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How Did We Get Here?

June 2022

I want to take a minute to discuss an issue that has arisen a couple of times this year among clients. Twice, I've had a situation where a client or his/her Successor Trustee/Power of Attorney couldn't find the pertinent estate planning documents to help the client in a time of need. Usually, attorneys keep copies and this would be easily resolved. But in one of these situations the client says the attorney is retired and doesn't remember his name anyway. It is still unresolved.

In our discussions we talk about estate planning. I know many of you have put in the time and expense of meeting with your attorney to plan for your care and estate. It's important to make sure the right people know where to find these documents. Have that discussion with that person. Some clients have asked that we upload a copy of their estate planning documents to their Investor360 account, that's the online portal you view your account with. Investor360 has the latest firewalls and software protections. Let me know if you'd like to discuss further.

Enclosed is a nice article passed along by an even nicer client. From Politico Magazine and written about six months ago it largely discusses Thomas Hoenig and his history at the Federal Reserve. Hoenig was considered somewhat of a hawk on monetary policy. Whatever your monetary persuasion it does a great job of painting a picture of "how we got here" to 8% plus inflation. It's a bit of a heavy read but worth reading and reading again if necessary.

Checking in with people around the industry I took a deep dive into the markets, inflation and the economy with my friend, and one of the bright lights, at JPMorgan Jessica "Jess" Stone. She's cautious about giving targets but in a nutshell a slow second half on the economy with "traditional/average" recession possible next year. When I ask about mortgage rates and how high they go? Again, they avoid specifics but seem comfortable with 7% (about where they topped out prior to 08-09 Great Recession). No matter who I talk to in the industry, all feel recession is more certain. In fact, I hear it a lot of places, it seems to be the consensus. I acknowledge the Federal Reserve has a very tough job – trying to slow the economy but not enough to make unemployment or recession an issue. That being said, the consensus is often wrong on Wall Street. Remember, the consensus that inflation was transitory!

In the real world, clients/contacts in the construction industry report mixed reviews. One says things are slowing down and the phone is not ringing. Another reports more work than there are people to do the work. He summed it up well: ***"If you're a small contractor and you handle the whole job your busy. It just takes a couple jobs to keep you busy all year. But, if you're a specialist like a contractor that installs fire sprinklers in commercial buildings you need more jobs to keep***

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you busy throughout the year. Those are the contractors that may be experiencing a little slowdown now.”

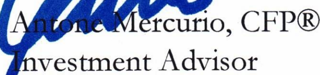
My wife and I, and our eldest son, took a walk in Carmel this weekend. I noticed a lot of closed businesses. Not closed as in out of business but closed on Sunday afternoon in summer. Mostly restaurants. Asking locals, they say restaurants are having trouble finding staff. A client in the restaurant business in the Silicon Valley areas confirms this. She’s very tied in with the local business community and said she noticed a number of businesses had closed immediately after receiving PPP Loan forgiveness from the government. (I don’t think it was supposed to work that way). Hopefully, this is not an emerging trend.

In the oil world (always confusing-lots of moving parts) my friend and client mentioned oil leases are being sold again where they previously weren’t. The big question is, will these leases be developed into producing wells? That costs money. Oil companies seem hesitant to invest too much because in the past they commit the money and then the game or rules change and its hard to recoup their investment.

Finally, near and dear to my heart, real estate. A high-end realtor friend and client says the high end of the market remains brisk. These are cash buyers. Starter and mid-range homes are seeing price reductions and some are being pulled off the market. Higher interest rates are having an effect. So far this sounds like an orderly cooling in real estate. Also, the issues around debt that existed among homeowners before 08-09 are not there today. This is good news.

Most importantly, a sincere thank you for your trust and confidence in these turbulent times.

Sincerely,



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Enclosure

The Fed's Doomsday Prophet Has a Dire Warning About Where We're Headed

Thomas Hoenig knew what quantitative easing and record-low interest rates would bring.

