

There is a joke in academia and it goes like this

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There is a joke in academia and it goes like this: "What's the answer to every question?" Wait for it ... Wait for it ... "It depends."

It turns out that the Fed has now adopted, and has seemingly perfected as an art form, "it depends" as a primary factor in monetary policy. "It depends" is now our new, dominant monetary policy strategy.

Now, without being too tautological, if every question has the same answer, then we must get better at asking questions. And, if every answer is the same, then it is not a very good answer either.

Which bring me back to the Fed.

The recent Fed decision highlights the Board's "it depends" fever: energy prices, stock prices, financial conditions, Brexit, Grexit, asset backed mortgage security markets, China, Japan, labor force participation and underutilization, wage growth, etc ...

The list of new dependencies constantly expands, so much so that the main focus of the financial market is the Fed's shifting explanations and dependencies.

However, the Fed's persistent "it depends" response is increasingly costly. Over time, such behavior suggests that the Fed does not have a clear reading of the situation (i.e., it doesn't know where we are), or that it lack vision (i.e., it doesn't know where we are going), or that it is not being honest about its intentions (i.e., it is not telling the truth about where we are or where we are headed), or some combination of the above.

Uncertainty, shifting decision-making, and discretion do not make a wise monetary policy strategy. What factors monetary policy depends on – and how monetary policy depends on these same factors – should not continue to be a guessing game almost seven years into an economic expansion.

So here is a question that might help: Will the Federal Reserve adopt a rules-based reference for monetary policy and will it summon the courage and conviction to normalize rates consistent with our economic circumstances, its mandate, and legal responsibilities?

Sadly, the answer may be "it depends."

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