Annotations on Greider's Secrets of the Temple

by

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In his comprehensive and thorough treatise on the Federal Reserve, Secrets of the Temple, William Greider tells the story of the Fed's relationships with the public, bankers, congress, the executive branch, and within their own internal culture.

Most importantly though, the accounts the role the Federal Reserve Board plays in banking and monetary policy and how their decisions benefit or hinder the interests of various segments of society.

As Greider points out early on page 38, "… the concentration of wealth was the fulcrum on which the most basic political questions pivoted, a dividing line deeper than region or religion, race or sex."

With this thought in mind, throughout the reading I considered, why more people don't bother to understand the Fed's tools and devices?

Is the lack of understanding? A questions of motivation? A lack of access to information?

Is it because of the difficulty of understanding the complexities of economic theory? Perhaps, the intimidating manner and lexicon of the Fed? Or maybe the feeling of not having any control in the process?

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Could it be a vast "conspiracy" of bankers and lenders to withhold power and influence? Or maybe just a public feeling of complacency and/or comfort knowing technocratic managers are tending to the tasks?

I also noticed problems of impasse wrought by the ideological and headstrong nature of the Fed governors. While the decisions to raise or lower interest rates are difficult, and consensus difficult to arrive at, the Governors are charged with the task to control monetary and banking policy for the good of the national well being, not just to appease the President for re-appointment or stick to ideological guns to the point of calamity and ruin.

Despite the success in crisis and excellent performance in relation to peer national banks, I think the reasons for the Fed's rollercoaster ride - despite all the current and historical data and economic modeling tools - are threefold: 1) Governors stick to ideological and political wagons discouraging innovation, consensus and change; 2) Governors and are often out of touch with the effects of their policies in some segments of society and too in touch with others; and 3) Governors miserly guard the Fed's power and knowledge from Congress, Executive and the public and are reluctant to transparency in their ways and objectives.

Certainly, espousers of both the supply and demand theories had their moments of fleeting triumph, but it seemed to me that time and time again, Governors and Executive officials flaunt their (tightmoney/loosemoney) rhetoric in public but in private crave the "quick fix" despite the risks. Examples are Reagan "fiscally conservative" persona in public while orchestrating a huge budget deficit, or Carter's people wishing for a let up on high interest rates in time for the election.

Despite whichever monetary policy was in vogue (pegging to interest rates, M1, commodities), the Fed's policies hurt real human in real ways. Though it is the

job of the Legislature to create mitigating microeconomic programs to offset the effects of Macro policy set by the Fed, the time lag and effectiveness is really brutal to real people.

Greider expresses the moral justification foisted upon workers on page 709, “On the other side of the temporary suffering, the economy would emerge stronger and more stable, better prepared for a long-running prosperity in which all could share the benefits, if they were willing workers.” The results of the hardship never materialized as promised. Losing a house, a job, a car was just the beginning for many disenfranchised wage earners. A breakdown of family, self-respect, will and enthusiasm often followed in the event of a significant downturn in one’s personal economy.

Indeed, the Fed’s “guesses” affect real, unwitting citizens who have tried to do the right thing (work hard, pay taxes, don’t go into *too* much debt), only to be miffed at the odds-makers attitude of the Fed. Indeed, the Fed heavily augment their empirical data with “hunches” based on what they see around their community, the country and world.

As retired Governor Charles Partee pointed out, “As someone who has been doing this for thirty-five years, it’s a humbling experience. I can’t maintain any theory. All I can say is that I have pretty good sense of the economy. That’s all. Nothing ennobling to teach. Nothing to state as a grand principle. Any economist who’s going to be honest ought to say just the same thing.”

When a governor’s “hunch” is out of step wit the consensus, the idea was promptly dismissed as amateurish or naïve (particularly Governors Teeters, Martin and Seger seeking interest rate reductions and unemployment relief at various times), proved out to be prudent paths in hindsight – or at least worthy of more consideration.

While the Federal Reserve is designated to be politically independent, clearly all Governors have storing political party bias and lobby for their causes Additionally, the advisors and counselors are also colored by the same special interest brush.

Indeed the Federal Open Market Committee, Federal Advisory Committee, the Presidents of the Federal Reserve Banks and the Federal Reserve Board Governors themselves prove to be an incredibly thin margin of viewpoints and perspectives into the economy considering the diversity in occupation and culture of the country that employs them. At the least, there is a redundancy of personnel serving on multiple boards in similar capacities.

On page 38, Greider continues, "In the nature of things, the government might chose to enhance the economic prospects for the many or to safe guard the accumulated wealth by the few, but frequently the two purposes were in irreconcilable conflict."