By CHRISTOPHER LEONARD
12/28/2021 04:30 AM EST

Thomas Hoenig doesn't look like a rebel. He is a conservative man, soft-spoken, now happily retired at the age of 75. He acts like someone who has spent the vast majority of his career, as he has, working at one of the stuffiest and powerful institutions in America: The Federal Reserve Bank. Hoenig has all the fiery disposition that one might expect from a central banker, which is to say none at all. He unspools sentences methodically, in a measured way, never letting his words race ahead of his intended message. When Hoenig gets really agitated he repeats the phrase "lookit" a lot, but that's about as salty as it gets.

This makes it all the more surprising that Tom Hoenig is, in fact, one of America's least-understood dissidents.

In 2010, Hoenig was president of the Federal Reserve regional bank in Kansas City. As part of his job, Hoenig had a seat on the Fed's most powerful policy committee, and that's where he lodged one of the longest-running string of "no" votes in the bank's history.

Hoenig's dissents are striking because the Fed's top policy committee — called the Federal Open Market Committee, or FOMC — doesn't just prize consensus; it nearly demands it. The committee likes to present a unified front to the public because it is arguably the most powerful governing body in American economic affairs. Hoenig's string of dissents shattered that appearance of unanimity at a critically important time, when the Fed was expanding its interventions in the American economy to an unprecedented degree. It was a hinge point in American history, and the economy has never been the same since.

Between 2008 and 2014, the Federal Reserve printed more than $3.5 trillion in new bills. To put that in perspective, it's roughly triple the amount of money that the Fed created in its first 95 years of existence. Three centuries' worth of growth in the money supply was crammed into a few short years. The money poured through the veins of the financial system and stoked demand for assets like stocks, corporate debt and commercial real estate bonds, driving up prices across markets. Hoenig was the one Fed leader who voted consistently against this course of action, starting in 2010. In doing so, he pitted himself against the Fed's powerful chair at the time, Ben Bernanke, who was widely regarded as a hero for the ambitious rescue plans he designed and oversaw.

Hoenig lost his fight. Throughout 2010, the FOMC votes were routinely 11 against one, with Hoenig being the one. He retired from the Fed in late 2011, and after that, a reputation hardened around Hoenig as the man who got it wrong. He is remembered as something like a cranky Old Testament prophet who warned incessantly, and incorrectly, about one thing: the threat of coming inflation.

But this version of history isn't true. While Hoenig was concerned about inflation, that isn't what solely what drove him to lodge his string of dissents. The historical record shows that Hoenig was worried primarily that the Fed was taking a risky path that would deepen income inequality, stoke dangerous asset bubbles and enrich the biggest banks over everyone else. He also warned that it would suck the Fed into a money-printing quagmire that the central bank would not be able to escape without destabilizing the entire financial system.

On all of these points, Hoenig was correct. And on all of these points, he was ignored. We are now living in a world that Hoenig warned about.

The Fed is now in a vise. Inflation is rising faster than the Fed believed it would even a few months ago, with higher prices for gas, goods and automobiles being fueled by the Fed's unprecedented money printing programs. This comes after years of the Fed steadily pumping up the price of assets like stocks and bonds through its zero-percent interest rates and quantitative easing during and after Hoenig's time on the FOMC. To respond to rising inflation, the Fed has signaled that it will start hiking interest rates next year. But if that happens, there is every reason to expect that it will cause stock and bond markets to fall, perhaps precipitously, or even cause a recession.

"There is no painless solution," Hoenig said in a recent interview. "It's going to be difficult. And the longer you wait the more painful it will end up being."

To be clear, the kind of pain that Hoenig is talking about involves high unemployment, social instability and potentially years of economic malaise. Hoenig knows this because he has seen it before. He saw it during his long career at the Fed, and he saw it most acutely during the Great Inflation of the 1970s. That episode in history, which bears eerie parallels with the situation today, is the lodestar that ended up guiding so much of Hoenig's thinking as a Fed official. It explains why he was willing to throw away his reputation as a team player in 2010, why he was willing to go down in history as a crank and why he was willing to accept the scorn of his colleagues and people like Bernanke.

