

“Surely You Can’t Be Serious”

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Groucho Marx (1890 – 1977)

The secret of life is honesty and fair dealing. If you can fake that you’ve got it made.

These are my principles, and if you don’t like them ... well, I’ve got others.

I’m not crazy about reality, but it’s still the only place to get a decent meal.

A child of five could understand this. Send someone to fetch a child of five.

Room service? Send up a larger room.

In periods of great global stress, like after a World War or a Great Depression, it’s not only our politics and economics that are thrown for a loop, but also our art and entertainment. New art, and comedy in particular, that rejects or makes fun of the *ancien regime* after some enormous crisis is as old as Aristophanes. This art is subversive, often masking its contempt with “low comedy” like puns and slapstick, and no one in the past century was better at this than Groucho Marx. I’ve lately found myself thinking of Fed communications as a form of performance art ... some sort of Dada-ist comedy routine where Groucho might stick his head out from behind a curtain and photobomb the press conference ... and never more so than yesterday. If only it were so.

Yellen's press conference was a disaster. Why? Because she said too much. Because on the one hand she took away the insane linkage between monetary policy and the unemployment rate – an ill-conceived and counter-productive misreading of market game-playing that I wrote about *ad nauseam* last summer, [here](#) and [here](#) – but on the other hand she gave a specific timing target for raising rates after QE is all tapered out. Combine this with the three-times-in-a-row pattern of cutting monthly QE purchases by \$10 billion per meeting, and now even Jon Hilsenrath is projecting specific calendar dates for raising rates.

I mean, you really can't make this stuff up. Did the Fed learn *nothing* from last summer? This isn't an academic exercise, where statements are qualified and softened by exhaustive footnotes and asides so that no one is ever wrong. The market is a beast, not the review committee for the *Quarterly Journal of Economics*. Of course the market is going to leap at and devour a statement like Yellen's 6 months comment, and you'd think that the Fed Chair would know that.

All together now, one more time with feeling: ambiguity is good; transparency is bad. You might think that transparency would be helpful in “shaping market expectations” the way you like, but you would be wrong. That’s not how the *game* is played. Can I nominate Bill Belichick for the Fed, at least as far as press conferences are concerned?

And I'm very sympathetic to Kocherlakota's dissent ... if you ARE going to take a stand with an explicit linkage to unemployment rates, then you can't just say “oh, never mind that” less than a year later and [expect that whatever new standards you set out for rate-setting are going to be particularly effective in molding expectations](#). It's not a matter of credibility, per se. That's a very specific word with a very specific meaning in game theory, and the simple truth is that the Fed will always be credible enough to be an effective game player. The problem is actually that the Fed is *too* credible, and that Yellen's remark about raising rates within 6 months of stopping QE3 takes on far more import than was intended.

Sigh. Look, maybe I'm over-reacting here. Maybe we are all so freaking exhausted by the constant use of communication as *policy*, by the unceasing effort of the Fed and its media intermediaries to *play* the market, by the Orwellian nature of a monetary policy apparatus where everything is spoken for *effect*, that we will all just go about our business and [slog along](#). And I'm sure we will see lots of back-tracking over the next few weeks, lots of data-dependence talk, lots of “Yellen really didn't say anything new”, yada yada yada. But my fear is that we've set the stage for, if not an inflection point in the path of the

stock market, then another rate shock similar to but smaller than last summer's ... an aftershock, in geological terms.

What am I looking for to see how this plays out? I think we are now even more strongly in a good-news-is-bad-news (and vice-versa) world. If we start seeing some strong economic data come out over the next few weeks and months, then I think the market – particularly the bond market and emerging markets – could get pretty squirrely. Not that US stocks would be immune from this. Remember, the [modern day Goldilocks environment for stocks](#) has nothing to do with a happy medium between growth and inflation, but everything to do with growth being weak enough to keep an accommodative Fed in play. Strong growth data would augment a Common Knowledge structure that the Fed is on track to raise rates sooner and more rather than later and less, and that's no fun for anyone. Then again, if global growth data remains weak – and you really can't look at what's coming out of China, Europe, or Japan and think that the global growth story is anything but weak – that creates enough uncertainty about the Fed's path (not to mention the cover for political and economic Powers That Be to wage a full-scale media war to keep monetary policy in QE la-la land forever) to support the markets. Sounds a lot like Freedonia to me. Rufus T. Firefly for President?

All the best,
Ben

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