First Trust
Weekly OUTLOOK

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We Need an Independent Fed

Sound and stable money promotes long-term economic growth. And "independent" central banks are more likely to deliver it. For most of the 1800s, the US was on the gold standard, which meant policy was insulated from political interference. But once the Federal Reserve was created in 1913, it became susceptible to political pressures.

In the late 1960s and 1970s, inflation took off because politicians – particularly presidents – were able to lean on the Fed to get it to conduct monetary policy according to what they wanted, even if it meant more inflation down the line.

We hate to use economic jargon, but monetary policy is well known to have a "time inconsistency" problem, in that an overly loose policy can generate more economic growth in the short-run, but this comes with greater costs in the long run (in the forms of both higher inflation and slower growth) once monetary policy gets tight again.

Politicians often don't care about the long run negative effects, because they happen after the next election or when they're already out of office.

This is one reason President Reagan was so special…he focused on doing the right thing for the long run and fixing the mistakes of the 1970s. He told then-Chairman Paul Volcker that it was the Fed's job to conduct monetary policy in a way that contained inflation and protected the value of the dollar. Reagan then left him alone to pursue that goal. President Clinton let Alan Greenspan pursue monetary policy without interference, too.

The odd part about the current debate regarding Fed independence is that former Chairman Jerome Powell and his allies are often held up as a model for independence, or as supporters of Fed independence when that is far from the truth. It was Powell himself who aided and abetted massive COVID over-spending by the federal government. The Fed kept monetary policy extraordinarily loose, held interest rates artificially low, bought government debt, and printed extraordinary amounts of new money.

A 40-year high in inflation, artificially low costs for deficit spending, and a surge in inequality due to artificially boosting asset values were the result. Rather than admit those mistakes, take his leave, and let new Chairman Kevin Warsh take the Fed back toward sound money, Powell has stuck around at the Fed after his term as chairman expired. We don't know if he is undermining Warsh in his attempt to reform the Fed, but it certainly muddies the waters.

None of this means President Trump is without blame. If Board member Lisa Cook committed mortgage fraud, then let the justice system play out. And even if Powell did a poor job of overseeing construction costs at the Fed, this is not exactly the first instance in which a government agency has spent more than projected on a construction project.

We would rather see criticism of the Fed focused on actual monetary policy mistakes, rather than these sideshow issues. This would give Kevin Warsh the green light to conduct sound monetary policy to support long-term growth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-13 / 9:00 am	Existing Home Sales – Sep	3.950 Mil	**3.940 Mil**		3.980 Mil
10-14 / 7:30 am	CPI – Sep	+0.6%	**+0.6%**		+0.4%
7:30 am	"Core" CPI – Sep	+0.2%	**+0.2%**		+0.3%
10-15 / 7:30 am	Initial Claims – Oct 10	200K	**198K**		197K
7:30 am	Retail Sales – Sep	+0.3%	**+0.3%**		+1.2%
7:30 am	Retail Sales Ex-Auto – Sep	+0.5%	**+0.6%**		+1.4%
7:30 am	PPI – Sep	+0.6%	**+0.6%**		+0.4%
7:30 am	"Core" PPI – Sep	+0.3%	**+0.4%**		+0.2%
7:30 am	Empire State Mfg Survey – Oct	12.6	**13.3**		7.6
7:30 am	Philly Fed Survey – Oct	30.0	**27.2**		37.8
9:00 am	Business Inventories – Aug	+0.4%	**+0.4%**		+0.8%
10-16 / 7:30 am	Import Prices – Sep	+0.8%	**+1.0%**		+0.7%
7:30 am	Export Prices – Sep	+1.0%	**+0.7%**		+0.6%
8:15 am	Industrial Production – Sep	+0.4%	**+0.3%**		0.0%
8:15 am	Capacity Utilization – Sep	76.5%	**76.5%**		76.3%

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