Panel 3 - Politics and Policy in the 2020s

In a talk entitled, “ “Political Economy Lessons for the Next Fed Review,” **e**conomist David Beckworth discussed lessons the Federal Reserve should take into account when writing policy on inflation. He began his talk with three lessons in political economy. The first lesson is that inflation tends to become a major political issue when it becomes noticeable. Using graphs measuring inflation concerns, he showed that as inflation rates reached 9% in the United States, in early 2022, inflation became the top political concern for 50% of Americans.Beckworth’s second lesson: In real time inflation can be difficult to regulate, because of uncertainty over whether inflation is being caused by the supply or demand of goods. Beckworth said that the Fed cannot regulate supply-side inflation; it can only regulate inflation caused by demand. This makes it difficult to make effective policy.

The final lesson is that “make-up policy works.” Make-up policy can come in a number of different forms, but in this context, it refers to the Fed’s policy of keeping inflation at 2% *on average* over a given period of time, rather than trying to meet the 2% target each year. Dr. Beckworth advocated for the Fed to set its inflation target using Nominal Gross Domestic Product (NGDP) levels in combination with inflation levels. After outlining some solutions that the Fed could implement, Beckworth concluded that NGDP level targeting would be the best way to deal with inflation. NGDP level targeting addresses inflation confusion, keeps aggregate demand growth stable, and provides stable makeup policy.

The next speaker, economist Thomas Hogan, argued that mission creep at the Federal Reserve worsened inflation in the 2020s. Congress gave the Federal Reserve a dual mandate, to keep both unemployment and inflation to a minimum. He outlined political pressure from actors like Joe Biden and Elizabeth Warren to extend the Fed’s mandate to include limiting economic inequality. For example, the Federal Reserve Racial and Economic Equity Act, proposed by Senator Warren, would have required the Fed to take actions to eliminate racial inequality in the economy. Although the bill did not pass, Hogan claimed that had it become law, its redistributive impact would have been disastrous for the world economy.

Hogan acknowledged that African American unemployment levels are consistently higher than the national unemployment level, but argued that the Fed’ main tool, altering interest rates, is not the right tool to address those inequities. Solving inequalities is a political problem that the Federal Reserve is not designed to remedy. Hogan argued that it is undemocratic to add more responsibilities to an unelected body of technocrats like the Fed.

Hogan argued that due to this political pressure, the Fed's mandate changed in August of 2020 to include a "broad-based and inclusive" employment goal, despite massive inflation. He criticized this change, claiming that if the Fed had raised interest rates sooner, inflation would be lower today. Ultimately, he concluded that mission creep made inflation worse.

During the question and answer portion of the panel, Hogan received some push-back from other speakers at the conference. Steve Kamin said that Hogan did not need to go as far as he did, arguing that there is a distinction between the Fed making a mistake versus that mistake reflecting a "mission creep" that included inequality.

Rapporteurs Celia Ford and Lily Meyers are CSAD Student Associates and members of the class of '25.