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Louis D. Johnston
College of Saint Benedict/Saint John's University, ljohnston@csbsju.edu

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By Louis D. Johnston | 12/12/14

REUTERS/Brian Snyder

Among other contributions, Kocherlakota made special efforts to explain the work of the Fed to the broader public.

In a surprise announcement, Minneapolis Federal Reserve president Narayana Kocherlakota revealed that he "will not seek reappointment to a new term as president of the Bank following the conclusion of his current term on February 29, 2016."

The news is unexpected since regional Federal Reserve presidents usually serve longer than one term unless they are appointed to another position (e.g. Janet Yellen left the San Francisco Fed to become the Vice Chairman at the Board of Governors of the Federal Reserve) or reach the mandatory retirement age of 65. Kocherlakota is currently the youngest of the twelve reserve bank presidents.

From the beginning, Kocherlakota faced a big task. He succeeded Gary Stern, who served as president for over 24 years and was responsible (along with Art Rolnick) for nurturing the bank's reputation for cutting-edge research in macroeconomics. In particular, the bank's research department nurtured the work that garnered Nobel prizes for Edward Prescott, Thomas Sargent, and Christopher Sims, and has come to be called the rational expectations revolution in macroeconomics.

Change is difficult, and Kocherlakota faced the same problem faced by Gene Bartow when he succeeded John Wooden as UCLA's basketball coach, Jeffrey Immelt taking over at GE after Jack Welch, or George H.W. Bush in the wake of Ronald Reagan: you will always be compared with your predecessor.

But despite the towering reputation of his predecessor, President Kocherlakota made a real difference at the Minneapolis Fed since taking office in February 2009. Three events stand out from his tenure.

Willingness to change

First, and probably most important from a national perspective, Kocherlakota changed his views on monetary policy over time. Early in his term he argued that most of the high unemployment we experienced in 2010 and 2011 could not be reduced through low interest rates and other Federal Reserve actions. The Fed should therefore focus on keeping inflation low and let other types of policies act to reduce unemployment.

By March 2013 Kocherlakota's views had evolved so that they were almost the opposite: the Fed should keep interest rates low for as long as it took to get unemployment below 5.5 percent. He stuck to his guns by dissenting at the most recent Federal Open Market Committee meeting and voted to continue the Fed's quantitative easing program.

Contrary to some observers, I thought Kocherlakota's actions showed a maturity of judgment that is often lacking in policymakers. He looked at the evidence, thought about his theoretical framework for analyzing that evidence, and then changed his position based on the interplay of theory and evidence.

Explaining the Fed's work

The second legacy of Kocherlakota's term will be his efforts to explain to the public what the Fed is and what it does. His speeches and public talks to community groups all over the Ninth Federal Reserve District focused on bringing complicated topics to the public, explaining them in clear language, and engaging in conversation with everyday people.

Pope Francis exhorts the clergy to "be shepherds with the smell of sheep." Fed bank presidents should heed this advice as well and take Kocherlakota as a model.

Bring in new ideas

Finally, Kocherlakota shook up the research department and its relationship with the University of

Minnesota. As I pointed out earlier, the Minneapolis Fed was at the center of a revolution in the way economists do macroeconomics, and the research department had an iconoclastic reputation in the economics profession. Kocherlakota added more economists who worked in areas outside of macroeconomics (such as labor economics), in general, and outside of Minnesota-style macro. On the latter point, he created a group of economic analysis and forecasting economists outside of the research department who worked with models not usually associated with Minneapolis Fed economists.

This led to another change: the Minneapolis Fed's research department was often seen by outsiders as an extension of the Economics Department at the University of Minnesota. Kocherlakota, despite having served as chair of that department, hired research directors from outside the U of M orbit and sought to connect the Minneapolis Fed to the broader world of economic research.

Kocherlakota's departure is sad news. I was looking forward to many more years of observing how Kocherlakota would steer the Minneapolis Fed in new directions. I'll be interested in hearing about the type of president the board of directors is looking for: someone who wants to turn more towards the past and pull back from the changes since 2009, or someone who wants to continue the evolution begun by President Kocherlakota.

ABOUT THE AUTHOR:

Louis D. Johnston
Louis Johnston writes Macro, Micro, Minnesota for MinnPost, reporting on economic developments in the news and what those developments mean to Minnesota. He is Joseph P. Farry professor in the Eugene J. McCarthy Center for Public Policy and Civic Engagement at Saint John's University. He is also a professor of economics at the university.