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Federal Reserve gets less reserved

Tim Shufelt, Financial Post · Mar. 24, 2011 | **Last Updated: Mar. 25, 2011 7:59 AM ET**

April 27 has become a date certain to be indelibly circled on calendars of monetary-policy wonks across the United States. It will be a day that will rank among central banking's most momentous. For on that day, Ben Bernanke, king among central bankers and steward of the world's most powerful financial system, will actually hold a press conference.

For an organization as reserved as the U.S. Federal Reserve, that's what counts for an historic stride toward transparency and openness.

"This has been an institution driven by secrecy," said Mark Calabria, director of financial regulation studies at the Cato Institute in Washington, D.C.

Beginning next month, and then continuing regularly with the agency's quarterly economic forecasts, Mr. Bernanke, the Fed's chairman, will open himself up to media inquiry.

The sharp shift in communications strategy comes at a time of intense public scrutiny and much ill sentiment directed at the Fed.

Corporate bailouts have raised the ire of taxpayers, while consumers are concerned about rising food and energy prices, Mr. Calabria said. "To the extent people associate that with the Fed, that's hurting them. And obviously there's a frustration that we've been how many years now with a zero interest rate policy without much change in the job market."

However, if it takes a bold and outspoken personality to effectively shift public opinion, that's a task ill-suited to those dedicated to monetary policy, said Mark Chandler, head of Canadian fixed income and currency strategy at RBC Capital Markets.

"Those are not good characteristics, perhaps, for a central banker."

Their lot is one preoccupied with control, making the maelstrom of a question-and-answer session a terrifying prospect.

Billions in capital flows hinge on the precise arrangement of their words. “To me it’s almost borderline ridiculous the effort they put into crafting those statements,” Mr. Calabria said.

“The more he’s out there and the more he talks, hopefully, the less we obsess about the word usage, over time.”

Media exposure has its risks, however. Two weeks ago, William Dudley, the president of the New York Fed and vice-president of the Federal Open Market Committee, when grilled on rising food prices, cited the falling price of iPads as evidence that inflation was under control.

It didn’t help that he was speaking in New York’s working class Queens neighbourhood. “When was the last time, sir, that you went grocery shopping?” one audience member reportedly asked.

In the past, the Fed’s quiet presence in the U.S. economy made its preference for secrecy tenable, when announcements were usually limited to quarter-point rate movements. Before 1994, the central bank would not even officially acknowledge policy changes.

But its profile has since abruptly spiked with bank rescues and quantitative easing.

“The extraordinary policies they’ve undertaken have stretched their mandate a little bit,” Mr. Chandler said, noting that QE2, the Fed’s program to buy US$600-billion worth of treasuries, is set to end in June. “We’re in uncharted territory in terms of how do you get out of this cleanly with the asset purchases.”

Americans were unaware that the central bank was even capable of such drastic measures prior to the banking crisis, Mr. Calabria said. And the public is asking many questions of an agency unaccustomed to such close inspection.

So, much attention will be paid to the upcoming press briefings, to which, until now, central bankers in Europe and Canada have been much more amenable. “It definitely will add a little spice to things,” Mr. Chandler said.

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