CNBC EXCLUSIVE: CNBC TRANSCRIPT: CNBC'S STEVE LIESMAN SPEAKS WITH WILLIAM DUDLEY, PRESIDENT & CHIEF EXECUTIVE OFFICER OF THE FEDERAL RESERVE BANK OF NEW YORK, TODAY

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Following is the unofficial of a CNBC EXCLUSIVE interview with President & Chief Executive Officer of the Federal Reserve Bank of New York William Dudley today, Thursday, May 24th. Excerpts of the interview will run throughout CNBC's Business Day programming.

All references must be sourced to CNBC.

STEVE LIESMAN: Here with Bill Dudley, president of the New York Fed. Bill, thanks for joining us.

BILL DUDLEY: Great to be here, Steve.

STEVE LIESMAN: I think a good place to start might be with your economic outlook. We've seen-- seems like we've seen a-- slight dip from the stronger numbers in the first quarter. How has your view changed?

BILL DUDLEY: It hasn't really changed very much. As you know, the weather in the winter was extremely mild. And that may have provided a little bit of uplift to the economic news. And now we're seeing the flip side of that. I think we're really going to need to see a couple more months of data to really get a good sense of what the trend is.

If you look at the last four quarters, we've grown 2.1% for real G.D.P. If you look at the Blue Chip forecast for next four quarters, 2.4%. Our forecast is pretty similar to that --- just a very gradual acceleration in the growth outlook, which is, really, frankly, pretty disappointing.

STEVE LIESMAN: When you look at-- I want to come back to that disappointing-- disappointment that you have. But when you look at the jobs numbers which were 200,000 and north of 200,000, how much of that do you feel was related to the warm weather?

BILL DUDLEY: Hard to know for sure, because obviously, we haven't had weather that warm before. January, February, March were the warmest three months together in the history of the United States going back to 19th century. So it's hard to know how much of a payback we're going to get. So that's why we really do need to see several more months. I think that if you look at the trend over a little longer time period, like, look at six months, the moving average of

payroll employment, what you do see is things actually have accelerated a bit, which is a good thing.

STEVE LIESMAN: We talked about the decline in the unemployment rate. Is that also weather related? There were also some comments that maybe was a catch-up from some of the underemployment decline last year.

BILL DUDLEY: Well, I think there are two things going on. One, labor participation rates have actually dropped and so people aren't looking for work. And so they're not captured as part of the labor pool. And so that's actually contributing to the decline in the unemployment rate.

And the second thing going on is it looks like businesses are hiring workers. Their productivity is-- isn't as good as it was back in-- 2008 and 2009, when they were actually supporting productivity by laying off workers. So we're seeing the flip side of that. I would say that if you look at what we have right now in the U.S. economy, there's a little bit of a conundrum. G.D.P. growth actually implies slower payroll growth than what we're seeing. So maybe G.D.P. growth gets revised up. Or maybe payroll growth slows. And we're not really sure how that conundrum's going to resolve, frankly.

STEVE LIESMAN: Where would you put your money on how that gets resolved?

BILL DUDLEY: Well, I think we'll probably split the difference. I think G.D.P. growth will probably pick up a little bit as we go forward. Because the economy, I think, generally is healing, but very slowly. Credit availability is gradually improving. The housing sector, which is still very weak, which still has a lot of difficulties, looks like it's bottoming. Households, while they're still probably some of them are still deleveraging and having trouble getting access to credit.

The deleveraging process, by at least some measures, looks pretty well-advanced. For example, if you look at household debt service to disposable income, it's back at the levels in the early 1990s, which means just maybe the deleveraging process is pretty close to the end.

STEVE LIESMAN: When we talked about the disappointment-- 2.4%, where would you like to see G.D.P.? What's the right number for-- given how much we fell, what would be the right kind of expansion you'd be looking for? And given where Fed policy is right now?

