The Daily Dish

Recession Planning

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Eakinomics: Recession Planning

The durability of the economic expansion has been incredibly impressive. But this strength has not stopped many in the research, business, and policy communities from worrying about the next downturn. Recently, JPMorgan chief Jamie Dimon used a CNBC interview to argue that what the United States needs is coordination between monetary and fiscal policy. Here’s a rough transcript of the conversation:

> Jamie Dimon: I also think we have to have coordinated fiscal monetary policy and regulatory policy. You see China do that. In the United States you don’t see it so much industrial, regulatory, fiscal if you want to grow faster and not cause some of the problems that could be caused by rapidly rising rates or something like that, you are going to need both and you are going to need it globally.
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> Becky Quick: That sounds like you don’t think that the Federal Reserve should operate independently from the White House and the president.
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> Dimon: No, they can be completely independent that doesn’t mean they can’t be coordinated. If they feel if governments do x they will be very comfortable doing y. That’s not lack of independence. You both independently said that’s a good course for the country let’s go do it. But you go to China, they do it all the time.
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> Quick: Obviously but China also tells its companies what to do.
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> Dimon: Yeah they can manage their economy much better and we failed to do that we need to have more coordinated policy.

(Bloomberg also has an article on the booming coordination business, including “a proposal where the Fed would engage in direct transfers of cash into consumer accounts to stimulate spending in a recession.”)

What would be the options for coordinating fiscal and monetary policies? At one extreme, the independence of the Federal Reserve could be eliminated, permitting the fiscal authority to explicitly run monetary policy. Given our budgetary mess, is this really a good idea?

Who is the fiscal authority, anyway? The House? The Senate? The administration? The nasty little secret is that the United States does not have a fiscal authority or, especially, a fiscal policy. It has budgetary outcomes (usually bad). The first step to better policy would be to arrive at an agreement of the objectives for fiscal policy. To my eye, role that best captures the comparative advantage of Congress and the administration, relative to the Fed, would be for them to set fiscal policy for long-run growth, declining debt (relative to gross domestic product), and a secure social safety net.

The monetary policy should be tasked with leaning against shorter-term changes in output, employment, and inflation. Notice that this division of labor would coordinate their roles, as opposed to having both involved in all roles and trying to coordinate actions. The latter is much harder and not very promising to my eye.

It is the right time to have a good discussion of the roles of fiscal and monetary policy. But that discussion should fall far short of giving up Fed independence, inserting Congress and the administration into day-to-day monetary policy, or intermixing policy actions in either the short run or over the long term.