By Robert E. Hall

The Constitution directs the government to regulate the value of money and to fix standards of weights and measures. In the modern federal government, the Fed sets the value of the dollar and the National Institute of Standards and Technology (NIST) sets standards such as the length of the yard. The Fed chairman is the second-most powerful person in the world and known to every newspaper reader in the U.S. When I last checked, Google News had 8,050 hits for Alan Greenspan, just retired, and 6,140 for Ben Bernanke, his successor. The director of NIST, William A. Jeffrey, enjoys no name recognition. One has to drill three layers deep in the NIST Web site even to find his name. Google News had zero hits for him.

How have the two agencies performed their constitutional assignments of providing stable units? The NIST and its predecessor agency, the National Bureau of Standards, have kept the length of the yard almost exactly constant. They have resisted pressure from the fabric industry, for example, to shorten the yard and improve profits. Yard-length-policy has been perfect. So perfect that we don’t even think about the dangers of shrinkage in its length.

The Fed’s job is to keep the purchasing power of the dollar at a stable level. The overall record of the Fed in this mission is dismal. From 1968 to 1982, the dollar fell in half—as if the government had let the yard shorten to 18 inches. During that period, the Fed responded to political pressures for short-term expansion at the cost of neglect of its key function. Between 1982 and 1990, the dollar continued to shrink. But for the past 15 years, under Mr. Greenspan, the Fed has accomplished its goal. Its record during that period is almost as good as the NIST’s. After allowing for a stable rate of inflation of 2.5% per year, the Fed has delivered a unit of purchasing power hardly less stable than the yard.

There can be no doubt that Mr. Bernanke is completely committed to continuing the policy of a stable dollar. Under his leadership, the Fed is likely to make this commitment more formal, perhaps even stating a target such as 2.5% inflation. Mr. Bernanke has been outspoken on the point that the inflation must be kept at the target—it is as bad a failure of policy if it drops below as if it exceeds the target.

One of the important lessons of monetary policy in the U.S. and many other countries over the past decade is that inflation targets can and should be met quite strictly. Most economists thought that confining inflation to a narrow band, such as 1.5% to 3.5%, would be excessively destabilizing when oil or other volatile commodity prices spiked. Our advice was that the economy should roll with the punch, tolerating inflation during those episodes and then squeezing it out later. We thought that a stricter inflation policy would destabilize the real economy, resulting in high unemployment during oil shocks. But the worldwide result of the adoption of fairly strict inflation targeting has seen a pronounced reduction in fluctuations in GDP growth and unemployment.
Stabilizing the length of the dollar (and the pound, the Euro, the New Zealand dollar, and many other currencies) has delivered a more stable economy in other dimensions.

One of the reasons that President Bush selected Mr. Bernanke was his sympathy for the administration’s fiscal policy, which emphasizes structural reform with low marginal rates over concern with the deficit. It’s unlikely that Mr. Bernanke will follow Mr. Greenspan in sounding off about non-monetary policy issues. He will stick to his constitutional mandate to keep the dollar as stable as the yard. Monetary policy will recede from the front page to the inner pages of the C section under Mr. Bernanke’s leadership. A stable dollar is just as boring (and desirable) as a stable yard. Mr. Bernanke’s name recognition will shrink to William Jeffrey’s level. With the problem of an unstable dollar permanently off the policy table, we can turn to solving other critical national problems, such as inducing people to save enough for retirement health care.

[SHIRT]Mr. Hall is the Robert and Carole McNeil Professor of Economics at Stanford and senior fellow at the Hoover Institution.