

BARNETT BOOK OUTLINES CASE FOR BETTER MONETARY STATISTICS FROM FED

The general public had a unique opportunity in April to hear a lecture and get autographed copies of a tremendously important new book by Dr. William A. Barnett, the Oswald Distinguished Professor of Macroeconomics at KU. The special book signing ceremony and lecture took place at the KU Edwards Campus in Overland Park, where Dr. Barnett outlined his latest work, *Getting it Wrong: How Faulty Monetary Statistics Undermine the Fed, the Financial System, and the Economy* (MIT Press, 2012).

As politicians, pundits, and historians continue to attempt to assign blame for the recent financial crisis and subsequent recession, Dr. Barnett weighs in with a somewhat different and far-better-informed perspective. Whereas Wall Street greed and the “failure” of mainstream economics are two of the standard scapegoats, *Getting it Wrong* argues that there was too little use of relevant economic analysis, especially relating to economic measurement formulas used by the U.S. Federal Reserve. The growing complexity of financial instruments made traditional simple-sum monetary aggregation formulas obsolete, and the lack of public availability of best-practice data prevented households, firms, and the public sector from correctly assessing the accelerating systemic risk. Increased regulation then could have helped minimize the adverse consequences of poor economic decisions made as a result of inadequate access to the best-practice data. But deregulation instead helped produce a perfect storm, triggering the global financial crisis.

Dr. Steve Hanke from Johns Hopkins University (and a *Forbes* columnist) noted in a review that “the Fed’s money supply gauges remain in need of an overhaul by Barnett, a monetary master craftsman.”

In fact, Dr. Barnett is now even more uniquely situated to provide that relevant craftsmanship and analysis from his recent appointment as Director at the Center for Financial Stability (CFS) in New York City. The program he directs at the CFS is designed to oversee and develop national and international databases rigorously founded in economic aggregation and index-number theory, with the ultimate goal being the delivery of multi-disciplined research on finance, law, and economics to policymakers and the public. CFS has begun releasing monthly reports on monetary aggregates not provided by the Fed, including Divisia M4, the broadest and most important measure of money available.

Before bringing his expertise on the econometrics of financial aggregation and monetary policy to KU, he previously served on the staff of the Board of Governors of the Federal Reserve System in Washington, DC for eight years; was the Stuart Centennial Professor of Economics at the University of Texas; a full professor of economics at Washington University in St. Louis; and a research associate at the University of Chicago. Before becoming an economist, he was one of the engineers who developed the rocket en-



Dr. Barnett signs copies of his book on the history and implications of faulty monetary statistics utilized by the Federal Reserve after a special lecture at KU’s Edwards Campus in Overland Park on April 19.

gines for the Apollo project at Boeing’s Rocketdyne Division in Los Angeles.

The *Kansas City Star* noted the day after the lecture that people listening to current Fed Chair Ben Bernanke’s defense of its current interest rate policies should “also should hear from” Barnett and read the groundbreaking book.

“The public didn’t have enough good information and data from the Federal Reserve to understand that the risk of recession still existed; and that they should not have been taking increased personal risk under the incorrect assumption that the Fed had figured out how to eliminate the business cycle.”

– Dr. William Barnett on KMBZ radio’s *Power Lunch*

Dr. Barnett was faced with the challenging task of making his conclusions accessible to everyone, including those who had never taken an economics course. So he skillfully divided the book into two parts. The first part provides a clear explanation without using a lot of mathematics, while the second part of the book outlines the underlying mathematical proofs.

The fascinating narrative history in the first part contains a number of interesting anecdotes concerning his interaction with a number of key players, as well as observations about problems at the Fed:

* After Barnett left the Fed in the early 1980s to teach at the University of Texas, his first PhD student was Salam Fayyad, the current Prime Minister of the Palestinian National Authority.

* Former Fed Chair Arthur Burns once hired the FBI to investigate the entire Fed staff to determine who may have provided bank interest rate data to *Consumer Reports*.

* One critic of Fed policy, Karl Brunner, was banned from the Board's building, and security guards were instructed to not let him enter. Brunner later said that the ban had "done wonders" for his career.

* Former Fed Chair Alan Greenspan had never published well-regarded research in major peer-reviewed journals and ascended to his position primarily as a result of possessing an "exceptionally commanding sales personality."

* During Greenspan's tenure as Fed Chair, he developed the reputation as "the Maestro" who supposedly could intervene successfully at precisely the right moment, an unjustified belief that "fed into misperceptions about the Great Moderation, further increasing the widespread confidence in permanently decreased systemic risk."

Another reviewer, Julio J. Rotemberg, Harvard Business School's William Ziegler Professor of Business Administration, said the book is "a gripping combination of colorful mini-biographies, memoir from a close witness to our financial troubles, and well-argued case for better monetary statistics."