

# Fed's Plosser: Price Stability Shld Be Sole or Primary Mandate

By Karen Mracek

November 14, 2013

WASHINGTON (MNI) - Philadelphia Federal Reserve Bank President Charles Plosser Thursday called for changes to the central bank, including limiting its mandate to price stability, restricting the type of assets it can purchase and implementing a rules-based, systematic approach to policy.

Plosser, in prepared remarks at the Cato Institute's annual monetary policy meeting, said he has "concluded that it would be appropriate to redefine the Fed's monetary policy goals to focus solely, or at least primarily, on price stability."

Plosser gave two reasons for this view. First, "monetary policy has very limited ability to influence real variables, such as employment," he said.

Second, the central bank is the only one that can ensure price stability. "Indeed, it is the one goal that the central bank can achieve over the longer run," he said.

Calling for a narrowing of the Fed's mandate, Plosser said "the pursuit of broad and expansive objectives is quite risky" and said it "could have very undesirable repercussions down the road including undermining the public's confidence as well as the bank's legitimacy, and independence."

For the Fed, that could mean a loss of public confidence, Plosser said, adding "I fear that the public has come to expect too much from its central bank and too much from monetary policy, in particular."

To meet the narrower mandate, "the central bank must have a fair amount of independence from the political process so that it can set policy for the long run without the pressure to print money as a substitute for tough fiscal choices," Plosser said.

He advocated for the bank to stay away from fiscal policy, saying "good governance requires a healthy degree of separation between those responsible for taxes and expenditures and those responsible for printing money."

Plosser said one way the Fed should distance itself from fiscal policy is by limiting the types of assets the policymaking Federal Open Market Committee can purchase. It is currently buying \$85 billion a month in Treasuries and agency mortgage backed securities in order to spur faster jobs growth.

"My preference would be to limit Fed purchases to Treasury securities and return the Fed's balance sheet to an all-Treasury portfolio," Plosser said. "This would limit the ability of the Fed to engage in credit policies that target specific industries. As I've already noted, such programs to allocate credit rightfully belong in the realm of the fiscal authorities - not the central bank."

He also argued for a systematic, rule-based approach to achieve the narrower mandate. He suggested Congress "could direct the monetary authority to communicate the broad guidelines the authority will use to conduct policy."

Requiring the the Fed "to publicly describe how it will systematically conduct policy in normal times," which might be part of the semiannual Monetary Policy Report submitted to Congress, "would hold the Fed accountable," Plosser said.

In addition to these changes, Plosser addressed the banks role in contributing to stability in the financial markets, but said expansion of the monetary policy mandate to include financial stability "would be a mistake."