Hoenig voted no because he'd seen firsthand what the consequences were when the Fed got things wrong, and kept money too easy for too long.

The last time America suffered a long and uncontrolled period of inflation, Thomas Hoenig was given the miserable job of cleaning up the mess it left behind. This was the period that has come to be known as the Great Inflation, a period in the 1970s characterized by long lines at gas stations and price hikes at grocery stores that came so fast price tags were replaced midday. Hoeing came to realize that the institution he worked for, the Federal Reserve, wasn't just a bystander to this inflation. It had helped create it.

As a bank examiner, Hoenig spent the 1970s watching as the Fed's policies helped pile on the inflationary tinder that would later ignite. These policies are known as "easy money" policies, meaning that the Fed was keeping interest rates so low that borrowing was cheap and easy. The Fed had kept interest rates so low during the 1960s that they were effectively negative when accounting for inflation by the late 1970s. When rates are effectively negative, that might be called a super-easy

money policy. This kind of environment fuels inflation because all that easy money is looking for a place to go. Economists call this phenomenon "too many dollars chasing too few goods," meaning that everybody is spending the easy money, which drives up the prices of the things they are buying because demand is high.

Importantly, the Fed creates these conditions by creating more and more dollars, or increasing the monetary supply, as the economists say.

As a bank examiner, Hoenig realized another very important thing. Easy money policies don't just drive up the price of consumer goods, like bread and cars. The money also drives up price of assets like stocks, bonds and real estate. During the 1970s, low interest rates fueled demand for assets, which eventually inflated asset bubbles across the Midwest, including in heavy farming states, such as Kansas and Nebraska, and in the energy-producing state of Oklahoma. When asset prices like this rise quickly, it creates that dreaded thing called an asset bubble.

The self-reinforcing logic of asset bubbles was painfully evident in farming, and it reflected the dynamics that would later play out in the housing bubble and the over-heated asset markets of 2021.

When the Fed kept interest rates low during the 1970s, it encouraged farmers around Kansas City to take on more cheap debt and buy more land. As cheap loans boosted demand for land, it pushed up land prices — something that might be expected to cool off demand.

But the logic of asset bubbles has the opposite effect. Rising land prices actually enticed more people to borrow money and buy yet more land because the borrowers expected the land value to only increase, producing a handsome payoff down the road. Higher prices led to more borrowing, which led to higher prices and more borrowing still. The wheel continued to spin as long as debt was cheap compared to the expected payoff of rising asset prices.

The bankers' logic followed a similar path. The bankers saw farmland as collateral on the loans, and they believed the collateral would only rise in value. This gave bankers the confidence to keep extending loans because they believed the farmers would be able to repay them as land prices increased. This is how asset bubbles escalate in a loop that intensifies with each rotation, with the reality of today's higher asset prices driving the value of tomorrow's asset prices ever higher, increasing the momentum even further.

The bubbles weren't just confined to farmland. The same thing was happening in the oil and natural gas business. Rising oil prices and cheap debt encouraged oil companies to borrow money and drill more wells. The banks built a whole side business dedicated to risky energy loans to pay for these wells and related mineral leases, all based on the value of the oil they'd produce. In commercial real estate, it was the same thing.

It all came to an end in 1979, with a severity that has never been repeated. Paul Volcker became chair of the Federal Reserve and he was intent on beating inflation by hiking interest rates. Under Volcker, the Fed raised short-term interest rates from 10 percent in 1979 to 20 percent in 1981, the highest they have ever been. This unleashed massive economic havoc, pushing the unemployment rate to 10 percent and forcing homeowners to take out mortgages with 17 percent interest rates or higher. Volcker recognized that when he was fighting inflation, he was actually fighting two kinds:

asset inflation and price inflation. He called them "cousins," and acknowledged that they had been created by the Fed.

