



## NEW LEADERSHIP AT THE FEDERAL RESERVE CHALLENGES FACE BUSH APPOINTEE BEN BERNANKE

President Bush on Monday appointed Dr. Ben Bernanke for Chairman of the Federal Reserve — “the Fed”. The appointment is crucial because sets monetary policy which has the most significant political influence on markets (“Politics and Investing, Do Elections Matter?” *The Talon*, 11/3/04).

If the Senate confirms Bernanke, he will fill a most crucial position in finance. This vital position has been filled by legendary Chair Alan Greenspan who plans to retire from the Fed in January.

**Ben Bernanke** served on the Fed Board of Governors since 2002, and peers highly regard him. Chairman Greenspan remarks that Bernanke has “superb academic credentials and important insights into the ways our economy functions.”

**The Fed mission**, as the U.S. central bank, is to provide the nation with a safe, flexible, and stable monetary and financial system. The Fed mission falls into “four general areas:

- conducting the nation’s monetary policy by influencing the monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates
- supervising and regulating banking institutions to ensure the safety and soundness of the nation’s banking and financial system and to protect the credit rights of consumers
- maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- providing financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation’s payments system.”

To effect the mission, the Fed establishes how much money should be available for circulation in the economy. Its primary tool to do so is adjusting the target rate at which banks borrow from the Federal Reserve system. The theory is that a lower target increases borrowing capacity which increases money supply. Thus, how the

Fed decides target rates becomes a controversial process.

**What lies ahead** under Bernanke is vital to consider. Expect little to change initially with stability being a crucial ingredient to leadership transition. However, Bernanke’s long-term legacy could include radical changes to the face of monetary policy.

Bernanke has been a proponent of inflation targeting which sets monetary policy on the basis of meeting a publicly stated low inflation goal. Canada, UK, and Australia have led a global trend favoring this policy framework. Yet, inflation targeting is problematic due to difficulties inherent in inflation measurements themselves. For example, academia and practitioners alike view CPI with disdain despite its popularity.

Greenspan opines that inflation is too narrow a focus to effectively steward macroeconomic conditions. Under Greenspan, the Fed has sought to balance low inflation with full employment.

**Challenges** to either approach are made by notable supply-side economists. They equate Greenspan’s approach to Soviet central planning. They view Bernanke’s inflation targeting as a move in the right direction that falls short of ideal. To them, these models ultimately cost jobs by distracting productive resource allocation. Both approaches introduce complex economic variables. Neither preserves the value of the dollar. Thus, living standards decline.

Wayne Jett, of Jude Wanniski’s Polyconomics, Inc., supports the supply side view. Speaking to CFA Society of Columbus, Jett advocates the gold standard — abandoned in 1972 — that sets monetary policy to a stable dollar value for gold. According to Jett, this simple monetary approach ends the gradual decline in standards of living brought about by inflation.

As if it were not challenging enough to follow Greenspan’s legend, Bernanke must answer significant questions for Fed reform.

### History of Federal Reserve Chair

Charles Hamlin	1914 – 1916
WPG Harding	1916 – 1922
Daniel Crissinger	1923 – 1927
Roy Young	1927 – 1930
Eugene Meyer	1930 – 1933
Eugene Black	1933 – 1934
Marriner Eccles	1934 – 1948
Thomas McCabe	1948 – 1951
Wm. McC. Martin, Jr.	1951 – 1970
Arthur Burns	1970 – 1978
G. William Miller	1978 – 1979
Paul Volcker	1979 – 1987
Alan Greenspan	1987 – 2005



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