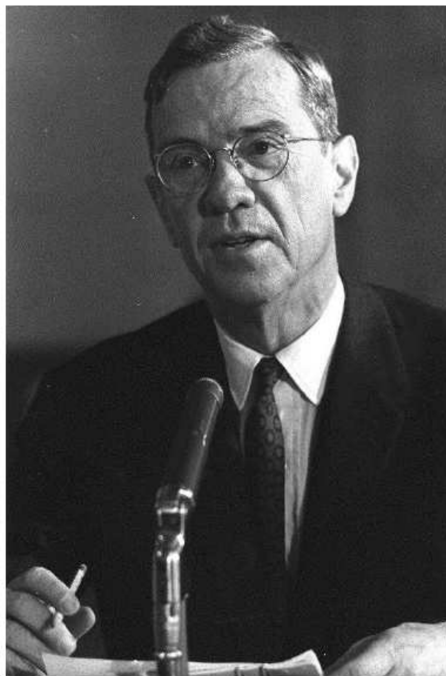
INVESTOR'S BUSINESS DAILY

VIEWPOINT

Fed Chair Janet Yellen Has A Serious Communications Problem



BRYAN ANDERSON 10/06/2015

'You don't tell the markets anything. You just implement policy — slowly and smoothly." That was the communication policy of late Fed Chairman William McChesney Martin (1906-1998), as recalled by finance professor Lewis Spellman of the University of Texas at Austin.

Spellman, who worked at the Fed during the Johnson administration, remembers Martin vividly and believes that Martin is the most successful Fed chairman in history. One measure of success is longevity. Martin was the longest-serving Fed chairman, holding office during the Truman, Eisenhower, Kennedy, Johnson and Nixon administrations (1951-1970).

Few Americans had heard of William Martin back then, and that's how he wanted it. He deliberated on monetary policy in private, issued a statement and went home. He let the markets figure out the intent of the Fed's moves without

spoon-feeding them additional thoughts or wandering off on academic lectures.

According to Professor Spellman, Chairman Martin understood that trying to manipulate the financial press and markets is a losing game.
How the communications policy of our Fed has changed, and not for the better. In one recent week alone, more than 15 different Fed officials were making speeches on the economy and monetary policy.

The market is confused by all this talk. And why not? Depending on which Fed official you hear, you get a different and often conflicting message. What other major organization speaks through 15 different spokespeople?

Corporate America certainly understands the importance of consistent messaging. You won't find a regional vice-president of sales speaking on behalf of a company or disagreeing publicly with the chief executive officer.

Why does our Federal Reserve, with its control over monetary policy and influence over the sentiment of investors, speak through so many voices delivering different messages? What is gained by this practice? Chairman Martin must be rolling over in his grave.

The financial media relish the Fed's new communications policy. Witness Chair Janet Yellen's press conference Sept. 17, following the Federal Open Market Committee meeting. After she delivered her prepared remarks, a question-and-answer session ensued. Each reporter attempted to discern the hidden thinking and rationale behind the decision to hold the federal funds rate unchanged.

Well into the Q&A, Michael Derby of Dow Jones Newswires asked Yellen her thoughts on "negative interest rates as a potential source of new stimulus if the Fed were to have to do something more." Negative interest rates? That is monetary policy for near-depression.

Yellen, with no discernible media training, wandered right into Derby's trap. As if lecturing her students at UC Berkeley, she expounded on the possibility of negative interest rates:

"It's not something we talked about today. Look, if — I don't expect that we're going to be in a path of providing additional accommodation — but if the outlook were to change in a way that most of my colleagues and I do not expect, and we found ourselves with a weak economy that needed additional stimulus, we would look at all of our available tools, and that (negative interest rates) would be something that we would evaluate in that kind of context."

This was not a message of strength and confidence in the U.S. economy. On her comment, the S&P 500 sold off sharply. With the uncertainty over a slowing Chinese economy, weakness in emerging markets and a recent 1,000-point drop in the Dow industrials, our Fed chair acknowledged that the Fed would consider negative interest rates.

Why was this necessary? The chair has no duty to elaborate on fanciful questions from a media person looking for a big story. Does she not understand the role of the financial press?

The Fed's mandate is stable prices and full employment. There is no duty to the financial press. If there is another role, it should be to foster an environment of confidence in the American economy and our markets.

Yellen and the Fed need to seriously reconsider their current flawed communications policy. The goal should be to give markets basic information, as it was in the past. Written statements should be issued following Fed meetings; do away with these after-meeting press-conference Q&A sessions.

Further, the Fed chair should undergo intensive media training before taking office. And we certainly do not need Fed presidents and governors out trying to make a name for themselves by becoming financial rock stars in the press.

Ban speeches and media appearances by all Fed officials, unless their texts are pre-cleared by the chair. Speak little, but if required to do so, deliver one consistent message.

Many in the media wouldn't like this return to old-style Fed communications, but it would reduce the noise and confusion in financial markets. Stability and clarity are what we need now. The current communications policy is not supportive to markets and does not bring the Fed closer to achieving its mandate. We urge Janet Yellen to think hard about changing the way our Federal Reserve communicates.

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