

## Burns or Volcker?

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At this point, the Fed has lost nearly all credibility amongst investors. Now, politicians on both sides of the aisle are joining the bandwagon, blaming Powell for inflationary problems we're living with today. As Ron DeSantis pointed out in the last GOP debate, "They botched it, Congress botched it, both parties are to blame. The Fed should focus on stable prices. They are not an economic central planner for the American people." To be fair, it's not all Powell's fault. Janet Yellen, the previous chair, called inflation transitory at a time when monetary supply was increasing at its fastest rate since the 1970's. Powell is stuck between a rock and a hard place – decrease rates and risk an inflationary resurgence or hold rates too high and push the economy into calamity. We argued all of 2020 and 2021 that inflation wasn't transitory. When it comes to Yellen, we've been vindicated. With Powell however, the jury is still out.

Powell is walking a policy tightrope. If inflation re-emerges, he'll be forced to continue tight monetary policy and push the U.S. economy into a sharp recession. If he doesn't cut rates soon enough, small and medium business gets crushed. Like Michael Scott in "The Office" once said, "Would I rather be loved or feared? I want people to be afraid of how much they love me." Powell wants a similar legacy...to have properly guided the economic ship towards a soft landing. Problem is, employing a single government bureaucrat (no one voted for) to influence the entire economic machine is exactly what our Founders warned against. Central banking, as Karl Marx opined, is the entire backbone on which socialism and communism rely.

Central banking allows politicians to achieve policy goals that could never be accomplished through the democratic voting process. Real capitalism (not crony) demands proper allocation of capital. Good capital allocation results in business success, bad capital allocation results in bankruptcy. Imagine a free and open capitalistic economy where "Too Big to Fail" doesn't exist. CEOs and companies that take on excessive risk and step on giant rakes lose everything, while companies that deliver products and services customers want, earn billions. For roughly half of U.S. history, the former was true. It wasn't until 1913 when the Federal Reserve Act was signed into law, and 1971 when Richard Nixon completely abandoned the gold standard, that we moved towards a centralized economic model run by a small group of bureaucrats. Bottom line, it's unfair to completely blame Powell or Yellen for mess we're in today. They were largely set up to fail nearly 110 years ago.

All of Wall Street is watching Powell to determine if he becomes the next Paul Volcker or Arthur Burns. During the Burns era (1970-1978), inflation increased 85%, or 8% per year. Burns was battling the print and spend LBJ years and Nixon's abandonment of the gold standard. Gerald Ford declared inflation, "public enemy number one," but Jimmy Carter returned to disastrous LBJ style policy that increased the size of the federal government. The truth is, politicians during this period caused most of the "Great Inflation," but today, economic textbooks place most of the blame with Burns for keeping rates too low. When Volcker took over in 1979, he was definitively hated by nearly everyone. However, because inflation eventually came down in the early 80's, he's looked back upon very fondly. Powell wants to be the next Volcker, not Burns.

In the end, the bigger problem at play is that we focus far too much on monetary policy when we should focus on fiscal policy. The Fed would have a far easier job (or not need a job) if politicians delivered balanced budgets and smaller government. As government gets bigger by printing more money, small business and individuals get crushed. Whether you're right, left, center, or don't follow politics, we should all want government to shrink and become a less significant part of our day to day lives. In our opinion, investing during a big government, big deficit era requires careful focus on high quality, large, blue-chip U.S. based companies. While bad times may lie ahead, high quality companies have a better chance of making it through alive.

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