

Fed chairman Jerome Powell just revealed what he fears most

AFR, Jacob Greber, Updated Mar 11, 2019 — 11.34am, first published at 10.47am

Washington | US Federal Reserve chairman Jerome Powell has revealed that his greatest concern, 10 years on from the global financial meltdown, is the risk of a cyber attack taking down the world banking system.

In a unusual pre-recorded interview with prime-time CBS's 60 Minutes program, Mr Powell also suggested that America's opioid crisis is wiping out a generation of younger workers and artificially suppressing the country's labour force participation rate compared with other advanced economies. While he reiterated the Fed current stance that it will be "patient" on its next official interest rate move, Mr Powell revealed that even though the central bank, which is also America's chief financial regulator, devotes a lot of time and resources to protect financial markets, it may not be enough.

Jerome Powell: "Cyber is a relatively new kind of risk, with nation state actors and it's now where the playbook is still being developed in real time." Andrew Harrer

"For cyber risk, I've never felt a time when I think 'we're doing enough'," he said in the interview, which was broadcast late on Sunday [Monday AEDT]. "For the risks that we face, that certainly is the largest one." "The kinds of risks we faced in the financial crisis are very real, but we know, I think generally, what to do there.

"Cyber is a relatively new kind of risk, with nation state actors and it's now where the playbook is still being developed in real time."

On the more conventional issue of monetary policy, Mr Powell repeated the central bank's stance that it doesn't "feel any hurry to change" interest rates, after four hikes in 2018. "We see the economy as in a good place," he said. "Inflation is muted and our policy rate we think is in an appropriate place."

He said that over the past 90 days or so there has been growing evidence of a global slowdown. "The principle risks to our economy now seem to be coming from slower growth in China and Europe, and also risk-events such as Brexit," he said.

Mr Powell's decision to agree to a rare edited primetime TV current affairs show appeared aimed at reasserting the Fed's independence, which has come

into question following a barrage of attacks last year by President Donald Trump. Mr Trump has described policy as too tight and accused the Fed of going "crazy".

In a program in which he appeared at one point beside his two immediate predecessors, Janet Yellen and Ben Bernanke, Mr Powell gingerly handled questions about whether Mr Trump over-stepped the mark.

The chairman noted that his duty is one that Congress has given the central bank - of using its tools to achieve maximum employment and stable prices. Asked whether he could be fired by Mr Trump, Mr Powell said no. "The law is clear that I have a four-year term and I intend to serve it," he said.

He also noted that the Fed's decisions can't be reversed by any other arm of government. Asked whether the US economy could generate annual gross domestic product growth of 4 per cent a year - something Mr Trump has pledged to deliver - Mr Powell warned that such a rate was unlikely to be sustainable given America's current rates of population and labour force growth.

He noted that when the US economy used to generate rates of growth between 4 per cent and 5 per cent in the 1950s and 60s, the labour force was expanding at 3 per cent a year. That's almost three times today's rate.

"We have an older population now," he said. "Our labour force is growing more slowly . . . so it's not likely that we could sustain the kinds of growth rates that we had when population and the labour force were growing more quickly."

Mr Powell listed a series of reasons why America's participation rate is now lower than almost every other country. They included "evolving technology" that requires higher skill sets among workers; the fact that US "education attainment has not moved up as rapidly as it has in other countries"; globalisation and; even the opioid crisis that has affected "millions of people".

"They tend to be young males. It's a very significant problem and it's part of a larger picture," Mr Powell said. "When you have people who are not taking part in the economic life of the country in a meaningful way, who don't have the skills and aptitudes to play a role or who are not doing so because they're addicted to drugs or in jail, then in a sense they are being left behind."