Hear, hear FOMC

Mardjokic.com

11/22/2011

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The FOMC meeting minutes from early November were released today. I'd like to applaud the Fed for not overstepping their monetary authority however tempting lower unemployment figures might be.

The Committee apparently weighed several additional monetary policies including setting explicit targets on unemployment, inflation, or nominal GDP. Now, I realize desperate times call for desperate measures, but setting targets unduly handicaps central banks and puts them in a precarious situation when things go awry. And when things do go awry, which they always do, central banks are forced to choose between abandoning policy (and losing credibility) or carrying on even when it's counterproductive. Just look at the ECB who raised rates as late as July 7th in the face of mounting inflation. Yet inflation was only really a problem in Germany, most of peripheral Europe was already facing deflation.

You never want to underestimate the power of credibility and trust. Once you lose it it's gone for a good, long while..if not forever. The market believes the Fed's commitment and more importantly their ability to effectively conduct monetary policy. What if the Fed commits to a target and then has to abandon it or worse yet fails to reach it? For now, the collective balance sheet of Wall Street is happy eating off the Fed's plate, but what if we grow weary and stop acting like the pilot fish and more like the shark?