the share of income going to profits has been very high. Profit increases have been substantial, and the relationship between stock prices and earnings is not particularly unusual at this point.

MARCY GORDON. Thank you. Marcy Gordon with the Associated Press. Mr. Chairman, the statement mentions that fiscal policy has become more restrictive. How much of a drag on growth do you see from the Social Security tax increase and the across-the-board spending cuts that went into effect on March 1? And is it possible that the Fed might see a need to provide more support to the economy if that—because of that drag, the drag on fiscal?

CHAIRMAN BERNANKE. Well, our analysis is fairly comparable to analysis that the Congressional Budget Office has presented to the Congress. And they estimate that putting together all the fiscal measures, including the fiscal cliff deal, the sequester, and other cuts, that federal fiscal restraint in 2013 is cutting something like 1½ percentage points off of growth, which, of course, is very significant. So, that is an issue for us. We—you know, we take as given what the fiscal authorities are doing. The economy is weaker. Job creation is slower than it would be otherwise. And so, that is one of the reasons that our policy has been as aggressive as it is. That being said, as I've said many times, monetary policy cannot offset a fiscal restraint of that magnitude, and so the final outcome will be worse—or, in terms of jobs—than would have been the case with less fiscal restraint. I want to emphasize that I do believe that long-term fiscal stability is extremely important. And I urge Congress and the Administration, as I always do, when I go to testify to do whatever is necessary to put us on a sustainable fiscal path going forward. But, in doing so, I think it's a good idea to pay attention to the impact in the near term on what is still not a completely satisfactory recovery.

STEVE BECKNER. Mr. Chairman, good afternoon. You earlier stressed that you want to see improvement in the labor market sustained, and that to make that determination, you have to have adequate economic growth, and yet the projections in the revised Summary of Economic Projections has kind of a—it seems like an Okun's law dilemma there. You—they have reduced the projected rate of unemployment, but, at the same time, lowered the growth forecast. So how do you square those two? How do you get sustained improvement in the labor market if the economy is going to slow down?

CHAIRMAN BERNANKE. Well, if in fact that happens, it's an issue, obviously. There's been some disconnect, at least in the short run, between unemployment rate changes and growth during this recovery, and there've been periods, at least, where unemployment has fallen relatively quickly even though growth has been more limited. So we're just going to have to monitor developments in the economy and see what happens. You're right that we're not forecasting extraordinarily strong growth. But it is also true, as you—I think, you noted, that our projections for unemployment in the fourth quarter are noticeably lower than they were in September when we first announced this asset purchase program. So there has been some improvement in the outlook, as measured by that metric. But you're right. You know, we do need to see a sustained improvement. One month, two months doesn't cut it. And, normally, you would expect that you would need to see a reasonable pace of GDP growth in order to achieve that. So we're just going to have to keep providing support for the economy and see—you know, see how things evolve.

VICTORIA McGRANE. Hi, Chairman. Victoria McGrane with the Dow Jones Newswires. In the stress test that the Fed recently conducted, there were an adverse scenario and a severely adverse scenario, and you published results of the—from the individual banks on—under the adverse—severely adverse scenario.

CHAIRMAN BERNANKE. Right.

VICTORIA McGRANE. But you didn't under the merely adverse scenario, which featured an inflation shock followed by a quick rise in short-term rates. So, I have a two-part question. First, why didn't the Fed publish those results? And, second, even if you can't share how individual banks performed, what did you learn from how—from the results you did see under that adverse scenario?

CHAIRMAN BERNANKE. Well, the reason for publishing the severely adverse scenario, of course, is that's the ultimate acid test, you know, whether the banks are sufficiently capitalized. Presumably, if they can survive a severely adverse scenario, then an adverse scenario would—obviously less strenuous, less stressful, and they wouldn't have as much difficulty. So, I think, in terms of evaluating the health of the banks, the severely adverse scenario is the right one. That being said, I don't see any principle reason why we couldn't provide that information. I will find out at some point why we are doing it that way.

The severely adverse scenario is mostly just a scaling-up of the adverse scenario, for the most part. There are some differences. For example, we have used some of our work to look at interest rate risk and interest rate sensitivity and, you know, found generally that banks can also sustain a significant increase in long-term interest rates as well for a number of reasons, one of them being that higher interest rates increase their franchise value because it increases their net interest margin over time. So, again, I think the severely adverse scenario is the one that really puts them to the test. But we're always talking about, you know, what information will be useful to investors and to the press.

