

**Transcript of Chairman Bernanke's Press Conference
April 27, 2011**

CHAIRMAN BERNANKE. Good afternoon. Welcome.

In my opening remarks, I'd like to briefly first review today's policy decision. I'll then turn next to the Federal Open Market Committee's quarterly economic projections also being released today, and I'll place today's policy decision in the context of the Committee's projections and the Federal Reserve's statutory mandate to foster maximum employment and price stability. I'll then be glad to take your questions. Throughout today's briefing, my goal will be to reflect the consensus of the Committee, while taking note of the diversity of views as appropriate. Of course, my remarks and interpretations are my own responsibility.

In its policy statement released earlier today, the Committee announced, first, that it is maintaining its existing policy of reinvesting principal payments from its security holdings, and, second, that it will complete its planned purchases of \$600 billion of longer-term Treasury securities by the end of the current quarter. Of course, going forward, the Committee will regularly review the size and composition of its securities holdings in light of incoming information and is prepared to adjust those holdings as needed to meet the Federal Reserve's mandate.

The Committee made no change today in the target range of the federal funds rate, which remains at 0 to ¼ percent. The Committee continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.

In conjunction with today's meeting, FOMC participants submitted projections for economic growth, the unemployment rate, and the inflation rate for the years 2011 to 2013 and over the longer run. These projections are conditional on each participant's individual assessment of the appropriate path of monetary policy needed to best promote the Committee's objectives. A table showing the projections has been distributed. I'm going to focus today on the central tendency projections, which exclude the three highest and three lowest projections for each variable in each year.

I call your attention, first, to the Committee's longer-run projections, which represent participants' assessments of the rates to which economic growth, unemployment, and inflation will converge over time under appropriate monetary policy and assuming no further shocks to the economy. As the table shows, the longer-run projections for output growth have a central tendency of 2.5 to 2.8 percent, the same as in the January survey. The longer-run projections for the unemployment rate have a central tendency of 5.2 to 5.6 percent, somewhat narrower than in January. These figures may be interpreted as participants' current estimates of the economy's normal, or trend, rate of growth and its normal unemployment rate over the longer run, respectively. The economy's longer-term rate of growth and unemployment are determined largely by nonmonetary factors, such as the rate of growth of the labor force and the speed of technological change, and it should be noted that estimates of these rates are inherently uncertain and subject to revision over time.

The central tendency of the longer-run projection for inflation, as measured by the price index for personal consumption expenditures, is 1.7 to 2.0 percent. In contrast to economic growth and unemployment, the longer-run outlook for inflation is determined almost entirely by monetary policy; consequently, and given that these projections are based on the assumption that

monetary policy is appropriate, these longer-run projections can be interpreted as indicating the inflation rate that Committee participants judge to be most consistent with the Federal Reserve's mandate to foster maximum employment and stable prices. At 1.7 to 2.0 percent, the "mandate-consistent" rate of inflation is greater than zero for a number of reasons. Perhaps most important, attempting to maintain inflation at zero would increase the risk of experiencing an extended bout of deflation, or falling wages and prices, which in turn could lead employment to fall below its maximum sustainable level for a protracted period. Hence, a goal of literally zero inflation is not consistent with the Federal Reserve's dual mandate. Indeed, most central banks around the world aim to set inflation above zero, usually at about 2 percent.

I turn now to the Committee's economic outlook. As indicated in today's policy statement, the Committee sees the economic recovery as proceeding at a moderate pace. Household spending and investment in equipment and software continue to expand, supporting the recovery, but nonresidential investment is still weak and the housing sector is depressed. In the labor market, overall conditions continue to improve gradually. For example, the unemployment rate moved down a bit further and payroll employment increased in March; new claims for unemployment insurance and indicators of hiring plans are also consistent with continued improvement.

Looking ahead, Committee participants expect a moderate recovery to continue through 2011, with some acceleration of growth projected for 2012 and 2013. Specifically, as the table shows, participants' projections for output growth have a central tendency of 3.1 to 3.3 percent for this year, but rise to 3.5 to 4.2 percent in 2012 and about the same in 2013. These projections are a little below those made by the Committee in January; the markdown of growth in 2011 in particular reflects the somewhat slower-than-anticipated pace of growth in the first quarter.

The outlook for above-trend growth is associated with a projected reduction in the unemployment rate, which is seen as edging down to 8.4 to 8.7 percent in the fourth quarter of this year and then declining gradually to 6.8 to 7.2 percent in the fourth quarter of 2013, still well above the central tendency of participants' longer-run projections for unemployment of 5.2 to 5.6 percent. The projected decline in the unemployment rate is relatively slow largely because economic growth is projected to be only modestly above the trend growth rate of the economy.

