# A U.S. Economic Update and Perspective on Monetary Policy

(With Reference to Leslie W. Fisher)

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*Remarks before the Australian Business Economists*

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## Richard W. Fisher


Thank you, Stephen [Halmarick].

I am thrilled to be back in Sydney. Earlier this morning, I visited Reserve Bank Governor Stevens and his staff and provided a read on the U.S. economy and monetary policy as of last week's meeting of the Federal Open Market Committee (FOMC).

I thought I would do the same for you this afternoon. I would then be happy, in the best tradition of central banking, to avoid answering any questions you have.

**To Begin, a Biographical Note**

As was mentioned by Stephen, I am indeed half Aussie. My father, Leslie Fisher, was a Queenslander. In 1910, at the age of five years and two months, he was arrested for begging on the streets in Maryborough and sentenced in the court there to seven years in the Westbrook Reformatory.[1]

According to an article earlier this year in Toowoomba's daily, *The Chronicle*, Westbrook was "the most feared reformatory in Australia." The guards there meted out "vicious beatings."[2] Thankfully, my father's sentence was commuted after one month; "the little boy … is of tender years and not a fit subject," wrote the Police Magistrate. My father was released to an orphanage, then shuttled among a series of harsh foster homes before making his way back to the streets and a remarkable career that took him from Toowoomba to Brisbane to South Africa, Mexico, China and the United States and, ultimately, to … the great republic of Texas!

My dad lived to the ripe old age of 90. He was a tough old bird. And Aussie to the bone. For most of his life, he smoked three packs of cigarettes a day and drank a great deal of Scotch. He admitted to this one evening and a friend said, "Hold on. My father was a smoker and also drank a lot of Scotch. But he died at 60. What gives?" To which my father replied, "Well, he just didn't do it long enough."[3]

The Westbrook prison is no more; indeed, the property on which it stood was sold in May of this year. But the courthouse in Maryborough where my father was sentenced still stands. On Wednesday, I will visit it to remind myself of where I come from. And to thank my lucky stars that I am the son of a gutsy Australian who managed in one generation to secure his family's rise from homeless to Harvard, from begging for food to riches, from being a ward of the state to becoming a principal in the policymaking of the most important central bank in the world.

So Stephen, when I say "I am thrilled" to be here, I mean it. I thank you for having me, the son of the humblest of Queenslanders, address such a distinguished audience here in Sydney.

**The Fed in Context**

Australia was in the grips of a great economic contraction when my father roamed the streets of Maryborough. The economic depression here reverberated from a lengthy economic downturn in the United States that crystalized in the Panic of 1907—the so-called "Rich Man's Panic" beginning in May of that year. It saw the failure of the Knickerbocker Trust Co., the third-largest bank in New York, and many other banks of deposit in the U.S. as well as then notable financial institutions in places as far away as Egypt, Japan, Hamburg, Chile and here, Down Under.[4]

Early in 1907, Jacob Schiff of Kuhn Loeb & Co. gave a speech to the New York Chamber of Commerce. He warned that "unless we have a central bank with adequate control of credit resources, [the United States] will undergo the most severe and far-reaching money panic in history."[5] His words were prescient.

At the time, we did not have a central bank in the United States; we had not had one for over seven decades. The United States had two central banks before 1907: the First Bank of the United States lasted 20 years before its charter expired in 1811 and was not renewed by Congress; the Second Bank of the United States also lasted 20 years before being closed by President Andrew Jackson in 1836.

In 1907, the American financial system was, for all practical purposes, under the control of a handful of financiers. Foremost among them was J.P. Morgan. Mr. Morgan was capable of maneuvering through the ups and downs of an economy and financial system without a central bank and become ever richer. The majority of American businesses and bankers could not and were waylaid by recession and financial panic. For all practical purposes, J.P. Morgan was the closest thing to a lender of last resort but was a profiteer, and thus a very poor substitute for a central bank that Jacob Schiff so rightly said we needed.

The Panic of 1907 led to the creation by Congress of the National Monetary Commission and, to make a long story short, that commission, led by Sen. Nelson Aldrich of Rhode Island, laid the groundwork for President Woodrow Wilson and the Congress to create the Federal Reserve System in 1913 and establish the system's 12 Federal Reserve Banks in 1914.

The Fed is uniquely American in structure. It is disaggregated, with the working business of the central bank distributed across the land through 12 Federal Reserve districts. For example, the Federal Reserve Bank of Dallas and its branches in Houston, San Antonio and El Paso, conduct the Fed's business and represent the perspectives of 27 million people and almost $1.5 trillion in annual output from Texas, northern Louisiana and southern New Mexico—roughly the equivalent of the population and output of Australia.

