



## The Federal Reserve's Gaslighting of America

*Man is the Reasoning Animal. Such is the claim. I think it is open to dispute. ? Mark Twain*

Around 350 BC, Aristotle was the first person to formally study logic and reason. Aristotle did not invent logic and reason any more than Isaac Newton invented gravity. He merely discovered and defined the rules already in place as a necessary condition for human beings to carry on meaningful discourse. He identified the principles of reasoning already built into our humanity. Logic measures the relationship between ideas, premises, and propositions. It allows for two or more ideas to be compared to see if they are consistent and coherent or contradictory. Logic is a necessary condition for meaningful communication and analysis. Logic is necessary for a healthy nation and economy. It is worthy of understanding amidst the multitude of incoherent and contradictory voices raging in our ubiquitous news feeds. As we will discuss, the Federal Reserve (Fed) is among the guilty.

## Leadership without Integrity

As we assess the landscape of the cultural, political, environmental, and market news cycles, how do we reconcile what we hear with what we see? What role does logical theory play? How do we identify contradictions? Have we become too intellectually lazy to even bother? Each year on September 11<sup>th</sup>, Americans mourn, acknowledge, and pray on the anniversary of the terrorist attacks. Like the Gettysburg Memorial, Pearl Harbor National Memorial, and others, the 9-11 Memorial in New York City is especially hallowed. As Americans, one can *feel* the souls there. Those were horrific events, but they are now part of our national fabric and an important part of the path of our country. In 2020, some foolishly suggest that Americans must erase what we know to be true about certain historical leaders and episodes. Just as we cannot unread a book, nothing can change our past. Telling history accurately, both the good and the bad is critical to the future. The only thing that is affected by trying to change the unchangeable is the erosion of our leadership's integrity. Without integrity, the foundation of our system is at risk. Not surprisingly, countries like China and Russia that lack integrity try to rewrite history and manipulate their narrative of events. They are decidedly not countries that value freedom and human rights.

## Logic and Integrity are Essential

The integrity of any political, monetary, and free-market system is vital to its effectiveness. The logic behind that fact is clear. Exceptions are temporary, precisely because a healthy functioning system ultimately sustains itself on its integrity. **When technology stocks trade at a triple-digit price-to-earnings ratio, logic is lost. When home prices rise at a pace never before seen, and the mortgage system enables and rewards dishonesty in qualifying information, integrity is absent.** We know the restoration of logic and integrity brings forth a necessary correction. Accordingly, we know that today's irrational markets face many very similar challenges. Prior periods where the madness of men took control of markets are obvious in retrospect; tulips in the 17<sup>th</sup> century, the South Sea Company in the 19<sup>th</sup> century, and the stock market bubble in the roaring 1920s. More recently, we watched the tech stock bubble in 2000 and the housing bubble in 2007. Those periods and many others ended with the restoration of logic and integrity.

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Although reluctant to acknowledge their role in recent crisis episodes, the Fed is complicit in setting the stage and enabling market manias through undisciplined monetary policy. Today, the Fed prints trillions of dollars to accommodate exploding government deficits and corporate malfeasance. Through self-evident Ponzi dynamics, they tell us it is prudent and a logical part of the monetary ?toolkit.? Actions taken by a small group of unelected officials rationalize their decisions are well within the boundaries of what is authorized. That is patently false. Much of what the Fed is doing is not authorized or legal. They blur the lines between monetary and fiscal policy. They pick winners, and therefore also losers, by buying corporate debt. We know from experience that holding interest rates too low for too long is bad policy. We also know from applying simple logic that purchasing trillions in public securities distorts asset prices. Meanwhile, Fed officials tell Congress and the public that what they are doing is not only legal but even noble. They deny even the possibility of harmful side-effects of their policy. These are contradictions for the ages.