On the inflation front, commodity prices have risen significantly recently, reflecting geopolitical developments and robust global demand, among other factors. Increases in commodity prices are in turn boosting overall consumer inflation. However, measures of underlying inflation, though having increased modestly in recent months, remain subdued, and longer-term inflation expectations have remained stable. Consequently, the Committee expects the effects on inflation of higher commodity prices to be transitory; as the increases in commodity prices moderate, inflation should decline toward its underlying level. Specifically, participants' projections for inflation have a central tendency of 2.1 to 2.8 percent for this year, noticeably higher than in the January projections, before declining to 1.2 to 2.0 percent in 2012 and then running at 1.4 to 2.0 percent in 2013—both about the same as in January.

The Committee's economic projections provide important context for understanding today's policy action as well as the Committee's general policy strategy. Monetary policy affects output and inflation with a lag, so current policy actions must be taken with an eye to the likely future course of the economy. Thus the Committee's projections of the economy, not just current conditions alone, must guide its policy decisions. The lags with which monetary policy affects the economy also imply that the Committee must focus on meeting its mandated objectives over the medium term, which can be as short as a year or two but may be longer,

depending on how far the economy is initially from conditions of maximum employment and price stability.

To foster maximum employment, the Committee sets policy to try to achieve sufficient economic growth to return the unemployment rate over time to its long-term normal level. At 8.8 percent, the current unemployment rate is elevated relative to that level, and progress toward more normal levels of unemployment seems likely to be slow. The substantial ongoing slack in the labor market and the relatively slow pace of improvement remain important reasons that the Committee continues to maintain a highly accommodative monetary policy.

In the medium term, the Committee also seeks to achieve a mandate-consistent inflation rate, which participants' longer-term projections for inflation suggest is 2 percent or a bit less. Although the recent surge in commodity prices has led inflation to pick up somewhat in the near term, the Committee continues to project inflation to return to mandate-consistent levels in the medium term, as I have discussed. Consequently, the short-term increase in inflation has not prompted the Committee to tighten policy at this juncture. Importantly, however, the Committee's outlook for inflation is predicated on longer-term inflation expectations remaining stable; if households and firms continue to expect inflation to return to a mandate-consistent level in the medium term, then increased commodity prices are unlikely to induce significant second-round effects, in which inflation takes hold in noncommodity prices and in nominal wages. Thus, besides monitoring inflation itself, the Committee will pay close attention to inflation expectations and to possible indications of second-round effects.

In providing extraordinary monetary policy accommodation in the aftermath of the crisis, the Committee has not only reduced its target for the federal funds rate to a very low level, but has also expanded the Federal Reserve's balance sheet substantially. The Committee at this

meeting continued its ongoing discussion of the available tools for removing policy accommodation, at such time as that should become appropriate. The Committee remains confident that it has the tools that it needs to tighten monetary policy when it is determined that economic conditions warrant such a step. And in choosing the time to begin policy normalization as well as the pace of that normalization, we will carefully consider both parts of our dual mandate.

Thank you again, and I'd be glad to take your questions.

QUESTION. Mr. Chairman, tomorrow we're going to get a pretty weak first-quarter GDP number. Your own projections for the year have been downgraded in this meeting. How—first of all, what do you see as the causes of the weak growth to start the year, even with monetary easing, even with payroll tax cuts? And what's behind this weaker forecast for 2011 GDP?

CHAIRMAN BERNANKE. You're correct. We haven't seen the GDP number yet. But we, like most private-sector forecasters, are expecting a relatively weak number for the first quarter, maybe something a little under 2 percent. Most of the factors that account for the slower growth in the first quarter appear to us to be transitory. They include things like, for example, lower defense spending than was anticipated, which will presumably be made up in a later quarter; weaker exports—and given the growth in the global economy, we expect to see that pick up again; and other factors like weather and so on. Now, there are some factors there that may have a longer-term implication. For example, construction, both residential and nonresidential, was very weak in the first quarter, and that may have some implications going forward. So I would say that, roughly, that most of the slowdown in the first quarter is viewed by the Committee as being transitory. That being said, we've taken our forecast down just a bit, taking

into account factors like—like weaker construction and possibly just a bit less momentum in the economy.

QUESTION. Mr. Chairman, given what you know about the pace of the economy now, what is your best guess for how soon the Fed needs to begin to withdraw its extraordinary stimulus for the economy? And could you also say what is your working definition of what “extended period” means from the purposes of the Fed statement?

