The Fed has been a weight on the back of the US economy

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The Federal Reserve has at times described its 2-percent inflation target as "symmetric." In the March 15, 2017 FOMC press release, for example, the wording "… symmetric inflation goal" was used.

The personal consumption expenditures (PCE) price index, the Fed's preferred measure of inflation, was below 2 percent for seven years prior to 2018. In 2018, it was 2.2 percent.

Symmetric implies that the Fed could allow it to run above 2 percent, at least for two or three years to partially offset the seven years of sub-2-percent inflation.

Fed leaders ignored symmetry and hiked the funds rate four times during 2018 in conjunction with an aggressive quantitative tightening program in a desperate attempt to slow U.S. economic growth and beat back any possible inflation pressures.

In 2019, Fed leaders suddenly decided inflation is too low, which is the result of their very aggressive 2018 tightening policy. They are now bouncing off a different wall in their rush to implement a revised inflation target. Fed officials decided to beat down faster economic growth, which resulted from President Trump's tax reform.

Bond market participants understand symmetry and knew Fed leaders wouldn't follow it in 2018. The spread between the 10-Year and 2-Year Treasury yields was 70 basis points (bps) in February 2018. Fed tightening reduced that spread to less than 30 bps by July.

The flattening yield curve was in response to Fed fund hikes of 25 bps on March 22 and June 14, respectively. Bond market participants knew the Fed had overdone it with the first two hikes in 2018 and that the Fed had no intention of allowing inflation pressures to run above 2 percent.

But did the Fed stop at mid-year? No, Fed leaders ignored incoming data from the yield curve and instead were fixated on preventing faster economic growth. As a result, the Fed hiked the funds rate two more times in 2018.

In 2019, Fed leaders realized the damage that their very aggressive 2018 tightening had done and are attempting to cover up their mistake by changing some words around and calling it a new "framework."

Neel Kashkari, president of the Minneapolis Fed, argued in a May 16 speech that monetary policy has been too tight in this recovery. Where was he last year?

John Williams, president of the New York Fed, in a June 6 speech said the following: "Persistently low inflation creates a vicious circle ... ." Of course, he knew this last year and still supported hiking rates four times in an effort to slow the faster pace of tax reform-induced economic growth.

In 2019, Fed officials have suddenly decided that they think inflation expectations are on the low side and economic growth is slow. They were all on board with beating back both economic growth and inflation last year.

Fed leaders need to acknowledge that they made a mistake in 2018 and reduce the funds rate by 50 bps at their June meeting and 50 more bps at their July meeting, which would steepen the yield curve and perhaps avoid a recession.

Since 2015, the Fed hiked the funds rate a total of nine times for 225 bps. Monetary policy has time lags of three or more years, and that past tightening is hitting the economy now.

Reducing the funds rate 100 bps over the next two meetings will help, but past monetary policy tightening is working through channels such as liquidity, interest rates and the dollar to slow U.S. economic growth.

The Federal Reserve is effectively standing on the back of the U.S. economy, slowing growth and inflation. Sure, a reduction of 100 bps in the next two meetings can take one foot off the back of the economy, but the other foot remains firmly in place, and it can’t come off due to the time lags associated with past monetary policy tightening.

Fed leaders need to act quickly to reduce the funds rate and attempt to prevent a 2020 recession. A recession with the current low inflation would mean a zero fed funds rate and more rounds of quantitative easing. Surely Fed leaders do not want that.

But there is another side of the coin: The last recession occurred right around the 2008 election. Did Fed leaders, in their rush to tighten monetary policy in 2018, end up laying the groundwork for a 2020 recession?

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