RYAN AVENT. Ryan Avent, *The Economist*. You've noted that most of the Committee members don't expect an increase in rates until 2015 or 2016, and it looks, in the projections, as though the expectation for the long-run rate of the federal funds target is around 4 percent, which would be below the sort of peak rate we saw before the recession. Given the Committee's concerns about unconventional policy, is there any feeling on the Committee that perhaps recovery isn't going fast enough, and that more accommodation would be justified? And has there been any discussion about a change in policy targets to try to stay effective without much of a cushion there between the fed funds target rate and the zero lower bound?

CHAIRMAN BERNANKE. Well, as you point out, we're at the zero lower bound, and that makes further accommodation not impossible but more difficult and harder to predict, and with more side effects that are difficult to predict. I'm not sure I understand the whole thrust of your question. We have—as you know, we have given this guideline for—so we call them signposts for how the funds rate is going to evolve over time. And, as a lot of academic research shows, you know, when you're close to the zero lower bound, by telling markets that you're going to keep rates low for a significant period, that's one way to get longer-term rates down and to provide more stimulus to the economy. And we think this has been a pretty effective tool. Now, we could go further. We could lower even further, say, the unemployment rate number that we hit. We've discussed variants, and at least one member of the Committee has suggested that. But for right now, we find that the thresholds that we have put into that rate guidance seem to be sufficient to approximate the—what's called the optimal control path of interest rates, that it seems to give a path of unemployment and inflation that's about as good as we can get with the monetary policy tools that we have. It doesn't mean we're satisfied. It just means that we don't have enough fire power to get the economy back to full employment more quickly. I don't know if that was responsive or not.

RYAN AVENT. I guess I'm not—given the concerns about unconventional policy relative to normal interest rate policy, is there a feeling that more should be done so that when the next potential recession rolls around, we have more room to cut rates, or are you comfortable just using these threshold policies on an ongoing basis?

CHAIRMAN BERNANKE. I see. So you're talking about the inflation target, basically. Is that fair?

RYAN AVENT. Yes, I think so.

CHAIRMAN BERNANKE. Yes, okay. So, historically, the argument for having inflation greater than zero—we define price stability as 2 percent inflation, as do most central banks around the world. And one might ask, "Well, price stability should be zero inflation. Why do you choose 2 percent instead of zero?" And the answer is, the question you're raising, which is that if you have zero inflation, you're very close to the deflation zone, and nominal interest rates will be so low that it would be very difficult to respond fully to recessions. And so, historical experience has suggested that 2 percent is an appropriate balance between the cost of inflation and the cost that you're referring to. We haven't contemplated changing that. We just put that number in, as you know, fairly recently. I think at this point, it's still being debated in academic circles that—you know, and we'll see what kind of outcome they come up with. But it's an interesting question to try to quantify. There is research, for example, which asks the question, how often do you tend to hit the zero lower bound? And our belief a few years ago was that it was a very rare event, and now it's become more common. So I'm sure there'll be a lot of thinking about this in academic and other circles.

BEN WEYL. Hi, Mr. Chairman. Ben Weyl, Congressional Quarterly. There's a lot of talk about whether certain institutions are too big to fail. And I wanted to get at a different, if related, question. In 1980, let's say, there was about—the financial sector comprised about 5 percent of the U.S. economy, U.S. GDP; now it's about 9 percent. And I'm wondering if you think that shift is beneficial to the U.S. economy?

CHAIRMAN BERNANKE. I don't think I know the answer to that question. Certainly, the financial system has—I could argue two ways. I could say, well, the U.S. economy grew pretty well between 1945 and 1975 or 1980. And the financial system was much simpler and didn't have a lot of exotic derivatives and so on. So that would be—that would be one way to argue that maybe, you know, all of this extra financial activity is not justified. On the other hand, the world is a lot more complicated. We're a lot—the world is a lot more international.