BILL DUDLEY: Well, I'd like to see growth quite a bit stronger than that. I mean, I'd like to see, payroll gains, in the 300,000 a month for a while. Now we have quite a bit of slack in the economy right now. If you look at the unemployment rate, 8.1%, and then you add on top of that the fact that the labor participation rates are unusually low, yeah, I think we could see, payroll gains of 300,000 a month for, a year or more without being at all worried about it. Viewing it as actually a very, very positive thing.

STEVE LIESMAN: I want to just go back to the unemployment. Are the best parts of the decline, the rapid decline we had in unemployment, from ten to, say, 8.1, in your view, are those behind us?

BILL DUDLEY: It's hard to say. I mean, obviously, I think it really depends on the growth rate. You know, what's happening to demand? How does that generate real G.D.P. growth going forward? If we get sturdy G.D.P. growth, that will filter back to stronger employment. If things go well, we could actually get a virtuous circle going, more employment, more income, more consumption, then that would lead back to more employment.

STEVE LIESMAN: So given that you'd like to see 300,000-- jobs added a month, given that you'd like to see stronger G.D.P., the question becomes, in your opinion, is the Fed doing enough?

BILL DUDLEY: Well, I think it's a legitimate question. I mean, I think that we're heading in the direction that we want to head. But not at the pace that we want to get there. And so it does raise a legitimate question about whether the Fed can do more. But we are at the zero lower bound. And further tools have not just benefits but also costs. And we have to sort of weigh those costs versus those benefits of further action.

So my view is that, if we continue to see improvement in the economy, in terms of using up the slack in available resources, then I think it's hard to argue that we absolutely must do something more in terms of the monetary policy front. But if the economy were to slow, if employment gains were to falter, if inflation were to turn down-- if downside risks from, say, Europe or the U.S. fiscal cliff were to really intensify, then I think you'd absolutely have to consider further monetary policy moves.

STEVE LIESMAN: I feel like, Bill, that's a change for you from the last year. I feel like last year you were more in the camp of saying, "You know what? If we're going to do this slow growth thing, this 2% to two and a half percent growth, and have these meager payroll growth numbers that the Fed absolutely needs to do more." Have you changed your view of whether or not the Fed should act, even if the current forecast ends up-- being correct?

BILL DUDLEY: I think what's changed for me, Steve, is that I'm a little bit more confident that the economy's going to keep growing. I'm a little bit less worried about, a Japanese-style deflation outcome. And that was really the reason that, for me personally, motivated the need for further monetary policy action. You know, getting into debt deflation dynamics would be absolutely horrible, because it'd be very hard to get out.

I don't think that's a real concern right now. Inflation on a year over year basis, if you look at personal consumption, expenditures running about 2%. If you look at inflation expectations, they're about in the middle of the range that they've been in, around two and a half percent. So it looks like we've sort of avoided that problem, at least for now. Now if that were to come back and there really was a risk of a Japanese-style liquidity trap, then absolutely in my mind, monetary policy action would be back on the table.

STEVE LIESMAN: So the $100 billion question or whatever number you'd put on it is you're about to end a program, Operation Twist. The market has typically not reacted well and doesn't

seem to be reacting well to it right now. Are you content to see Twist end without another program in place?

BILL DUDLEY: I think it really is going to depend on where we are once we get further down the road. I wouldn't prejudge whether we're done or whether we're going to need to do more. It depends on what happens in the economy and what we see in terms of the economic information. I think the one thing that we can say on the positive side is that when we ended past programs, in terms of balance sheet, in terms of buying treasuries or buying mortgage-backed securities, there was no big consequence. From our perspective, we think that our balance sheet actions are about the stock of assets that we hold. Not the flow of assets that we purchase. So if we stop purchasing, we don't think that's going to have a big effect on the markets or on interest rates.

