Two Words From the Fed, and Wall Street Jumps More Than Two Percent

While Fed Chair Jerome Powell was addressing the Economic Club of New York on Wednesday, the stock market was open, and it was listening. What it was listening for exceeded its expectations and stocks jumped in the final hours of trading by more than two percent, its biggest one-day gain since the end of March.

What was "the street" listening for? Anything that would soften Powell's claim nearly two months earlier that interest rates were a "long way from neutral," implying that the Fed was determined to slow the Trump economic juggernaut the only way it knew how: by raising interest rates. In response, the Dow Jones Industrial Average declined by more than 2,500 over the next several weeks.

What "the street" heard from Powell on Wednesday was this: "Interest rates are still low by historical standards, and they remain *just below* the broad range of estimates of the level that would be neutral for the economy — that is, neither speeding up nor slowing down growth." (Emphasis added.)

This was, according to Robert Pavlik, chief investment officer at SlateStone Wealth, "exactly what the market was expecting to hear. Obviously it has to do with the market reaction to his previous comments. He had to walk [them] back."

By the close of business, the Dow had gained over 600 points, or 2.5 percent, with other averages enjoying the lift as well. Powell's "just below" wordage was obviously much different from the "long way from neutral" he opined in early October.

The New American reported last week that Charles Evans, the president of the Chicago Federal Reserve Bank who is also a member of the Fed's Federal Open Market Committee, admitted that he didn't know what "neutral" meant: "Evans told his audience [in Chicago a week earlier] that 'interest rates could comfortably run above the so-called 'neutral rate' but added afterwards that that is a 'vague' notion."

A "vague" notion? The Fed is striving to hit a target but doesn't even know what that target is? What remarkable hubris! What astonishing self-aggrandizement! As Peter Boockvar, chief investment officer at Bleakley Advisory Group, noted, "It's a word game."

It's much more than that. The Fed is an unconstitutional abridgement of Congressional authority and has, over time, been anointed with more power than even the president of the United States. This was noted by one of its early and most articulate opponents, Representative Louis T. McFadden, who chaired the House Committee on Banking and Currency from 1920 to 1931. In one notable speech he made on the House floor in 1932, McFadden said, “Mr. Chairman, we have in this country one of the most corrupt institutions the world has ever seen. I refer to the Federal Reserve Board and the Federal Reserve Banks…. This evil institution has impoverished and ruined the people of the United States … through the corrupt practices of the moneyed vultures who control it.”

McFadden was referring to the Fed policies that laid the groundwork for the Great Depression, from which the country didn’t recover for decades.

The Fed’s problem isn’t just constitutional, either. It’s a moral problem, as noted by Henry Hazlitt, who said, “Moral rules which forbid mankind to hurt one another include wrongful interference with each other’s freedom.” The Fed’s deliberate wrongful interference in the financial markets affects everyone who participates in the economy. It affects everyone who borrows, spends, saves, or invests. It has all but destroyed the purchasing power of the U.S. dollar. The FOMC’s decisions impact the behavior of virtually every living soul in the country.

There’s another problem altogether missing from today’s conversation over those “two words”: the implementation in 1913 of the fifth plank of the Communist Manifesto: “A centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly.” The Federal Reserve System, created by the Federal Reserve Act of Congress and signed into law by President Woodrow Wilson in 1913, is indeed such a “national bank,” which manipulates interest rates while claiming a monopoly over legal counterfeiting of the U.S. currency.

What’s remarkable is that, in the face of all of this distructive manipulation by the Fed, the United States economy is performing as well as it is. Brian Wesbury, chief economist at First Trust, wrote in its Monday Morning Outlook this week that the economy’s “fundamentals are very strong. Total [holiday] retail sales are likely to be up 6%+ this year over last year…. The unemployment rate is 3.7 %…. Average hourly earnings are up 3.1% from a year ago, the fastest growth since 2009…. Gas prices are down…. Household debts [are] the lowest relative to household assets since the mid-1980s…. Debt service [is] hovering near the lowest share of after-tax income since the early 1980s…. We expect this to be reflected in continued robust gains in consumer spending in both November and December as well as the year ahead.”

There was a time, pre-Fed, when the U.S. economy was allowed to operate relatively unfettered. The U.S. economy doubled following the Civil War, and then doubled again. Economists calculated that the economy was growing at an average of between seven and 10 percent a year in the decades before the creation of the Fed. Today hurrahs greet reports of an economy growing at three percent.

It’s been more than a hundred years since the Fed was imposed on the U.S. economy. Imagine what the next hundred years would look like without it.

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