Opinion **Federal Reserve**

The Fed appointments process should be overhauled

Giving the head of the US central bank a single eight-year term would avoid unnecessary uncertainty

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Jay Powell has been reappointed for another four-year term as Fed chair by President Joe Biden © Samuel Corum/Bloomberg

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The writer is author of 'Unelected Power' and a former central banker. His new book on geopolitics and the international economic system is due out next year

The seemingly interminable toing and froing around the reappointment of the Federal Reserve chair — the will he, won't he of whether President Joe Biden would bend to progressives, stick to the centre, listen to Wall Street, main street or powerful senators — was finally resolved on Monday. Jay Powell is, after all that, continuing in the post for another four years.

The dance revealed flaws in the design of the world's most important central bank that should be remembered after the excitement has passed. Happily, these shortcomings can be remedied fairly simply.

No elected politician lightly passes up the opportunity for drama in the exercise of patronage. In Britain, I had a ringside seat for the goings on around the reappointment of successive Bank of England governors back in the days when they served short, renewable terms. In each case, politicians would noisily let it be known they were contemplating alternatives. And in each case, the incumbents would quietly, and sometimes preemptively, let the impression form that they were not necessarily up for carrying on even if they were wanted.

In the event, from Gordon Richardson in 1978 onwards — so Robin Leigh-Pemberton, Eddie George, and Mervyn King — each was reappointed for another five years. Given the costs to all concerned, not least the public, when reforming legislation was being prepared after the 2007-08 financial crisis, the Bank suggested a move to a single non-renewable term of eight years. That was already the regime for the European Central Bank, and the US Congress should introduce it for the Fed when it gets the chance.

This is not only about avoiding unnecessary uncertainty around future monetary policy, or the distracting effort spent on campaigns to survive or succeed. The fate of Alan Greenspan's five four-year terms, spanning 19 years at the helm of the Fed, alerts us to deeper dangers.

If central bank independence finds its justification in offering a counterweight to political short-termism, it was more than ironic that as Greenspan's stature grew, US presidents found themselves trapped whenever the expiry of his latest term approached. In the words of his biographer, Sebastian Mallaby, "the longer he stayed, the more reassuring his presence".

Fearing a bout of market volatility as any new broom settled in, successive presidents were inhibited from doing the right thing for the long-term health of the institution and the country, which was to inject new vitality, not least into the Fed's approach to banking stability. The upshot was that a career that began magnificently by entrenching the low inflation achieved by Paul Volcker left a legacy of vulnerabilities in the financial system that upended the world and exacerbated tensions in America's social fabric.

But the case for reform does not rely on history, instructive though that is. If, as many expect, the Fed acts next year to take back some of the extraordinary monetary support injected as the Covid-19 pandemic took hold around the world, it will almost certainly face questions as to whether it would have acted sooner had its leaders already been reappointed.

And if, as is not unlikely, the supposedly temporary inflation of 2021 becomes embedded in wage and price setting, those questions will be pressed as accusations. Policymakers will of course resist such suggestions, sincerely. But how can we know? Indeed, how can they? The whole point of monetary policy regimes is to shape incentives, including their own.

The extraordinary power placed in the hands of our unelected central bankers requires careful design. They should be given terms of office long enough to avoid the past year's uncertainties. But that should be only a single term, so that elected politicians cannot avoid the need for change when a Fed chair's term does expire.

It will be said, whatever the merits of this argument, that it is beside the point since a sclerotic Congress will not act. But a decent maxim is to percolate ideas so that they are out there whenever a window of opportunity opens.

It might also be asked what foreigners like me have to do with this. The answer is easy. So long as the dollar is the world's pre-eminent world currency, we have a keen stake in the integrity of the US monetary system and its steward, the Fed. With rival reserve currencies, whether from the cryptosphere or a new superpower, hovering over the horizon, it is vital for the free world that Washington gets its monetary house in order.