Resource 4 (1 of 7)

The Federal Reserve Today

The Fed's Battle Rages On

by Sage Stossel, www.sagestossel.com

Questions to Consider:

- What do you notice about this cartoon and its depiction of the Federal Reserve?
- This cartoon was drawn in 2008, at the beginning of the financial crisis. What type of cartoon might Stossel draw today?

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The Federal Reserve Today

Representative Ron Paul (R., Texas)

> Everybody thinks about money and almost everybody wants more. We use money without thinking much about its nature and function. Few of us ask where it comes from, who controls it, why it has value, or why it loses value from time to time.
>
> In the same way, most people accept the Federal Reserve as an indispensable institution—the manager of the nation's money stock—that the United States cannot function without, and so they don't question it. . . .
>
> It's my own view that ending the Fed would address the most vexing problems of politics of our time. It would bring an end to dollar depreciation. It would take away from the government the means to fund its endless wars. . . . The national wealth would no longer be hostage to the whims of a handful of appointed bureaucrats whose interests are equally divided between serving the banking cartel and serving the most powerful politicians in Washington.
>
> **Source:** Paul, R. (2009). *End the fed.* New York, NY: Grand Central: 1–8.

Questions to Consider:

- What more do you need to know about Ron Paul to put his view of the Federal Reserve in context—both in terms of the political debates of 2009 and Ron Paul's views on other issues?
- In what way do Ron Paul's concerns about the Federal Reserve parallel concerns expressed at the time of its foundation?
- Is the connection Paul draws between the Federal Reserve and the ability of the nation to wage wars a reasonable one?
- What more would you want to know in order to decide if you agree with Ron Paul?

Resource 4 (3 of 7)

The Federal Reserve Today

Ethan S. Harris, Former Fed Economist

After more than twenty years as a Fed economist and as a Fed watcher, I am still amazed by the misconceptions and mythology that surround the Fed. . . . The Fed is not an omnipotent manager of the economy, but is more like a tugboat steering an oil tanker in rough waters. . . . Moreover, the Fed really has only one tool for managing the economy—changing the funds rate—hence it cannot fight inflation, stimulate growth, and manage capital markets all at the same time. It must pick its battles.

. . . There are good reasons to keep the Fed independent of the political process—monetary policy is best left to "econocrats" worried about their legacy in history, not politicians worried about the next election. Fortunately, today the Fed is as strong and independent as it has ever been. Increased independence has gone hand in hand with more transparency in the way the Fed communicates with the public. Transparency and independence are self-reinforcing: if the Fed is left to do its job, then it should communicate more clearly about what it is doing; if the Fed is clearer about its actions, then the public will trust it more.

Source: Harris, E. S. (2008). *Ben Bernanke's Fed: The Federal Reserve after Greenspan.* Cambridge, MA: Harvard Business School Press, 11–12.

Questions to Consider:

- What more would you want to know about Ethan Harris to evaluate his view of the role and responsibility of the Federal Reserve?
- What significance do you attach to the date of the publication of the book from which this selection is taken? What can you surmise from the book's title?

Resource 4 (4 of 7)

The Federal Reserve Today

From *The Economist*

The Federal Reserve
Right man, rough job

Ben Bernanke's renomination as Fed chairman is good news. But his hardest work lies ahead

Aug 27th 2009 | from the print edition

HAVING endured weeks of criticism over his plans to reform American health care, Barack Obama urgently needs some friendly headlines. That helps to explain why, on August 25th, the president nominated Ben Bernanke to a second term as chairman of the Federal Reserve, even though Mr Bernanke's first one does not expire until next January. The decision was widely hailed on Wall Street and in Washington, DC. With few exceptions, politicians and economists lined up to praise Mr Bernanke and to laud Mr Obama for keeping him.

The decision was a good one, for two important reasons. The first, on which most commentators have dwelt, is that Mr Bernanke has done a sterling job of dealing with the worst financial crisis since the 1930s. Some of the breathless praise about how this former student of the Depression saved the world from a repeat is overdone. It ignores the fact that Mr Bernanke was complicit in creating the loose monetary conditions which fuelled the financial frenzy in the first place. As a governor of the Fed earlier this decade, he was even more convinced than Alan Greenspan that central banks had no business raising interest rates to head off asset bubbles. Reappointing Mr Bernanke might thus appear akin to paying a plumber all over again for repairing pipes that he fitted after they have flooded your home. Nor, once the crisis struck, was he the only central banker to prove handy with monetary plunger and wrench. The leaders of several other rich-world central banks have also acted boldly.

Nonetheless, Mr Bernanke's academic research gave him an acute appreciation of the risks posed by dysfunctional financial markets. His willingness to experiment with unconventional monetary-policy devices allowed the Fed to counter financial collapse even as America's politicians were paralysed. And his mild, diplomatic manner brought much-needed calm amid the crisis.

The second reason why the renomination makes sense has less to do with Mr Bernanke's strengths than with the dangers of ditching him. The likely alternatives were not obviously superior to the incumbent. Given the broad consensus that he has handled the crisis well, replacing him, especially with an obvious Democrat, would have whiffed of politicisation. True or not, that perception would have damaged the Fed and thus the economy. America's central bank is already in its most parlous political position in generations, under fire from the left for failing to prevent financiers' excesses and from the right for swelling its balance-sheet and overstepping its remit. It is caught up in a furious debate over financial regulation, and has little popular support. According to one poll, Americans think less of the Fed than of the Internal Revenue Service. In this environment, the merest hint of a partisan decision could have been disastrous.

