

Cumberland Advisors Market Commentary – Paul Volcker

Many have written, interviewed, and commented about the passing of Paul Volcker. We particularly like the commentary of Chris Whalen, who knew him better than many and whose family had connections with Paul Volcker over the years. We also note our GIC colleague Catherine Mann's remembrance. Cathy, that was an interesting haircut "back when."



At the December 13th annual meeting of the Global Interdependence Center, the GIC's College of Central Bankers inducted former Atlanta Fed president Dennis Lockhart and former Philadelphia Fed president Charles Plosser. Other members of the GIC's CCB present were Tony Santomero (former Philly Fed president) and Christian Noyer (former Banque de France governor and past vice-president of the European Central Bank). The recognition of Paul Volcker's service to the United States, to the world, and specifically to the transparency and independence of central banking, was repeatedly acknowledged both in the public presentations and in private remembrances.

For an extensive history lesson, readers are advised to turn to the Federal Reserve Board Oral History Project, for which Paul Volcker was interviewed in depth. See "Interview with Paul Volcker,"

<https://www.federalreserve.gov/aboutthefed/files/paul-a-volcker-interview-20080225.pdf>; and, for background on the Oral History Project, see "Federal Reserve Oral History Interviews,"

<https://www.federalreserve.gov/aboutthefed/centennial/federal-reserve-oral-history-interviews.htm>.

GIC history also reflects the support and advice of Paul Volcker. He was a force of influence and guidance during the early days, when Nobel Laureate Lawrence Klein, Philadelphia banker Fred Heldring, and UPenn professor Harold Perlmutter saw the need for critical thinking about globalization. Areas of focus in those early years of GIC included monetary and trade issues. GIC was ahead of its time, and its mission today is more important than its founders ever contemplated in those early days. The role of Paul Volcker was to focus GIC crisply on central banking and associated issues.

I remember Volcker's worldwide promotion of accuracy in accounting standards. Volcker demonstrated his global reach and carried the program forward with the cachet he had acquired as a central banker with impeccable credentials. For a reference see his important speech on global accounting standards in 2002 at the Kellogg School of Management at Northwestern University: "A Time for Auditing Reform," <https://www.iasplus.com/en/news/2002/June/news478>.

Now to an anecdote.

I was program chair of the GIC at the time when Paul Volcker launched the global initiative in accounting standards. Within the financial and economic community that initiative was widely applauded. In the general press it was ignored, since accounting standards do not arouse passionate interest among the mainstream media. I consulted with my colleagues at GIC and then Chair Bill Dunkelberg, and we agreed to invite Volcker to keynote a conference and specifically to speak to the need for a credible global accounting standard. Paul Volcker quickly accepted – he had been a speaker for GIC in the past and was a supporter of the GIC mission.

The chase for a date in the calendar was much harder. We finally set a date and booked the Philadelphia Museum of Art for the speech. By the time the date rolled around, Volcker's topic had been discussed in many forums, and the process of

reconciling global accounting standards was underway. Paul Volcker had achieved his goal of triggering this important international discussion. The positive aftereffects of that work continue today.

Now there we were in the art museum. We had a private conversation prior to and during lunch. Volcker was as gracious and considerate as always.

Some may know that he was a serious fly fisherman. And those who are fly fishers know that "reading the water" is an important part of the art form practiced with a fly rod. One of the flies used during certain periods in western states is called a humpy. You can learn all about tying and fishing with the humpy here: <https://www.google.com/search?client=safari&hl=en-us&q=humpy+fly&sa=X&ved=2ahUKEwjyysLtyrjmAhUKCawKHZs6CwAQ1QIwFnoECBIOFQ&biw=375&bih=624>. During insect mating season there is fly pattern called, yes, a double humpy: <https://www.ebay.com/i/253083366653>.

Paul Volcker and I sat at lunch together, and the conversation turned to fly rods and flies and the art of fly fishing. The other folks at the table were mostly silent, but they were listening attentively. I had met them only briefly, and they were meeting Paul Volcker for the first time. Here they were, sitting at lunch with ex-Federal Reserve Chairman Paul Volcker, who, at 6'7", towered above everyone else, and he was in a rapt discussion with a much shorter and certainly much lesser-known person, and the two of them were talking about fly fishing and streams and where they had both fished and where not and on and on, and then discussing the technical fly rod method of presenting a double humpy within a foot or so of a bank undercut in a fast-moving stream.

