BY KARTIK ATHREYA

Is the Fed Too Active?

Some observers have recently voiced concern that Fed activities in the areas of climate change and inequality may put the institution at risk. In a forthcoming *Duke Law Journal* article, for instance, Christina Parajon Skinner of the University of Pennsylvania's Wharton School argues that the Fed must avoid the temptation to engage in "central bank activism" by pushing its powers beyond the text and purpose of its legal mandate to address "immediate public policy problems" such as climate change and economic inequality. She cautions, "Activism undermines the legitimacy of central bank authority, erodes its political independence, and ultimately renders a weaker central bank." In a recent *Wall Street Journal* op-ed, Michael Belongia of the University of Mississippi and Peter Ireland of Boston College voiced similar concerns about Fed activities in the area of income inequality.

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These are points that I as a central banker take to heart. The Fed's mandate is, indeed, derived from and circumscribed by laws passed by Congress, so it is incumbent upon us to understand and heed the limits of the mandate. A central distinction that these critics have sharpened for me is the one between *conducting research* to better understand issues of obvious macroeconomic relevance versus *advocating* for specific policies to change outcomes. To fail at the former would be derelict in light of the Fed's existing mandate, just as doing the latter would take us afield.

In the arena of climate change, our focus at the Richmond Fed has been on conducting and supporting research to better understand its potential implications for the macroeconomy, including across the array of key stakeholders (consumers, business, the energy sector). Our activity includes conducting research aimed at measuring how climate change and extreme weather affect U.S. growth and financial stability. And it includes engagement with experts from across sectors, including carbon-producing ones, on how to best navigate the road ahead. What this means for even *our* policy, though, is not yet clear. As Fed Chair Jerome Powell has stated, "We're quite actively exploring exactly what climate implications are for our supervisory, regulatory and financial stability responsibilities."

In the arena of income inequality, it is important to start by recognizing the Fed's longstanding mandate under the Community Reinvestment Act (CRA) of 1977. The CRA requires the Fed "to encourage financial institutions to help meet the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods."

So the goal of redressing at least some aspects of economic inequality has long been a Fed concern. Indeed, the Richmond Fed strives to understand the full range of economic outcomes of Fifth District residents, including inequities, and among them, those that occur along racial lines. To fail here would hinder our ability to fulfill our mandate under the CRA and to provide better information via the *Beige Book* and other means to guide monetary policy. As Richmond Fed President Tom Barkin has pointed out, "The regional Fed banks are charged with understanding the dynamics within our districts. In pursuit of that goal, we have been investing in research that addresses these issues and the racial inequities that result."

Lately, the connection between monetary policy and economic inclusion has drawn increased attention. Some observers have voiced concern that the goal of redressing income inequality could create an "easing" bias in monetary policy, while others have argued that monetary policy has enriched asset holders and left low-wealth households behind. There is no doubt that Fed leadership is concerned about how its policies matter for those at the lower end of economic well-being. This concern seems fully consistent with the Fed's longstanding dual mandate under the Federal Reserve Reform Act of 1977.

From a research perspective, though, there is a narrower reason for Fed researchers to better understand broad disparities in the economy, such as those that occur along racial lines: Like virtually any disparity between groups that themselves contain huge variety (especially race), sustained racial gaps are not plausibly consistent with an economy operating at its potential.

A bottom line for me is this: We should always strive to *understand* forces that plausibly matter for U.S. macroeconomic performance. This includes climate change and large-scale economic inequalities. But because it is important for the Fed to remain clearly rooted in its congressional mandates, our externally facing activity needs to stay focused on trade-offs and, aside from clear "win-win" cases, avoid advocating for policies that lie outside our remit. My aim for the Richmond Fed is to ensure that our research, and the best work we know of, informs the public and policymakers about the economic trade-offs at play. **EF**

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