The Federal Reserve and the Low Rate Environment: A Discussion of papers by Peter Conti Brown and Paul Reisz and Tina Adatia

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Proposition 1: The Global Financial Crisis and subsequent populist backlash threatens the independence of the Federal Reserve.

- Raghuram Rajan noted in a recent lecture that the GFC delegitimized "the system". Central bankers are a perfect lightening rod: a centrally controlled institution, independent from regular political forces, governed by highly educated elite.

- Criticism of the Fed is not new
  - It was uncertain the Fed's charter would be renewed in 1933. In the throes of the Depression the Fed was accused of being asleep at the switch. The regional banks and FOMC were created to provide checks and balances from outside the elite.
  - The stagflation of the 1970s led to the Federal Reserve Reform act of 1977, which created the dual mandate, mandated semi-annual appearances before both houses of Congress.
  - Federal Reserve authority was both limited and expanded under Dodd Frank

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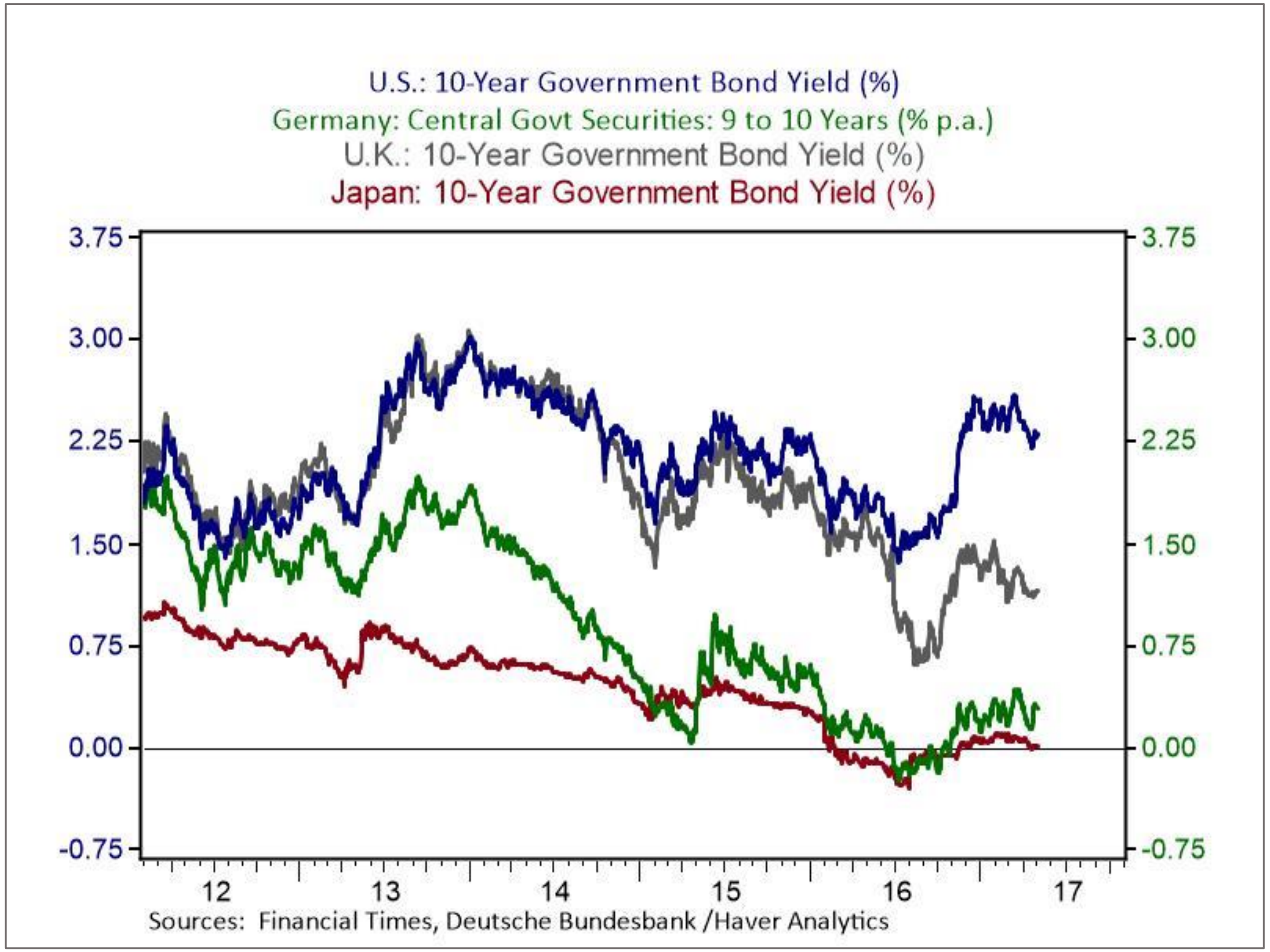
Proposition 2: The Fed Will Face Political Pressure to Raise Rates

