Fed Critics Gather, Plant Policy Seeds for Future

By Denny Gulino

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WASHINGTON (MNI) - Blogwatchers and other Webcrawlers can see ideas in the process of development - a much faster process now than when economic policy papers were only submitted to peer-reviewed publications - so that out of cyberspace are hurled recommendations that can show up in congressional hearings, in opinion columns and this week, at the Cato Institute's Fed bashing session.

The libertarian Cato think tank wants a National Monetary Commission to consider alternatives to the Federal Reserve and, on the central bank's 100th birthday, has invited critics of the Fed to its annual monetary policy conference Thursday. The conference is titled, "Was the Fed a Good Idea?"

In this context, there is special interest in what one of the Fed's own, Philadelphia Federal Reserve Bank President Charles Plosser, will have to say when it is his turn Thursday to speak to the Cato audience.

Plosser has long disparaged "easy money" but disappointed the "new monetarists" by not espousing an altered target for Fed policy, either the level or rate of growth of nominal GDP. In fact, he has repeated it is "dangerous" to think of monetary policy in general, no matter how it is executed, as a permanent antidote to any congressional aversion to raising taxes and cutting spending.

One economist, preparing a paper for presentation Thursday at Cato, used Web sites to solicit any examples - "the more egregious the better" - of any Fed speeches which contained "untrue or misleading statements." He received several replies.

But ideological anti-Fed ferment aside, this year there seems to be an important addition to the discussion. Politicians as well as economists seem to be listening. That suggests the next congressional and presidential elections could be pivotal for the Fed if its Republican and Democratic critics make appreciable gains.

Along with Plosser on the CATO program is Chairman of the House Banking Committee Jeb Hensarling. Never a friend of the current Fed, he supports Ron Paul's Federal Reserve Transparency Act, which passed the House 327 to 98 last year - with the support of more than 100 Democrats.

The elder Paul is no longer in Congress. No longer do the uninitiated have to wonder what he meant while on the presidential campaign trail in Iowa when he proclaimed, "Now we are all Austrians," hailing a Cato hero, economist Ludwig von Mises.

Yet his Fed legislation lives on. The measure's Senate sponsor is his son, Kentucky's Sen. Rand Paul and he has 32 Senate co-sponsors.

That the proposed law would audit not only the Fed balance sheet but also allow congressional review of monetary policy decisions would be, to friends of the Fed, a blatant politicizing of the central bank.

Senator Paul is threatening to hold up the full Senate vote on Janet Yellen as chair of the Fed until he gets a vote on his Fed audit measure. Incidentally, her confirmation hearing Thursday before the Senate Banking Committee may be under way as Plosser is answering questions at Cato.

For now, Ben Bernanke's departure would presumably lead the rest of the board to choose the vice chair as interim chairman anyway, if forced to do so by a delayed confirmation. So the near-term net effect of any delay could be minimal even if Senate Majority Leader Harry Reid lets any lengthy delay happen.

More likely is that, with the agreement of a handful of Senate Republicans, Reid would remove any "hold" on Yellen's confirmation to allow a full Senate confirmation vote well before Bernanke leaves at the end of January.

Although the threats of delay are seen as only temporary bumps in the road for Yellen, there seems to be much more at stake for the central bank in the longer term.

As blogwatchers know, nominal GDP targeting, born of certain economists' blog posts several years ago, has evolved into a more serious consideration. A paper on the subject was presented at Jackson Hole last year, and another at last week's annual research conference at the International Monetary Fund. The attractiveness of what has come to be dubbed "NGDP" can be in the eye of beholder, since some see it as a way to justify increased inflation, while others insist it would be a way to keep inflation under control.

The arguments on all sides are within easy reach of a Google search. Most important, in the end it will be the opinion of officeholders, not economists, that will be important for the Fed.

If elections remove the restraint of a possible presidential veto, Republicans like Paul in the Senate and Hensarling in the House, and the considerable number of like-minded Republicans and Democrats could converge on some alternative to key Fed policy that could conceivably find its way into law.

No one knows at this point the 2014 and 2016 judgments of voters on the Affordable Care Act, persistent high unemployment, government shutdowns and threats of default or how their votes may be influenced by rising debt levels and cutbacks of government services because of that government debt.

Still other unsettling factors for voters will likely be waiting in line for the spotlight in the years ahead. Meanwhile the question now is what seeds of potential policy that could change the Fed are being planted that could grow into policies to be harvested by those officeholders of the future.

There may be hints at Thursday's Cato conference, in the always proliferating numbers of economist blogs and Web sites and in the work in progress of other think tanks, generating overviews of Fed performance at its first century mark of existence.

The Fed under Yellen may accelerate its own examination of its record of post-crisis performance. That record will soon include the results of tapering and perhaps, before November 2016, actual rate hikes.

Plosser's remarks will be published at 9:00 ET Thursday.