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The op-ed that got Stephen Moore his Fed nomination is based on two major falsehoods

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President Trump reportedly chose Stephen Moore for one of the vacancies at the Federal Reserve Board after reading a Wall Street Journal op-ed Moore wrote attacking the Fed. The piece, co-authored with Louis Woodhill, made two central claims: (1) we're experiencing deflation, and (2) the way to address it is to follow a rule adopted by Paul Volcker in the 1980s.

Slight problem though: Both of those claims are flat-out false. There is no deflation, and Volcker never created the imaginary "rule" Moore is now attributing to him. I know, because I asked Volcker — as Moore once suggested I do.

Deflation, for those unfamiliar, means prices are falling. There are three major measures of price changes: the consumer price index, the personal consumption expenditures (PCE) price index, and the "core" PCE price index (which excludes energy and food, which can be volatile). All three show modest but positive year-over-year price increases.

Moore and Woodhill explain this away by saying that in fact we shouldn't be looking at overall price changes — instead we should be looking at just a small subset of prices, specifically commodities. Commodities refer to goods that are interchangeable with one another, such as metals, oil, soybeans, wheat, etc.

Now, there's a reason why when people talk about inflation or deflation they usually focus on the overall index rather than some cherry-picked subset of products. Some products see prices go up (doctor visits); others see them go down (TVs); what we want to know is the big-picture trend. Sure, it's possible that changes in commodity prices might eventually flow through to elsewhere in the economy. It's also possible that commodities have weird, anomalous price changes driven by sudden shocks — a crop failure, say, or discovery of gold, or an oil embargo. These supply or demand shocks tell us little about whether there is too much money chasing too few goods, which is really what the Fed is trying to track.

Moore historically has had trouble distinguishing whether price changes in commodities are driven by monetary policy (that is, the Fed allowing too much or too little money to slosh around) or market-specific shocks. For instance, when I've appeared with him on CNN before, he has cited as evidence of "deflation" the fact that U.S. soybean prices have fallen. And hey, soybean prices are down! But as everyone in America except apparently Moore is aware, soybean prices have fallen primarily because China stopped buying U.S. soybeans in retaliation for Trump's trade war, not because of changes in the money supply.

Nonetheless, Moore claimed in this op-ed, as well as in that CNN appearance, that his confused understanding of inflation and Fed policy was endorsed by none other than the godfather of sound Fed policy: former Fed chairman Paul Volcker.

On CNN, Moore said that we should follow the "Volcker Rule," which he claimed was a rule Volcker set when he was chair in the 1980s that required linking interest rates according to movements in commodity prices. That is not actually anything close to what the Volcker Rule is about. It's actually a regulation that prohibits banks from conducting certain investment activities with their own accounts, and has nothing to do with commodity prices or interest rates. I figured he'd misspoken, or gotten confused (this was around 7 a.m., after all), and moved on.

I was then surprised to see that Moore resuscitated this claim again in his recent Journal op-ed — you know, the one that earned him his Fed nomination. This time he didn't foolishly refer to it the "Volcker Rule"; he said it was Volcker's "commodity-price rule":

The solution is obvious. The Fed should stabilize the value of the dollar by adopting the commodity-price rule used successfully by former Fed chief Paul Volcker. To break the crippling inflation of the 1970s, Mr. Volcker linked Fed monetary policy to real-time changes in commodity prices. When commodity prices rose, Mr. Volcker saw inflation coming and increased interest rates. When commodities fell in price, he lowered rates.

I still honestly had no idea what he was talking about when I read this. I looked through Volcker's recent autobiography and his two biographies, and found nothing on the subject. The dozens of historical Fed meeting transcriptsI read through in recent days made no mention of such a rule, either, or even the suggestion that changes in commodity prices were the primary driver of interest rates during Volcker's tenure. I consulted former Fed officials and Volcker biographer William L. Silber. No one had any clue what Moore was referring to.

On Monday, I wrote to Moore to ask him where I could find more information about this rule, explaining that I had consulted Fed transcripts and other documents to no avail. He replied to say that Arthur Laffer, his longtime business partner and frequent co-author, had written "two very famous pieces" for the Wall Street Journal about the subject in the 1980s.

He eventually sent me one Journal op-ed from 1982, by Laffer and Charles Kadlec. It does not in fact say that Volcker adopted a price rule; rather, it says that Laffer and Kadlec speculated that such a relationship might be able to explain interest rate movements over the previous four months, and proposed how to test their theory. The headline, ending in a telltale question mark: "Has the Fed Already Put Itself on a Price Rule?"

Turns out Cato Institute senior fellow and economic historian George Selgin was also looking into Moore's claim, and dug up another Laffer essay from this era. In this one (in Reason), Laffer explicitly says Volcker replied to that 1982 Journal op-ed to explain to Laffer why the Fed was not targeting commodity prices. Selgin also found a paper by another Fed official — written just after Volcker stepped down, in 1987 — arguing (apparently unsuccessfully) that the Fed should start adopting a rule such as the one Moore describes. Which, of course, implies that the Fed had not had any such rule when Volcker was in charge.

When I first, shall we say, expressed skepticism about Moore's claim in that CNN debate, he suggested I get things from the horse's mouth.

MOORE: Do you know what the Volcker Rule was? You know how he killed inflation? He followed commodity prices. Every time commodity prices went up, he -- he raised interest rates, and every time --

RAMPELL: That’s not what the Volcker Rule is.

MOORE: Yes, it was. That's what he did, and that's how we conquered inflation, and that's why --

RAMPELL: Google the Volcker Rule, people. That’s not what the Volcker Rule is.

MOORE: Yes, it was. Ask him. Ask him.

So I figured, why not ask Volcker? I sent an inquiry through his book publicist, who passed it along to Volcker’s assistant. The assistant replied: “I showed this to Mr. Volcker and he says that he does not remember ever establishing a commodity-price rule.”

There you have it. Trump has nominated to the world’s most powerful central bank a guy who has trouble telling whether prices are going up or down, and struggles to remember how the most famous Fed chair in history successfully stamped out inflation. But hey, Republican senators still seem keen on him because “the establishment” keeps pointing out how inept he is.