CHAIRMAN BERNANKE. Well, currently as the statement suggests, we are in a moderate recovery. We'll be looking very carefully, first, to see if that recovery is, indeed, sustainable, as we believe it is. And we'll also be looking very closely at the labor market. We've seen improvement in the labor market in the first quarter relative to the latter part of last year, but we'd like to see continued improvement—more job creation going forward. At the same time, we're also looking very carefully at inflation, the other part of our mandate. As I've noted, inflation—headline inflation—is at least temporarily higher, being driven by gasoline prices and some other commodity prices. Our expectation is that—that inflation will come down towards a more normal level. But we'll be watching that carefully and also watching inflation expectations, which—you know, which are important that they remain well anchored if we're going to see inflation remain under good control. So to answer your question, I don't know exactly how long it will be before a tightening process begins. It's going to depend obviously on the outlook and on those criteria which I suggested. The “extended period” language is conditioned on exactly those same points: “Extended period” is conditioned on resource slack, on subdued inflation, and on stable inflation expectations. Once those conditions are violated, or are we moving away from those conditions, that will be the time that we need to begin to tighten. “Extended period” suggests that there would be a couple of meetings probably before—before

action. But, unfortunately, the reason we use this vaguer terminology is that we don't know with certainty how quickly response will be required, and, therefore, we will do our best to communicate changes in our view as—but that will depend entirely on how the economy evolves.

QUESTION. Mr. Chairman, first, thanks for doing this. This is a tremendous development. There are critics who say that Fed policy has driven down the value of the dollar, and a lower value to the dollar reduces Americans' standard of living. How do you respond to the criticism that, essentially, Fed policy has reduced Americans' standard of living?

CHAIRMAN BERNANKE. Thanks, Steve. First, I should start by saying that the Secretary of the Treasury, of course, is the spokesperson for U.S. policy on the dollar and Secretary Geithner had some words yesterday. Let me just add to what he said, first, by saying that the Federal Reserve believes that a strong and stable dollar is both in American interest and in the interest of the global economy. There are many factors that cause the dollar to move up and down over short periods of time. But over the medium term, where our policy is aimed, we're doing two things. First, we are trying to maintain low and stable inflation by our definition of price stability by maintaining the purchasing value of the dollar, keeping inflation low. That's obviously good for the dollar. The second thing we're trying to accomplish is to get a stronger recovery and to achieve maximum employment. And, again, a strong economy, growing, with attracting foreign capital, is going to be good for the dollar. So in our view, if we do what's needed to pursue our dual mandate of price stability and maximum employment, that will also generate fundamentals that will help the dollar in the medium term.

QUESTION. I'm sorry, Mr. Chairman, one can't help but noticing that it's been unsuccessful so far.

CHAIRMAN BERNANKE. Well, the dollar—the dollar fluctuates. One factor, for example, that has caused fluctuations that have been quite extreme during the crisis has been the safe-haven effect. So, for example, during the height of the crisis in the fall of 2008, money flowed in to the Treasury market and drove up the value of the dollar quite substantially, reflecting the fact that U.S. capital markets are the deepest and most liquid in the world. And a lot of what you've seen over the last couple of years is just the unwinding of that as the economy has strengthened and as uncertainty has—has been reduced. But that's indicative, I think, of the—of the high standing that the dollar still retains in the world. Again, ultimately, the best thing we can do to create strong fundamentals for the dollar in the medium term is to, first, keep inflation low, which maintains the buying power of the dollar, and, second, to create a strong economy.

QUESTION. Chairman, Jon Hilsenrath from the *Wall Street Journal*. Many Americans are upset that gasoline prices are rising so fast and that food prices are also going up. Can you talk about whether there's anything that the Fed can or should do about that? And can you also comment or elaborate on the increase that we've seen in the inflation forecasts that the Fed put out today?

CHAIRMAN BERNANKE. Sure. Thanks, Jon. So, first of all, gasoline prices obviously have risen quite significantly. And we, of course, are watching that carefully, that higher gas prices are absolutely creating a great deal of financial hardship for a lot of people. And gas, of course, is a necessity. People need to drive to get to work. So it's obviously a very bad development to see gas prices rise so much. Higher gas prices, higher oil prices also make economic developments less favorable. On the one hand, obviously, the higher gas prices add to inflation. On the other hand, by draining purchasing power from households, higher gas prices

are also bad for the recovery. They cause growth to decline as well. So it's a double whammy coming from higher gasoline prices. Now, our—our interpretation of the increase in gas prices is the economist's basic mantra of supply and demand. On the one hand, we have a rapidly growing global economy. Emerging market economies are growing very quickly, and their demand for commodities, including oil, is very, very strong. Indeed, essentially all of the increase in the demand for oil in the last couple of years and the last decade has come from emerging market economies. In the United States, our demand for oil—our imports have actually been going down over time. So the demand is coming from a growing economy where we've seen about a 25 percent increase in emerging market output in the last—since before the crisis. And on the supply side, as everybody knows who watches television, we've seen disruptions in the Middle East and North Africa, in Libya, and in other places that have constrained supply. That supply has not been made up, and that, in turn, has driven gas prices up quite significantly. So, again, this is a very adverse development. It accounts in the short run for the increase in our—pretty much almost all of the increase in our inflation forecast, at least in the very near term. There's not much the Federal Reserve can do about gas prices, per se, at least not without derailing growth entirely, which is certainly not the right way to go. After all, the Fed can't create more oil. We don't control the growth rates of emerging market economies. What we can do is basically try to keep higher gas prices from passing into other prices and wages throughout the economy and creating a broader inflation, which would be much more difficult to extinguish. Again, our view is that, most likely—of course, we don't know for sure, but we'll be watching carefully—our view is that gas prices will not continue to rise at the recent pace, and as they stabilize or even come down if the situation stabilizes in the Middle East, that that will provide some relief on the inflation front. But we'll have to watch it very carefully.