STEVE LIESMAN: You only have a month, though, to decide, right? I mean-- the way we're going right now, we will-- the Federal Reserve is scheduled to end the program without one in place. Is it still something that's on the table to be discussed, whether or not to continue Twist or do something else in its place? Or would you say that you're content with the status quo right now, which is that Twist ends and no program takes its place.

BILL DUDLEY: I wouldn't want to prejudge it. That really depends; that's what the meeting is for, is to have a discussion about where do things stand? How does the economy look? What are the downside risks? What's the inflation outlook? We have to take it all together as a package and decide, given all that we know, at the meeting, what are the benefits or costs of future additional policy action?

STEVE LIESMAN: So not to denigrate previous meetings, but June is shaping up as something that's relatively important then, in terms of--

BILL DUDLEY: Well, I mean, the best outcome would be the economy looks good, downside risks diminish, inflation is stable. You know, if that were the case, I would presume that we would keep policy on hold.

STEVE LIESMAN: Let's talk about some of the headwinds that are out there right now. Europe has to be top of the list there. Do you feel like there's more Europe can and should be doing right now to fix its own financial situation?

BILL DUDLEY: Well, I think we all would like to see the situation resolved in as rapid and as timely a fashion as possible. But it's very difficult. You have 17 different countries trying to work towards greater fiscal integration, greater economic integration. And that's obviously very, very difficult. So I think-- the thing I have to say on the positive side is I think that European leadership is very committed to European Union.

And I think they've actually made progress, in terms of putting in a fiscal pact, in terms of fiscal austerity, get the budgets on the right trajectory. I think the L.T.R.O.'s that the European Central Bank did were very, very important in sort of quieting down the anxiety about the bank's ability to get funding. But, as we've seen over the last couple years, there's a huge political coordination problem that makes this, frankly, difficult.

STEVE LIESMAN: How much concern does Europe give you, in terms of the U.S. economy? Is it something that you feel could derail the recovery? And how would it do that?

BILL DUDLEY: Well, I mean, I think there's two aspects of Europe that you'd have to consider. One is European growth is very, very weak. And so that's part of the landscape right now. Europe G.D.P. is basically stagnant. And so that has consequences for the demand of Europe for our goods and services. And so that does put a bit of a governor on how fast we can grow.

The second issue, of course, is financial. If Europe were to evolve in a very bad direction, in terms of the integration of Europe, the confidence of the investor community in that integration story, then financial markets could get very unsettled. And that would be another source of contagion back to the United States.

STEVE LIESMAN: How leveraged are U.S. banks right now to the situation in Europe? Have they done a good job, do you feel, of limiting that leverage? And what about money markets, which we consistently hear still remain involved in doing short-term financing over there.

BILL DUDLEY: Well, I think the U.S. banks-- the thing I would say is, one, they have a lot more capital than they had a few years ago, a lot more liquidity, a lot cleaner balance sheets…very little exposure to peripheral Europe. But of course, if the situation in Europe got bad enough and broad enough that there would be consequences back to the U.S. banking system. But, you know, all we can do is make sure that the U.S. banking system is in a situation where it has capital and liquidity resources, so they can handle significant shocks.

STEVE LIESMAN: A big discussion right now about-- there's a couple discussions about U.S. banks right now. There's been a lot of talk about whether or not the big banks should be broken up. Where do you come down in that debate?

BILL DUDLEY: I think it's pretty obvious that we definitely want to eliminate any doubt about this too big to fail issue. And basically, I think we can do that in sort of two ways. One, force large, systemically important financial institutions to hold more capital, have larger liquidity buffers to reduce the probability of their failure to a very, very low level.

And number two, work on the resolution side. So if they actually were to get into difficulty, they could actually be allowed to fail. Now obviously, a third option is to try to try to break up these banking entities. But I think that's, a little bit more difficult than what the proponents argue. They just want to break them up.

So how do you do it? And if you were to do it, would you actually have financial institutions that could serve global multinational corporations that are doing business around the world? So not as if these institutions don't actually satisfy a real need.

