Current Monetary Policy:
The Influence of Marvin Goodfriend
Opening Remarks

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SOMC | SHADOW OPEN MARKET COMMITTEE

Shadow Open Market Committee Meeting
Princeton Club, New York City
March 6, 2020

E21 Manhattan Institute

ECONOMIC POLICIES FOR THE 21ST CENTURY

Welcoming remarks

On behalf of the SOMC, I welcome you to this special meeting of the SOMC that is dedicated to Marvin Goodfriend and his significant influences on monetary policy.

Before getting started, I would like to thank the Manhattan Institute for sponsoring the SOMC and Reihan Salam, President of MI, and MI's events and communications teams for putting this meeting together.

I would also like to recognize special guests Marsha Goodfriend Shuler, Marvin's wife and former director of communications at the Federal Reserve Bank of Richmond, and Marvin's sister Miriam Rapaport and his nieces.

When Marvin left the Richmond Fed for Carnegie Mellon, it took a lot of arm-twisting to get Marvin to join the SOMC; he finally agreed, saying "this will be a big commitment". He met that commitment, writing a paper for every SOMC annual meeting, each a serious and provocative position statement on critical issues facing the Fed.

Marvin contributed in many other ways, helping to set the focus of many of our meetings, and he helped the SOMC to develop its "Core Beliefs", a set of guiding principles on monetary policy. One of Marvin's key beliefs was the benefits of rules-based guidelines for the conduct of monetary policy.

In this regard, I must note that Marsha, Marvin's mother and sister attended virtually every meeting. Recently, Marsha provided me some insight into how Marvin was consistent in theory and practice: he allowed his mother to attend the meetings as long as she followed certain rules. Maybe that's why she smiled broadly and consistently during all of Marvin's presentations but never asked any questions.

I personally benefited from my numerous discussions with Marvin, whether on the phone,, dinners or walking around Pittsburgh, and continue to reflect on them.

When Marvin passed, the SOMC put together a list of all of the papers Marvin wrote for the SOMC, all readily available on the SOMC's website www.shadowfed.org. The panels for today's meeting stem directly from the issues that Marvin focused on from the SOMC and his early scholarly research:

*Transparency and communications

*Inflation-targeting and rules-based policies

*Monetary policy and the zero lower bound

*The Fed's balance sheet and credit policy

The SOMC approached a number of current and former Fed members and researchers whose tenures in the Fed system overlapped with Marvin's about the possibility of a meeting dedicated to his work.

Marvin would be smiling about the unanimously positive responses and the lineup of today's speakers, and the timeliness of today's topics.

Panel IV introduction

The discussions in the three earlier panels set the stage this final panel on "The Fed's Balance Sheet and Credit Policy."

With the Fed's target funds rate so close to the zero lower bound amid so much uncertainty with temporary downside risk, What is the Fed's strategy on the balance sheet and interest rates? What should its strategy be? The current situation seems murky since Fed Chair Powell and other FOMC members have indicated that negative rates are not a viable policy alternative while the Fed has also suggested that earlier large-scale asset purchasers (LSAPs) were not as effective as the Fed had earlier stated they were. Please clarify.

In late 2008, facing the financial crisis and the zero lower bound, the Fed initiated its first LSAP, so called QEI. Fed Chair Bernanke quickly emphasized that it was credit easing, not quantitative easing, reflecting the Fed's purchases of MBS, and stated that the balance sheet would be unwound on a timely basis.

Instead, even after the economy had recovered and was on a self-sustaining path, the Fed ramped up its asset purchases with QEII and QEIII. The failure of nominal GDP to accelerate following these LSAPs calls into question their stimulative effects. The Fed then adapted a policy of reinvesting the proceeds of maturing assets in order to maintain its peak balance sheet and excess reserves. Fearing negative market responses, what the Fed earlier conceived of as an emergency response to the financial crisis evolved into "normal" monetary policy.

Even after the Fed wound down the magnitude of its QEIII and raised rates toward what it perceived to be consistent with neutral monetary policy, the Fed has settled into a strategy of maintaining ample reserves. Beginning in mid-2019, even with the economy growing along the Fed's projected path, the Fed instituted three "insurance rate cuts" in response to uncertainties stemming from the Trump Administration's trade policies. When those uncertainties lifted and the economy continued to grow along its healthy path, the Fed did not remove those insurance cuts. Obviously, the Fed has a dovish tilt.

Then in September 2019, in response to an unanticipated spike in the short-term funding market, the Fed shifted its operating procedures to provide large liquidity infusions. This was not QE. But following the initial liquidity infusion, the Fed clearly signaled to markets that it will play a dominant role in these markets with a goal of dampening volatility.

So in addition to my earlier questions, I wonder: Can we rely on the Fed's balance sheet strategies to achieve what the Fed says they will, and is the Fed now considering negative policy rates? And is the Fed's strategy of maintaining ample reserves, paying IOER and remaining heavily involved in short-term funding markets simply too complex, and is it all necessary for the Fed to achieve and maintain its dual mandate?