

A rising wave of political pressure threatens central bank independence

Monetary Conference Tackles the Perils of Populism

For almost four decades, one of Cato's flagship events has brought together the nation's leading experts and policymakers to discuss key issues in monetary policy. In November, the 39th Annual Monetary Conference focused on the theme of rising populism and its effects on the future of the Federal Reserve.

"One could argue that those who want the Fed to allocate credit, help fund a Green New Deal, engage in 'helicopter drops,' and so on are well intentioned," explained James A. Dorn, vice president for monetary studies, in his opening remarks. "However, the real issue is whether such actions are consistent with long-run price stability and the rule of law."

Political pressure on the central bank isn't new, but it has typically revolved around policy areas within the Fed's traditional purview. Increasingly, however, politicians have begun to entangle the Fed in issues seemingly far removed from monetary policy, such as climate change and social justice, as well as in the interplay of fiscal decisions made by legislators. This has raised difficult questions, including the proper scope of the Fed's role, which is largely outside the democratic process, and the importance of maintaining a separation between monetary policy and fiscal policy.

In the conference's keynote address, the University of Chicago's Raghuram Rajan warned that these demands threaten to take the Fed down a "road to dominance" with outsized influence over a wide range of policy issues, even as the extraordinary response to the pandemic has made it essential to refocus on the core purpose of maintaining price stability.

"A fundamental hope for monetary outcomes is that after a transitory period of inflation, hopefully short lived, this time



1. **RAGHURAM RAJAN**, University of Chicago Booth School of Business.
2. **GREG IP**, *Wall Street Journal*.
3. **ALLISON SCHRAGER**, Manhattan Institute.
4. **JAMES A. DORN**, Cato Institute.
5. **ROSA MARIA LASTRA**, Queen Mary University London.
6. **WILLIAM NELSON**, Bank Policy Institute.
7. **CHARLES GOODHART**, London School of Economics.
8. **CAROLA BINDER**, Haverford College.
9. **CHRISTINA PARAJON SKINNER**, Wharton School at the University of Pennsylvania.
10. **BARRY EICHENGREEN**, University of California, Berkeley.

will not be different. In other words, we will go back to the benign pre-pandemic world. Given the changes that have occurred, this seems somewhat optimistic," Rajan explained.

Throughout the day, a series of panels that included both academics and policymakers were moderated by some of the field's most notable journalists: Greg Ip,

chief economics correspondent at the *Wall Street Journal*; Jeanna Smialek, Federal Reserve and economics reporter for the *New York Times*; and Edward Luce, U.S. national editor of the *Financial Times*.

In a discussion about so-called fiscal dominance and the return of inflation, Fernando M. Martin of the Federal Reserve
Continued on page 23