QUESTION. Thank you. Scott Lanman from Bloomberg News. Mr. Chairman, you've stated several times this year that the recovery won't be fully established until we see a sustained period of stronger job creation. First, has it become truly established yet? And, if not, what's your definition of a sustained period, and what's your definition of stronger job creation?

CHAIRMAN BERNANKE. Well, as I mentioned, we've made a lot of progress. Last August when we began to talk about another round of securities purchases, growth was very moderate. And we were actually quite concerned that growth was not sufficient to continue to bring the unemployment rate down. Since then, we have seen a reasonable amount of payroll creation, job creation. And that picked up in the most recent few months, together with the decline in the unemployment rate from, you know, 10 percent down to the current rate of 8.8 percent. So the labor market is improving gradually, as we say in our statement. And we'd just like to make sure that that is sustainable, and the longer it goes on, the more confident we are. And, again, it is encouraging to see the improvement that we've seen in recent months. That being said, the pace of improvement is still quite slow, and we are digging ourselves out of a very, very deep hole. We are still something like 7 million-plus jobs below where we were before the crisis. And so, clearly, the fact that we're moving in the right direction, even though that's encouraging, doesn't mean that the labor market is in good shape. Obviously, it's not. And we're going to have to, you know, continue to watch and hope that we will get stronger and increasingly strong job creation going forward.

QUESTION. Robin Harding from the *Financial Times*. Mr. Chairman, you say in your statement that longer-term inflation expectations have remained stable, but a number of measures of inflation expectations have risen in recent months. And it's clear from your forecast that you expect headline inflation to run above core inflation for some period. Is there anything that the

Federal Reserve can do to prevent the public from maybe incorrectly assuming that a period of higher inflation is on its way as a result? Thank you.

CHAIRMAN BERNANKE. Well, again, the inflation expectations that we are concerned about are medium-term inflation expectations. So we've seen, for example, in the financial markets, in the indexed bond market, for example, or in surveys like the Michigan survey, we've seen near-term inflation expectations rise fairly significantly, which is reasonable given higher commodity prices, higher gas prices. But for the most part, although there's been some movement here and there, for the most part, I think it's fair to say that medium-term inflation expectations have not really moved very much, and they still indicate confidence that the Fed will ensure that inflation in the medium term will be close to what I've called the mandate-consistent level. What can we do? In the short run, we can communicate and try to make sure the public understands what our policy is attempting to do, to be clear what our objectives are and what steps we're willing to take to meet those objectives. Ultimately, if—if inflation persists or if inflation expectations begin to move, then there's no substitute for action. We would have—we would have to respond. I think—while it is very, very important for us to try to help the economy create jobs and to support the recovery, I think every central banker understands that keeping inflation low and stable is absolutely essential to a successful economy. And we will do what's necessary to ensure that that happens.

QUESTION. Mr. Chairman, what will be the impact on the economic recovery, job creation, and rates on mortgages and other loans when the Fed ends its \$600 billion bond-buying program? And a quick follow-up is, Will the Fed continue—how long with the Fed continue to allow for reinvestments?

CHAIRMAN BERNANKE. As I—as I've noted and as you're all aware, we are—we are going to complete the program at the end of the second quarter, \$600 billion. We are going to do that pretty much without tapering. We're just going to let the purchases end. Our view is that—based on past experience and based on our analysis—is that the end of the program is unlikely to have significant effects on financial markets or on the economy, the reason being that, first—just a simple point that we hoped we have telegraphed today—we hope we have communicated what we're planning to do. And the markets have well anticipated this step. And you would expect that policy steps which are well anticipated by the market would have relatively small effects because whatever effects you're going to have would have already been capitalized in the financial markets. Secondly, we subscribe generally to what we call here the stock view of the effects of securities purchases, which—by which I mean that what matters primarily for interest rates, stock prices, and so on is not the pace of ongoing purchase, but rather the size of the portfolio that the Federal Reserve holds. And so, when we complete the program, as you noted, we are going to continue to reinvest maturing securities, both Treasuries and MBS, and so the amount of securities that we hold will remain approximately constant. Therefore, we shouldn't expect any major effect of that. Put another way, the amount of ease, monetary policy easing, should essentially remain constant going forward from—from June. At some point, presumably early in our exit process, we will, I suspect, based on conversations we've been having around the FOMC table, it's very likely that an early step would be to stop reinvesting all or part of the securities which are coming—which are maturing. But take note that that step, although a relatively modest step, does constitute a policy tightening because it would be lowering the size of our balance sheet and, therefore, would be expected to essentially tighten financial conditions. That being said, we therefore have to make that decision based on the

outlook, based on our view of how sustainable the recovery is and what the condition—the situation is respect to inflation. So we will base that decision on the evolving outlook.