"The real danger comes from [the Fed] encouraging or inadvertently tolerating rising inflation and its close cousin of extreme speculation and risk taking, in effect standing by while bubbles and excesses threaten financial markets," Volcker later wrote in his memoir.

When the Fed doubled the cost of borrowing, the demand for loans slowed down, which in turn depressed the demand for assets like farmland and oil wells. The price of assets collapsed, with farmland prices falling by 27 percent in the early 1980s and oil prices falling from more than $120 to $25 by 1986. This, in turn, created a cascading effect within the banking system. Assets like farmland and oil reserves had been used to underpin the value of bank loans, and those loans were themselves considered "assets" on the banks' balance sheets. When the loans started failing, the banks had to write down the value of those loans, which made some banks appear insolvent because they suddenly didn't have enough assets on hand to cover their liabilities. When land and oil prices fell, the entire system fell apart.

"You could see that no one anticipated that adjustment, even after Volcker began to address inflation. They didn't think it would happen to them," Hoenig recalled. Overall, more than 1,600 banks failed between 1980 and 1994, the worst failure rate since Depression.

This was the period when Hoenig traveled around the Midwest, auditing banks to determine if they were still solvent during the recession. Not surprisingly, Hoenig ended up arguing with a lot of bankers when his team declared that the value of the banks' assets were not sufficient to meet their liabilities.

"They could become quite stressed and quite vocal in their objections," Hoenig later recalled of the bankers. "You could empathize with them enormously. You could understand the anguish. Lives were destroyed in this environment, people lost everything in this environment. I didn't blame them for yelling or being distraught."

John Yorke, a former senior vice president at the Kansas City Fed, observed a stubbornness in Hoenig during that period that persisted through his entire career. Shutting down community banks wasn't easy, but Hoenig didn't seem to flinch from the responsibility. "Tom's German," Yorke said, referring to the ethnic origin of Hoenig's name. "He's strict. There's rules."

It would have been easy enough for Hoenig to blame the bankers for making so many risky loans after the bubble burst. Examples of banking grotesquery were abundant. But Hoenig didn't think the stupidity in lending was entirely the bankers' fault. The Fed had encouraged the asset bubbles through its easy money policies.

"The fact is, [bankers] made the loans," Hoenig said. "They made them in an environment of incredible optimism in terms of asset values." By "optimism," Hoenig was referring to something called "inflation expectations." The bankers expected asset prices would continue rising indefinitely, and that very expectation fueled demand for loans, which in turn caused the price to rise. "And that, really, was in part the fault of a decade of too-accommodative monetary policy."

There were many counterarguments to explain inflation that didn't blame the Fed. These arguments rested on the idea of "cost push" inflation, meaning that all kinds of forces outside the Fed were pushing price higher. Middle Eastern cartels were boosting the price of oil, for example, while labor unions were pushing up the price of labor. The federal government spent years trying to fight inflation under this theory, even going to far as to impose wage and price controls. It didn't work.

There is strong evidence to support Hoenig's view that the Fed was fueling inflation the whole time. In a 2004 report, the Fed economist Edward Nelson wrote that the most likely cause of inflation during the '70s was something he called "monetary policy neglect." Basically, the Fed kept its foot on the money pedal through most of the decade because it didn't understand that more money was creating more inflation. This kind of inflation is called "demand pull" inflation, meaning that the Fed stokes demand, which causes prices to increase.

The author and economist Allan Meltzer, who reconstructed the Fed's decision-making during the 1970s in his 2,100-page history of the central bank, delivered a stark verdict. It was monetary policy, set by the Fed, that primarily created the problem. "The Great Inflation resulted from policy choices that placed much more weight on maintaining high or full employment than on preventing or reducing inflation," Meltzer wrote. "For much of the period, this choice reflected both political pressures and popular opinion as expressed in polls."

Hoenig carried these lessons with him. He was promoted to become the president of the Kansas City Fed, in 1991, which gave him a voting seat on the FOMC. He served there during the long tenure of Fed Chair Alan Greenspan, and then Greenspan's successor Ben Bernanke. Between 1991 and 2009, Hoenig rarely dissented.