- Donald Trump on Monetary Policy and Janet Yellen
  - May 5, 2016: Trump said he has “great respect” for Yellen, saying she is “a low interest rate person. She's always been a low interest rate person. I must be honest, I'm a low interest rate person. If we raise interest rates and if the dollar starts getting too strong, we're going to have some very major problems.“
  - September 25, 2016: “We have a Fed that's doing political things. This Janet Yellen of the Fed. The Fed is doing political [sic] — by keeping the interest rates at this level. And believe me: The day Obama goes off, and he leaves, and goes out to the golf course for the rest of his life to play golf, when they raise interest rates, you're going to see some very bad things happen, because the Fed is not doing their job.“
  - April 12, 2017: “I do like a low-interest rate policy, I must be honest with you,” He noted the dollar is getting too strong, and on Yellen said “I like her, I respect her” noting that the two have sat and talked in the Oval Office and was open to considering renomination.
- Reshaping the Federal Reserve Board is a almost a foregone conclusion, pressure to raise rates is not. Trump is not aligned with Congressional Republicans on monetary policy nor is he a typical populist along the lines of Andrew Jackson.

Proposition 3: The Fed is Failing on its Third Mandate

- The Fed is mandated to maintain “moderate long-term interest rates”
- The Fed has had to deal an increasingly integrated global economy and capital markets.
- There is too much focus on bond yields when the portfolio balance channel tells us all asset prices are affected by monetary policy.



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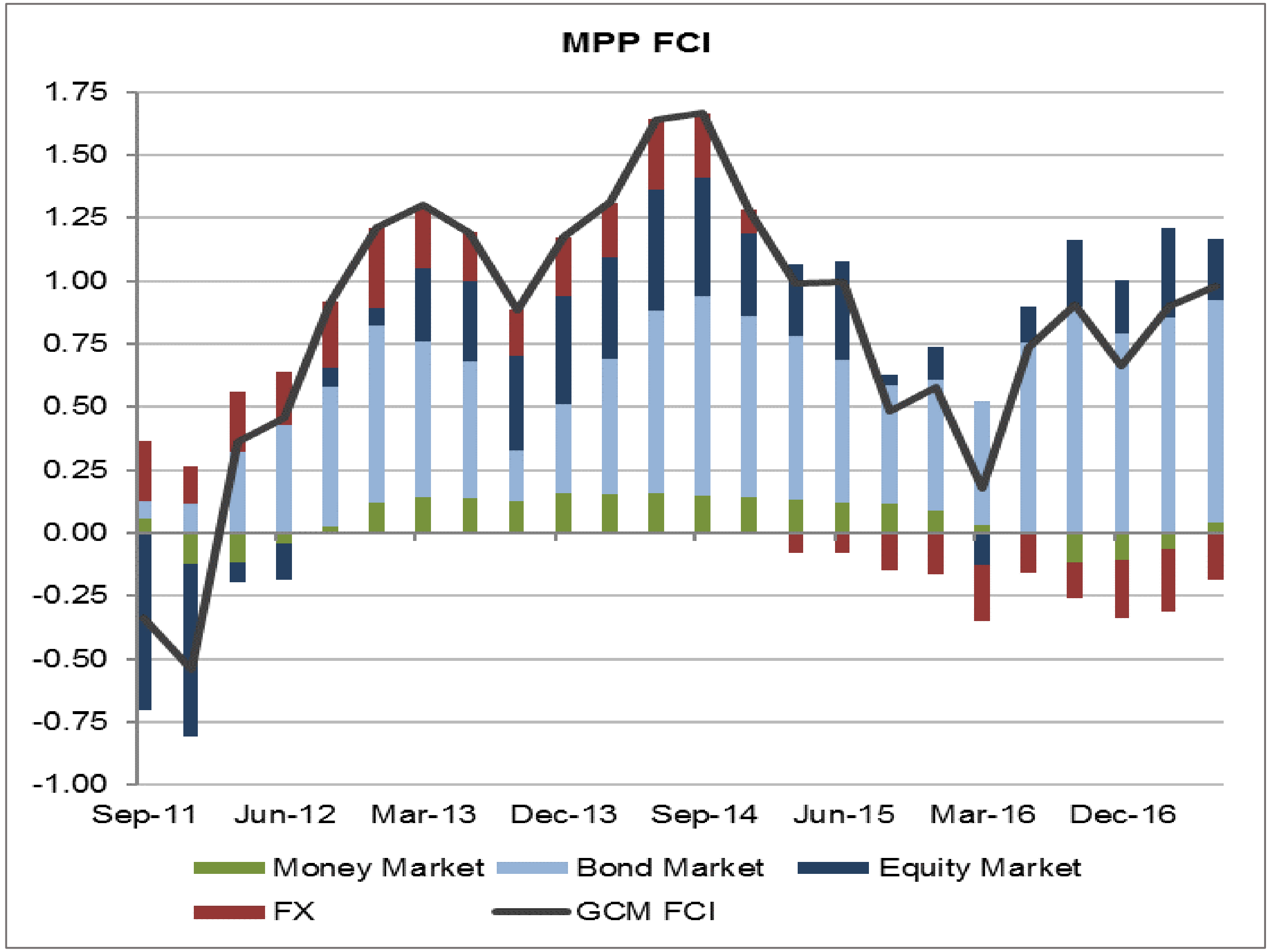
What is the Fed's Third Mandate?

