If "Everything Is Awesome", Why The Alarms Over A Slight Rate Hike?

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For those who have paid attention, the question asked, "If "Everything Is Awesome", Why The Alarms Over A Slight Rate Hike?" is self-explanatory. Everything is NOT awesome. The economy is not fixed. It is deteriorating daily. The unemployment numbers are lies, the average family has no spare money to help boost the economy, and the Banks are not loaning to Main Street. Instead, they are investing on Wall Street, or in derivatives. It is a "fake" recovery, benefiting only the rich. – Shorty Dawkins, Associate Editor

This editorial comes from the Wall Street Journal via zerohedge.com

by Omid Malekan

Imagine you have a serious illness and have been taking medication that was supposed to cure you long ago. After being on the maximum dosage for years you start to feel better, so you ask your doctor if you could roll back the dosage, ever so slightly, to alleviate some of the side effects. He says that would be fine—but then a pharmaceutical rep tells you that doing so would be dangerous. Whose advice would you follow?

This resembles the situation today as the Federal Reserve signals its intent to start raising interest rates, ever so slightly, after six years of near-zero rates. This extraordinarily loose monetary policy was introduced in late 2008 when the global economy was in free fall. U.S. gross domestic product was plunging, the unemployment rate was rising and would soon climb above 10%, and in March 2009 the Dow Jones Industrial Average would fall below 7000.

Although at the time few could argue with the need for such extraordinary Fed action, the U.S. economy today has been growing for several quarters. Unemployment is below 6%, and the Dow recently reached an all-time high above 18000. An outside observer might think that taking some modest steps back toward a normal monetary policy is a no-brainer. Not so. Within and outside the Fed there is a great debate as to when, and sometimes whether, the Fed should start raising rates, even by a trivial amount.

Charles Evans, president of the Chicago Fed and a voting member of the board that determines rate policy, said last month that **raising rates too soon would be a "catastrophe."** Former CEO of General Electric Jack Welch , during a Feb. 4 interview on CNBC, called **a possible spring rate hike "ludicrous."** Billionaire investor Warren Buffett told Fox Business Network on the same day that he didn't think a **rate increase this year would be "feasible."** Catastrophe. Ludicrous. Not feasible. Really?

It might help to put this into historical perspective. According to the Fed's own monthly data, for the five decades (1954-2007) leading to the current rate-cut cycle, the benchmark, overnight federal-funds rate averaged 5.7%. In the 1980s the rate went as high as 19% and in the early 2000s, after the dot-com crash, it went as low as 1%. But the 5.7% average is the number that withstood the Vietnam War, the Cold War, the stagflation of the 1970s and the boom of the 1990s. Since December 2008 the fed-funds rate has been kept close to zero.

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