PhillyInc: Plosser marches to his own beat

November 09, 2011|By Mike Armstrong, Inquirer Columnist

When the **Federal Open Market Committee** voted last week on the course of monetary-policy action, there was just one dissenting vote, down from three at the two previous meetings.
The lone dissenter - **Charles L. Evans**, the head of the **Federal Reserve Bank of Chicago** - wanted the Fed to do more than stand pat after approving "Operation Twist" in September and disclosing in August a commitment to keep interest rates low until mid-2013.
Those were steps that had prompted **Charles I. Plosser**, president of the regional reserve bank in Philadelphia, to cast "no" votes in August and September. So why no dissent at the November meeting?

Plosser told reporters after a speech at the Union League of Philadelphia on Tuesday afternoon that he didn't think there was much to be gained by casting a dissenting vote after a meeting in which the 10-member committee took no action.

"I'm on record of being opposed to those two actions," he said, referring to Operation Twist and the 2013 date. "But there's no point in re-litigating that decision at every meeting as long as you're not taking any new actions."

Plosser likened the situation to his opposition to the FOMC's approval of a second round of the bond-buying program known as quantitative easing in 2010 before he became a voting member of the committee in 2011.

"Everyone knew I was not in favor of QE2. I didn't think it was necessary. But I didn't start dissenting going into January. I respect the decision" of the FOMC, Plosser said.

On Tuesday, the nonprofit **Global Interdependence Center** gave its Global Citizen Award to the Philadelphia Fed president. In a speech, Plosser once again called on the Fed to make explicit an inflation target as other central banks do.
"I see no reason for the FOMC not to simply make explicit that its longer-term inflation objective is 2 percent," he said.

He also said the Fed should publish individual FOMC member's assessments of "appropriate monetary policy" and provide information about the economic conditions or other variables that might prompt a change in policy.

In Plosser's view, doing those three things would strengthen the "framework for U.S. monetary policy."

One thing the Federal Reserve should not do is raise its implicit inflation-rate target in an effort to lower the unemployment rate, which was 9.0 percent in October, or inflate away bad debts, Plosser said.

Known as an inflation "hawk," Plosser argued that Fed policymakers in the 1970s failed in their efforts to lower unemployment by allowing inflation to "steadily drift upward."

"The outcome was a steady rise in inflation with no commensurate fall in unemployment," he said in his speech.

In addition, he said he was "skeptical" of any strategy that would seek a higher rate of inflation to drive down short- and longer-term real interest rates and thus ease the debt burdens of individuals and businesses.

"Using inflation to assign winners and losers associated with these bad debts is poor monetary policy," he said.

As for the state of employment, Plosser said job creation was "clearly not fast enough for anybody's taste." However, he called the revisions to the August and September **Bureau of Labor Statistics**reports "extraordinary."

"They don't look like this picture that was being painted in August and September that the economy's falling off a cliff," he said. "It obviously wasn't."

Contact columnist Mike Armstrong at 215-854-2980, marmstrong@phillynews.com,or @PhillyInc on Twitter.

Read his blog, "PhillyInc," at www.phillyinc.biz