

FED SHADOW

## Open Letter to Kevin Warsh: The ECB Shows You What Not to Do

Thursday, June 11, 2026

Donald Luskin

As Goethe said, “There is nothing more frightful than ignorance in action.”

Dear Chairman Warsh,

Today the European Central Bank [raised policy interest rates by 25 bp](#). This decision, and the rationales offered for it in the [post-decision press conference](#), are a master class in how not to do central banking.

The ECB – and the Federal Reserve – are facing a special challenge now. Higher energy prices in the wake of the conflict in the Middle East are driving consumer price indexes higher, but also pose a threat to growth. Raising policy interest rates would seem to be an obvious response to rising price levels, but worsens the threat to growth. Are central banks impaled on the horns of a dilemma?

No. The dilemma is illusory. Inflation is everywhere and always a monetary phenomenon, as your mentor at Stanford Milton Friedman taught. Excessive creation of money and credit creates it, and then it is statistically captured in rising consumer price indices. The indices show inflation, but they are not the same thing as inflation. Forces other than inflation – such as temporary war-driven scarcities in commodities such as oil – can cause price indices to rise without indicating monetary inflation. That is what is happening now, and to address it with monetary policy is to use the wrong tool for the job, and a dangerous one.

So there is no dilemma. Higher interest rates won't help, and they might hurt.

Yet in its institutional arrogance, the European Central Bank doesn't even consider this possibility. In the press conference today, President Christine Lagarde, without exception, uncritically used the word “inflation” to describe changes in price indices.

Her only vague nod to the exogeneity of the oil price-shock was to urge the European Union to press ahead with green energy initiatives and reduce reliance on fossil fuels.

The ECB is locked in what you call “groupthink.” Ms. Lagarde said, “We did not discuss or debate any alternative proposal.” Even the Catholic church uses a devil's advocate.

### Update to strategic view

**FEDERAL RESERVE, ECB:** This morning the ECB raised rates 25 bp in response to rising price indices driven by a war-induced energy shortage. They show no awareness that this isn't inflation driven by money and credit growth, but only an exogenous event shock. Raising rates is irrelevant to the problem, and risks growth already imperiled by higher oil prices. The arrogant ECB didn't even debate or discuss alternative actions. They claim the move is “robust across a range of scenarios,” but the staff-modeled scenarios all embed the error that an exogenous price shock is the same thing as inflation. And the “range of scenarios” were all different severities of bad, without considering the possibility of good. Next week Warsh's challenge is to begin to reign in the same kind of institutional arrogance and groupthink that infects the ECB.

[\[Strategy dashboard\]](#)

She said repeatedly that the decision was “robust across a range of scenarios.” She explains that the ECB has modeled a bad scenario for rising prices, a very bad scenario, and a moderate scenario. All require a rate hike. Of course this embeds the false assumption that rising prices are the same thing as inflation, and are appropriately treated with monetary policy tools. What’s worse, the three scenarios are all different degrees of bad. They did not consider a good scenario. This is the tyranny of staff modeling exercises that you have criticized.

Milton Friedman taught you many years ago what to do. This morning the ECB taught you what not to do.

Best wishes for your first FOMC next week, when you’ll have your first chance to reign in the same kind of institutional arrogance that infects the ECB.

With warmest regards,



Don

---

**Contact  
TrendMacro**

On the web at  
[trendmacro.com](https://trendmacro.com)

Donald Luskin  
Dallas TX  
214 550 2020  
[don@trendmacro.com](mailto:don@trendmacro.com)

Thomas Demas  
Charlotte NC  
704 552 3625

[tdemas@trendmacro.com](mailto:tdemas@trendmacro.com)  
Michael Warren  
Houston TX  
713 893 1377  
[mike@trendmacro.energy](mailto:mike@trendmacro.energy)

[\[About us\]](#)

---

**AI podcast version**

[Click here](#) to listen to an informal podcast version of this report made entirely by artificial intelligence.

Remember – AI can be funky. This is still experimental. Check it out and let us know what you think.