

Who Needs the Fed?

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Perhaps nothing in financial news receives more attention than an announcement from the Federal Reserve. About eight times per year, the Federal Reserve's Federal Open Market Committee meets to formally decide and announce its plans for monetary policy. Every announcement has the potential to cause a rally, or a rout, in financial markets.

It makes sense that a mere announcement from the Fed has the power to move markets in a big way. The Fed wields vast power over interest rates, bank regulation, and the money supply. When it comes to policies that affect the everyday lives of nearly every American—and even countless people outside the United States—it is likely that no government institution is more powerful than America's central bank, the Federal Reserve.

Yet this institution works largely in secret, has never been audited by Congress, and is virtually never challenged by anyone in Washington or in the legacy media. In this era of eroding public trust in Congress, the presidency, the media, and even the military, it's quite remarkable that the Federal Reserve faces so little scrutiny.

Much of this is because the Fed's supporters have for decades so successfully spread myths about how the Fed provides stability and prosperity.

A closer look at the reality of the Fed reveals that the Fed does not benefit ordinary people nor does it make the economy more stable. Instead, the Fed was the primary source of the forty-year highs in inflation consisting of sharp spikes in food, housing, healthcare, and transportation prices. In many cases, rising prices outpaced wage growth, meaning that millions of American households—mostly those with lower incomes and fixed incomes—have experienced negative real income growth in recent years. Meanwhile, Fed policy has also driven inflation in real estate and equity prices, which has padded the portfolios of wealthy households, banks, and governments.

The Fed may claim it is expertly managing the economy, but in 2024, it is still doing what it has been doing since it was established in 1913: creating more economic instability with seemingly endless crises such as we saw in 1953, 1957, 1960, 1969, 1973, 1980, 1981, 1990, 2001, 2008, and 2020. The best we can say about the Fed is that it failed to prevent the Great Depression, the 1970s stagflation, and the Great Recession. But the Fed didn't merely fail to prevent all this. The Fed created these economic disasters.

The Fed claims—always without evidence—that everything “would have been worse” without the Fed. Yet history has shown that economic growth and a rising standard of living hardly depend on the existence of the Fed. Indeed, in the second half of the nineteenth century—when the nation had no central bank at all—America experienced an incredibly dynamic period of rising standards of living. Notably, this period was also characterized by deflation—something the Fed hates—which helped drive down the prices of goods and services, thus increasing real wages.

The Fed today assures us that economic growth depends on inflation, which ultimately destroys the dollar's purchasing power. The Fed has gone to great lengths to institutionalize inflation, in fact. Although Congress as recently as the 1980s instructed the Fed to seek a goal of 0 percent inflation, the Fed invented a totally arbitrary 2 percent inflation standard in the 1990s. Now, the Fed tells us that the economy needs 2 percent inflation at a minimum to keep the economy “stable.”

Fed economists employ a variety of poorly devised economic theories to justify the Fed's inflationary agenda. But politics, not economics, is the real driving force here. The incessant call for more monetary inflation and ultra-low interest rates serves to benefit certain influential and powerful interest groups at the expense of the beleaguered middle and working classes.

As the Fed forces down interest rates to fuel more monetary inflation, governments are able to borrow more money at lower interest rates. Fed policy allows elected officials to expand government budgets and spending while minimizing the cost of maintaining huge federal deficits. Without the Fed, the runaway profligacy of the covid years would have never been possible—nor would we have had the surge in price inflation that followed. The government itself is the primary beneficiary here. The organizations that are on the receiving end of Washington's financial favors—bailed-out banks and government contractors, for example—share in the windfall brought by spending newly created inflationary money.

The same cannot be said of ordinary people further down the economic food chain, who experience rising prices without the easy largesse of the government class and its allies.

Contrary to the many myths propping it up, the Federal Reserve has never been anything more than a tool of wealth redistribution that fuels economic inequality and government profligacy. The Fed's mission has never been founded on sound economics. The Fed is beyond reform, and the time has come to finally end the Fed.

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