Then came 2010, when he believed the Fed was repeating many of the same mistakes it made in the 1970s.

The FOMC faced a terrible dilemma after the crash of 2008. The central bank had kept interest rates pegged at zero in the wake of the banking crisis, but it didn't seem to be enough to stoke strong growth. The unemployment rate was still 9.6 percent, close to the levels that characterize a deep recession. While members of the FOMC generally agreed that another recession was unlikely, the committee began considering new and experimental ways to exercise its power.

Hoenig began voting no in 2010 when it became clear that Bernanke wanted to keep interest rates at zero for an extended period of time. A review of Hoenig's comments during the 2010 FOMC meetings (the transcripts of which become public five years after the fact), along with his speeches and interviews at the time, show that he rarely mentioned inflation. Hoenig was warning about even deeper dangers that might be stoked by keeping interest rates pegged at zero. But his warnings were also very hard to understand for people who didn't closely follow the politics of money.

Hoenig, for instance, liked to talk a lot about something called the "allocative effect" of keeping interest rates at zero. The allocative effect wasn't something that people debated at the barbershop, but it was something that affected everyone. Hoenig was talking about the allocation of money and the ways in which the Fed shifted money from one part of the economy to another. This is what

he'd witnessed during the 1970s. The Fed's policies encouraged or discouraged things like Wall Street speculation that could lead to ruinous financial crashes.

But it also did more than that — encouraging speculation and rising asset prices also shifts money between the rich and the poor because the rich own the vast majority of assets in the United States. Hoenig was worried that a decade of zero-percent interest rates would have the same effect.

Bernanke was unpersuaded by these arguments. When Bernanke published a memoir in 2015, he entitled it *The Courage to Act*. This captured the theory of Bernankeism, which holds that central bank intervention is not only necessary, but even courageous and noble (Bernanke declined to answer questions about Hoenig's dissents that were sent to Bernanke in June).

Bernanke pushed the FOMC to keep rates at zero throughout 2010. Then, in August of 2010, with unemployment high and growth sluggish, he publicly unveiled the plan to create $600 billion new bills through an experimental program called "quantitative easing." This program had been used once before, during the financial crash. But it had never been used in the way that Bernanke proposed it be used in 2010, as an economic stimulus plan to be employed outside of an emergency.

If Hoenig had learned one thing during his decades at the Fed, it was that keeping money too easy for too long could create disastrous side effects that only manifested years later. That's what happened during the 1970s, and again in the mid-2000s, when low rates fueled the housing bubble. Now Hoenig was being asked to vote for quantitative easing, a super-easy money policy that would encourage risky lending and asset bubbles.

The basic mechanics and goals of quantitative easing are pretty simple. The goal is to pump massive amounts of cash into the banking system at the very moment when there is almost no incentive for banks to save the money, because rates are so low. (When rates are low, banks don't earn much from saving cash because the cash earns meager interest.) The Fed creates the money as it always has, by using its own team of financial traders who work at the Fed's regional bank in New York.

These traders buy and sell assets from a select group of 24 financial firms called "primary dealers," an ultra-exclusive club that includes the likes of JPMorgan Chase and Goldman Sachs. The primary dealers have special bank vaults at the Fed, called reserve accounts. To execute quantitative easing, a trader at the New York Fed would call up one of the primary dealers, like JPMorgan Chase, and offer to buy $8 billion worth of Treasury bonds from the bank. JPMorgan would sell the Treasury bonds to the Fed trader. Then the Fed trader would hit a few keys and tell the Morgan banker to look inside their reserve account. *Voila.* The Fed had instantly created $8 billion out of thin air, in the reserve account, to complete the purchase.

Morgan could, in turn, use this money to buy assets in the wider marketplace. Bernanke planned to do such transactions over and over again until the Fed had purchased $600 billion worth of assets. In other words, the Fed would buy things using money it created until it had filled the Wall Street reserve accounts with 600 billion new dollars.