STEVE LIESMAN: It doesn't sound like breaking up the big banks is your preferred solution to the too-big-to-fail problem.

BILL DUDLEY: Well, I'm completely open to it, if someone can articulate how would it actually work in practice, as opposed to a magic wand just breaking up the big banks.

STEVE LIESMAN: One of the things that's out there is the Volcker Rule, which is a way ostensibly of limiting the exposure of banks or the ability of banks to get in trouble. Where do you come down on the Volcker Rule? Do you think banks should be prohibited from proprietary trading? And how far do you take that proprietary trading? With something like macro-hedging, is that something that should be prohibited?

BILL DUDLEY: As you know, the Dodd-Frank Act establishes the Volcker Rule. That's a law. And we're going to enforce the law of the land, as it stands. I think, the complication of the Volcker Rule is we know what pure agency trading is. We know what proprietary trading is. But there's a whole bunch of stuff in the middle. And so how the regulations are written, which we're working on, and how they're actually enforced is what's going to be important in terms of carrying this forward.

STEVE LIESMAN: But as a regulator of some of the bigger banks, are you concerned that A) they could be forced through the Volcker Rule to take on too much risk or not be able to hedge that risk?

BILL DUDLEY: We're still working on the writing of the regulation. So I think it's really too soon to prejudge exactly, what the rule will accomplish or not accomplish.

STEVE LIESMAN: Obviously, J.P. Morgan is big and in the news. And I think there's at least a few questions surrounding it. I'll try a few that-- see what you can answer here. I know you're a regulator there and have certain prohibitions. I think one of the questions out there is it something the New York Fed missed? And secondly-- is there something that we learned from what happened with J.P. Morgan-- about the state of the financial system right now?

BILL DUDLEY: Well, I think it's very important, Steve, to stress what supervision can and can't accomplish. You have to be realistic about what supervision can actually do. I think what supervision is, is about ensuring that banks have sufficient capital and liquidity to handle large shocks. It's about ensuring that they have appropriate governance, controls, and risk management systems in place.

And when weaknesses are uncovered, through time, that we work to help ensure that the banks get to the right place. It's not to prevent the banks from making mistakes, in any dimension. Banks are going to make mistakes from time to time. Our job is to ensure that the banks can survive stress events and that the financial system can continue unfettered offering credit to households and businesses.

STEVE LIESMAN: And what about the idea of other lessons from J.P. Morgan?

BILL DUDLEY: There may be. I mean, we're going to look at it very closely to see, exactly what's happened there. That's obviously part of the supervisory process.

STEVE LIESMAN: Move on to just another financial and then I want to come back to monetary policy. You guys have been slowly, sometimes fast and sometimes slow, selling off assets of Maiden Lane? What's the objective here? Is the objective to buy a certain amount of time to get rid of these assets, to hold onto them? Is there a policy in place that you can articulate regarding the assets of Maiden Lane, which obviously come from A.I.G. and Bear Sterns?

BILL DUDLEY: I think you'd agree that the central banks are not normally in a situation of holding these type of assets. So it certainly makes sense to try to return them to the private sector, where people can manage them in a more fulsome way over time.

We don't have a timeline. I mean, we basically want to sell the assets over time. But we want to make sure we get good value for the taxpayer. And we don’t want to disrupt financial markets. And we want all the disbursements to occur in a competitive manner. You know, so, in other words, people can bid for the assets in a fair and open way.

So, if market conditions stay buoyant, I would imagine the demand for the assets will continue to be quite strong and we'll continue to sell assets. But as we saw last year with Maiden Lane II, if market conditions change and become less amenable to people buying riskier assets, then we would pull back. So there's no set timeframe. The important thing to do is to get good value for the taxpayer, not disrupt markets, and make sure that we have fair and competitive options, in terms of the disbursement of the assets.

STEVE LIESMAN: Would you say in five years, Maiden Lane assets are still going to be on the books of the New York Fed?