- In 2013, in the midst of the taper tantrum in bond markets, Chairman Bernanke noted "the Federal Reserve sees its responsibilities for the maintenance of financial stability as coequal with its responsibilities for the management of monetary policy".
  - Tighter regulatory oversight
  - Asset bubble management?



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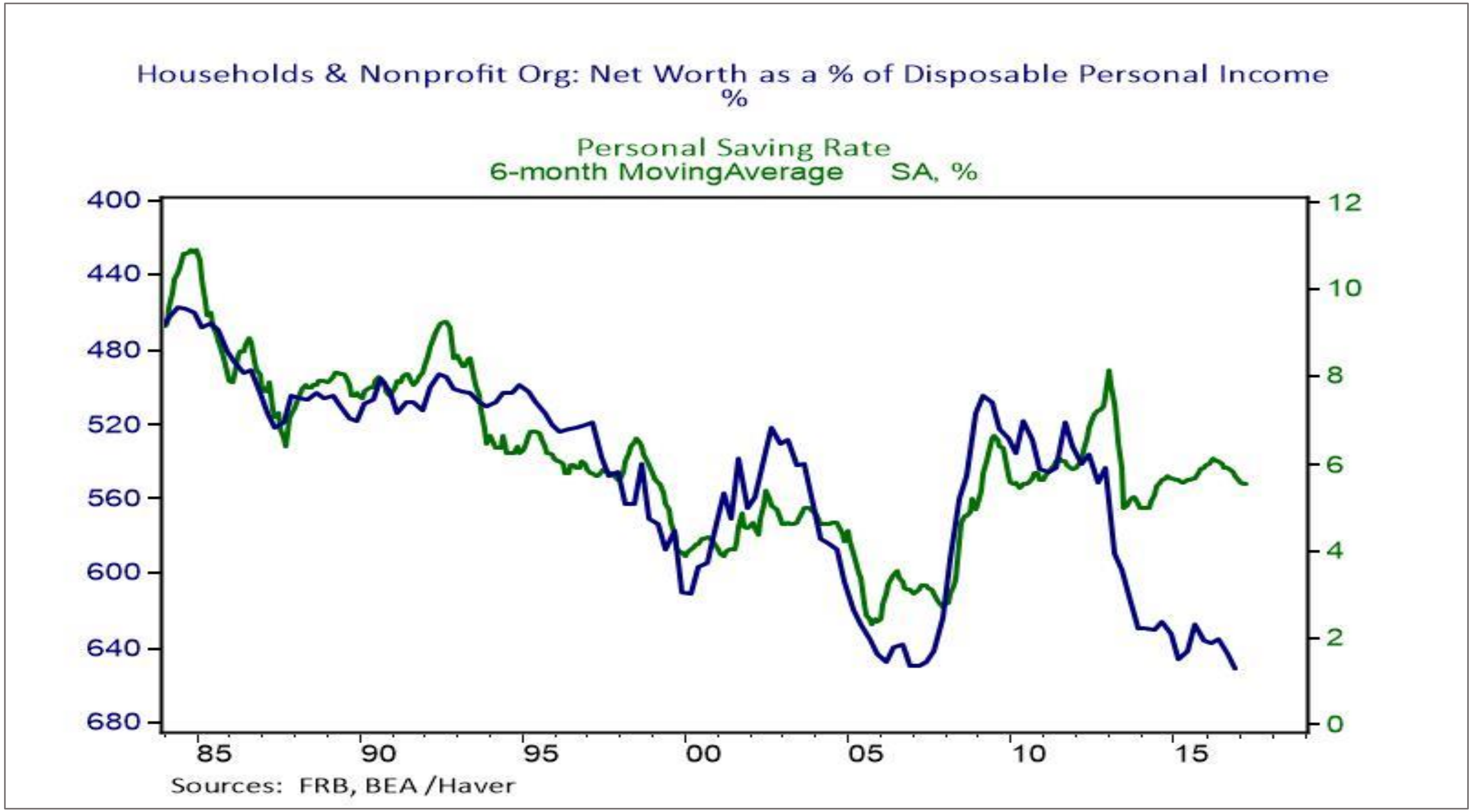
Diversification, Flexibility, Hedging, and SAVING



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