



Lagarde, Powell Clash Over Role Of Central Banks In Fighting Climate Change

Description

EU/USA: While investors were distracted waiting for Friday's jobs data out of the US, the FT's Gillian Tett was mediating a group of the world's most powerful central bankers – including the PBOC's Yi Gang, ECB's Christine Lagarde, BIS General Manager Agustin Carstens and François Villeroy de Galhau, the head of the Central Bank of France – who had gathered to discuss the role that central banks can play in combating climate change during the Bank of International Settlements' "Green Swan" virtual conference.

Something interesting happened after Lagarde stepped up to assert that central banks have an obligation to do whatever they can to combat climate change under their mandate, which typically extends to maintaining stable prices and healthy labor markets. But a few minutes later, she met unexpected resistance from the Fed's Jerome Powell, who asserted that the Fed doesn't have a role to play in setting climate policy, a role typically reserved for the federal government.

“We would be failing on our mandate if we did not account for climate change when it comes to understanding and measuring inflation,” Lagarde said. “If we do not see that climate change could impair monetary policy transmission. We would be failing on our mandate if we not measure the impact that climate change has on the assets that we hold, on the assets that we buy, and on the collateral that we have in stock...My hope is very much that we will have a broad consensus on the part of all members of the Governing Council that climate change has to be taken into account, has to be factored in throughout the whole range of our activities,” Lagarde said.

Before Powell was called on to speak, the PBOC's Yi Gang briefly discussed the PBOC's efforts to “encourage” environmentally conscious investing in China (which remains the world's biggest polluter).

Then Powell started by saying there was “no doubt” that climate change poses a serious threat “for all of us”. But “in the United States, our society’s overall response to climate change will have to come from elected officials.”

As for the role of central banks, “it will vary across countries...**but at the Fed we see our role as an important one that is tied closely to our existing mandates. While we don’t have a secondary mandate to support the overall economic policy of the government...**”

“We’re undertaking a broad plan of careful analysis, significant public engagement, and great transparency with regard to our role in addressing climate-related financial risks. You asked about monetary policy, well there’s no question that climate change...**can effect the outlook for the economy, can affect monetary policy...but I would say that today climate change is not something we consider when setting monetary policy.** We are exploring what climate change’s implications are for our supervisory, regulatory and financial stability regulatory facilities,” Powell said.

Tett responded by doubling down, asking Powell “you don’t think you have a mandate to act as a cheerleader...” for policy choices that the private sector can use to fight climate change?

Yet, Powell insisted “**we are not, and we do not seek to be, climate policy makers as such. We have a very specific mandate,** and precious independence...which has served the public well...that’s not up to us...**but nonetheless I do think our work can indirectly educate the public and also I would think inform other parts of the government in the actions they are assigned to assess.**”

The clash is notable in that the world doesn’t often see the ECB and the Fed, which have longstanding ties, disagree in such a public manner, even if it is only over a technicality. It’s worth noting that in recent months, the Fed has taken a more active role in climate change oversight with the creation of two internal committees aimed at exploring the issue and by joining the global Network for Greening the Financial System. Though all of this is consistent with what Powell said about the Fed exploring how climate change might impact the Fed’s regulatory duties.

Of course, if the Fed changes its mind and decides that it is, in fact, obligated to engineer monetary policy with an eye toward supporting Biden’s “green agenda”, he could simply hike interest rates, which would hammer the coal industry.

by Tyler Durden

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