QUESTION. Do you think it will be several months away?

CHAIRMAN BERNANKE. It depends on the outlook. The Committee will have to make a judgment.

QUESTION. Is it in the Fed's power to reduce the rate of unemployment more quickly? How would you do that, and why are you not doing it?

CHAIRMAN BERNANKE. Well, I should say, first of all, that, in terms of trying to help this economy stabilize and then recover, the Federal Reserve has undertaken extraordinary measures. Those include, obviously, all the steps we took to stabilize the financial system during the crisis—again, many of which were extraordinary measures taken under extreme circumstances. Even beyond the steps we took to stabilize the system, we have created new ways to ease monetary policy. We've brought the federal funds rate target close to zero. We have used forward guidance in our language to affect expectations of policy changes. And, of course, as everyone knows, we have now been through two rounds of purchases of longer-term securities, which have seemed to have been effective in easing financial conditions and, therefore, providing support for recovery and for employment. Going forward, we'll have to continue to make judgments about whether additional steps are warranted. But as we do so, we have to keep in mind that we do have a dual mandate, that we do have to worry about both the rate of growth but also the inflation rate. And as I was indicating earlier, I think that—even purely from an employment perspective—that if inflation were to become unmoored, inflation expectations were to rise significantly, that the cost of that in terms of employment loss in the future, as we had to respond to that, would be quite significant. And so we do have to make sure

that we are paying adequate attention to both sides of our mandate. But clearly it is the case that we have done extraordinary things in order to try to help this economy recover.

QUESTION. John Ydstie with NPR News. Mr. Chairman, it's the view of a lot of economists that the second round of quantitative easing hasn't done much to help the economy. What positive effects can you point to directly? And if there are positive effects, can you really afford to end the program in June, with the unemployment rate still around 9 percent?

CHAIRMAN BERNANKE. Thank you. Well, first, I do believe that the second round of securities purchases was effective. We saw that first in the financial markets. The way monetary policy always works is by easing financial conditions. And we saw increases in stock prices. We saw reduced spreads in credit markets. We saw reduced volatility. We saw all the changes in financial markets and quite significant changes that one would expect if one was doing an ordinary easing of policy via a reduced federal funds rate. And, indeed, we saw the same types of financial market responses in the first round, which began in March of 2009. So we were able to get the financial easing that we were trying to get. We did get very significant easing from this program. You would expect, based on decades of experience, that easing financial conditions would lead to better economic conditions, and I think the evidence is consistent with that as well. As I discussed in more detail in my Humphrey-Hawkins testimony in the beginning of March, between late August when I first indicated that the Federal Reserve was seriously considering this additional step and early this year, not only the Federal Reserve but many outside forecasters upgraded their forecasts. And we saw—we saw strengthening labor market conditions, higher rates of payroll job creation, et cetera. Now, the conclusion, therefore, that the second round of securities purchases was ineffective could only be validated if one thought that this—this step was a panacea, that it was going to solve all the problems and return

us to full employment overnight. We were very clear from the beginning that, while we thought this was an important step and that it was at an important time when we were all worried about a double dip and we were worried about deflation, we were very clear that this was not going to be a panacea, that it was only going to turn the economy in the right direction. And, indeed, we published some analytics which gave job creation numbers which were significant but not—certainly not enough to completely solve the enormous jobs problem that we have. So, again, relative to what we expected, anticipated, I think the program was successful. Why not do more? Again, this was similar to the question I received earlier. The tradeoffs are getting—are getting less attractive at this point. Inflation has gotten higher. Inflation expectations are a bit higher. It's not clear that we can get substantial improvements in payrolls without some additional inflation risk. And, in my view, if we're going to have success in creating a long-run sustainable recovery with lots of job growth, we've got to keep inflation under control. So we've got to look at both of those—both parts of the mandate as we—as we choose policy.

QUESTION. I'm Luca Di Leo from Dow Jones. Mr. Chairman, what's the right response if high oil prices persist? On the one hand, they push inflation higher. On the other, they can hurt the economy by hitting spending. In the current environment, what's the best strategy?

