Feedback on "The Uneasy Case for Janet Yellen"

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We appreciate the substantive feedback generated by the CFS paper "The Uneasy Case for Janet Yellen" by John Feldmann.[1] CFS welcomes diversity of opinion and values balanced presentation of views. In this note, I summarize the variety of feedback we received (where permission was given, names are attached to comments).

Although John's paper is about the legislative history of the Federal Reserve's mandate, a number of readers interpreted it as indirect support for other Fed Chair candidates. This was unfortunate, and not his intent. The piece was about the development of legislation governing the Fed since 1946. The assertions regarding Janet Yellen's interpretation of the Fed's mandate were solely due to her importance as the potential next Fed chair.

Although the appointment of the next chair of the Fed is important, in our view the recent obsession with who that person will be obscures substantive questions that we believe are appropriate for vigorous debate. What should the Fed's mandate be going forward? What is the Fed's strategic blueprint or business plan? What is Congress asking of the Fed, at least based on present laws?

Interpretation of the Fed's Mandate

CFS Advisory Board Member and former Bank of England Monetary Policy Committee Member Charles Goodhart noted that:

> "The focus on a single sentence from a single speech makes me a bit uneasy. Also all the Congressional references do seem to add something about 'promoting maximum employment', though subject to various qualifications. My concern would arise if the Fed was to stop agreeing that the best that monetary policy could do for growth in the long run was to maintain price stability."

A former Fed official noted:

> "One should be careful about building an entire critique around an opening sentence -- so often an opening sentence is merely used to attempt to connect to an audience and it sure seems like that was the case with this particular speech."

Policy Mix and Mandate Language

A number of readers offered thoughts regarding a potential policy mix and mandate language. For instance, Carnegie Mellon Professor and author of ***The History of the Federal Reserve***, Allan Meltzer noted that a focus on employment rather than inflation has the following implication:

[1] Feldmann, John, "The Uneasy Case for Janet Yellen," Center for Financial Stability, August 13, 2013.

> "My main concern is not with what she [Vice Chairman Yellen] says when seeking support to be Chairman. It is with what she would do. As her speech makes clear she would not move against inflation until unemployment is low enough to satisfy her. And one must wonder whether she would continue once unemployment rose. That suggests that she would replay the 1970s."
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> "That means that expectations of inflation will form and be hard to remove. That's one of the errors that the Fed repeats."
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> "None of the candidates that the president mentioned is likely to adopt a strategy to eliminate $2 trillion or more of excess reserves. It will take years not months. It calls for a strategy. What difference will it make if they start in September, December or next May? None I think. And why should it matter whether the unemployment rate is 7% or 7.5%? None I think. After all, the main reason the unemployment rate drops is that workers are discouraged and drop out of the labor force. Last month, the Labor report read closely showed that only 27,000 full time jobs were added. The rest were low wage, part-time jobs. Some recovery!"

Mahesh Kotecha – President of Structured Credit International Corporation – presented a perspective on the nuanced mandate language as well as offered an assessment of the role of the Fed. He noted that:

> "It is an excellent and appropriately subtle analysis of language used to define Congressional intent and the legislative debate that preceded it to interpret Congressional intent."
>
> "What is lacking is an analysis of whether the Fed has the tools with which to pursue both price stability and maximum employment. I am not sure it does."

Chuck Goodgal – Founding Partner of the Gargoyle Group – focuses on the often cited mandate language in section 2A of the Federal Reserve Reform Act of 1977. He noted that:

> "By including language in the bill that defines these responsibilities and specifically states that maximum employment is the one of the three mandates governing the "long run growth of the monetary and credit aggregates" Congress is defining what it views as the Feds responsibilities."
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> "It is understandable that certain groups may desire clarification on Ms. Yellen's understanding of the Fed's mandate. I just don't see the justification for saying that unemployment is not a part of the stated goal of the Fed."

From a legal perspective, as John's piece acknowledges, employment is indeed a stated goal of the Fed. Rather, he makes the argument that the weights given to the various parts of the Fed's goal may have shifted over the years, which raises the important question as to what the "right" weights should be going forward. We welcome further deliberation.

Views attributed to Yellen are Views of the Fed

Others thought the article unfairly singled out Vice Chair Yellen and suggested the argument might be broadened to the Fed itself. This very point was actually made in the introductory paragraph of John's paper, where he noted:

> "I would suggest that this uneasiness may have less to do with Janet Yellen herself and more to do with a growing uneasiness, even among its initial supporters, with the unprecedented accommodative policies of Bernanke Fed."

Many readers felt that broadening Yellen's views to the Fed should have been made more forcefully and explicitly. Raul Elizalde – the President of Path Financial LLC – noted:

> "Perhaps it is not Yellen Mr. Feldmann should go after but the Federal Reserve itself. In its website, the Fed states: 'The goals of monetary policy are spelled out in the Federal Reserve Act, which specifies that the Board of Governors and the Federal Open Market Committee should seek "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."'
>
> "Under this light, Yellen does not appear to be anything but a good soldier of the institution she might be chairing, by abiding to the language that the Fed itself had established as guiding principle that clearly states that the 'goals' are 'maximum employment, stable prices, and moderate long-term interest rates.'"

CFS Senior Fellow Robin Lumsdaine noted similar language in speeches by a number of other Federal Reserve officials. [2],[3]

Likewise, in his nomination hearing in 2005,[4] Chairman Bernanke stated in his opening remarks:

> "If I am confirmed, I am confident that my colleagues on the Federal Open Market Committee (FOMC) and I will maintain the focus on long-term price stability as monetary policy's greatest contribution to general economic prosperity and maximum employment."

Lumsdaine additionally suggested that the perception that the Fed had shifted its focus to employment might reflect current economic conditions rather than an explicit change in policy stance noting that unemployment rates were near their highest levels in more than two decades.

Concluding Thoughts

In conclusion, debate persists regarding the Fed's mandate. John's piece provides a nice jumping off point for a substantive discussion about the Fed's mandate, one that we hope can inform the Fed's leadership (no matter who is at the helm) going forward. In the coming months, we hope to introduce a number of avenues through which such discussion can occur.

With thanks to William A. Barnett, Raul Elizalde, John Feldmann, Chuck Goodgal, Charles Goodhart, Mahesh Kotecha, Robin L. Lumsdaine, and Allan Meltzer.

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[2] Ferguson, Jr., Roger W. "The Making of Monetary Policy," Federal Reserve Board Speech, January 15, 1999.
[3] Mishkin, Frederic S. "Monetary Policy and the Dual Mandate," Federal Reserve Board Speech, April 10, 2007.
[4] Bernanke, Ben S. "Nomination Hearing before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, November 15, 2005.

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