# Starboard Weekly Report Ending August 26, 2016

Below are excerpts from The Wall Street Journal's (WSJ) 8-25-16 editorial article by Kevin Warsh, a former member of the Federal Reserve board and a distinguished visiting fellow in economics at Stanford University's Hoover Institution.

1. *Policy makers around the world neither predicted nor can adequately explain the reasons for current inflation readings below their targets. So it is puzzling that so many academics are pushing to raise the current 2% inflation target to a higher target of 3% or 4%. In the telling of the economics guild, the Fed's leaders should descend from the Grand Tetons with supreme assurance that their latest monetary policy invention will remedy the economy's ills.*

2. *The Fed's leaders should not take the bait. Raising the inflation target is a bad idea being considered at the wrong time for the wrong reasons. A new inflation target would undermine the Fed's commitment to any policy framework.*

3. *It would please the denizens of Wall Street who pine for still-looser Fed policy. And households would be understandably miffed to receive a new lecture on unconventional monetary policy—this one on the benefits of higher prices.*

4. *A numeric change in the inflation target isn't real reform. It serves more as subterfuge to distract from monetary, regulatory and fiscal errors. A robust reform agenda requires more rigorous review of recent policy choices and significant changes in the Fed's tools, strategies, communications and governance.*

5. *The Fed's mantra of data-dependence causes erratic policy lurches in response to noisy data. Its medium-term policy objectives are at odds with its compulsion to keep asset prices elevated.*

6. *The Fed seeks to fix interest rates and control foreign-exchange rates simultaneously—an impossible task with the free flow capital. Its "forward guidance," promising low interest rates well into the future, offers ambiguity in the name of clarity. It licenses a cacophony of communications in the name of transparency. And it expresses grave concern about income inequality while refusing to acknowledge that its policies unfairly increased asset inequality.*

7. *The Fed often treats financial markets as a beast to be tamed, a cub to be coddled, or a market to be manipulated. It appears in thrall to financial markets, and financial markets are in thrall to the Fed, but only one will get the last word. A simple, troubling fact: From the beginning of 2008 to the present more than half of the increase in the value of the S&P 500 occurred on the day of Federal Open Market Committee decisions.*

8. *The second obstacle to real reform is no less challenging. Real reform should reverse the trend that makes the Fed a general purpose agency of government. Many guild members believe that central bankers—non-partisan, high-minded experts—are particularly well-suited to expand their policy remit. They fail to recognize that central bank power is permissible in a democracy only when its scope is limited, its track record strong, and its accountability assured.*

9. *The Fed is suffering from a marked downturn in public support. Citizens are rightly concerned about the concentration of economic power at the central bank. Long after the financial crisis, the Fed holds trillions of dollars of assets that would otherwise be in private hands. And it appears to make monetary policy with the purpose of managing financial asset prices, including bolstering the share prices of public companies.*

10. *With the enactment of the Dodd-Frank Act, the Fed claims the mantle of reform. It now micromanages big banks and effectively caps their rate of return. The biggest banks' growth in market share corresponds to that of their principal regulator. They are joint-venture partners with the Fed, serving as quasi-public utilities. As the dispenser of fault and favor, the Fed is contributing to the public perceptions of an unfair, inequitable economic system. Real reform this is not.*

11. *If, as is more likely, the economy is closer to recession than resurgence, the Fed is poorly positioned to respond with force, efficacy and credibility. The Fed is vulnerable. Its recent centennial as our nation's central bank should not be confused with its permanent acceptance in the American political system.*



This August 25th WSJ article is worth reading in its entirety rather than the excerpts I have listed above. Mr. Warsh was a former FED member, which makes his opinion that much more compelling. He is reaffirming the many points that I have made over the past 3 years in Starboard's weekly reports. The FED is our country's BREXIT. In today's WSJ there is a front page correlated article regarding the populist movements being created to end the FED's dictatorial economic power.

## TECHNICAL

Since there are no charts this week, the only technical data would be visualizing the elevated level of the markets against a backdrop of the enormous problems that the FED has caused. When the FED and other central banks can no longer support markets, it is going to be like a giant margin call with no buyers.

## FUNDAMENTAL

*Don't fight the FED* has been good advice in the past, but this WSJ opinion article indicates that the FED is causing structural economic problems that must be corrected if we will ever expect to get back on a normal growth path. Today's WSJ front page article mentioned above is on the subject of two populist organizations "Fed Up" and "End the Fed". They want the issues raised by Mr. Warsh's opinion article to be addressed. In their defense, it can be said that the FED prevented a more severe unemployment problem coming out of the Great Recession. However, when government attempts to solve a problem, they usually just create a bigger one. If the federal government just relied on the markets ability to resolve the economic housing crisis instead of interfering through the FED, along with fiscal deficit spending, then we would currently have a lower-risk economic environment and a healthier stock market. Instead, we are now staring down the barrel of another bubble.

## ASIDE

"*If the fiscal cliff occurs, I don't think the Federal Reserve has the tools to offset that event*."
Ben Bernanke

"*The tenth amendment said the federal government is supposed to only have powers that were explicitly given in the Constitution. I think the federal government's gone way beyond that. The Constitution never said that you could have a Federal Reserve that would have $2.8 trillion in assets. We've gotten out of control*." David Malpass, Politician