

Thursday 19 June 2014

## Quotable

“Give me a one-handed economist.”

— Harry Truman

## Commentary & Analysis

### The Fed Hydra Kabuki Dance from Hell

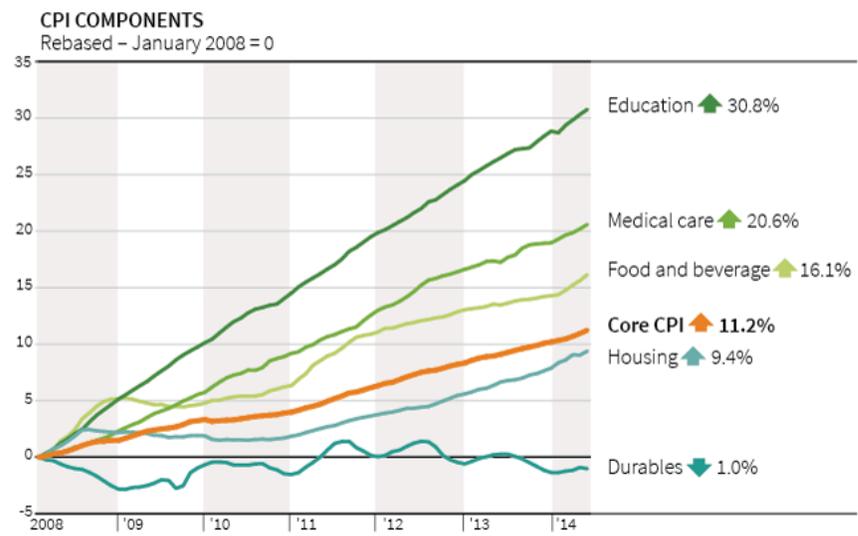
What a performance from Fed Chairman Janet Yellen at her press conference yesterday to explain the Federal Open Market Committee rate decision.

Why does every answer from a Fed Chairman begin with “so?” Bernanke had that weird habit too. I guess it is a Fed thing. “Johnny, did you steal money from mommy’s purse?” And little Johnny says, “So...I needed to buy some candy...” and before Johnny can finish the excuse a regular father would already have stopped him in mid-sentence and said in no uncertain terms: “Answer the damn question: yes or no?” But of course the Fed can never answer the damn question. And so it goes...

- So... those inflation numbers. The latest headline CPI looked high to me, but don’t make too much out of the fact all the things real people are forced to buy, like food, medicine, education, and energy are rising while real wages are taking a dirt nap. Inflation is well under control. Prices are actually tucked tightly within our mandate and in fact we are hoping we see more inflation.

### U.S. inflation

Core CPI (which excludes food and energy) rose 0.3 percent in May. Since the onset of the recession, education, medical care and food/beverage costs have risen faster than core CPI. The price of housing and durable goods, however, have lagged core CPI.



Source: U.S. Bureau of Labor Statistics

S. Culp, 17/06/2014

REUTERS

- So...the Fed funds rate is just about perfect where it is now, unless of course we need to change it for some reason.

- So...those long-term forecasts of growth are precise, but there is quite a margin of error and we have two new committee members who haven't been properly indoctrinated; all will be good next time around. So I wouldn't put too much emphasis on that forecast even though we use them to determine the Fed Funds rate. And so when we do raise the Fed Funds rate, whenever that may be, for some unknown reason, don't worry because the long end of the curve won't rise anyway.
- So... there is a growing number of structurally unemployed out there, but I am sure zero-bound interest rates will do the trick and the economic recovery will pull them back into the job market. But of course we have to remember the economy's inability to grow at normal capacity will mean many of those structurally unemployed may not find jobs which will likely hurt the productivity of the US economy.
- So...I am concerned about the spread between junk and high quality paper, but I see no cause for concern about too much leverage being taken, or investors stretching for yield, or bubbles anywhere.
- So...employment has improved dramatically and we are succeeding on our mandate there, but of course you realize the labor market is still quite weak and zero interest rates will be needed for longer than many expect.

I could go on, but thinking about Fed Chairman Yellen's blather gives me a headache, so I will stop there and let you add some of your favorites. But I do have a few questions and comments:

- Has the women ever traded anything in her life?
- Has she ever held a real job outside of academia?
- Is she the epitome of "no skin in the game" or what?
- Does she actually think she instills the least bit of confidence in anyone listening to her blather?
- Did she ever read Luwign von Mises' accumulation of articles titled the *Manipulation of Money and Credit*?
- Does she understand the Fed is why investors are stretching for yield and taking on too much risk?
- Does she realize a country with the advantage and burden of reserve currency status is supposed to be responsible with money and credit?
- And is she really our "best and brightest," or yet another concoction from the well-connected tribal northeastern liberal institutions and the proper gender to boot?
- Could that performance provide any better example of why we need to shut-down the Fed Open Market Committee?
- Is it any wonder why China is about to zoom past the US as the world's eminent economic power?

Do you remember some of your Greek mythology? Do you remember Hydra, the multi-headed serpent? Every time one of its heads was cut off Hydra quickly grew two more, making it that much more dangerous. I couldn't stop thinking about that as I watched Mrs. Yellen at her press conference yesterday.



So...A crash is on the way. The only question is when.

So...Hercules was able to finally kill Hydra by cauterizing the wound each time he cut off a head, keeping two more from growing back. He knew if he could do that, and finally cut off the last remaining head, it would be the end of the evil serpent Hydra. So...is there anyone out there who wants to revive Ron Paul's call to dismantle the Fed?

It will take a Herculean effort to kill off the Fed. Our top schools seem to breed the "best and brightest" Keynesian Ph.D. clowns faster than Hydra's heads appeared. But ending the Fed is a worthy goal. And I am sure those of us who are not members of the oligarchical *intelligentsia*, especially those in the structurally under- and un-employed class, would be mighty grateful.

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