CHAIRMAN BERNANKE. Well, we're going to continue to—to see what happens. Our anticipation is that oil prices will stabilize or tend to come down. If that happens or if at least oil prices don't increase significantly further, then inflation will—will come down, and we'll have—we'll be close to our medium-term objectives. So, as we look at oil prices, you know, as you point out, we have to look at both sides of the situation. I do think that one of the key things that we'll be looking at will be inflation expectations because, if medium-term

inflation expectations remain well anchored and stable so that firms are not passing on—at least on an ongoing, sustained basis—these higher costs into broader prices, into creating a broader inflation in the economy, as long as inflation expectations are well—are well stabilized, that won't happen, then we'll feel more comfortable just watching and waiting and seeing how things evolve. Again, if we fear that inflation expectations look like they're becoming less anchored, we would have to respond to that.

QUESTION. Darren Gersh with *Nightly Business Report*. You've talked a lot in the past about the problem of long-term unemployment. Can the Fed effectively reduce long-term unemployment?

CHAIRMAN BERNANKE. Well, first, you're absolutely right. Long-term unemployment in the current economy is—is the worst—really the worst it's been in the postwar period. Currently something like 45 percent of all the unemployed have been unemployed for six months or longer. And we know the consequences of that can be very distressing because people who are out of work for a long time, their skills tend to atrophy—they lose contacts with the labor market, with other people working, the networks that they have built up. And we saw in the European experience, for example, in the '80s and '90s, that a period of high unemployment with very long-term unemployment spells can actually lead unemployment to remain very high for a protracted period. So it is a very significant concern. And it's one of the reasons that—that the Federal Reserve has been so aggressive. By getting unemployment down, we hope to bring back to work some of the people who've been out of work as long as they have and, in that respect, try to avoid the longer-term consequences of people being out of work for months at a time. So that's part of the reason that we have been as aggressive as we have. As the situation drags on and as the long-term unemployed lose skills and lose contact with the labor

market or perhaps just become discouraged and stop looking for work, then it becomes really out of the scope of monetary policy. At that point, job training, education, and other types of interventions would probably be more effective than monetary policy.

QUESTION. Could I just follow up? So a lot of the long-term unemployment that we're seeing now, do you think that's out of the scope of what the Fed can do?

CHAIRMAN BERNANKE. Well, indirectly, of course, if—to the extent that we can help the economy recover and help job creation proceed, then some of the people who get jobs will be those who've been out of work for a long time. That being said, we don't have any tools for targeting long-term unemployment specifically. We just—can just try to make the labor market work better, broadly speaking.

QUESTION. Peter Barnes, of Fox Business Network, Mr. Chairman. Last week, Standard & Poor's put the United States' debt on a negative watch for the very first time ever. What is your reaction to that? And are you concerned, are you worried that the United States is going to lose its triple-A credit rating?

CHAIRMAN BERNANKE. Well, in one sense, S&P's action didn't really tell us anything because everybody who reads the newspaper knows that the United States has a very serious long-term fiscal problem. That being said, I'm hopeful that this event will provide at least one more incentive for Congress and the Administration to—to address this problem. I think it's the most important economic problem, at least in the longer term, that the United States faces. We currently have a fiscal deficit which is simply not sustainable over the longer term. And if it's not the addressed, it will have significant consequences for financial stability, for economic growth, and for our standard of living. It is encouraging that we are seeing efforts on both sides of the aisle to think about this issue from a long-run perspective. It's not a problem

that can be solved by making changes only for the next six months. It's really a long-run issue. We're still a long way from a solution, obviously. But it is, I think, of the highest importance that our political leaders address this very difficult problem as quickly and as effectively as they can. And to the extent that the S&P action goads a response, I think that's—that's constructive.

QUESTION. Mr. Chairman, John Berry. In the past, there have been times when fiscal policy has tightened, and the Federal Reserve has chosen to ease its policy in response partly to that, given whatever the circumstances in the economy were at the time. Congress appears intent at this point in cutting spending significantly; it might restrain the economy as it appears to be doing in Britain where they're following a similar path. Is there anything the Fed can do or should do if, indeed, there are large budget cuts sometime in the next 18 months?

CHAIRMAN BERNANKE. Well, first let me say that, addressing the fiscal deficit, particularly the long-run unsustainable deficit, is a top priority. And nothing I would want to say would be—should be construed as saying that I think it's anything other than a top priority. It's very, very important that our leaders address this—address this issue. I would also say that the cuts that have been made so far don't seem to us to have very significant consequences for short-term economic activity. Now, my preference in terms of addressing the—the long-term deficit is to take a long-term perspective. It's a long-term problem. If Congress and the Administration are able to make credible commitments to cutting programs or in any way changing the fiscal profile going forward over a long period of time, that is the most constructive way to address what is, in fact, a long-run problem. If the changes are focused entirely on the short run, then they might have some consequences for growth. And in that case, the Federal Reserve, which is, as always, going to try to set monetary policy to meet our mandate, would take those into

account appropriately. But so far, I've not seen any fiscal changes that have really changed our near-term outlook.