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The Federal Reserve Today

Mr Bernanke's reappointment has defused that danger. But far more perilous times lie ahead. For both substantively and politically, the tasks over the next four years may be harder than handling the crisis itself. There will be no quick return to business as usual for the Fed or any other central bank. The Fed's monetary stance must be loose enough for long enough to prevent the economy sinking into a deflationary quagmire, but must be tightened quickly enough to stop inflation soaring. With short-term rates close to zero, this monetary balancing-act must be performed with untested equipment—particularly the swelling and shrinking of the Fed's balance-sheet—and against a backdrop of steeply rising government debt .

A question of backbone

Politically, the difficulties will if anything be greater. Mr Bernanke must steer the debate over regulatory reform so that the Fed is not left with implausibly broad responsibilities and insufficient tools with which to carry them out. He must explain the logic behind its monetary decisions but stand firm against pressure to influence them. Given that America's economy is likely to face weak growth and high unemployment for a long time, that will not be easy. For example, the housing industry will cry out if the Fed starts to sell its mortgage-backed securities. And there will be howls from Congress, and maybe the White House too, if interest rates rise when joblessness is still high and the deficit huge.

Mr Bernanke has earned his reappointment by showing that he is a bold and creative crisis-manager. In his second term he will need just as much technical competence as he has shown in his first, and even more political backbone.

Source: *The Economist*. (2009). Right man, rough job. Retrieved from http://www.economist.com/node/14303777

Questions to Consider:

- What more would you need to know about *The Economist* to evaluate this version of the role the Federal Reserve played in responding to the economic crisis of 2008?
- This article was written just one year after the financial crisis of 2008. Is this version of events still relevant?
- What can you surmise about the role of the chairman of the Federal Reserve in U.S. politics and global economics?
- What else would you need to know to decide if you agree with the point of view expressed by this article?

Resource 4 (6 of 7)

The Federal Reserve Today

New Leadership, New Challenges

As of February 3, 2014, after being nominated by President Barack Obama and confirmed by the Senate, Janet Yellen replaced Ben Bernanke as chair of the Federal Reserve. Dr. Yellen is the first female head of the Federal Reserve, and similar to her predecessor is known for an academic approach to monetary policy, rooted in her research as an economist. She entered the office at a critical juncture, when the economy was slowly showing signs of recovery but was potentially threatened by instability in the financial system, particularly due to ongoing economic and financial turmoil in Europe and Asia. Consider the following excerpt from an article by Ylan Q. Mui, originally appearing in *The Washington Post*, and the issues it raises regarding a change in Fed leadership, making monetary policy decisions to manage an economic recovery without returning to recession, and responding to public pressure while attempting to keep the Fed insulated from short-term politics.

From *The Washington Post*

Fed chair Janet Yellen is learning the importance of politics in economics
By Ylan Q. Mui, December 4, 2015

Janet L. Yellen stepped into the top job at the Federal Reserve last year with more experience than anybody who has led the central bank in its 100-year history. But she is finding that success demands not just economic expertise, but a political prowess she is still learning to master.

As the Fed prepares to tackle the controversial task of unwinding years of support for the economy, Yellen has grappled with fractious colleagues and dissent within one of the world's most influential financial institutions. Outside the Fed, liberal lawmakers and some of the world's top economists are urging her not to move too fast, for fear that the economy is weaker than it seems. She has also clashed, sometimes acrimoniously, with conservatives trying to rein in her power, while several Republican presidential candidates have slammed her record on the campaign trail.

The Fed will meet in less than two weeks to decide whether to finally raise interest rates. Many analysts say the vote has been clinched by Friday's strong jobs report, which showed that the economy last month added 211,000 jobs and that the unemployment rate stayed at 5 percent.

The decision will be Yellen's biggest test. She declined to comment for this article, but documents and interviews with more than 20 associates reveal how Yellen is trying to navigate this challenging moment. Her goal is to forge consensus within the Fed while being responsive to Capitol Hill's critiques—all without hampering the policies that she says has helped keep the U.S. economy on course.

. . .

Resource 4 (7 of 7)

The Federal Reserve Today

Yellen wanted to wait. The wild swings in global financial markets over the summer were potentially bad omens for China's economy—which in turn could drag down America, she feared. But her colleagues were not as worried. A slim majority of the 17 people who make up the central bank's top brass was willing to start pulling back the Fed's support for the recovery in September.

. . .

Source: Mui, Y. Q. Fed chair Janet Yellen is learning the importance of politics in economics. *The Washington Post.* Retrieved from https://www.washingtonpost.com/business/economy/yellen-learning-the-games-politicians-play/2015/12/04/83bb492a-83ce-11e5-9afb-0c971f713d0c_story.html

Questions to Consider:

- What more would you want to know about the author and *The Washington Post* to evaluate this take on Yellen?
- Does anything in this article change your perspective on the role of the Federal Reserve, and specifically the role of the chair, in light of a change in leadership and changing economic circumstances?
- What more would you like to know about the political pressures the Fed faces in order to take a position on whether the Federal Reserve should be subject to additional governmental oversight?
- The Federal Open Market Committee, the leadership body in the Federal Reserve most directly responsible for setting monetary policy, voted to implement the change contemplated in this article by modestly raising interest rates by 0.25 percentage points on December 16, 2015. Based on your understanding of the article, what are some of the benefits and the risks of this move? What more would you want to know in order to evaluate whether you agree with the FOMC's decision?