Following lunch, it was my task to introduce Paul Volcker for his speech. We had a three-minute chat before the formalities commenced. Volcker and I were standing together, looking at

the Calder Sculpture in the middle of the atrium. He said, "The issue of accounting standards has had a lot of attention. Do you think it is still compelling enough for this conference?" I said quietly and most respectfully that I thought he was reading the water correctly, that the double hump of accounting standards wasn't the right fly, and that he could talk about anything he wished, and it would be most welcome. To this day I remember his chuckle at the metaphor.

Volcker agreed, and I kept the introduction brief. With customary eloquence he quickly dismissed the speech that he had prepared on the need for worldwide accounting standards. He referred the audience to the many documents and the public discourse on the subject that had already occurred. Then he segued to central banking and credit markets and the conditions that were pressing on the minds of the audience. He spoke without a single note. He answered questions. He became a professor and taught a classroom of seasoned adults with gentleness and graciousness. And all left with "nuggets" they hadn't anticipated receiving.

Paul Volcker, global icon and stalwart defender of American economic and financial integrity, friend of the Global Interdependence Center, may the Elysium trout rise for you. May you rest in peace with "tight lines."

David R. Kotok

Chairman and Chief Investment Officer

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Cumberland Advisors Market Commentary – Central Banks, Capital Markets, Debt/Deflation, Real Income Growth, Interest Rates & Housing

We wrapped up our Labor Day Camp Kotok with a round of excellent on-the-record discussions that we're happy to share with you here.



David Kotok and Charles Plosser at Camp Kotok: The Challenges Facing Central Banks

David Kotok and Christopher Whalen at Camp Kotok: Capital Markets, Debt and Deflation

David Kotok and Doug Duncan at Camp Kotok: Real Income Growth, Interest Rates and Housing

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David Kotok and Charles Plosser at Camp Kotok: The Challenges Facing Central Banks

Long-time friends David Kotok, Chairman and Chief Investment Advisor of Cumberland Advisors, and Charles Plosser, Retired President of The Federal Reserve Bank of Philadelphia, take a moment on Labor Day Weekend at Camp Kotok to chat about the role of central banks looking towards the future. Plosser encourages current governments and economic policy makers to be realistic in their expectations of the power of Central Banks to solve all problems.

Central banks are not a panacea, Plosser warns, adding, political pressure is undermining the independence of central banks around the world and their ability to focus on long-term solutions. He cautions that the reliance on central banks to be problem solvers can lead to unconventional policies resulting in unintended consequences—that can be difficult to unwind. Plosser remains optimistic about the remarkable resiliency of the American system of government and our free market economy.

Charles Plosser served as president and CEO of the Federal

Reserve Bank of Philadelphia from 2006-2015 when he retired. He is a visiting fellow at the Hoover Institution at Stanford University.

David Kotok and Christopher Whalen at Camp Kotok: Capital Markets, Debt and Deflation

David Kotok, Chairman and Chief Investment Advisor of Cumberland Advisors interviews Christopher Whalen.

“I have confidence in America’s capital markets,” Whalen said. At the same time, he expressed concern about debt and related deflation in Europe and Asia focusing on the central banks unsuccessful attempts to fix the continuing 10-year crisis. Discussion covers negative interest rates in Europe, America’s ability to heal the crisis in non-bank markets, fishing and French Bordeaux.

Richard Christopher Whalen is an investment banker and author who lives in New York City. He is Chairman of Whalen Global Advisors LLC and focuses on the financial services, mortgage finance and technology sectors.

David Kotok and Doug Duncan at Camp Kotok: Real Income Growth, Interest Rates and Housing

David Kotok, Chairman and Chief Investment Advisor of Cumberland Advisors interviews Doug Duncan Fannie Mae’s senior vice president and chief economist about his outlook for housing. Duncan acknowledges strong labor force participation noting that new additions to employment are gradually slowing. New jobs are needed to keep unemployment numbers down. Real income growth in the lower tier is rising and low interest rates are fueling refinancing. Duncan is concerned about the impact of tariffs and trade discussions curbing incentives for

companies to invest in a global economy. He explains that, "Investment is the driver of productivity gains, and productivity gains are the driver of real income growth, and if people are going to buy a house, real income matters."

Kotok asks if America might see the negative interest rates that are in Europe now. Duncan responds. "I am hopeful that the fact that the US is still growing, at about 2% growth, is going to be sustained long enough to lead the rest of globe back to ...a rational view of interest rates." Kotok and Duncan remain optimistic about the US economy, fishing, friendship and good wine.

Doug Duncan is responsible for providing all forecasts and analyses on the economy, housing, and mortgage markets for Fannie Mae. Duncan also oversees corporate strategy and is responsible for strategic research regarding external factors and their potential impact on the company and the housing industry.

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