BILL DUDLEY: I hope not.

STEVE LIESMAN: What about three years?

BILL DUDLEY: I don't have a set timeline. But, if the economy continues to recover, financial markets, are reasonably buoyant, I would expect that we would be out of the Maiden Lane assets in that three-year timeframe. But, the future's uncertain.

STEVE LIESMAN: There's one-- a couple of the headwinds we didn't talk about. A lot of people talking about the "fiscal cliff" that's coming in December-January. How much of a concern is that for you?

BILL DUDLEY: It's a big concern. I mean, it's a big concern for-- one, if we do nothing, fiscal contraction of more than 3% of G.D.P. starts on January 1st, 2013. That would be a huge shock to an economy that isn't that strong yet. Number two, the uncertainty about how it's going to be resolved could actually affect economic conditions prior to that. Businesses might be more reluctant to hire, more reluctant to invest, because of uncertainty about how the fiscal cliff is going to be resolved. So I think it's negative both now, in terms of uncertainty, and potentially later, because it could be resolved in a way that's not good for the economy.

STEVE LIESMAN: What would you like to see the fiscal authorities do right now?

BILL DUDLEY: I think we've been very clear about what we'd like. We want a long-term program of fiscal consolidation that starts slowly and builds over time. We want it to be credible, so that people feel that when the program's been enacted that it will have bipartisan political support so it can be sustained over the longer term.

STEVE LIESMAN: Do you feel like too much of the burden of stimulating this economy is on the Federal Reserve and not enough has been carried by the fiscal side?

BILL DUDLEY: I don't have a view on that. I mean, we're going to do what we can do to best achieve the dual mandate of maximum employment in the context of price stability. That's our job. And it's for others to decide what they can do to make the economy perform better, relative to what we can accomplish just through monetary policy.

I think it's fair to say monetary policy can't do it all. And so there's certainly things that the government can do. For example, resolving the fiscal cliff-- coming to some sort of agreement on a package of fiscal consolidation over time. That would be very, very helpful, I think.

STEVE LIESMAN: You're going to give a speech about policy rules. Why is the Fed these days talking so much about policy rules? If you can explain that to investors and to the general public, why is that significant? Why is there a discussion among members of the Fed? And how does that impact-- I mean, what are your views about the use of these policy rules?

BILL DUDLEY: Well, I think the first thing that's important is it's very important for people to understand how the Federal Reserve is likely to act as the economic environment changes. Because if people can anticipate our actions, that makes monetary policy more effective in achieving our objectives of full employment and price stability over time.

So part of this the speech and other communications that we've had is to be clear about what's our framework for doing monetary policy. So in January, we published a framework that basically said we endorse the 2% inflation objective for the personal consumption and expenditure deflator and that we have a balanced approach, in terms of achieving our dual mandate. And I think the speech that I'm going to give is really about, how do you use rules in that context? What are the value of rules? And how far can you push rules to rely on as a guide to policy?

STEVE LIESMAN: Are you talking about rules that would replace, for example, the guidance on the calendar date in the policy statement?

BILL DUDLEY: I'm talking more about rules that look at inflation and the size of the output gap and from that suggest this is how one should actually set monetary policy. My view is that rules are useful guides. But I would be very hesitant to apply them mechanically.

STEVE LIESMAN: There was Charlie Evans from Chicago who talked about this idea of having unemployment and inflation guideposts that would if not put policy on automatic, it would certainly be something the market could begin to anticipate. How do you feel about that-- idea?

BILL DUDLEY: We have those guidelines already. They were expected, currently anticipated to keep short-term rates exceptionally low through late 2014. And so the question is, "Well, what's late 2014 rest on?" Implicitly, there's got to be some sort of set of economic conditions in our mind that drives that date. And I think President Evans is correct. It would be nice to be able to articulate a small set of indicators that are consistent with late 2014. But we have now-- we did have 17 members of the committee, we're now going to have 19 members of the committee. And so getting agreement of the committee on what those parameter values would precisely be, I think, is challenging.

