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Let's Keep the Federal Reserve Great

By N. Gregory Mankiw

I have a confession to make: I love the Federal Reserve. And I suspect that, in their heart of hearts, most other economists love the Federal Reserve, too. But I fear our love may be in peril.

We live in a time when many public institutions seem to be failing us. The White House is in constant turmoil, with extraordinarily high turnover among top staff members. Congress is as polarized as ever, not having done much over the past two years other than pass the mess of the 2017 tax bill. Even the Supreme Court appears less dispassionate and more partisan than it should be.

I used to think that our system of higher education had pride of place among our institutions. But now I am less sure. Though I have long known that the system is far from perfect, its luster has recently been sullied by the issues raised in the lawsuit against Harvard, in which some Asian-American applicants are claiming discrimination, and by the college admissions scandal, in which some rich parents have been charged with cheating to get their children into top schools.

Which brings me back to the Federal Reserve. The nation's central bank employs about 20,000 Americans. They monitor the economy, develop analyses to help set monetary policy and regulate the banking system. None are paid the extraordinary salaries found at the nation's private banks. But they do their jobs with solemnity and tenacity and without a whiff of scandal. And, most important, they do their jobs well.

At this point, you might be saying: "Whoa, Nelly! Have you already forgotten the financial crisis and Great Recession?"

No, I have not. As I wrote just last year, the Fed's decision not to rescue Lehman Brothers when the investment bank faced a liquidity shortfall in

September 2008 was arguably an unforced error. And though we'll never know for sure, subsequent events might have been less tragic if the Fed had acted more boldly.

Yet the Fed's inaction at that moment, even if mistaken, did not diminish my love for our central bank. Given human fallibility and the inevitable imperfections of information, institutions, like people, should not be judged by the standard of perfection. They should be judged by whether they are doing the best they can. By this standard, I give the Fed a top grade.

The success of the Fed as a public institution stems from two key ingredients.

The first is a clear, nonpartisan and widely shared mandate. The Federal Reserve Act charges the central bank with the objectives of "maximum employment, stable prices and moderate long-term interest rates." In pursuit of these goals, the Fed aims "to provide the nation with a safer, more flexible and more stable monetary and financial system." No reasonable person can doubt the value of this mission.

The second ingredient to the Fed's success are the talented people who dedicate their lives to it. Every year the Fed recruits new research assistants from top colleges and new staff economists from top Ph.D. programs in economics. Over the years, I have known many great students who have taken these jobs. For someone interested in economic policy, there is no better place to work.

At the top of the organization is the board of governors of the Federal Reserve. Appointed by the president and confirmed by the Senate, governors serve 14-year terms. Like the lifetime appointments for federal judges, the long terms of Fed governors are intended to ensure independence from political pressures.

What background is needed to reach this exalted position? Usually it is proven expertise as an economist or substantial experience working in the financial sector.

President Trump, of whom I am no fan, has made some excellent Fed appointments, including Jerome H. Powell as chairman of the board and Randal K. Quarles and Richard Clarida as vice chairmen. Marvin Goodfriend and Nellie Liang, who were tapped by the president but not confirmed, were also fine choices.

But recently the president has changed course, saying he wants to name Stephen Moore and Herman Cain to the Fed board. These two men are shockingly unsuitable.

Although the president has written on Twitter that Mr. Moore is "a very respected Economist," he is not. He is a propagandist, pushing for conservative causes, often with flimsy arguments. Mr. Cain has been a pizza company executive and a presidential candidate, but he has no degree in economics and scant experience in finance.

In 2011, Senator Richard C. Shelby of Alabama, the ranking Republican on the Senate Banking Committee at the time, blocked Peter A. Diamond from becoming a Fed governor. Mr. Diamond was a Ph.D. economist, a professor at the Massachusetts Institute of Technology and a Nobel laureate in economics.

Mr. Shelby explained his decision by claiming that Mr. Diamond did not have sufficient experience in monetary economics and finance. Not only do Mr. Moore and Mr. Cain also lack this experience, but they don't possess the intellectual gravitas that Mr. Diamond would have brought to the job.

Whether Mr. Moore and Mr. Cain will be confirmed is unclear, especially in light of reports, which both men contest, that Mr. Moore has failed to pay child support and owes more than $75,000 in federal taxes and that Mr. Cain has engaged in sexual misconduct. But as a lover of the Fed, I am most concerned that they are simply not qualified, and I am hoping that the Senate will reject them if they are nominated.

We may not have many great public institutions left. But the Federal Reserve is one of them. Let's keep it that way.