However throughout history, the Fed's policies seemed to ignore the impact on certain segments of society – though a few Governors mention they had a hard time sleeping at night – but rarely is there an instance when the wealth-holders and commercial bankers are treated with anything but deference and care. Indeed, in his quest to break inflation and stabilize US money, Volcker and the Fed decided to "err on the side of caution" time and time again by holding back the instinct to lower interest rates.

Certainly the wealth holders are an integral part of the economy, needed for money to buy stocks and bonds, and they take risk for their investment and reap the rewards when successful. However, it is simply unjust and undemocratic that their opinions and interests be held at such a higher level of importance then all other parts of the economic machine - workers, borrowers, entrepreneurs, parents, teachers, farmers etc..

Those segments of society are obliged to follow their normal channel of government appeal by speaking to their congressperson and perhaps one day testifying to congress as the distraught workers in the book who plead for help from government to no avail.

To break up this well moneyed clique, I feel that the Federal Reserve needs to actively allow other interests (ie: besides bankers) access to policy makers and become an integral part of the policy creation process. Fed economists should solicit input from other segments of society such as trend watchers, market psychologists, labor leaders, unemployed, garage start-ups, taxi drivers, micro business, and academia, barbers, ranchers, retired plumbers and executives alike. Become part of the process and really engage anyone else who has an opinion.

Serving on the Federal Reserve board requires intelligence, decorum, and intimate knowledge of monetary theory, but we should not preclude that only career bankers, academic economists and the occasional gadfly businessman with political connections are the only specimens capable of harboring such intellect.

While I am sure the Fed researches endlessly throughout all niches of the economy but a true democratization of the Fed actively seek new ideas and the process begins with more education and representation.

Start with more public awareness of public debt, the impact of interest rates, the responsibilities of credit and access to credit throughout society from sources other than lecherous credit card offers which bombard mailboxes like a free candy on an empty stomach.

The proliferation of "payday" loan outlets dotting strip malls is a clear indication of how much personal economic education work needs to be done. The benefit of

an educated population is not to be underestimated though the rewards are often not manifest until generations to come. Economics isn't perceived as "exciting", the "smart kids" in the US culture want to be doctors, lawyers or on the banking side economics (everyone else wants to be rockstars or pro athletes). If one is inclined towards public service, a high profile elected position is a more likely choice then "When I grow up I want to be one of Alan Greenspan's policy wonks and labor over obtuse statistical models." But I digress and will say, "Help the people learn in a way they can learn."

Greider discusses money in a Freudian context of hoarding and insatiability and I think the same comparison can be made with the Fed culture and power. Fed insiders certainly grasp the uniqueness of the Fed political power base and origins, and do not take the Fed's independence for granted. Humans tend to gravitate in varying degrees towards wealth, power or fame.

As Greider points out, Fed Governors are often perceived as "monks" or "mystics" living (relatively) austere lives and forgoing the pleasures of success to maintain the dignity of their tasks. The salaries, while generous, are not ostentatious, and the fame is minimal and only in specialized circles.

The three "syndromes" overlap from time to time but the Fed seeks only power and seeks to hold it.

That said, should the Fed (by force or self-initiative) institute policies of transparency for reporting meetings transcripts, detailing statistics and modeling equations, goals for macro indicators from unemployment to interest rates? While there would be a period of adjustment while the markets evolved from acting on speculation to acting on knowledge. Business owners, homebuyers, jobseekers and bond holders and foreign currencies and the executive and legislative branch would all be playing from the same song sheet and could make decisions and policy based in concert with the Fed.

While any miser of power or money is hard-pressed to share, I think such a move would more securely entrench the Fed in American culture as a unique and cooperative institution serving the people rather than a legislative anomaly dependent on the Executive and Bankers to really wield power. Transparency is intimidating decision to be sure but so was abandoning the gold standard, bailing out Mexico or instituting the policies of the New Deal or inflation deduction.

With democratized knowledge, the economy could be spared many casualties while the Fed increased public trust and, in turn, more power in the long term. After the initial reactions, the subsequent settling of the market will create a sense of common good and pragmatic financial management. The public will better understand the responsibility of banks to prevent reckless behavior, especially in high-risk investments and when and why the Fed to bail out banks as well as the means to punish their behavior.

Consumers and producers alike could anticipate changes in economic situations by understanding what events trigger such changes and what machinations initiate the effects to the end-users of the monetary policy.

Right now, data transparency, increased representation in the Fed culture, and avoiding “preconceived certitudes” in economics seem like good ideas to me. But like Paul Volcker championing increased more Executive control of the Fed in his collegial thesis, I will reserve the right to change my mind from time to time.