William C Dudley: Opening remarks at the Transatlantic Economy – Convergence or Divergence Conference

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Transatlantic Economy: Convergence or Divergence Conference, Federal Reserve Bank of New York, New York City, 18 April 2016.

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It is my pleasure to welcome you to today's conference. Over the past decade, the New York Fed has been working together with the European Commission and the Centre for Economic Policy Research in sponsoring a number of conferences on interdependencies and policy challenges on both sides of the Atlantic Ocean. Today, as in the past, we have a great program with many distinguished speakers from academia, and the private and public sectors. In particular, I would highlight the keynote speech following lunch by Pierre Moscovici, European Commissioner for Economic and Financial Affairs, Taxation and Customs.

As the two largest economies in the world, the United States and the European Union have a shared stake in the vitality of the global economy. Without growth in both our regions, the global economy will not prosper and we will not be able to provide the conditions to enable our citizens to fulfill their aspirations. Both the United States and Europe suffered large social and economic costs from the financial crisis and the deep recession that followed. We continue to take steps to minimize the risks that we will ever find ourselves in that situation again. In many respects, the United States and Europe face similar challenges and have similar goals.

Today I want to focus on some of the challenges.

On the regulatory side, there is considerable good news. In particular, substantial progress has been made in strengthening the global banking system. Capital and liquidity standards for internationally active banks have been raised significantly. This should reduce the risk of failure for these banks. Also, the financial system is being made more resilient and robust. For example, the global set of principles for financial market infrastructures has been updated and strengthened.

Moreover, some steps have been taken to better deal with the failure of systemically important financial firms on a cross-border basis. Key attributes for resolution regimes have been promulgated by the Financial Stability Board. Efforts are underway to improve how we can work together in a coordinated way on a global basis.

But more needs to be done. The impediments to an orderly cross-border resolution still need to be fully identified and dismantled. This is necessary to solve the so-called "too big to fail" problem. Also, cross-border regulatory cooperation needs to be further enhanced. This includes greater exchange of confidential supervisory information so that national regulators can be fully informed about the conditions of the banks that operate within their borders. It also requires efforts to ensure a level playing field across jurisdictions so that the focus is on promoting safety and soundness rather than on trying to protect, favor, or shield national champions.

On the macroeconomic side, the news for the United States is mostly favorable. Labor market conditions have significantly improved over the past few years and unemployment is now around 5 percent. The household sector is much less leveraged, the housing sector is recovering, the banking system is much healthier, and the corporate sector is highly profitable, even as business fixed investment spending remains quite weak. Although inflation has fallen short of our objective, I am confident that inflation will return to our 2 percent objective over the next few years as the labor market tightens further and the transitory factors that have held inflation down dissipate. After years at the effective lower bound for short-term interest rates, economic conditions have finally warranted the start of U.S. monetary policy normalization. But these monetary policy adjustments are likely to be gradual and cautious, as we continue to face significant uncertainties and the headwinds to growth from the financial crisis have not fully abated.

For Europe, the economic outlook has started to improve. The European Union is experiencing a cyclical recovery and the unemployment rate has been steadily declining over the past two years. The end of fiscal tightening appears to be a key factor in this recovery. Risks of low inflation, however, remain a concern for the European Central Bank and have motivated their aggressive use of unconventional monetary policy instruments.

Today's conference touches on a range of interesting questions concerning both regions:

- Are there policy strategies that can ensure that the global economy will escape from this very long period of very low inflation and very low real interest rates?
- Is there scope for fiscal policy to take on some of the burden of ending this period of persistently low inflation and low interest rates?
- Are we now in a period of secular stagnation or are we in the midst of a deleveraging process that will gradually dissipate?
- Why has investment spending failed to respond to the low level of interest rates?
- What do we believe are the factors underlying the recent slowdown in productivity growth globally?
- Is a banking union with a common deposit guarantee scheme achievable in Europe?
- Are there opportunities for further regulatory and supervisory convergence between the United States and Europe?

I would like to thank the participants for addressing these and other questions during today's three panels, and I look forward to insightful discussion over the course of the day.

It is now my pleasure to introduce the European Union Ambassador to the United States, His Excellency David O'Sullivan. The ambassador is extraordinarily well-versed to speak on the issues of interdependence and the policy challenges we face. Welcome, Ambassador O'Sullivan.