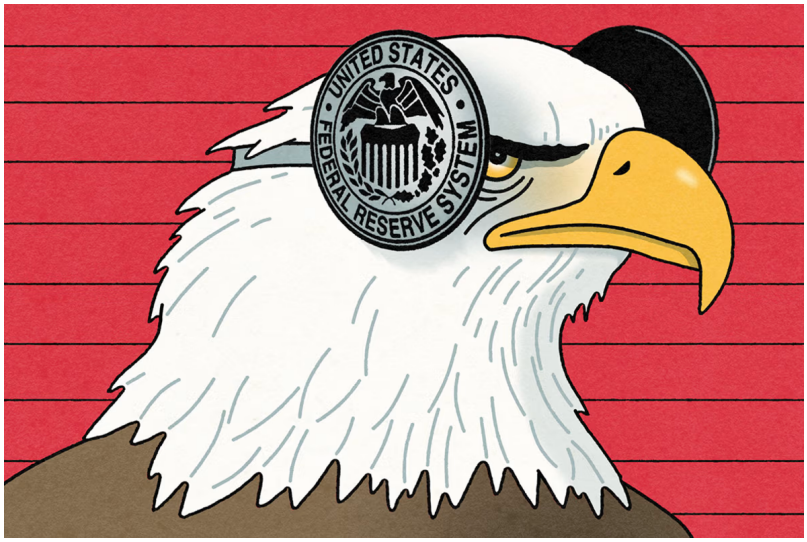
OPINION COMMENTARY Follow

The Federal Reserve's Broken Leadership

Americans would have higher pay and greater purchasing power if the Fed got its act together.

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DAN PAGE

The cost of curiosity is approaching zero, owing to a new age of American innovation. And the rewards for curiosity are surging, thanks in large part to pro-growth policies championed by President Trump. That's why the U.S. is poised to grow faster than any other major economy. Americans would benefit from higher take-home pay and greater purchasing power if only the Federal Reserve's leadership stopped defending its mistakes and started correcting them.

When I was a college student, I spent hours wandering the stacks at the library to find answers to homework. For the next few decades, my counterparts and I looked for answers to our questions by rummaging the internet. Today, immediate access to documented and synthesized information is limited only by one's imagination.

The common explanation for the economic leap is artificial intelligence. The U.S. technology stack is impressive: new large language models built atop cutting-edge chip

technology stack is impressive. New large language models built atop cutting-edge chip design. But a more fitting name for this feat of AI is American ingenuity, which includes a mix of human agency, nimble capital and a culture of dynamism. AI is profoundly changing both the method of invention and the speed of innovation.

The administration's new regulatory and tax policies are well-timed. The deregulatory agenda, the most significant since President Ronald Reagan's, has begun to liberate households and businesses from the dictates of Washington's bureaucracy. Meanwhile, the new tax bill, which the president signed in July, has already spurred massive new capital investments, including in high-value manufacturing and data centers. The president's policies have resulted in more than $5.4 trillion of private capital investment in the U.S. this year, accelerating quarter-over-quarter going into 2026. Capital expenditures on equipment, a leading indicator of aggregate future investment, are growing at an annual rate of around 8%, more than twice the rate during the Biden years.

Other large economies, especially those that operate by command and control, are working feverishly to replicate the U.S. tech stack. China's largest social-media companies are applying America's novel computing methods at unmatched scale and speed to a billion subjects. I wouldn't be surprised if, after several years of subpar economic performance, Beijing has a one-time pickup in growth.

The U.S., however, is the pacing superpower and is best positioned for sustained increases in economic growth over time. The strength of America's tech companies, reflected in market capitalizations that dwarf their overseas peers, gives the U.S. formidable advantages. These so-called hyperscalers aren't the source of America's strength. They are the result.

New ideas spring, as if by serendipity, from individuals. The recipients of this year's Nobel Prize in economics—Philippe Aghion, Peter Howitt and Joel Mokyr—remind us that a steady stream of new ideas is the key to economic prosperity. Talented people discover new avenues of progress, then capital rushes in.

America's real comparative advantage is its workers of all stripes—everywhere from factory floors to drilling rigs, corporate cubicles to garage startups—who devise new ways of doing business. The result: a revitalized nation of doers, risk-takers, and, in entrepreneur Marc Andreessen's simple framing, builders.

Perhaps the most underappreciated characteristic of the Trump administration is its admiration for individual achievement. Treating people based on their merits rather than their status or sensibilities is the renewed American credo. The affinity group that

than their status or sensibilities is the renewed American credo. The affinity group that matters most is that of our fellow Americans.

Wall Street and Silicon Valley are booming, and U.S. workers are finally getting a step-up in their real take-home pay. Even so, the benefits of the American juggernaut are yet to be realized fully. Among the chief obstacles is the Fed. The world is moving faster, yet the Fed's leaders are moving slower. They appear stuck in what Milton Friedman called "the tyranny of the status quo."

What's to be done? Four things. First, the Fed should discard its forecast of stagflation in the next couple of years, as if subpar growth and inflation 40% above target is the best that can be done. AI will be a significant disinflationary force, increasing productivity and bolstering American competitiveness. Productivity improvements should drive significant increases in real take-home wages. A 1-percentage-point increase in annual productivity growth would double standards of living within a single generation.

Second, inflation is a choice, and the Fed's track record under Chairman Jerome Powell is one of unwise choices. The Fed should re-examine its great mistakes that led to the great inflation. It should abandon the dogma that inflation is caused when the economy grows too much and workers get paid too much. Inflation is caused when government spends too much and prints too much. Money on Wall Street is too easy, and credit on Main Street is too tight. The Fed's bloated balance sheet, designed to support the biggest firms in a bygone crisis era, can be reduced significantly. That largesse can be redeployed in the form of lower interest rates to support households and small and medium-size businesses.

Third, the Fed should take responsibility for its regulatory failures, including a deposit run on banks in late 2022 and early 2023. The Fed's rules and regulations have systematically disadvantaged small and medium-size banks, which has slowed the flow of credit to the real economy. Fed leadership should support rather than undermine the good early work of the new vice chairman for supervision, Michelle Bowman, who is crafting a new regulatory framework.

Fourth, the Fed under Janet Yellen and Mr. Powell has spent more than a decade negotiating bank regulatory and supervisory standards with its global counterparts in Basel, Switzerland. Fed leaders have tried to bind U.S. banks to a complicated, vaunted set of rules in the name of global regulatory convergence. In my view, the Basel endgame isn't America's endgame. A new, reformed American regulatory regime should make the U.S. the best place for the world's banks to do business. That would spur new

lending here at home.

The Fed is an institution whose reach has extended far beyond its grasp. Fundamental reform of monetary and regulatory policy would unlock the benefits of AI to all Americans. The economy would be stronger. Living standards would be higher. Inflation would fall further. And the Fed will have contributed to a new golden age.

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