Fed should focus on winning over public

Central bank should embark on an intensive educational campaign across the US

by Mark Sobel in Washington

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Lunchtime pizzas at the US central bank will be far less tasty with the withdrawal of the candidacy of Herman Cain, the one-time chief executive of Godfather's Pizza, for the Fed board. The bid by Stephen Moore, economic adviser to President Donald Trump during his 2016 campaign, just met a similar crusty fate.

Regardless, their candidacies underscore that questions surrounding Fed 'independence' have become an elephant in the room. While it would be nice to ascribe these questions solely to one tweeting man, that would be naïve in an age of populism, claims that quantitative easing boosted inequality, and concerns about democratic accountability.

The Fed's review of its 'monetary policy strategy, tools and communication practices' – especially during the forthcoming June conference – offers a wonderful opportunity to study the pachyderm.

The conference will bring together the world's high priests of monetary policy. Markets will be closely watching. While the Fed can always improve its operations, the review does not appear well targeted on the overarching questions of 'independence' and 'accountability' that are now seemingly the Fed's greatest existential threat.

But in buttressing the Fed's ability to carry out its mandate with public backing, how well will such a review play with laypeople? One of the review's central goals should be to win over the public, rather than fascinate high priests and markets.

With that aim, to bolster credibility and legitimacy, the Fed board should embark on an intensive educational campaign across the US to communicate to the public simply and in plain English what the Fed is, can and can't do. Chairman Jerome Powell has commendably begun to do this, but the Fed's efforts to date lack traction.

Nobody can dispute the endless fascination of debating r*, u*, pi* and the slope of the Phillips curve, for example. That said, here are some messages the Fed should do a much better job in communicating to the public.

The Fed is accountable: central bank 'independence' is a term lightly thrown around, but creates a harmful perception the Fed is a moose on the loose. Fed board members, however, are nominated by the president and approved by the Senate. The chair formally testifies twice a year to Congress on the economy and financial system. Congress established the Fed's dual mandate. Within this accountability framework, the Fed does have freedom to use monetary policy instruments – an essential freedom to respond flexibly to fast-paced economic changes – but that is a far cry from blanket 'independence'.

The Fed is succeeding; other central banks are flailing. It is fulfilling its mandate with inflation around or slight below 2% and unemployment under 4%. This success is being achieved when the European Central Bank and Bank of Japan have long undershot their inflation targets.

The Fed should acknowledge it has key responsibilities for US financial stability, and that while it failed to perform its job well before the 2008 financial crisis, the US banking system's health is now strong. The Fed's new 'Financial Stability Report' is a welcome, transparent public communication tool.

Monetary policy is limited in what it can deliver. The Fed should dispel public perceptions that it alone can deliver all desired economic outcomes, let alone determine stock market prices. Rather, the public needs to better understand that while price stability helps economic agents make well-informed decisions, an economy's potential and productivity reflect factors far beyond the Fed's remit, including infrastructure, innovation, regulation and fiscal policy. Further, the alternative to no QE was far worse recession and unemployment.

Monetary policy is made by committee. Closely related, the Fed should dispel hubris that the chair is a rock star, commanding the US economy. Such perceptions emerged during the Alan Greenspan era, and continued as Chairman Ben Bernanke fought the financial crisis. Presidential tweets reinforce this perception. The public should better understand that monetary policy decisions are voted upon by each member of the Fed board, the New York Fed president and four voting regional presidents, and the four rate increases in 2018 were all unanimously taken.

The Fed's monetary policy has successfully given the US a flexible tool for stabilisation policy. The US desperately needs to preserve this success, especially given the anarchic mess of its fiscal non-policy. To do so, the entire Fed should dedicate itself to stepping up plain-English communications with the public at large – in addition to interacting with markets and high priests.

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