## Gaslighting

In 1938, English playwright and novelist Patrick Hamilton wrote the play *Gas Light*. In the story, a husband attempts to convince his wife that she is insane by manipulating small elements of their environment and insisting that she is mistaken, remembering things incorrectly, or delusional when she points out the changes. The play's title alludes to how the abusive husband slowly dims the gas lights in their home, while pretending nothing has changed, in an effort to make his wife doubt her cognitive perceptions and awareness. Logic is the policeman in the human brain. It tells us if what we are seeing or hearing makes sense. When it does not make sense, our conscience sets off alarms in our brains. For example, we watch the news and see images of rioting, looting, beatings, and fires burning property in major cities. Meanwhile, news reports tell us that what we are observing are ?peaceful protests.?

## Fed Gaslighting

Similarly, the Fed often adjusts the ?lights? in discussions around achieving an inflation target of at least 2%. They must, they say, keep policy accommodative in alignment with the ?mandate? of stable prices. However, stable prices and a 2% inflation target are two different things. That is not only a contradiction but a lie. **A zero-percent inflation target is a pure definition of ?stable prices?.**

*When asked at the July '96 FOMC meeting the level of inflation that truly reflects price stability, he said, "I would say the number is zero, if inflation is properly measured." - David Rosenberg quoting Alan Greenspan*

Additionally, prices that do not rise are beneficial for most Americans as they do not have to pay more for the things they need to live as their wages stagnate. Meanwhile, a 2% targeted inflation rate benefits banks, corporations, and wealthy investors who deploy capital before the adverse effects of inflation. Everyone else suffers. We wrote about the winners and losers in a separate article entitled [The Fed?s mandate to Pick Your Pocket](#). Gaslighting a feckless Congress and the American public into believing that a 2% inflation target is in the best interest of the country erodes

the integrity of the Fed. It is not true, and it could never be true. It is a contradiction and illogical. As described in the article, it exacerbates the wealth divide. Most importantly, it contributes to the civil unrest we see in America today.

## Obfuscation

*?It?s a language of purposeful obfuscation to avoid certain questions coming up, which you know you can?t answer and saying ??I will not answer or basically no comment is, in fact, an answer.? So you end up with when, say, a Congressman asks you a question, and don?t wanna say, ?no comment,? or ?I won?t answer,? or something like that. So, I proceed with four or five sentences which get increasingly obscure. The Congressman thinks I answered the question and goes onto the next one.?? Alan Greenspan*

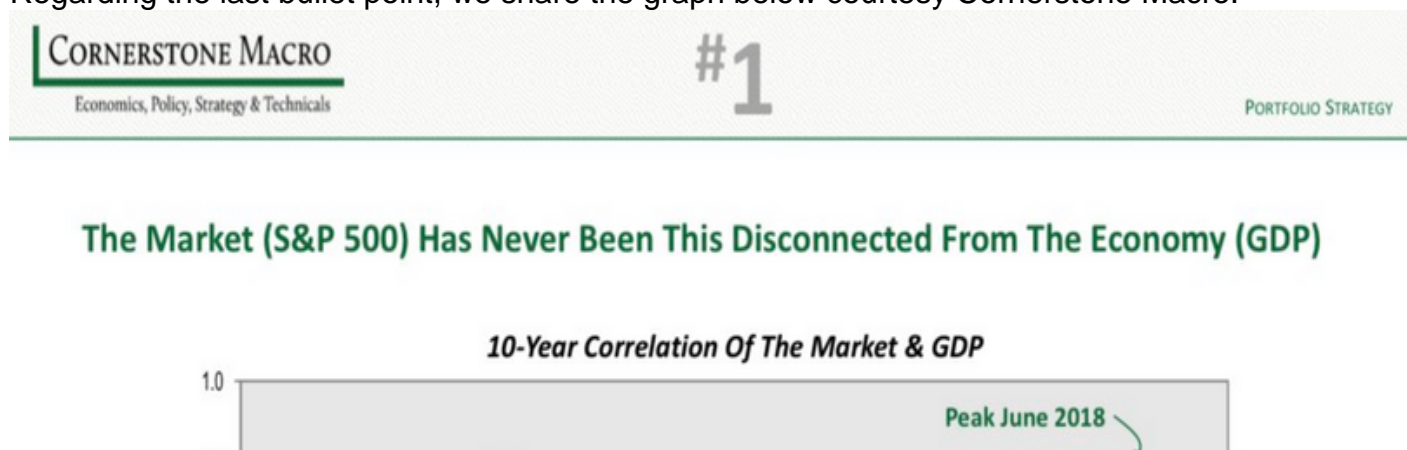
Any Fed governor or Fed president that follows Greenspan?s path is either intentionally disingenuous or intellectually unqualified. Unfortunately, Greenspan?s obfuscation seems to be the primary tactic in the Fed?s playbook. The Fed cannot accurately measure inflation, so how can they know what the rate of inflation is? The measures they use are misleading and generally gamed to provide more latitude for the Fed to do whatever they choose. Meanwhile, Congress, which has oversight of the Fed, is complicit by failing to ask the right questions. They apply no rigor in questioning the veracity of Fed claims. They have yet to challenge the Fed?s radical and extreme policy-settings since the financial crisis. By definition, those abject failures mean Congress is not acting in the best interests of their constituents. That is part of the oath they take when they enter the office. An inflation target selectively benefits the wealthy and is oppressive for the lower and middle class ? 95% of all Americans.

