

**GENERAL DISCUSSION**  
**Advanced Economy Monetary Policy  
and Emerging Market Economies**

**Mr. Kashyap:** Can you share any of your thinking about where you think risk-on, risk-off investor behavior comes from and to what extent Fed communications have anything to do with that?

**Mr. Powell:** Well, as you know, there's a good bit of recent research that suggests that monetary policy, including Fed communications, may play some role in this activity. But clearly other factors—such as developments abroad, particularly in Europe over the period I showed in that chart—have been very important in driving risk-on, risk-off activity, probably more importantly than monetary policy signals.

**Mr. McKinnon:** I enjoyed your talk very much. I like your charts. But there was a missing chart on commodity prices. After about 2008, when the Fed reduced the interest rate to zero, and in 2002, when it reduced the rate to 1 percent, there were huge outflows of hot money. As you mentioned, emerging markets tend to lose monetary control during these periods. They intervened to prevent their currencies from appreciating, lost control of their money supplies, and collectively inflated. This inflation shows up in primary commodity prices. We had a big primary commodity bubble in 2002 until it crashed in 2008. And then it started up all over when the Fed cut rates again in 2008, and there was another big outflow of hot money. And with the second big outflow there was also a commodity bubble. In 2010 the price of food doubled. I think this is a very serious consequence of zero interest rates in the United States. And the 2010 doubling of food prices explains the Arab spring as a food riot.

**Mr. Powell:** So let me offer a couple of comments. First, I think that capital flows are volatile, always and everywhere for everybody. The point for emerging market economies is the need to strengthen their institutional structures by a range of policy actions, including floating exchange rates, better fiscal outcomes, more credible central banking, better regulations in the financial markets, and perhaps more openness to two-way flows from domestic investors. You're always going to have volatile flows. It's very important that some emerging market economies have followed this path, because they got better outcomes.

On commodity prices, I just don't agree with you. I think there's more evidence that commodity prices were driven by other macro factors as opposed to monetary policy, particularly the rise of China and the growth of China and developing Asia.

How do we account for commodity prices falling in the last couple of years, when there's been a lot of monetary policy accommodation? But thank you for your question.

**Mr. Wolf:** I'm very sympathetic to your view. But I'll ask the question in a slightly different way. Effectively, most everybody outside the United States thinks the Fed sets monetary policy for the world. You said completely correctly, the Fed's purpose is to set monetary policy for the United States. In what way and under what circumstances do you think a serious conflict arises between the Fed fulfilling its mandate and what a central bank that is actually running monetary policy for the world would do?

**Mr. Powell:** That's a good question. The best answer I can give you is that it's reasonable to expect us to be transparent and to move gradually when it is time to withdraw accommodation, and when we begin reducing the pace at which we add accommodation. Also, that we hold to our obligation to only do that as demand strengthens in the United States. Those are the things that we can do and must do and should do. Having said that, we have a domestic mandate. And that is what we have to observe. I'm not going to try to dream up hypotheticals in real time of how that could conflict with global interests. But I'm sure you could. Perhaps you could do that at your lunch presentation. Thanks for your question.