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St. Louis Fed's Poole Says Fed Is `Bit Player' In Economic Growth

Tucson, AR— Federal Reserve Bank of St. Louis President William Poole said today that though long-term economic growth is "terribly important" for the U.S., the Federal Reserve is a "bit player" in the process, provided inflation is kept in a low range.

Speaking to a meeting of the board of directors of the National Association of Manufacturers (NAM), Poole said that "gains from low inflation are worth seeking, but we should not overestimate their importance relative to government tax, spending and regulatory policies" in promoting economic growth.

Concerning productivity trends, Poole said that the view that nothing has happened seems contradicted by both anecdotal and hard data in recent years. "I may be wrong," he said, "but my best judgment is that the productivity slowdown of the 1970s and 1980s is over. However, we have to be realistic about the magnitude of the improvement." He added that "With our satisfaction over the fine performance of the economy in recent years, we must not allow ourselves to be lulled into wishful thinking."

Poole said the goal of monetary policy should be to keep inflation as low and steady as possible, adding that the Fed shouldn't have rigid views on the equilibrium rate of unemployment or the economy's growth potential. "I want the unemployment rate to be as low, and the economy's growth as high, as government policies, the ingenuity of the business community and the preferences of workers and their families permit" he said.

According to Poole, the Federal Reserve, in setting the intended federal funds rate, "cannot avoid making some judgments about the economy's growth potential. We have no choice." He described his own view of that potential as "balanced, but essentially optimistic."

"When we examine the data carefully, it is hard for me to believe that the economy's long-run growth potential is as high as the actual growth rate of real GDP over the last few years," Poole said. "Some recent growth has come from adding workers at a pace that is very unlikely to continue, and some of the measured increases in output per hour of labor input seem to me likely to be transitory."

Poole told the NAM representatives that, as in the past, "swings in aggregate demand have a greater effect on manufacturing than on the economy as a whole. I know that certain manufacturing industries have suffered from soft demand since the Asian crisis took hold in the summer of 1997. Manufacturing will recover in due time as Asia recovers, and I sincerely hope that time comes soon. But the aggregate economy is doing well, and in my assessment of monetary policy, the Fed must always focus on what is appropriate for the economy as a whole, even though particular sectors depart from the average."

The St. Louis Fed president observed that "The Fed walks a fine line as best it can. Some of manufacturing and much of agriculture are not sharing fully in today's general prosperity. I understand that, and I wish it were otherwise."

Poole said that he was convinced that "If anything I do contributes to destabilizing the general economy, I will not be doing manufacturing and agriculture a favor. A stable aggregate environment is in the long-run interest of all of us."

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