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Fed Chair Jerome Powell can't keep ignoring the climate elephant—or its impact on inflation—at Jackson Hole

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Federal Reserve Chairman Jerome Powell speaks at a news conference following a Federal Open Market Committee meeting on July 31.

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This week at the Jackson Hole symposium, the annual gathering of the Federal Reserve in the Grand Tetons, the people who guide our financial markets will discuss the state of our economy at large, and onlookers will parse the Federal Reserve chair's words about monetary policy. But some topics probably won't come up. Climate impact is the elephant in the room that we haven't heard about enough from the Fed—and that has to change.

Climate-informed risk management advocates have [urged](#), to some [limited success](#), that the Fed roll climate risk into regulation, but it's time to infuse it into the conduct of monetary policy, too, to cushion the economy from shocks and uncertainty.

In the past few years, Americans have seen unusually damaging hurricanes, drought, wildfire, and punishing summer heat. Climate change isn't just hitting our homes—it's hitting our budgets, as [insurers experience the riskiest market in generations](#), making home insurance unaffordable or even unavailable.

Climate change also impacts the broader economy, increasing production and labor costs and reducing productivity in non-trivial and unpredictable ways. Cocoa and coffee yields are dropping. Desertification is changing cultivation patterns. Outdoor workers are suffering from excessive heat. Drought, heat, and flooding are disrupting shipping, with impacts on food and energy prices. Storms and rising waters are damaging homes and businesses with unusual ferocity, setting insurance prices soaring and driving inflation (as Chair Powell [describes](#)).

Meanwhile, the energy economy is undergoing a long-term transition from fossil fuels to renewables, with solar and wind power rapidly becoming more widespread, cheaper, and better connected to the power grid. In the short run, as the transition plays out, utilities face uncertainty and unpredictability and will be left with stranded assets like gas-powered generation plants they no longer need. At the same time, climate events disrupt the power grid, interrupt fuel delivery, and knock generation facilities offline, leaving millions of customers in the dark during punishing storms and heat.

Monetary policy can't solve these problems. The Fed can't manufacture solar panels, upgrade the power grid, or help farmers transition to climate-resistant crops. But it can smooth the climate transition for economic actors in every sector. Monetary policy can cushion the economy from shocks and disruptions and keep prices from spiking for businesses and consumers. It can moderate the cost of financing for investment in transition and risk mitigation. It can spread out the economic impact of extreme weather, and facilitate the building of resilience into manufacturing, logistics, and agriculture. It can even help shape more sustainable long-term supply and demand patterns.

As the Jackson Hole group considers how monetary policy can be used to steer our economic future, they could start with the lowest-hanging fruit: studying the impact of climate on prices in the United States.

Chair Powell [has said](#) that while he believes climate change “is real and poses risks over the long term,” he does not believe the Fed needs to take it into account in steering monetary policy. But other countries' [central bankers](#), and a growing chorus of [academics](#), have shown climate change does impact price stability, including through inflation—and this impact should be built into our modeling.

For example, when the European Central Bank (ECB), a leader in climate-conscious stewardship, [investigated](#) the impact of global warming on inflation in 121 countries, they concluded warming will cause a 1% increase each year in global inflation, and a steeper 3% increase in food prices. The Network for Greening the Financial System, a consortium of 141 central banks around the world, [reports](#) that 40% of members have already undertaken efforts to integrate climate into monetary policy, including through their asset purchase programs, collateral frameworks, and credit operations.

The Fed should also consider the price stability impacts of the energy transition. A haphazard transition from fossil fuels to renewables could cause significant price disruptions, but the Fed does not appear to be taking this risk seriously – their inflation targeting does not even incorporate energy prices in core price measures. How well the Fed dampens energy price volatility will determine how easily the economy as a whole can absorb it and if it does nothing, inflation and employment are likely to see shocks, too.

Considering the evidence and plotting a course toward a prosperous future is what central banks do. It would be a missed opportunity for this year's Jackson Hole symposium to pass without a meaningful interrogation of the climate risks we are ignoring as we set our monetary policy. Federal Reserve governors and the American macroeconomic community need to widen our scope at least enough to acknowledge the elephant sitting right in front of us: climate change threatens price stability. We must use all the tools we have available, including monetary policy, to protect the economy.

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