Richard W Fisher: Policies needed to restore American prosperity

Concluding remarks by Mr Richard W Fisher, President and Chief Executive Officer of the Federal Reserve Bank of Dallas, before the Dallas and Fort Worth chapters of Financial Executives International, Dallas, Texas, 11 February 2014.

*   *   *

The views expressed by the author do not necessarily reflect official positions of the Federal Reserve System. Related slides can be found on the Federal Reserve Bank of Dallas' website: Slides (PDF).

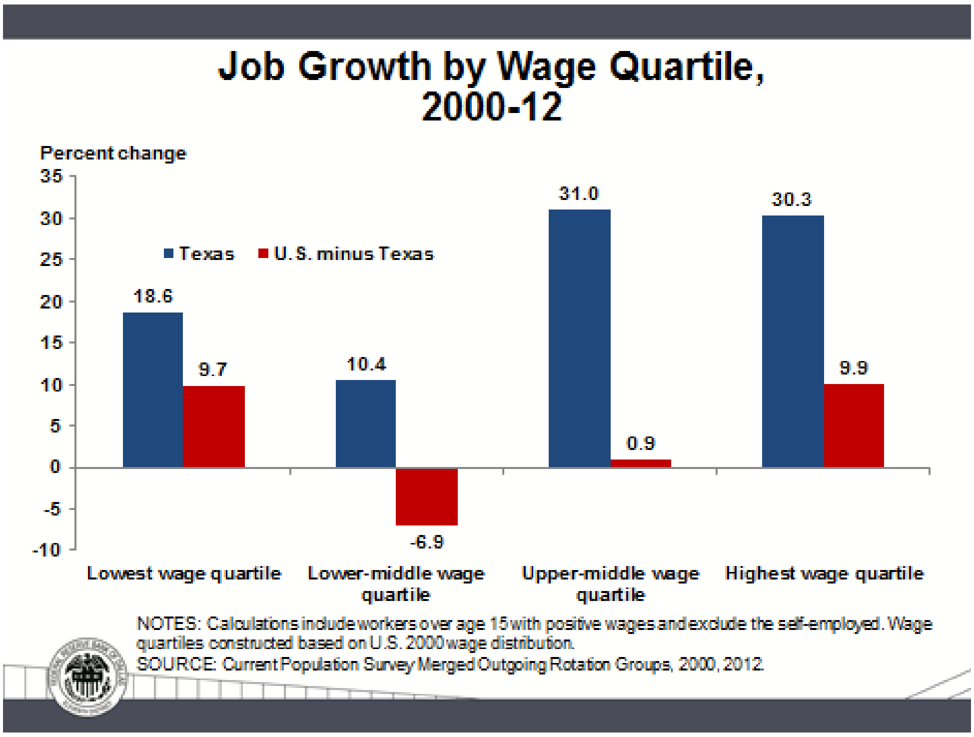
For far too long, the greatest obstacle to the nation's economic prosperity has resided here:

An editorial in today's *Financial Times* encapsulated in 11 words an argument I have been making repeatedly: "Fiscal policy is still not an ally of U.S. growth."[1]

I'll conclude by making the argument once more.

Earlier I showed you the gaping hole in the heart of our prosperity: If you remove the job-creating machine of Texas from the U.S. economy, the nation has experienced job destruction that has occurred over the past 12 years in the middle-income quartiles. Let me show you that chart again:

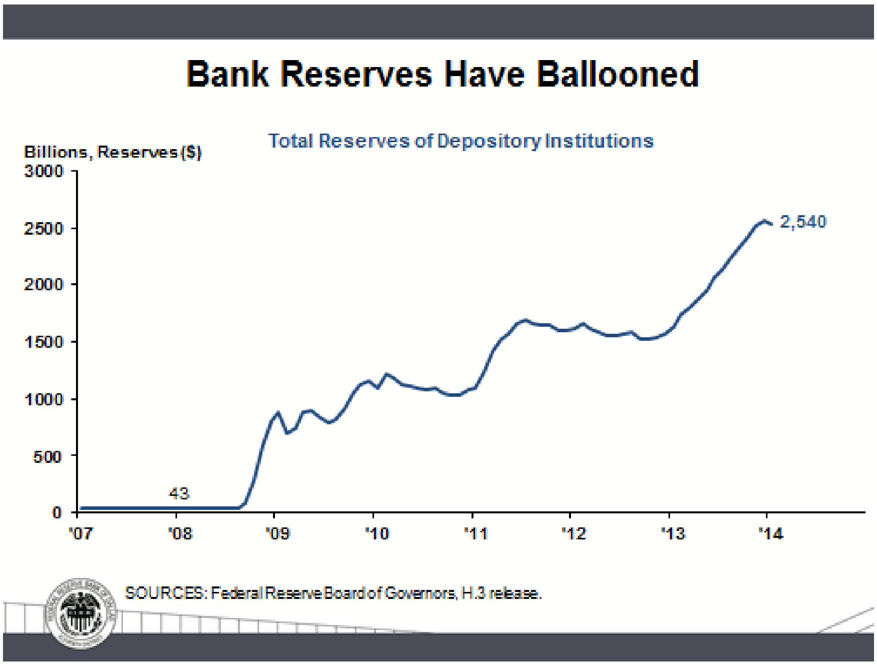
1 See "Yellen must not be bullied by Congress," *Financial Times,* p. 8, Feb. 11, 2014.



