Fed’s Yellen urges rejection of rule-based monetary policy proposal

By Jason Lange
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Federal Reserve Chair Janet Yellen on Tuesday condemned a proposal in the U.S. Congress that would require the central bank to tie interest rate policy to a mathematical rule, arguing this would “severely damage the U.S. economy.”

Under the type of policy rule envisioned by lawmakers, the Fed would commit to moving interest rates up or down depending on the readings of economic indicators like the jobless rate and inflation.

In a letter to lawmakers, Yellen said the proposed law, which could see a vote in the House of Representatives after Wednesday, would hamstring the Fed’s ability to respond to crises and would also be an intrusion on its independence.

This would “likely lead to an increase in inflation fears and market interest rates, a diminished status of the dollar in global financial markets, and reduced economic and financial stability,” she said.

She argued that policymakers don’t understand the economy well enough to come up with a rule that would reliably guide the economy through its ups and downs.

“There is no consensus among economists or policy makers about a simple policy rule that is best suited to cover a wide range of scenarios,” Yellen said.

Some congressional Republicans have pressed for the Fed to adopt rules and justify to Congress in a policy “audit” any cases where rate decisions deviate from that rule.

The proposals, including the one under consideration this week, are not expected to become law, but have nonetheless prompted a host of Fed policy makers to air their concerns in public.

In her letter addressed to Republican Paul Ryan, who recently became House Speaker, and the Democratic Leader in the House, Nancy Pelosi, Yellen said the Fed Oversight Reform and Modernization Act “would politicize monetary policy and bring short-term political pressures into the deliberations of the” Fed.