STEVE LIESMAN: Do you like this guidance, the calendar date guidance? Is there something that troubles you, in terms of how the Fed is communicating to markets?

BILL DUDLEY: I don't think it really troubles me. I think it's actually been effective communicating how we think policy is likely to evolve, given our forecast. I do think it would be nice if we could give more substance to what's the basis for late 2014?

STEVE LIESMAN: Is that something you'd like to publish and make known to the public?

BILL DUDLEY: I think it's certainly an aspirational goal for policy.

STEVE LIESMAN: Let's talk about some of the criticism of the Federal Reserve. Among them that you're out there in such size in the markets that you have really made it so that the price information coming from the bond market is not real. And also given people concern about making investments down the road, because once the Fed comes out, there'll be a whole different reality when it comes to what the interest rate structure is in the market.

BILL DUDLEY: We're very attentive to our role in the market and not being so big in the market that we disrupt market function and market pricing. That's something we're very sensitive about. Now it's certainly true that our actions do have an effect on long-term interest rates through our interventions. But it's also true the federal funds rate that we choose also has an effect on long-term interest rates. So I'm not sure that it's that meaningful of a distinction.

STEVE LIESMAN: And yet, while the market while the market has become increasingly convinced that the Fed was not going to do additional easing or accommodation, interest rates have fallen. What do you make of that? That as the Fed has come out of the market, you've gotten closer to the thing you're trying to do with your actual policies?

BILL DUDLEY: It is a little bit surprising how much ten-year treasury note yields have fallen over the last six months, because economically it's been okay, and you've actually seen the treasury yields come down. And it's hard to really put your finger on what's really driving that.

What seems to be happening is market participants seem to be revising their view about what's going to happen to the level of short-term interest rates over the longer term. If you look at real rates looking out five, ten years, they're very depressed. So the market is saying, "Not only do we think short-term rates are going to be low today, in inflation-adjusted terms, but they're also going to stay low in the future." So there seems to be some revision of expectations about the long-run course of monetary policy.

STEVE LIESMAN: Do you feel like you're trying to have it a little bit of both ways, in that part of your policy is designed to combat deflation, which would raise interest rates? And part of your policy is designed to bring interest rates down? You can't really have it both ways with the same policy--

BILL DUDLEY: Well, I think--

STEVE LIESMAN: --can you?

BILL DUDLEY: --I think we're sort of getting what we want, which is inflation expectation's anchored, nominal interest rates low, real rates very low. You know, that's essentially the transmission mechanisms of monetary policy. Very low inflation, adjusted interest rates. So I think we're actually getting what we want.

STEVE LIESMAN: If you had the ability to put a negative interest rate out there, what would your number be?

BILL DUDLEY: I'd have to long and hard about that. I haven't spent a lot of time on that, since that's not very practical.

STEVE LIESMAN: How much effect do you feel like your policies have had on the ten-year? The ten-year is 1.70. How much of that is Fed policy?

BILL DUDLEY: It's hard to say exactly. Because, you have our actions. You look at how the markets behaved. We have models-- that try to estimate-- the term premium, the difference between ten-year Treasury yields and the expected federal funds rate, for example. And we would guess, roughly speaking, that our policy actions have maybe pushed down ten-year treasury note yields by maybe 50 basis points, about a half a percent or so.

STEVE LIESMAN: How effective is policy under the current environment right now?

BILL DUDLEY: Well, I think we're having a positive effect on economic activity, but not as positive as you-- as would normally be the case. If you think about monetary policy, monetary policy works in sort of two steps. One, monetary policy affects financial conditions. And then financial conditions affect real economic activity.

I would say we have headwinds on both steps right now. Even though monetary policy is-- exceptionally accommodative by historical standards, it doesn't look like financial conditions are unusually easy. If you look at the stock market valuation, it looks pretty-- average. Obviously,

real rates are low. But if you look at credit spreads, not as narrow as they were in 2005-2006, but not as wide as in 2008-2009.

