



Rodney's Take

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Gaslighting by the Fed

Last week, Fed Chair Powell stated: “Decisions about policies to directly address climate change should be made by the elected branches of government and thus reflect the public’s will as expressed through elections.”

He went on to say that “[w]ithout 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.” He added, “We are not, and will not be, a ‘climate policymaker.’”

His words immediately brought to mind the recently revived term “gaslighting,” which involves sowing seeds of doubt with regard to perception or memory to convince a person or group not to believe their own eyes or ears. The concept came from a 1944 movie in which a man (Charles Boyer) tries to convince his naïve wife (Ingrid Bergman) that she’s losing her mind, in part by slowly dimming the gas lights in their home while telling his wife she’s imagining that the lighting has changed. When Powell claims that it would be inappropriate for the Fed to weigh in on climate change, he’s completely ignoring what the central bank already has done. In this movie, Powell plays Boyer to our Bergman.

The bank maintains the Supervision Climate Committee and the Financial Stability Climate Committee and has joined the Network of Central Banks and Supervisors for Greening the Financial System. In October 2021, Powell issued a press release that thanked the Financial Stability Oversight Council for its work on climate change and outlined the different organizations with which the Fed works on this topic. The release included this line:

“The Federal Reserve is active and, in many cases, plays a leading role in the climate-related work being done by these institutions, and I am confident we will continue to contribute to and help shape these international efforts to address climate-related financial risks.”

That doesn't sound like an organization that's stepping way from the issue, but maybe there's more to the story... or at least more than one player involved.

While Chair Powell hasn't talked about climate change often, Vice Chair Lael Brainard has. A quick and by no means exhaustive online search of “Brainard” and “climate change” pulled up six speeches she's made on the topic over the last two years, which did not include comments in Congressional testimony or to the press. None of the speeches alluded to distancing the central bank from policy decisions. Instead, Vice Chair Brainard consistently called for greater cooperation among central banks and greater supervision of financial institutions to address the climate crisis as outlined by the Intergovernmental Panel on Climate Change.

I'd love to take Powell at his word, but his actions and those of his fellow central bankers tell us something else. The Fed is putting its thumb on the scale to demand that financial institutions assess climate change in a certain way. The central bank will require risk analysis that looks only at potential damage from natural disasters rather than at increased business and profits that follow from renovation, rebuilding, and mitigation. The end result is easy to see; banks will shun businesses deemed “dirty” when it comes to energy, either cutting them off from financing or dramatically reducing their access to capital. No amount of gaslighting should cloud our understanding of where the central bankers are headed.

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Got a question or comment? You can contact us at info@hsdent.com.