Huizenga: Maybe Just This Once, the Oracles at the Fed Should Listen to George Costanza

Washington, December 7, 2016 |

Today, Monetary Policy and Trade Subcommittee Chairman Bill Huizenga (MI-02) held a hearing surrounding the unconventional monetary policies being employed by the Federal Reserve and how they are limiting economic growth and opportunity for generations of Americans. During his opening remarks, Congressman Huizenga brought to light how the current ad-hoc policymaking by the Fed is jeopardizing our children's standard of living, and with it their ability to attain the American Dream.

"The American dream is at risk," **said Huizenga**. "Pre-recession productivity meant that living standards could double every generation. Under today's opaque and distortionary monetary policies, however, productivity has been cut in half. The oracles call this is the new normal. They are wrong – it is neither normal nor acceptable.

"Not too long ago, our children could reliably look forward to a doubling of their living standards," **stated Huizenga**. "Under today's monetary and economic policies, a doubling of living standard must instead wait for our children's children. With logic and evidence having left their side, perhaps the oracles should embrace a strategy from Seinfeld's George Costanza: 'If every instinct you have is wrong, then the opposite would have to be right.'"

Chairman Huizenga:

Lacking logic or evidence, today's macroeconomic oracles endorse unsustainable deficits and unconventional monetary policies.

The oracles say the economy would be booming, except for fiscal austerity. However, as the debt-clock in this hearing room clearly shows, fiscal policy is anything but austere.

Denying that their prescriptions created a heavy drag on our economy, the oracles point to ever-changing "headwinds." For example, they tell us that an aging population is causing labor force participation to plumb bottoms last seen in the 1970's.
Their hypothesis is short on facts, however. For example, median age in the 1970s is a decade lower than today's. So if aging is problematic, then the oracles would predict strong labor participation in the 1970's, even though it is the same disappointing level as today.

The 1970's is also similar to the 2010's on another important dimension – separated by

four decades, they both suffered from distortionary economic and monetary policies.

Refusing to let facts get in the way of fantasy, the oracles tell us that American households would be even worse off, except for unsustainable deficits and unconventional monetary policies.

The evidence? We are doing better than the likes of Japan and the European Union. That story might fly in the faculty lounge, but it certainly doesn't around the dinner table. The star pupil in a class of central banks gone wild has nothing to brag about.

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The oracles tell us that, without their seat-of-the-pants response to the Great Recession, our economy would be even further below potential almost 8 years post-recession. The opposite would have had a hard time doing worse.

Today's macroeconomists aim policies at highly aggregated variables that have little if anything to do with what drives our economy. Their answer for economic fluctuations is to further distort spending on consumption, investment, or government.

But just as businesses cannot hide mismanagement for long behind income statement manipulations, governments cannot mask malaise by diverting money into politically favored national income accounts.

This pretense of knowledge has grown from a macroeconomic orthodoxy where repeated failures of unconventional monetary and economic policies count as evidence that we didn't do enough.

Economic opportunity reliably increases when monetary policy adheres to its vital duty –

that is, facilitating commerce, wherever it shows promise. Throughout our current economic malaise, monetary policy has not only ignored this duty, it continues to ignore the consequences of ignoring this duty.

Annually since 2007, the Fed's monetary policy committee predicted that its principle-free decisions would trigger a more resilient economy. Each year, reality fell further from prediction. According to the Fed's own researchers, the FOMC did not anticipate the Great Recession … underestimated the severity of the downturn … and consistently over-predicted the speed of the recovery.

A decade of economics-free monetary policy is not working because it cannot work. Returning to a robust economy requires a more firmly grounded and transparent policy.

That transition cannot happen until the Fed shrinks its balance sheet, bringing interest rate and credit risks out of the bureaucratic shadows. In that same vein, policy distortions will remain elevated until the Fed also returns to a monetary policy that does only what it can – produce an efficient exchange medium so that goods and services (which include labor) can easily find their most promising opportunities.