QUESTION. Thank you, Mr. Chairman. I'm Toshi Ogata with the *Asahi Shimbun*, Japanese newspaper. I'd like to ask about uncertainties in the global economy or downside risks. In minutes from the March meeting, you—the Committee noted that the development in Japan increased uncertainties. So what's the latest assessment on those risks or uncertainties such as tragedy in Japan or crisis in Europe and uprising in the Middle East? And what would be the impact of those on the U.S. economy and the world economy?

CHAIRMAN BERNANKE. Well, one of the things that our projections include—you know, we're only producing the forecast today—with our minutes in three weeks, we'll include the full detailed projections as we normally do. One of the things that we include is the views of the participants on the amount of uncertainty there is in the forecast going forward. And I think I can say, without too much fear of giving away the secret, that FOMC participants do see quite a bit of uncertainty in the world going forward, and a lot of that uncertainty is coming from global factors. I've already talked about Middle Eastern–North Africa developments which have affected oil prices, conditions in emerging markets which have affected commodity prices and other things. The European situation continues, and we're watching that very carefully. Now, obviously, you asked about Japan. Let me first say, you know, that I've had a lot of contact with my Japanese counterparts, central bank Governor Shirakawa and other people in the Japanese government. We collaborated with them on the foreign exchange intervention, as you know. And we are very admiring of the courage of the Japanese people in responding to these situations and of—the central bank of Japan has done, I think, a good job in providing liquidity and helping to stabilize financial markets in what are very, very significant disturbances to the economy. The

implications for Japan have been discussed at some length, and I think Governor Shirakawa recently talked about them. In the near term, there will probably be a decline in Japanese output, reflecting the destruction, reflecting electricity problems, et cetera. We believe that will be relatively temporary and that the economy will start to come back. But, of course, this is a major blow, and it will take a lot of effort on the part of the Japanese people to restore the economy and to recover from the damage that was done by the—by the tragedy. For the United States, we are looking at this very carefully. Thus far, the main impact of the Japanese situation on the U.S. economy has been through supply chains. We've noted some automobile companies, for example, that have had difficulty getting certain components which are manufactured mostly or entirely in Japan. And that has led a number of companies to announce that they would restrain production for a time. So there may be some moderate effect on—on the U.S. economy. But we expect it to be moderate and to be temporary. Again, the most important issue here is—is the recovery of Japan, and our good wishes go out to the Japanese people and their efforts to overcome the adversity that they're facing.

QUESTION. Mr. Chairman, you have often stressed, as indeed you did again today, the importance of keeping inflation expectations low and stable to keep inflation itself under control. But irrespective of inflationary expectations or psychology, isn't it possible that the Fed's policies could be providing the monetary tinder for inflation the longer they continue?

CHAIRMAN BERNANKE. Well, we—we view our monetary policies as being not that different from ordinary monetary policy. I mean, it's true that we've used some different tools. But those tools are operating through financial conditions, and we have a lot of experience understanding how financial conditions—changes in interest rates, changes in stock prices, and so on—how they affect the economy, including both growth and inflation. So we are monitoring

the state of the economy, watching the evolving outlook. And our intention, as is always the case, is to tighten policy at the appropriate time to ensure that inflation remains well controlled, that we meet that part of our mandate, while doing the best we can to ensure also that we have a stable economy and a sustainable recovery in the labor market. So the problem is the same one that central banks always face, which is choosing the appropriate path of tightening at the appropriate stage of the recovery. It's difficult to get it exactly right, but we have a lot of experience in terms of what are the considerations and the economics that underlie those decisions. So we anticipate that we will tighten at the right time and that we will thereby allow the recovery to continue and allow the economy to return to a more normal configuration, at the same time keeping inflation low and stable.

QUESTION. Hughes Honore, Agence France-Presse. Many of the commercial partners of the United States are very concerned about the evolution of your foreign exchange rate. If in one hypothetical case the dollar would sink to a terrible level which would harm very much the U.S. economy and the prospect for the global economy because it affects the confidence of so many people, would you consider changing your monetary policy in accordance to that threat?

CHAIRMAN BERNANKE. Well, as I said earlier, we do believe that a strong and stable dollar is in the interest of the United States and is in the interest of the global economy. Our view is that the best thing we can do for the dollar is, first, to keep the purchasing power of the dollar strong by keeping inflation low and by creating a stronger economy through—through policies which support the recovery and, therefore, cause more capital inflows to the United States. So those are the kinds of policies I think that in the medium term will create the conditions for an appropriate and healthy level of the dollar. So I don't think I really want to address a hypothetical which I really don't anticipate, because I think that the policies that we are

undertaking, notwithstanding short-term fluctuations, will lead to a strong and stable dollar in the medium term.

