Fed official sees 'muted' economic recovery
During a talk in Lexington, William Dudley said the jobless rate remains too high but sustained growth appears near.

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LEXINGTON -- Both a top executive with the Federal Reserve System and the secretary of the treasury said Thursday that even though the recession-battered national economy is improving, job recovery will continue to lag.

Secretary Timothy Geithner and Fed official William "Bill" Dudley each spoke on the eve of a March jobs report due today from the government.

Dudley, 57, president and CEO of the Federal Reserve Bank of New York, shared his remarks Thursday evening at Washington and Lee University's Stackhouse Theater. Geithner's remarks were broadcast Thursday morning by NBC's "Today" show. Dudley succeeded him at the New York Fed after Geithner moved to the Treasury Department.

The Stackhouse Theater, which has 189 seats, was standing room only. Dudley's audience included, among others, students and faculty from W&L and Virginia Military Institute.

Dudley told the crowd that the nation appears to be "on the verge of seeing sustained growth in employment" but that the jobless rate remains unacceptably high.

"Circumstances have improved considerably from where they were a year ago," he said. "But job creation is still much too slow and we still have much to do on the regulatory side to make our financial system more resilient and robust."

Dudley reviewed the cascading disasters in the housing sector, mortgage lending, "new financial products," rampant speculation and deeply indebted homeowners that helped create the Great Recession.

"Now, with the aid of hindsight, it is pretty clear that we built too many houses, invested in too much commercial real estate and overvalued the price of both significantly," he said.

As for regulatory reform, Dudley said the nation needs to "think hard about what we can do to prevent the type of speculative bubbles that occurred from causing so much damage in the future."

Neither Geithner nor Dudley predicted a specific figure for March's jobless rate. The February rate was 9.7 percent. Some experts believe today's report might show some improvement, in part because of hiring by the U.S. Census Bureau. Others anticipate no change.

On NBC, Geithner said unemployment is likely to "stay unacceptably high for a long period of time." But he noted too that the economy is growing and businesses should begin adding jobs.

Dudley noted some encouraging signs, saying that home prices and commercial real estate prices "appear to be
stabilizing" and "household indebtedness is declining," global trade has rebounded and "both U.S. exports and U.S. manufacturing output have expanded over the past six months."

Still, he cautioned that he believes the recovery "is likely to be quite muted compared to past recoveries." And consumers who might be interested in borrowing money will still encounter tight credit and tougher standards, Dudley said.

And "prospective startup businesses are going to find it difficult to obtain financing," he said.

Dudley spoke for about 40 minutes, straying little from prepared remarks. For an additional 10 minutes he answered questions from the audience; it had been noted in advance that Dudley would not take questions from the media.

Remarks by top officials from the Federal Reserve System can be closely scrutinized by Wall Street, economists, the media and others poised to parse every nuance. This is especially true when the remarks come from Fed Chairman Ben Bernanke, said John Easterwood, an associate professor of finance, insurance and business law at Virginia Tech.

"I think in most circumstances Mr. Bernanke's treatment is unique to the chair of the Fed," Easterwood said. "[Alan] Greenspan and [Paul] Volcker were treated the same way."

Before Thursday's talk, Easterwood said Dudley was unlikely to share any major policy revelations while visiting W&L.

"I expect he gives a dozen or so talks a year of this type," he said.

Nevertheless, news reports about Dudley's speech in Lexington appeared quickly on the Internet Thursday night. Many focused on his remarks about keeping interest rates low for some time.

A few minutes before the lecture began, Dudley and his wife chatted outside the theater. He was willing to entertain a few basic questions.

He said his visit to W&L was motivated by several factors, including previous contact with Mark Rush, a professor of politics and law, as well as the university's proximity to a getaway house he and his wife have in the region.

Dudley added, smiling, "I like to speak at college venues because they're always neutral."