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FANTASY FOOTBALL meets QUARTERLY EARNINGS

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Secondary Sources: Fed Communication, Job Retraining, Long Stagnation

A roundup of economic news from around the Web.

–**Fed Communication:** Former St. Louis Fed President **William Poole** sees a line being crossed in Fed communication. (Check out these highlights from recent Fed speeches) "New York Federal Reserve Bank (Fed) president Bill Dudley's speech Friday attracted much press attention, as it should have. His speech is correctly read, as in the press commentary, as providing a broad hint of more policy easing to come. During my tenure as president of the St. Louis Fed, I overlapped with Dudley, who, along with being president of the New York Fed, is Vice Chairman of the Federal Open Market Committee (FOMC). I know him to be a competent and cautious policymaker. It is hard for me to believe that he would not have cleared this speech with Chairman Bernanke before presenting. During the Greenspan era, hints came from Greenspan himself, when he thought appropriate. Greenspan's hints were less frequent than many remember; indeed, he was widely viewed as talking in riddles much of the time. Policy decisions were made primarily at FOMC meetings, or at least ratified and announced at those meetings. Greenspan, of course, dominated the process, but he always seemed to me to be careful to respect the role of other FOMC members. When I believed the policy course was a mistake, I dissented, as did some others. Although I worked hard to clarify my general policy stance in my speeches, I always tried not to take specific policy positions in advance of FOMC meetings. For one thing, why should I do so if the Committee were about to adjust the federal funds rate in the direction I thought appropriate? For another thing, would I not have misled the market, and damaged my own credibility, if the FOMC went the other direction? If every FOMC member were to indicate his policy position in advance of each FOMC meeting, the result would be chaotic. It seems to me that Dudley has crossed this line. His logic is clear. Unemployment is too high and inflation too low. Moreover, "…the timeframe over which they are likely to return to levels consistent with our mandate are unacceptable. … We have tools that can provide additional stimulus at costs that do not appear to be prohibitive." It is hard for me to imagine a stronger statement that Dudley will be arguing for the Fed to buy more assets—the policy discussed at some length earlier in his speech. "Unacceptable" is a pretty strong word. Given this clear declaration, most likely with Chairman Bernanke's blessing, what happens if Friday's employment report is quite strong?"

–**Job Retraining:** **Rebecca Wilder** writes that job retraining won't work. "The only category to recover employment in full is that requiring a Bachelor's degree or higher. Furthermore, no material change in employment for BA's (or higher) has occurred since about a year ago, as indexed employment hovers around 100. No new jobs. The levels of employment for those workers with the lowest levels of educational attainment are 3.4% and 5.4% below pre-recession levels, respectively. That is near 2 million jobs. The White House program is targeted at community college students, or education category 3., some college or associate degree in the chart above. Employment for workers with a community college degree sits over 2.5% below pre-recession levels, or 1 million jobs. Retraining workers will not raise the employment level further. The government needs to "add jobs", not "retrain workers", and stimulate domestic aggregate demand."

–**Long Stagnation:** The Economist asks three economists "What are the risks to a long period of economic stagnation?" **Jesper Koll** answers: "The most underappreciated risk is not that policy makers do "too little, too late", but that they are doing "too much, too often". In my personal view, a global "lost decade" is getting more likely precisely because we're getting ever increasing government intervention—whether fiscal, financial, or regulatory. The economist and entrepreneur

Jean-Baptiste Say put it best: “In times of political confusion, and under arbitrary government, many will prefer to keep their capital inactive, concealed, and unproductive, either of profit, or gratification, rather than run the risk of its display. This latter evil is never felt under good government.” **Mark Thoma** disagrees: “Policymakers are not taking proper account of the risk of an extended period of stagnation. We should be pursuing additional fiscal stimulus along with quantitative easing as insurance against a stagnant economy that persists into the future, in fact this should have happened months ago. Instead, fiscal stimulus, which was too small to begin with, is set to diminish, and monetary policy is still on hold with members of the Fed bickering over what to do next. Though monetary policy may ease some after the Fed holds its next meeting a month from now, even that’s not certain, and the overall policy outlook is far from encouraging.”

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