Inside the closed-door FOMC meetings, quantitative easing was debated during 2010 for being what it was — a large-scale experiment that carried unclear benefits and risks. There was more opposition

to the plan than was publicly known at the time. Hoenig wasn't the only FOMC member with strong objections to the plan. The regional bank presidents Charles Plosser, Richard Fisher and Jeffrey Lacker expressed concerns about it, as did a Fed governor named Kevin Warsh.

The Fed's own research on quantitative easing was surprisingly discouraging. If the Fed pumped $600 billion into the banking system in roughly eight months, it was expected to cut the unemployment rate by just .03 percent. While that wasn't much, it was something. The plan could create 750,000 new jobs by the end of 2012, a small change to the unemployment rate but a big deal to those 750,000 people.

There were many downsides to the plan, but the risks all played out over the long term. The primary worries were the ones Hoenig pointed out, about risky lending and asset bubbles. But there was also concern that quantitative easing could create price inflation, encourage more government borrowing (because the plan worked by purchasing government debt) and that it would be very difficult to end once it began because markets would become addicted to the flow of new money.

The final vote on quantitative easing was set on Nov. 3, 2010, and opposition was still strong. Lacker, president of the Richmond Fed, said the justifications for quantitative easing were thin and the risks were large and uncertain. "Please count me in the nervous camp," Lacker said at the time.

Plosser, the Philadelphia Fed president, was blunter. "I do not support another round of asset purchases at this time," he said. "Again, given these very small anticipated benefits, we should be even more focused on the downside risks of this program."

Fisher, the Dallas Fed president, said he was "deeply concerned" about the plan. "I see considerable risk in conducting policy with the consequence of transferring income from the poor, those most dependent on fixed income, and the saver, to the rich," he said at the time.

According to transcripts of internal FOMC debates, Bernanke defended the plan with an argument that he would use repeatedly in coming years, saying that the Fed faced risks if it *didn't* intervene. Bernanke also knew he had the votes to pass quantitative easing. Due to a quirk in the FOMC voting rotation, the critics Fisher, Lacker and Plosser didn't have a vote that day. Bernanke had personally lobbied Warsh, the Fed governor, who came to an agreement that he'd support quantitative easing, according to Bernanke's memoir, although he would write an op-ed expressing his concerns about it.

Hoenig believed that there would likely be no going back if the Fed unleashed quantitative easing in late 2008. Just like the 1970s, the Fed might end up keeping money too easy for too long as it tried to juice the job market, chasing short-term gains as it piled up long-term risks.

If Hoenig had voted to support quantitative easing on Nov. 3, he would have almost certainly been praised by his peers. By breaking his long string of dissents that year, he would have allowed the Fed to appear united in the decision to embark on a new and experimental course. But something held him back.

Hoenig has a stubborn streak when it comes to such decision, and it traces back to his long history of working with serious numbers. During his childhood in Fort Madison, Iowa, Hoenig spent his

holiday breaks working at his dad's small plumbing shop. Hoenig was sent to the back room with a clipboard so he could record the inventory of plumbing parts. If he made a mistake, his dad could find himself short of supplies. After graduating high school, Hoenig served as an artillery officer in Vietnam, where he calculated the firing range of mortar shells to ensure they landed near enemy positions rather than on his fellow U.S. soldiers. Hoenig's upbringing taught him that getting numbers right was a deadly serious job. And he felt a sense of duty to get it right. When he enlisted to fight in Vietnam, he had explained the decision in simple terms to his sister, Kathleen Kelley.

"I remember him saying: 'You know, I'm an American citizen and I hope to be able to enjoy all the benefits this country offers, so it's my responsibility,'" Kelley recalled. He would later characterize his string of dissents in this language. He called it his "duty."

There were 10 votes in favor of quantitative easing. When it was Hoenig's turn to vote, he answered: "Respectfully, no."

