
On the Margin: Powell the Non-Independent, Pro-Growth Italeave

Monday, July 16, 2018

Introducing a new TrendMacro research series, highlighting developing items of interest and deeper color on themes from our regular reports.

Powell Doth Protest Too Much

New Fed chair Jerome Powell was [interviewed on PBS's "Marketplace"](#) on Thursday, possibly part of [his effort](#) to "foster a public conversation about what the Fed is doing" and speak in "plain-English."

Powell mentioned the Fed's political independence no less than five separate times in the interview – the first two times without being asked about it.

The show's host finally said, "when the White House leans on you, you must feel it." Powell replied, "...nothing has been said to me publicly or privately that gives me any concern about our independence."

Why so defensive? We said before Powell took office that he would not be politically independent (see ["Bull Market, Meet Your New Fed"](#) January 29, 2018), and have repeated that view several times in our reports, which circulate in Washington policy circles (see, for example, ["On the March FOMC"](#) March 21, 2018). We believe Powell was specifically selected for his willingness to be non-independent, and this has been corroborated by former Fed governor and chair-candidate Kevin Warsh in his [bold first-person account in Politico](#) of his job-interview with Trump.

There's [an old saying in politics](#) that you should "never believe anything until it is officially denied." We'll take this as the official denial, and now refile our hypothesis that Powell is the first non-independent Fed chair since G. William Miller under "F" for *fact*. ▶

Hey Siri, Will There Be an Italian Debt Crisis?

"I don't understand debt crisis."

Seriously, [Armando Siri](#), the Interior Minister of Italy's new populist coalition government, and the architect of the *Lega* party's ambitious pro-growth

Update to strategic view

US FED, EUROPE MACRO, EUROPE BONDS, FX: In a PBS interview Powell claimed repeatedly to be politically independent. No one who is really politically independent needs to claim to be politically independent so aggressively. Italy's Siri says a pro-growth flat tax will be in the upcoming budget, and that the EU will have to accept five years of higher Italian deficits. His "government of courage" will bring the fight to Brussels, where Conte has already said Italy has "negotiating power," which means the threat to leave the euro currency.

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proposal for a flat-tax says, "You cannot have both stability and growth... We need five years of flexibility from Europe on our deficit to GDP ratio – then we will have stability."

Siri is confirming our expectation that the coming pro-growth Italian budget will be aggressively brought to Brussels later this year. We expect this will lead to volatility-inducing brinkmanship involving the threat of Italy's possible exit from the euro currency (see "[Will the ECB Kill Italy?](#)" June 8, 2018").

[Siri says](#) the government will make the assertive supply-side argument that the budget "...must be able to grow what it takes to make the flat tax, which can not be done in small pieces. We must do it all right away so that it takes effect. ...[F]rom the third year the flat tax will be financed by itself."

He says, "This is the government of courage. ...to Europe we say that Italy needs temporary flexibility on the deficit. To those who are scandalized I say that France has been 6 years in the infringement procedure and Germany has had an excess of trade surplus for 10 years."

This is an aggressive reiteration of what new Prime Minister Giuseppe Conte said in [his inaugural speech last month](#) in more polite phrasing: "In Europe, these issues will be strongly pushed forward with the aim of changing its [the EU's] governance... We are optimistic about the outcome of these discussions and confident of our negotiating power..." 

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