The president of the United States appoints and the U.S. Senate confirms the chairman and the six other governors of the Fed who reside in Washington. The presidents who operate the business of our central bank through the dozen Federal Reserve Banks spread across the nation are not federal employees. They work under the supervision of the Federal Reserve Board, but serve at the pleasure of and answer to their own boards of directors that consist of nine private citizens from their individual Reserve Bank districts. The 12 Federal Reserve Bank presidents represent the heartland of the country, "Main Street" as we say in the States. Unlike the Federal Reserve governors, we do not suffer in having to live in the politically charged atmosphere of Washington, D.C.; we operate banker's banks rather than maneuvering around the lobbyists and rent seekers that leech off the political center of our nation.

To make monetary policy, all 19 of these principals—the seven governors and the 12 Federal Reserve Bank presidents—convene every six weeks as the FOMC under the leadership of the *primus inter pares*, the Federal Reserve Chairman.

The mandate of the FOMC is to preserve price and financial stability while conducting monetary policy so as to engender full employment. Think of the Federal Reserve this way: President Wilson and the Congress of the United States formed a central bank to mitigate the risks of Americans suffering through the economically desperate conditions my father experienced as a child. Like my dad, the Fed has made mistakes and has far from a spotless record. Its role in the Great Depression of the 1930s, the Great Inflation of the 1970s and the run-up to the financial panic and ensuing deep recession of 2007–09 come to mind. But over the course of its hundred-year lifetime, the Fed has successfully anchored America's prosperity.

**Current Policy**

What about now? Are we doing the job we are supposed to do?

As you might imagine, given my roots as a half-Aussie and my being a full-blown Texan, and given that, as mentioned, the 12 Federal Reserve Bank presidents are not beholden to the president or Senate of the United States and fear no personal political retribution, I pull no punches when I discuss the U.S. economy and our monetary policy. The views I express today are my own and mine only.

I say that the economy of the United States is hog-tied by a government that is sadly ineffective and, in fact, counterproductive. We have a government that hasn't been able to agree on a budget in five years; that has historically, under both Republican and Democrat presidents and Congresses, spent money and committed itself to fund long-term programs without devising revenue streams to cover current costs or fund future liabilities. It is a government that is more effective at forming commissions to discuss what they might do—the president and Congress just recently have agreed to their ninth such commission in three years—than in getting anything done to provide businesses, employers, workers and the citizenry the certainty they need to confidently plan their futures.

Under these circumstances, it is no small wonder American businesses are not expanding and growing jobs at the pace we at the Fed would like to see. It is no small wonder that our economy is growing at a substandard pace compared to previous recoveries. It is no small wonder that the most expansive monetary policy the FOMC has ever engineered has been hampered from accomplishing what it set out to do. In short, while the Fed has been moving at the speed of a boomer in full run, the federal government of the United States has at best exhibited the adaptive alacrity of a koala (without being anywhere near as cute).[6]

This can be demonstrated with some simple math from the most elementary formula for calculating gross domestic product (GDP). Private expenditures on goods and services increased at a 3.2 percent rate over the expansion to date, whereas GDP has increased at 2.2 percent. One could say that GDP would have risen at 3.2 percent had government expenditure increased at the same rate as private expenditure. Or, more modestly, if government spending had just been held constant, instead of contracting, GDP would have grown at an annual rate of 2.6 percent.

I am not a proponent of increasing government spending without restraint. And like most Aussies, I am averse to excessive government debt. I know that it is bothersome here that your debt-to-GDP ratio has risen to 30 percent presently from 18 percent before the global financial crisis. Indeed, I have been an outspoken critic of the U.S. government's fiscal promiscuity, which makes your 30 percent debt ratio look practically celibate by comparison.

I mention this simply to illustrate a point: Unlike Australia—who could afford to ramp up spending during the financial crisis and even the first half of 2013 through infrastructure spending to cushion the slowdown in mining—the excessively over-indebted U.S. government has, as mentioned, been hog-tied—prevented from providing stimulus. It has thus played a countercyclical, suppressive role. The inability of our government to get its act together has countered the procyclical role of the Federal Reserve. We have had to carry the ball solo. This is an unhealthy thing for any central bank and comes with not insignificant risks.

Let me expand on this and describe, from my personal perspective, the pros and cons and cost/benefit analysis we must now consider as we contemplate future monetary policy.

***(The remaining remarks will be delivered from the podium).***

## NOTES

[1] The records of these events are not available on the web and are, in part, handwritten in Queensland's official records, which are not available publicly. For those interested, relevant documents are attached in the **Appendix**.

[2] See "Hammer Falls on Westbrook Prison's Dark, Horrific Past," *The Chronicle*, May 31, 2013, www.thechronicle.com.au/news/hammer-falls-westbrook-prisons-dark-horrific-past/1889865/.

[3] With thanks to Charles Plosser for jogging my memory.

[4] The National Bureau of Economic Research dates the contraction from May 1907 to June 1908. In that one year and one month, the level of trade and industrial activity collapsed by more than 30 percent.

[5] See "The Panic of 1907 and Some of Its Lessons," by Myron T. Herrick, *Annals of the American Academy of Political and Social Science*, March 1908, 31 (2): pp. 8–25.

[6] "Boomer" is Australian slang for kangaroo.