I never refer to "classes"; I do not believe status in a democracy should be defined by the hidebound concept of "classes." But no matter: The most vital organ of our nation's economy – the middle-income worker – is being eviscerated.

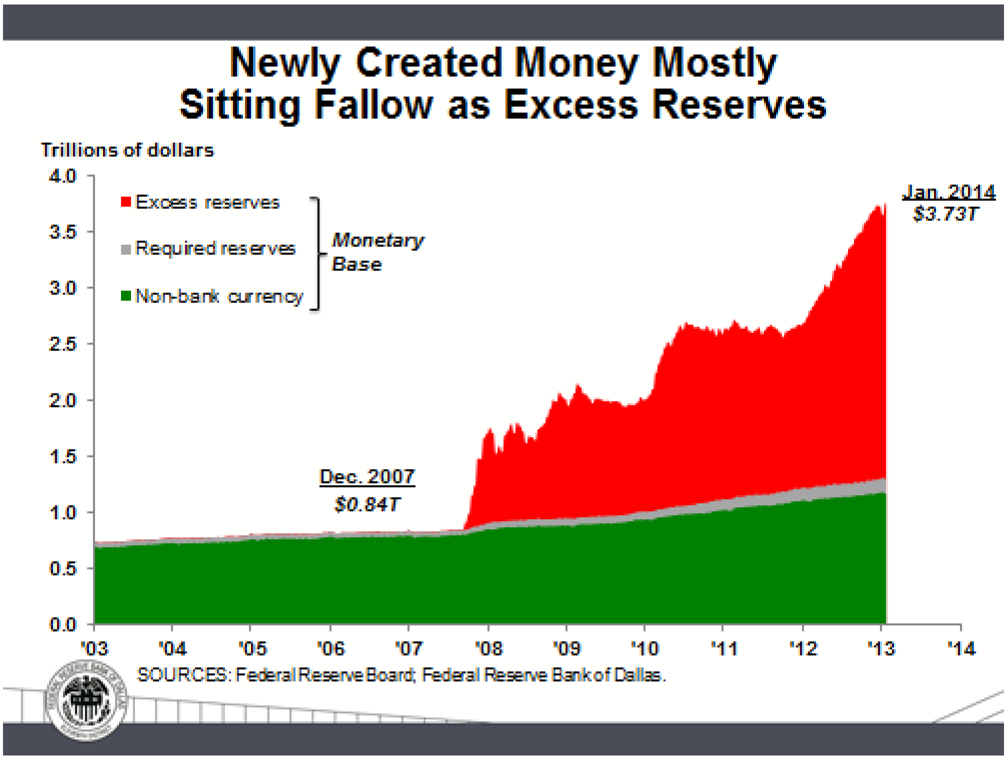
This is the pathology I worry most about. So I ask: Can my colleagues and I at the Fed cure this with monetary policy? Obviously, businesses cannot create jobs without the means for investing in job-creating expansion, so, yes, monetary policy is necessary to propel job creation.

But as I have shown you tonight, the store of bank reserves awaiting discharge into the economy through our banking system is vast, yet it lies fallow. Take a look at this chart of total reserves of depository institutions: They have ballooned from a precrisis level of $43 billion to $2.5 *trillion*.



There is plenty of money available for businesses to work with. Consider this: In fourth quarter 2007 the nation's gross domestic product (GDP) was $14.7 trillion; at year-end 2013 it was estimated to be $17.1 trillion. Had we continued on the path we were on before the crisis, real GDP would currently be roughly $20 trillion in size. That's a third larger than it was in 2007. Yet the amount of money lying fallow in the banking system is 60 times greater now than it was at year-end 2007. One is hard pressed to argue that there is insufficient money available for businesses to put people back to work.

Now, bear in mind that we at the Fed only control the monetary base (cash plus bank reserves), not the velocity with which money is used. Consider this graph:



Over the past six years, the monetary base has increased 340 percent, 10 times the rate at which the economy would have expanded in nominal terms had we not suffered the recent recession. One is hard pressed to argue that there is much efficacy derived from additional expansion of the Fed's balance sheet. This is why I've been such a strong proponent of dialing back our large-scale asset purchases.

It is my firm belief that the fault in our economy lies not in monetary policy but in a feckless federal government that simply cannot get its fiscal and regulatory policy geared so as to encourage business to take the copious amount of money we at the Fed have created and put it to work creating jobs and growing our economy. Fiscal policy is not only "not an ally of U.S. growth," it is its enemy. If the fiscal and regulatory authorities that you elect and put into office to craft taxes, spending and regulations do not focus their efforts on providing incentives for businesses to expand job-creating capital investment rather than bicker with each other for partisan purposes, our economy will continue to fall short and the middle-income worker will continue being victimized, no matter how much money the Fed prints.

I don't want to ruin your evening after such a pleasant dinner. But if you wish to know who is at fault for hollowing out the welfare of middle-income workers and the American economy, kindly do not look at me or my colleagues at the Fed. When you go home tonight look at yourself in the mirror. We at the Fed are providing more than enough monetary accommodation. *You* elect our fiscal and regulatory policymakers. It is time for them to do their job, to ally themselves with us to achieve a fully employed, prosperous America. Only you, as voters, have the power to insist that they craft policies that are needed to restore American prosperity. Please do so.

Have a most pleasant evening!