You have large multinational firms that are connecting resources, savers, and investors in different countries. There's a lot more demand for risk sharing, for liquidity services, and so on. So, I think, based on that and based on the innovations that information technology have created in lots of industries, you would expect financial services to be somewhat bigger. So I don't really know the answer to that question. I think that my predecessor Paul Volcker's claim that the only contribution to the financial industry is the automatic teller machine might be a little exaggerated. I know that people—some people have that view. Again, I don't know the answer. I think that a somewhat bigger financial sector can be justified by the wider range of services and the more globalized financial economic system that we have. But the exact number, I can't really say.

JEREMY TORDJMAN. Hi, I'm Jeremy Tordjman with the AFP Newswire Agency. I have a follow-up question on Cyprus. As a central banker, do you think it was either appropriate or fair to impose a levy on every bank deposit in Cyprus, even those insured by the European Union itself? Thank you.

CHAIRMAN BERNANKE. Well, I have not been involved in those conversations and I don't necessarily know all the details, and so I know they're grappling with a very difficult problem. I think the issue they face is that there's a pretty big hole, a financial hole, in the sense that there is a fiscal issue and there's also a bank restructuring recapitalization issue. So, they're looking for resources where they can find them. I think everyone understands that there are certain risks with that besides the equity issue of taxing lower-income people. There is the issue of setting a precedent that might reduce confidence in banks in subsequent periods. But again, that being said, it's a very tough issue. And I—and finding the resources to solve Cyprus's problem, you know, there's probably no easy way to do it. And we're going to keep monitoring that. But I don't envy them that particular challenge.

GREG ROBB. Thank you. There's been a trend in the last couple of years where the economy kind of jumped out of the gate in the first part of the year only to kind of falter. Is that something that you're worried about this year? And does that suggest that QE might have to stay kind of at the same pace you are now and some into the third quarter until we're sure about that—that trend?

CHAIRMAN BERNANKE. Well, you're absolutely right that there's been a certain tendency for a spring slump that we've seen a few times. One possible explanation for that—besides some freaky things, some weather events and so on, one possible explanation is seasonality. Because of the severity of the recession in 2007 to 2009, the seasonals got distorted. And they may have led—and I say "may" because the statistical experts—many of them deny it, but it's possible that they led job creation and GDP to be exaggerated to some extent early in the year. Our assessment is, though, that at this point, that we're far enough away from the recession that those seasonal factors ought to be pretty much washing out by now. So if we do, in fact, see a slump, it would probably be due to real fundamental causes and then we would obviously have to respond to that. As I said, we're planning to adjust our tools to respond to changes in the outlook, and that can go either direction.

DONALD JUDD. Donald Judd, CBS News. I was wondering if you could tell me how, if a run on the banks happens in Cyprus, how that might affect U.S. markets. And also, is it possible for the U.S. to levy a tax on regular deposits here, or why not?

CHAIRMAN BERNANKE. Well, as someone mentioned, Cyprus is a tiny economy, and I don't think that these issues, as worrisome as they are and as concerned as we would be for the Cypriote people, I don't think that they have direct implications for the U.S. economy. The only way that they would create a problem would be if the runs became contagious in some sense, if depositors in other countries lost confidence. But at this point, I'm not aware of any evidence that that is, in fact, the case. The argument the Europeans are making is that Cyprus is a very unique situation, very different situation. And, indeed, it is quite unusual to have a banking sector as large as they have relative to their economy. In terms of the United States, you know, the FDIC was founded, I think, in 1934, and insured deposits, and they're very proud of the fact that no one's ever lost a dime in insured deposits. And, during the crisis, the response of the government was, in fact, to increase the level of, you know, depositor account sizes that were insured. So I consider that to be extremely unlikely in the United States.

DON LEE. Don Lee at the *L.A. Times*. Would you be in favor of reducing the flow of stimulus if we had another month or two, as we did in February, of job growth and the unemployment rate dropping, but the long-term unemployed didn't change much? And, on a related question, how much of a pickup do you expect to see in the labor force participation rate, and what will we need to see there for that to show substantial improvement?

CHAIRMAN BERNANKE. On the first question, as I said, I mean that's a decision for the Committee. We're going to have to make a judgment about how significant the improvement is, how sustained it is. Long-term unemployment is one dimension of the unemployment problem. But I think that probably the best way to get the long-term unemployed back to work is to get an overall strong labor market. And I think that's—we'd be looking at the overall key indicators like overall unemployment rate, payrolls and hiring, and some of the other things that I mentioned. The other part of your question was about—

DON LEE. Labor force.

