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PhillyDeals: Two Fed officials on what it can, and cannot, do

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The same morning **Janet Yellen** was telling U.S. senators how, as the next Federal Reserve chair, she should help Americans get more and better jobs, **Charles Plosser**, who heads the Fed's Philadelphia branch, was also in Washington, warning a crowd at the libertarian **Cato Institute** that there are not many things Yellen can do or should try that will boost the economy any time soon.

Yellen praised her "wise and skillful" predecessor, **Ben Bernanke**, who she said used the Fed's powers to prevent a world financial collapse.

American prosperity depends on the American people, she acknowledged. But the Fed "plays a role too, promoting conditions that foster maximum employment, low and stable inflation, and a safe and sound [banking system]," Yellen said.

"But we have farther to go," she added. With too many still out of work, "the Federal Reserve is using its monetary-policy tools to promote a more robust recovery," she declared, taking the "surest path" back to prosperity.

Yellen also endorsed using the Fed's regulatory powers to keep big banks from blowing up the economy again.

Plosser (speaking for himself, not the Fed, he noted) walked into a potentially more hostile hall - the Cato Institute, whose scholars have endorsed **Sen. Rand Paul (R., Ky.)** and his "End the Fed" campaign.

We need a central bank, Plosser told his audience. He fondly recalled the gold standard as a lost age of rational pricing, but noted the world's big nations stopped using gold way back in World War I, failed to go back to it, and are now stuck with modern currency that only "has value because the government says it does." Therefore, prudent oversight is needed.

Plosser says the Fed's true job is to keep prices stable. Do that, he said, and investment and employment will reach their proper levels and we'll all be better off.

Instead, the Fed has gone too far, buying mortgage and insurance bonds, failing investment-bank debt, and other politically sensitive assets to prop up threatened industries like housing, Plosser explained. He called for simple, clear rules that limit the Fed to buying Treasury debt, as in the old days, and leaving the corporate rescues - that include some of the Bernanke Fed's proudest moments - to the elected president and the Treasury Department.

The Federal Reserve Act, even as amended by Democrats in the 1970s, takes the long view, Plosser noted. It "doesn't talk about managing short-term credit allocation across sectors. It doesn't mention inflating housing prices or other asset prices," said Plosser. "It also doesn't mention reducing short-term fluctuations in employment."

By contrast, Bernanke's Fed has issued "recent policy statements that have increasingly given the impression that it wants to achieve an employment goal as quickly as possible . . . a recipe for failure," Plosser complained. (Yellen is expected to be a little more aggressive that way than Bernanke.)

Plosser is skeptical about too much regulation.

"Many observers think financial instability is endemic to the financial industry, and therefore, it must be controlled through regulation and oversight," Plosser said. "However, financial instability can also be a consequence of governments and their policies."

Bailouts may save jobs in the short run, but they make companies and bosses reckless, at the public's expense, Plosser argued.

If we limit the Fed's role, and don't expect it to pump up the economy before the next elections, or to fix what the president, Congress, and business cannot or will not do, the century-old central bank might survive to fiddle with interest rates and fight inflation for an additional 100 years, he concluded.

Plosser was picked for his job by the bankers and corporate bosses on the Philadelphia Fed board. Does he speak for you?