## It?s Not Just the Fed


The problem goes well beyond the Fed and Congress. Their actions seem to abet others in promoting irrational decisions. For example, do these facts make sense?

- Tesla, a company that makes a tiny fraction of the cars in the U.S. and loses money, has a market cap that is four-times larger than the big three automakers combined
- Apple stock is up 70% in 2020, and nearly 500% since 2015 with a market cap of \$2 trillion. The tremendous gains come despite a slight decline in earnings growth since 2015.
- Jeff Bezos and his now ex-wife are worth \$200 billion
- CEO?s in the United States, on average, make more than 300 times the average wage of workers
- Household net worth just hit new all-time highs, but 70% of Americans have less than \$1,000 in savings, and 45% have nothing
- It now costs the average worker a record 114 hours of pay to buy one share of the S&P 500
- Despite high unemployment, a recession, and acute levels of uncertainty about the future, stock markets are new record highs

Regarding the last bullet point, we share the graph below courtesy Cornerstone Macro.



These are just a few examples, but there are dozens more. Many experts tell us in a serious tone and with silver-tongued articulation why they are occurring. The problem is their explanations defy logic. Apparently, appearing on television in a suit and tie is all that is required to make irrational claims of “insight”.

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## Summary

**Congress and the public are being “gaslit” by the Fed. The Fed plays the role of the husband in the Patrick Hamilton script. Their upside-down logic dims the lights to justify their actions. Congress politely asks unobtrusive questions that reflect their poor grasp of the facts. Relying on elected officials, the public is unwilling or unable to question Fed logic. Meanwhile, we sense that something is wrong.** Years of extreme monetary policy is disfiguring and warping markets. Market prices (all market prices such as stocks, bonds, houses, cars, and food) are no longer set by the bid or offer of an arms-length buyer and seller. Prices are being deformed by trillions of dollars being digitally printed by central banks and flooding into what were once free markets. You will not hear that from the “suit” on TV. His or her wealth depends on compliance with and support of the warped system. They are pawns in the game. The Fed chooses corporate winners and losers today just as they did with criminal banks in 2008. The only big loser is the public to whom the Fed *claims* they are beholden. That, however, is a provable lie. Logic as a necessary condition for meaningful communication and analysis is being aborted. Our unelected elites think that they are better informed than the public and billions of global buyers and sellers. Like the reflection from a funhouse mirror, zero-bound rates and quantitative easing (QE) warps the perception of reality. As has already been tried, stepping away from the mirror is difficult and painful. A genuinely free market can only return when logic and integrity return. Trust in the Fed’s platform will eventually be rejected. It is a frightening thought, but that day will inevitably come. It always does.



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