



MEMORANDUM

TO: Federal Financial Analytics Clients
FROM: Karen Petrou
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Last Wednesday, the [American Banker](#) quoted me on the politics behind President Biden's contradictory campaign to demand inflation-stifling policies while at the same time championing Fed independence. The article quoted me accurately, but as I read it, the brevity of my comments made them seem unduly pointed. As in Renaissance Florence, modern-day Washington is awash with nuance. To understand what President Biden meant, one has to watch for the equivalent of a carefully-arched eyebrow or a seemingly-offhand remark. Those I see and hear say that the White House will not hesitate to turn the Fed into the fall guy for inflation and then defenestrate it in political self-defense.

This isn't to say that President Biden wants to sacrifice the central bank on the midterm's altar. Despite entreaties of his more bloody-minded political aides, the President has so far heeded Secretary Yellen and given Jay Powell the equivalent of a royal pass. Still, the carefully calibrated comments last week show that this pass is increasingly conditional.

It's not hard to understand why those frightened of a return to what Martin Wolf [last week](#) called a U.S. autocracy are willing to push the Fed in front of the firing line. I am less and less alone in thinking that Democrats in 2016 lost it all because they trusted conventional economic thinking far too much. Still, the Biden Administration has so far made the same mistake.

Starting in 2015, the Fed said that the American economy was a "good place." President Obama took credit for the post-2008 recovery, which it was for the most affluent, and Hillary Clinton followed his lead, promising to do more of the same. Black voters whose economic lives were far from a "good place" stayed home and younger, less-educated men succumbed to Donald Trump's blandishments because he was the only candidate who seemed to understand their plight.

Ignoring this lesson, veterans of the Obama Administration and Clinton campaign have dominated Administration economic thinking and political positioning since the 2021 inauguration with more of the same. They have thus tried to emphasize the positive. As President Biden said again last week, unemployment is at a super low and much he and Congress have done brought it to this place after the 2020 crash.

But the statistics cited so far are just like those used in 2016, aggregates and averages that ignore day-to-day economic reality for all but the top twenty percent. All the savings accumulated in 2021 thanks to abundant fiscal policy are evaporating under inflation's heat for all but the most affluent households. Many Americans with jobs are still falling farther and farther behind due not just to the fact that wages are still inadequate as prices rise and shelter is sought, but also because the majority of Americans get by with debt they know must someday come due. Using its aggregates,

the Fed is convinced household leverage is [sustainable](#), but rock-bottom [consumer confidence](#) says otherwise.

It takes formidable rhetorical flourishes to persuade voters that they're better off than they think they are. For all his appeal, Mr. Biden lacks these skills and the personal bond with his supporters essential for confidence in the face of fear. Even if inflation abates over the next few months, that will leave unaffordable prices in place as weak growth or worse leaves more families farther behind. Throwing the Fed to the wolves at this point probably won't do any good, but the central bank won't be the first futile sacrifice dragged to the block in a sovereign's desperate hope to satiate the angry and unruly masses on whom his reign and that of his successors depends.