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Fed Surrenders Independence, Creates Risk

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Your editorial "Powell Catches the Fiscal Bus" (March 16) correctly warns that, in the current environment, there will be strong "political pressure . . . to keep rates low as far as the eye can see." That is why the Federal Reserve may turn to yield-curve control (YCC). Supporting longer-term federal debt (and thus pegging yields at politically favored rates) is more probable now, especially since the Fed has adopted "flexible average inflation targeting." Policy makers are less concerned with inflation than with higher interest rates on government debt. But YCC isn't without risk: It would encourage further deficit spending, increase the "reach for yield," distort credit markets and increase duration risk. Central bank credibility and independence would suffer as the distance between monetary and fiscal policy shrinks. This isn't a recipe for sound policy under a rule of law and would hinder long-run growth.

James A. Dorn

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The first and foremost raison d'être for the Fed is to allow for the separation of monetary and fiscal policy-making and, thus, to keep political hands off the dollar printing presses. This purpose has eroded gradually, and now suddenly, as you note.

The quantitative-easing policies of the Fed that were established in the wake of the 2008 financial crisis never abated even as the economy slowly recovered during the Obama administration and more quickly during the Trump administration, when full employment was realized and inflation was under control, the two policy objectives of the Fed in the modern era. Fiscal policy makers never weaned themselves off debt financing.

That the eruption of the pandemic asked policy makers and the Fed to take some extraordinary measures doesn't mean that we shouldn't have been healing our fiscal and monetary houses during the past 13 years for that, or another, kind of eventuality.

The younger generations who will have to pay this bill need to speak up, vote up and put a truly rational valuation on their future, which is now being distorted.

James Gottschalk

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Treasury Secretary Janet Yellen apparently isn't worried about the deficit because she and others focus on the level of interest expense as a percentage of gross domestic product as opposed to the absolute level of debt. That is a convenient formulation while the Federal Reserve and other central bankers artificially depress interest rates.

The problem with this thinking is twofold: At some point the principal needs to be paid off, either by refinancing or actually running a meaningful budget surplus, and excessive deficit spending will inevitably drive interest rates higher.

Extending this logic further, if rates were 50% lower the U.S. could comfortably borrow an additional $30 trillion tomorrow.

We’re going to hear a lot more in coming months about the unholy trinity of MMT (modern monetary theory), Keynesian multipliers and interest expense as a percentage of GDP to justify further, massive deficit spending which we can’t afford and which will have deleterious effects on the economy. Ask yourself: Why are Bitcoin and other cryptocurrencies skyrocketing despite massive volatility and lack of transactional liquidity?

Gordon Gould

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You congratulate Jerome Powell for getting the legislature to share in the burden of putting fiscal policy as another crutch in the top-heavy U.S. debt/GDP structure, which points toward a truism: He now has to pay for it.

With real inflation beginning to gain momentum, the market will demand higher yields while the Fed will want to keep them down. Yield-curve control may accomplish that for a while, but inflation-curve control is not in his fiefdom.

The lesson is that markets were meant to be free, something recent Fed chairmen needed to relearn.

Fred Ehrman

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