Questions for Ben Bernanke

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As the confirmation hearings for the new Fed chairman approach, senators and their staffs are busy compiling questions for Ben Bernanke. The most intriguing questions, however, are not the ones that come from senators. They are, instead, the questions that Mr. Bernanke must be contemplating quietly on his own.

There should be no doubt in anyone's mind that Mr. Bernanke is superbly qualified for the job. I have known Ben for 20 years, and there is not a monetary economist alive who commands more respect among professional economists for his deep, broad intellect and rock-solid judgment. (OK, maybe Milton Friedman, but at the age of 93, he's probably not available.) While the Senate hearings are important and senators must perform their constitutional duty of evaluating the president's choice, the outcome is simply a forgone conclusion. Mr. Bernanke is to the Fed what John Roberts was to the Supreme Court -- a candidate whose credentials are impeccable.

Once the hearings are over, Mr. Bernanke must decide where he wants to lead monetary policy and what kind of Fed chairman he wants to be. Here are three questions he must be asking himself.

• ***"How can I advance inflation targeting?"*** As has been widely reported, Mr. Bernanke has long advocated inflation targeting, under which a central bank sets a numerical target for the inflation rate. He will soon be in a position to put his monetary policy where his mouth is.

This will not necessarily be easy. Inflation targeting has worked well in other countries, and it is supported by many U.S. economists, but the support is not universal. Alan Greenspan has long been a skeptic. More importantly, so is Mr. Greenspan's close protégé Donald Kohn, who remains a member of the Federal Reserve Board of Governors and commands broad respect among the other members and the Fed staff.

Some recent news reports have suggested that inflation targeting would mean a big change in policy from the Greenspan era. That is not right. Starting where we are today, a switch to inflation targeting is not so much a change in monetary policy as it is a change in the way the Fed communicates about monetary policy. To a large extent, Mr. Greenspan's policy can be described as "covert inflation targeting." He has never announced a target inflation rate, but there is little doubt about his goals. As former Fed governor Laurence Meyer pointed out, anyone who doesn't know that Mr. Greenspan is aiming for a measured inflation rate of about 1% to 2% is just not paying attention.

The evolution toward inflation targeting under Mr. Bernanke can, therefore, be very gradual. This would be consistent with his pledge to continue the Greenspan policy agenda, and it would ease the minds of skeptics like Mr. Kohn. Over time, Mr. Bernanke's speeches and Fed policy statements can make increasing reference to medium-term inflation forecasts and whether they are deviating from desirable levels. The financial world will start seeing monetary policy through the lens of inflation-targeting, even if we never see a grand announcement of a new regime.

• ***"How broadly should I offer opinions?"*** Mr. Greenspan has not been shy, over the years, about expressing opinions on a broad range of economic issues. This proclivity has at times made some Fed staff cringe. The political independence of the Fed is among the institution's most basic values. Whenever the Fed chairman opines on a politically charged topic, he puts the Fed's independence at risk. It was created by Congress -- and it can be taken away by Congress.

Yet the issue is far from one-sided. Although Fed staff would prefer that the chairman stay silent on issues not directly relevant to monetary policy, doing so would entail a significant cost. Mr. Greenspan has offered intelligent analysis of many economic issues vital to the nation. If the Fed chairman refrained from offering his views, someone less knowledgeable would fill the void.

Mr. Bernanke must decide for himself how far he is willing to go. Although as an economist he is just as broadly insightful as Mr. Greenspan, he will not inherit Mr. Greenspan's political credibility. This will make him more circumspect, at least initially.

Here is my guess about what Mr. Bernanke will decide. He will be prepared to talk not only about monetary policy but also about issues related to financial stability, such as regulation of Fannie Mae. He will be willing to explain the views of professional economists when there is a consensus. Like Mr. Greenspan, he will remind us about the benefits of free trade when the protectionists in Congress get restless. But he will stay away from issues that are distant from monetary policy, controversial among economists and politically divisive. The repeal of the estate tax, for instance, is not an issue that the future Fed chairman is likely to comment on anytime soon.

• ***"How high a profile should I adopt?"*** Alan Greenspan is a rock star, at least by the standards of the American Economic Association. So high has his profile been that I am surprised that we have not yet seen a TV drama written around the life of a central banker. (David Kelley, take note.) Much of the general public may fail to understand how monetary policy functions, but they still know it is important -- and that Mr. Greenspan is the man. That is why the choice of his successor was anticipated so intensely.

Yet the truth is that monetary policy is set not by a single person, but rather by a large committee supported by one of the most talented staffs of professional economists working in government. If the next Fed chairman accepts a lower public profile, the true nature of the Fed could be more widely appreciated -- and that would be a step in the right direction. Monetary policy is not so complex that we need an inscrutable wizard to do it well. A group of competent, well-meaning, hard-working public servants can do it just fine.

The most negative assessment I have ever heard about Ben Bernanke, from one of my colleagues, is that he is "a bit boring." For an economist, boring is an occupational hazard. For a central banker, however, it is just the ticket. The central bank's job is to create stability, not excitement. Ben Bernanke would do well to increase public confidence in the institution of the Federal Reserve: The institution matters more than the individual who happens to be leading it at the moment. It would be ideal if, after a long, successful tenure, Mr. Bernanke's retirement as Fed chairman were a less momentous event than his arrival.

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