Hoenig retired from the Fed in late 2011. As he predicted, the round of quantitative easing he voted against was just the beginning. By 2012, economic growth was still tepid enough that Bernanke argued that more quantitative easing was in order. This time, the Fed printed roughly $1.6 trillion. The Fed also kept interest rates remained pegged at zero for roughly seven years, by far the longest stretch in history (rates had touched near-zero in the late '50s and early '60s, but stayed there only briefly).

The Fed tried mightily to reverse its easy money programs, but largely failed to do so. The central bank tried to raise interest rates slowly, while withdrawing some of the excess cash it had injected through years of quantitative easing. When the Fed tried to withdraw this stimulus, markets reacted negatively. In late 2018, for example, the stock and bond markets fell sharply after the Fed had been steadily raising rates and reversing quantitative easing by selling off the assets it purchased (a maneuver it dubbed "quantitative tightening"). Fed Chair Jay Powell quickly halted those efforts in a move that traders dubbed the "Powell Pivot."

For Hoenig, the most dispiriting part seems to be that zero-percent rates and quantitative easing have had exactly the kind of "allocative effects" that he warned about. Quantitative easing stoked asset prices, which primarily benefited the very rich. By making money so cheap and available, it also encouraged riskier lending and financial engineering tactics like debt-fueled stock buybacks and mergers, which did virtually nothing to improve the lot of millions of people who earned a living through their paychecks.

In May of 2020, Hoenig published a paper that spelled out his grim verdict on the age of easy money, from 2010 until now. He compared two periods of economic growth: The period between 1992 and 2000 and the one between 2010 and 2018. These periods were comparable because they were both long periods of economic stability after a recession, he argued. The biggest difference was the Federal Reserve's extraordinary experiments in money printing during the latter period, during which time productivity, earnings and growth were weak. During the 1990s, labor productivity increased at an annual average rate of 2.3 percent, about twice as much as during the age of easy money. Real median weekly earnings for wage and salary employees rose by 0.7 percent on average

annually during the 1990s, compared to only 0.26 percent during the 2010s. Average real gross domestic product growth — a measure of the overall economy — rose an average of 3.8 percent annually during the 1990s, but by only 2.3 percent during the recent decade.

The only part of the economy that seemed to benefit under quantitative easing and zero-percent interest rates was the market for assets. The stock market more than doubled in value during the 2010s. Even after the crash of 2020, the markets continued their stellar growth and returns. Corporate debt was another super-hot market, stoked by the Fed, rising from about $6 trillion in 2010 to a record $10 trillion at the end of 2019.

And now, for the first time since the Great Inflation of the 1970s, consumer prices are rising quickly along with asset prices. Strained supply chains are to blame for that, but so is the very strong demand created by central banks, Hoenig said. The Fed has been encouraging government spending by purchasing billions of Treasury bonds each month while pumping new money into the banks. Just like the 1970s, there are now a whole lot of dollars chasing a limited amount of goods. "That's a big demand pull on the economy," Hoenig said. "The Fed is facilitating that."

Hoenig's 2020 paper didn't get much attention. After his retirement from the Fed, he served as stint as vice chairman of the FDIC, where he pushed an unsuccessful proposal to break up the big banks. Now he lives in Kansas City, publishing papers and giving the occasional media interview. He is still issuing warnings about the dangers of runaway money printing, and he is still being mostly ignored.

Hoenig isn't optimistic about what American life might look like after another decade of weak growth, wage stagnation and booming asset values that primarily benefited the rich. This was something he talked about a lot, both publicly and privately. In his mind, economics and the banking system were tightly intertwined with American society. One thing affected the other. When the financial system benefited only a handful of people, average people started to lose faith in society as a whole.

"Do you think that we would have had the political, shall we say turmoil, revolution, we had in 2016, had we not had this great divide created? Had we not had the effects of the zero interest rates that benefited some far more than others?" Hoenig asked. "I don't know. It's a counterfactual. But it's a question I would like to pose."