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For years, we have been critical of Federal Reserve policy and the significant impacts that it is having on the U.S. economy. As we wrote 2017, "U.S. monetary policy is among the greatest of internal risks to U.S. economic growth." And in 2018, "Extraordinary policy experimentation undertaken by the Federal Reserve during the darkest days of the financial crisis remains a major impediment to robust economic growth for the nation."

These extraordinary policy interventions are threefold: ultra-low short term interest rates; the purchase of trillions of dollars of long-term treasuries and mortgage-backed securities, known as Quantitative Easing; and the payment of interest to commercial banks for reserves stored at the Fed.

Any one of these policies, by itself, would have been unprecedented. The combination represents a dizzying policy experiment whose full consequences will not be understood until after the next economic downturn.

For years, we have felt fairly alone in our criticism of the Fed. But following a speech by Fed Chair Jerome Powell in early March, you no longer need to take our word about the nature of Fed policy and its consequences.

Speaking at Stanford University, Powell admitted that, after lowering the Fed's short term interest rate target to zero in December of 2008, "Unable to lower rates further, the Committee (FOMC) turned to two novel tools to promote economic recovery…From the outset, the Committee viewed them as extraordinary measures to be unwound or 'normalized' when conditions warranted."

In the same speech, Powell admitted that there is a link between extraordinary monetary policy and slow growth: "The post-crisis period has seen many economies around the world stuck for an extended period at the ELB (zero interest rate boundary), with slow growth…Experience suggests that more frequent ELB episodes could prove quite costly in the future."

Make no mistake. These were extraordinary interventions by the Fed, meant to be only temporary responses to a severe crisis. These extraordinary interventions have consequences. They are tightly linked to the anemic decade of growth that the U.S. has suffered since the Great Recession.

It follows that the Federal Reserve should be moving in a determined way to reverse these extraordinary policies. In our estimation, they should have been doing so since at least as early as 2012.

To our shock, Chairman Powell also used the speech at Stanford to announce a reversal of the Fed's humility regarding these interventions. As Powell claimed, "The world has moved on in the last decade, and attempting to re-create the past would be neither practical nor wise."

You see, the Federal Reserve now plans to maintain a balance sheet of 3.5 trillion dollars in assets. *Forever*. And while the balance sheet would naturally shrink over time, as securities reach maturity, the Fed plans to reinvest funds into new securities. In other words, QE-infinity.

Thwarted by its own balance sheet and unable to influence the short-term market interest rate by buying and selling treasuries, the Fed plans to continue using the payment of interest on reserves (IOR) as the primary policy tool for achieving its interest rate target. Never mind that IOR is unprecedented, poorly understood and not recommended by theory. Along with the Fed's bloated balance sheet, IOR also dampens the critical price signal represented by the yield curve. It is now widely held that the yield curve no longer contains the information that it used to regarding market risk and the business cycle.

And the Fed has no plan to return to a normal interest rate regime, which would require sustained increases in the Fed Funds target rate. As Powell explained, "Rates in normal times now tend to be much closer to zero than in the past…suggesting trips to the ELB may be more frequent.

Powell would apparently have us believe that the new regime of ultra-low interest rates is some unexpected natural phenomenon, like a change in the weather. In fact, it is not a structural break in the economy that has produced this result. It's a structural break in Fed Policy.

To review Powell's stunning revelations, the Fed undertook extraordinary policy interventions during the financial crisis. These interventions were intended to be temporary. They have long-term negative consequences for the economy. While the Fed's own internal logic argues for unwinding these policies, we are now going to make them permanent. We will simply live with the negative economic consequences that result.

The outlook for the U.S. economy is thus diminished.

Even more worrisome is the outlook for the next recession. We can't imagine what the Federal Reserve's response will be, given that the Fed will still be mired in the crisis-era responses of the previous recession. Unfortunately, the Federal Reserve doesn't know what its response will be either.