So I think that financial conditions, broadly defined to me, look pretty neutral. So we're not getting that much power for monetary policy to financial conditions. And second, that second link, financial conditions to the real economy is also somewhat impaired. The best example of that, of course, is the housing sector, despite very, very low mortgage rates-- that's not providing as much stimulus to housing as it has historically. Because of tightened underwriting standards. People have to have very high FICO scores to be able to qualify for new mortgages. Obviously, the foreclosure pipeline in housing is depressing housing prices. So we're not getting as much power from monetary policy as we have had, historically.

STEVE LIESMAN: Need to come back to the top of the interview, which is, so does that mean you need to press harder on the accelerator?

BILL DUDLEY: Like I said, Steve, it's about cost and benefits. I think if we had policy tools and had very little cost, lots of benefits, then of course. But we're in a period where we are at the lower bound. We've expanded our balance sheet a lot over the last few years. And additional actions do have costs, and so we have to weight them relative to the benefits.

STEVE LIESMAN: What are the costs you're most worried about?

BILL DUDLEY: Well, I think there's two sort of sets of costs. One set of cost is the extent we expand our balance sheet or we sell short-dated treasury securities and buy long-dated treasury securities, we have more risk, in terms of our portfolio, interest rate risks, in terms of our portfolio.

The second issue, of course, is if we expand our balance sheet, we could create anxiety among some people that this might actually sow the seeds for future inflation. I don't think expansion of the balance sheet, in any way, compromises the Fed's ability to keep inflation in check over the longer term. But it doesn't matter just what I think. If people in the market think that expansion of the balance sheet could cause future inflation, we have to take those expectations into consideration as a potential cost of monetary policy.

STEVE LIESMAN: There's an election coming up, as you may know. Some people theorize that this is something that could stay the Fed's hand, that the Fed would not want to conduct policy or major policy in the midst of a big election campaign. How do you respond to that?

BILL DUDLEY: I completely disagree with that. I think if you look at the historical record, the Fed does what the Fed is supposed to do to try to achieve its dual objectives. Completely apolitical relative to the election cycles. And I would completely expect us to be that way this year.

STEVE LIESMAN: Same question, though, about the political climate. The Fed has been unusually the butt of a lot of criticism. Ron Paul wants to end the Fed. Some people say it's been

acting to decrease the value of the dollar, made things worse for savers. How do you respond to that political criticism that's been out there?

BILL DUDLEY: Well, we've had a very tough economic environment. And monetary policy is in an unusual setting. Interest rates are extraordinarily low, for good reason, because we're trying hard to generate economic recovery. The sooner we get a strong economic recovery, the sooner we can normalize interest rates. And-- that'll be a good thing for---- everybody.

I think that events of the last four, five years have been extraordinary. And we've done things that are unusual in response. I think that we've done what's completely consistent, though, within our dual mandate. And, on the inflation side, for all the anxiety about our actions causing future inflation, let's look at the actual record.

Inflation on the person consumption expenditure, which is the indicator that we target, is running roughly 2% on a year-over-year basis. And if you look at longer-term inflation expectations, they haven't budged at all. They're still very much well contained. So I think our track record on inflation has been, actually, very, very good.

STEVE LIESMAN: But some people will say, "You know, the stuff that we buy, food and---- energy are all much higher. So my cost of living is higher. The dollar has-- to an extent depreciated. So in terms of my value of my earnings versus-- those abroad have gone down. My standard of living's declining."

BILL DUDLEY: Look, look, look, I think, when gasoline prices especially are going up, I mean-- I think it's hard on everybody. And-- the good news, though, is some of these trends that we've seen on prices going up now are-- reversing. If you look at what's happening, for example, in gasoline prices, it looks like they're falling. And it looks like they have considerably further to go.

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