QUESTION. Mr. Chairman, Anthony Mason, CBS. This is that rare news conference that actually makes news before it happens. Can you talk a little bit about your decision to take this historic step of holding a news conference after a Fed meeting—why you chose to do it; what anxieties you may have had about doing it; and how, say, facing the media compares to facing Congress.

CHAIRMAN BERNANKE. Thanks, mom [laughing]. Well, the Federal Reserve has been looking for ways to increase its transparency now for many years, and we've made a lot of progress. It used to be that the mystique of central banking was all about not letting anybody know what you were doing. As recently as 1994, the Federal Reserve didn't even tell the public when it changed the target for the federal funds rate. Since then, we have taken a number of steps. A statement, which includes a vote. We have—we produce very detailed minutes which are released only three weeks after the meeting, which is essentially a production lag. We now provide quarterly projections, including long-run objectives as well as near-term outlook. We have substantial means of communicating through speeches, testimony, and the like. And so we have become, I think, a very—a very transparent central bank. That being said, we had a subcommittee headed by the Vice Chair of the Board, Janet Yellen, looking for yet additional steps to take to provide additional transparency and accountability. And the press conference was—came right to the top, because this is an area, first of all, where global central bank practice includes now—many central banks do use press conferences, and we have some experience with them. And, secondly, it does provide a chance for the Chairman, in this case, to provide some additional color and context for both—in this case both the meeting and the projections that are

being made by the Committee. So we thought it was a natural next step. We're not done. We're continuing to look for additional things that we can do to be more transparent and more accountable. But we think this is the right way to go. And I personally have always been a big believer in providing as much information as you can to help the public understand what you're doing, to help the markets understand what you're doing, and to be accountable to the public for what you're doing. Now, of course, the Fed didn't do this for a long time. And I think the counterargument has always been that, if there was a risk, that the Chairman speaking might create unnecessary volatility in financial markets or may not be necessary, given all the other sources of—of information that come out of the Federal Reserve. It was our judgment, after thinking about this for some time, that at this point, the additional benefits from more information, more transparency, meeting the press directly, outweigh some of these—some of these risks. And I think, over time, you know, we'll experiment to try to make sure that this is as effective a venue as possible.

QUESTION. Mr. Chairman, Ken Rogoff and Carmen Reinhart wrote a book looking at 800 years of financial history and discovered that, when you have a financial crisis, it takes a lot longer for the economy to recover. Are people expecting too much from the Federal Reserve in terms of helping the economy recover? And has that complicated your monetary policymaking?

CHAIRMAN BERNANKE. Well, let me just say, first, that Ken Rogoff was a graduate school classmate of mine, so I've known him for a long time. I've even played chess against him, which was a big mistake. And I enjoyed that book very much. I thought it was very informative. And as you say, it makes a point that, as an historical matter, that recoveries following financial crises tend to be relatively slow. Now, what the book didn't really do, though, was given a full explanation of why that's the case. Certainly, part of it has to do with

the problems in credit markets, and my own research when I was in academia focused a great deal on the effects of problems in credit markets on recoveries. Other aspects would include the effects of credit problems on areas like housing and so on. And we're seeing all that, of course, in our economy. But that said, another possible explanation for the slow recovery from financial crises might be that policy responses were not adequate, that they—that the recapitalization of the banking system, the restoration of credit flows, and monetary and fiscal policies were not sufficient to get—to get as quick a recovery as might otherwise have been possible. And so, you know, we haven't allowed that historical fact to dissuade us from doing all we can to support a strong recovery. That being said, it is a relatively slow recovery, and you can identify reasons for that. Credit factors are one. Another very important factor is that, you know, this was triggered by a bubble in the housing market, and the housing market remains very weak. And under normal circumstances, construction, both residential and nonresidential, would be a big part of the recovery process. And so there are a number of factors, and now we're seeing high oil prices and other things. There are a number of factors which are holding—which are holding the recovery back. So there are good reasons for why the recovery is slower than we would like. At the same time, it's very hard to blame the American public for being impatient. Conditions are far from where they—where we would like them to be. The combination of high unemployment, high gas prices, and high foreclosure rates is a terrible combination. A lot of people are having a very tough time. So I can certainly understand why people are impatient. And I guess the only thing I can say is that, while the recovery process looks likely to continue to be a relatively moderate one compared to the depth of the—of the recession, I do think that the pace will pick up over time. And I am very confident that, in the long run, that the U.S. will return to being the most productive—one of the fastest growing and dynamic economies in the

world. And it hasn't lost any of the basic characteristics that made it the preeminent economy in the world before the crisis, and I think we'll return to that status as we recover.

Thank you very much, and thank you for coming.