July 17, 2020 Hearing: "Former Federal Reserve Chairs On Responding To Our Nation's Economic Crisis"

Questions from Rep. Mark Green (TN-07)

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1. It appears that China is rapidly acquiring distressed companies across the globe to strategically weaken America's national security. Businesses that supply the equipment, systems, and technologies for our military to operate are essential to a strong America. What are your thoughts on building a system to provide government backing to American investors who buy these at-risk companies with national security implications?

ANSWER FROM BEN BERNANKE

For most goods and services, we rely on free markets to determine where and how they are produced. Products and technologies with national security implications are typically an exception to this rule. For example, we do not outsource the production of critical military equipment to other countries.

The usual approaches to dealing with the national security issue are through procurement policies, as when the federal government gives U.S. companies long-term contracts to produce military equipment; competitive research grants to labs and universities to develop critical technologies; rules that limit sensitive exports; and restrictions on foreign investment in the United States, as in the CFIUS process. Those approaches seem like the place to start. I am not familiar with proposals to back American investors who buy at-risk companies and so am reluctant to offer an opinion.

2. In response to my question about how much debt is too much, you said, "Given how low interest rates are around the world…the burden of the debt is not as high as the dollar amount would make you think." It is true that interest rates are at record lows. Yet according to CBO, the fastest growing item in the budget over the next decade will be interest on the debt. Taxpayers paid roughly $400 billion in interest payments in FY2020 alone, and if interest rates rise just one point higher than projected, it will cost an extra $1.9 trillion over ten years.

   I. Do you think that the Fed should keep interest rates artificially low over the long term to avoid interest payments crowding out other government priorities?
   II. If the Fed keeps interests rates low over the long-term, do you think this will have any adverse effects? Why or why not?

ANSWER FROM BEN BERNANKE

(I) No. The Federal Reserve's mandate from Congress is to manage monetary policy to promote stable prices and full employment. Government borrowing costs are not part of the Fed's mandate.

(II) To answer this question, I need to talk about the concept of the neutral interest rate. The neutral interest rate is the level of interest rates at which monetary policy is neither expansionary nor contractionary. Because of factors like the aging of the population, lower inflation rates, and slower productivity growth, the neutral interest rate, both in the United States and around the world, appears to be much lower than in the past. As a consequence, we would expect the general level of interest rates to remain low even when the Fed has fully normalized policy and the economy is at full employment, whenever that occurs. If the Fed were to keep interest rates too low relative to the neutral rate of interest for too long, we would expect adverse effects like too-high inflation and increased risk of financial instability. If, on the other hand, the Fed were to raise rates above the neutral rate too soon or by too much, the economy would grow sluggishly and inflation could fall toward the deflation zone.

3. In 2002 while you were a member of the Federal Reserve Board of Governors, you gave a speech titled *Deflation: Making Sure "It" Doesn't Happen Here.* In it you said, "the U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services." In your response to my question on whether the current money printing would lead to inflation you said, "No. People said it would after 2008. They were wrong then, too." According to the M2 money stock, we have grown the money supply a lot more and a lot faster than after 2008. Have you changed your position since 2002? Why or why not?

ANSWER FROM BEN BERNANKE

There are circumstances in which excessive money growth can be inflationary, of course. However, I do not think current easy money policies in the United States will lead to inflation, for two reasons. First, with short-term interest rates near zero, the demand for money is high (in particular, banks willingly hold high levels of reserves), so the velocity of money is low. Second, with the economy in deep recession, with lots of unused capacity in terms of both capital and workers, there is little upward pressure on prices. The same factors led to disinflation after the 2007-2009 crisis, despite rapid growth in bank reserves.

4. American consumers and businesses have record debt in part due to the Fed's low interest rates and previous Administration programs which encouraged excessive borrowing. Do you believe there is any chance that the Federal Reserve could enact negative interest rates in the next year or two? Is this something you would advise? Why or why not?

ANSWER FROM BEN BERNANKE
The Federal Reserve has been quite clear that they do not see negative rates as a particularly useful tool, so I do not expect them to use negative rates in the next year or two. Personally, I think negative rates can be beneficial in some circumstances, so I would not rule them out in all scenarios. However, I do not advocate that the Fed employ this tool in the near term.