CHAIRMAN BERNANKE. Labor force participation, yes. Labor force participation has been declining on a trend-like basis in the United States for a while. That's the result, mostly, of demographic factors, partly the aging of the population, partly the fact that female participation is no longer increasing—it's in fact decreasing a little bit. It's also the case that labor force attachment within people of working age has declined for a number of different reasons. So there's a trend underlying this. And, in addition, there are probably some people who've left the labor force just because they are discouraged and they can't find work. So, as the economy strengthens, the labor market strengthens, I would expect to see some of these folks coming back into the labor force. For example, the number of people who are out of the labor force but say they would like a full-time job but are not actually counted as unemployed, that number has actually been going up, which suggests that there are more people thinking about going back into the labor force, going back to work. But I doubt that, in the near term at least, that we'll see an increase in labor force participation because—besides the effects of the slow recovery, high unemployment, we've had a downward trend in the U.S., which is not due to the recession, it's due to underlying demographic factors.

CATHERINE HOLLANDER. Catherine Hollander from *National Journal*. You argued in a 1999 paper and a 2002 speech that monetary policy was not the right tool for addressing asset bubbles. But in January, you suggested that there might be a role for it, even if not as the first line of defense. Has your thinking on the issue evolved, and can you explain why?

CHAIRMAN BERNANKE. Well, I still believe the following, which is that monetary policy is a very blunt instrument. If you are raising interest rates to pop an asset bubble, even if you were sure you can do that, you might, at the same time, be throwing the economy into recession, which kind of defeats the purpose of monetary policy. And therefore, I think the first line of defense—I mean, I think, we have a sort of a tripartite line of defense. We start off with very extensive and sophisticated monitoring at a much higher level and much more comprehensively than we've had in the past. Then we have supervision and regulation, where we work with other agencies to try to cover all the empty or uncovered areas in the financial system. And then, in addition, we try to use communication and similar tools to affect the way that financial markets respond to monetary policy. So we do have some first lines of defense, which I think should be used first. That being said, you know, I think that given the problems that we've had—not just in the United States, but globally in the last 15, 20 years—that we need to at least take into account these issues as we make monetary policy. And I think most of the people on the FOMC would agree with that. What that means exactly depends on the circumstances. I think if the economy is in very weak condition and interest rates are very low for that purpose, it's very difficult to contemplate raising rates a lot because you're concerned about some sector in the financial sphere. On the other hand, if you're in an expansion and there's a credit boom going on, that—the case in that situation for making policy a little bit tighter might be better. So, as I've said many times, I have an open mind in this question. We're learning; all central bankers are learning. But I think I still would agree with the point I made in my very first speech in 2002, as a Governor at the Federal Reserve, where I argued that the first line of defense ought to be the more targeted tools that we have, including regulatory tools and, to some extent, macroprudential tools like some emerging markets use.

PETER COOK. Thank you, Mr. Chairman. As tempted as I might be to end with your NCAA picks or your view of the Nationals, I have something a little more serious for you, in line with what John asked you about—your future. Given the unprecedented nature of Fed policy on your watch and the uncertainty surrounding the exit strategy, to what extent do you feel personally responsible to be at the helm when those decisions are made, and how does that affect your future? And, more specifically, sir, the last time we gathered here at the press conference, you were asked if you'd spoken with the President about your future, and you said you hadn't at that time. Could you at least tell us if you've had the conversation?

CHAIRMAN BERNANKE. I've spoken to the President a bit, but I really don't have any—I don't really have any information for you at this juncture. I don't think that I'm the only person in the world who can manage the exit. In fact, one of the things that I hope to accomplish, and was not entirely successful at, as the Governor or as the Chairman of the Federal Reserve, was to try to depersonalize, to some extent, monetary policy and financial policy and to get broader recognition of the fact that this is an extraordinary institution. It has a large number of very high quality policymakers. It has a terrific staff—literally dozens of Ph.D. economists who've been working through the crisis, trying to understand these issues and implement our policy tools, and there's no single person who is essential to that. But, again, with respect to my personal plans, I will certainly let you know when I have something more concrete.

Thank you.