

# Thoughts Out of Season

Occasional Reviews & Notes  
Of Mutual Interest  
Compiled by Tim & Terry Forward



*Still Life 02 by Tim Forward*

**Fig 1.**

## **Powell Says Fed Will Not Be a 'Climate Policymaker'<sup>1</sup>**

By Jeanna Smialek

In a speech on Federal Reserve independence, Chair Jerome H. Powell emphasized that climate change should be addressed by elected officials.

Jerome H. Powell, the Federal Reserve chair, said that to retain its independence from politics, the central bank must “stick to its knitting” — and that means it is not the right institution to delve into issues like mitigating climate change.

“Without explicit congressional legislation, it would be inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate-based goals,” said Mr. Powell, who delivered his comments at a conference held by Sweden’s central bank. “We are not, and will not be, a ‘climate policymaker.’”

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<sup>1</sup> Smialek, J., (2023, Jan, 12). Powell Says Fed Will Not Be a ‘Climate Policymaker’. *New York Times Company, Kindle Edition, Business Day*. Article is copied here in its entirety.

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Mr. Powell's comments responded to occasional calls from Democrats for the Fed to take a more active role in policing climate change, and to skepticism from some Republicans that it can guard against climate-related risks to the financial system without overstepping and actively influencing whether industries like oil and gas can access credit.

While the central bank is working on ways to better monitor climate-related risks at financial institutions, officials including Mr. Powell have been clear that they should not try to incentivize banks to lend to green projects or discourage them from lending to carbon-producing ones.

“Addressing climate change seems likely to require policies that would have significant distributional and other effects on companies, industries, regions, and nations,” Mr. Powell said in his remarks.

The Fed's increasing openness and greater willingness to talk about issues like climate, racism and inequality in recent years has occasionally drawn backlash from Republicans, including several on the Senate Banking Committee, which helps to oversee the central bank.

The Fed should “not wander off to pursue perceived social benefits that are not tightly linked to our statutory goals and authorities,” Mr. Powell said in his speech, seemingly responding to such concerns.

The debate over the Fed's role in climate change conversations — and in politicized issues more broadly — has faded into the background as the more immediate problem of rapid inflation has taken center stage. But it remains a steady drumbeat that is likely to return to the fore, particularly now that Republicans control the House.

The Fed wants to avoid overstepping and drawing backlash that could imperil its freedom to set policy without interference from Congress and the White House.

America's central bank is given substantial freedom to set policy without political interference. Its officials in Washington are selected by the president and confirmed by the Senate, but once in office, they are free to set policy as they see fit and in collaboration with their colleagues from regional Fed banks across the country. Congress gives the Fed its broad goals — maximum employment and stable prices — but its policymakers are allowed to interpret what that mandate means and pursue it as they see fit.

That means that central bankers can make difficult and potentially painful decisions when they believe it is necessary, even when those choices might prove politically unpalatable. That is particularly true today, as the Fed raises rates to restrain the economy and control rapid inflation. Its actions are likely to cause unemployment to rise and wage growth to slow, but officials think those sacrifices are needed to ensure that fast inflation does not become a more permanent feature of the American economy.

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“Restoring price stability when inflation is high can require measures that are not popular in the short term as we raise interest rates to slow the economy,” Mr. Powell said. “The absence of direct political control over our decisions allows us to take these necessary measures without considering short-term political factors.”

But Mr. Powell said that in a well-functioning democracy, most decisions should be made by elected officials, and grants of independence should be “exceedingly rare, explicit, tightly circumscribed and limited to those issues that clearly warrant protection.”

Climate is a particularly thorny problem for the Fed. As a bank supervisor, it needs to think about risks to the financial system, and the line between protecting banks and influencing who can easily access financing could prove to be a fuzzy one.

As a result, the Fed is proceeding carefully as it develops bank-watching practices related to climate.

“The Fed does have narrow, but important, responsibilities regarding climate-related financial risks,” Mr. Powell said. “The public reasonably expects supervisors to require that banks understand, and appropriately manage, their material risks, including the financial risks of climate change.”

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