

Can the US Federal Reserve End Racism? Eliminate Disparities in Income, Employment and Wealth?

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Global Research, October 14, 2020

[The Ron Paul Institute for Peace and Prosperity](#) 12 October 2020

Region: [USA](#)

Theme: [Law and Justice](#), [Poverty & Social Inequality](#)

House Financial Services Chair Maxine Waters and Senator Elizabeth Warren have introduced the Federal Reserve Racial and Economic Equity Act. This legislation directs the Federal Reserve to eliminate racial disparities in income, employment, wealth, and access to credit.

Eliminating racial disparities in access to credit is code for forcing banks and other financial institutions to approve loans based on the applicants' race, instead of based on their income and credit history. Overlooking poor credit history or income below what would normally be required to qualify for a loan results in individuals ending up with ruinous debt. These individuals will end up losing their homes, cars, or businesses because banks disregarded sound lending practices in an effort to show they are meeting race-based requirements.

Forcing banks to make loans based on political considerations damages the economy by misallocating resources. This reduces economic growth and inflicts more pain on lower-income Americans.

The Carter-era Community Reinvestment Act has already shown what happens when the government forces banks to give loans to unqualified borrowers. This law played a significant role in the housing boom and subsequent economic meltdown. The Federal Reserve Racial and Economic Equity Act will be the Community Reinvestment Act on steroids.

This legislation also requires the Fed to shape monetary policy with an eye toward eliminating racial disparities. This adds a third mandate to the Fed's current "dual mandate" of promoting a stable dollar and full employment.

Federal Reserve Chair Jerome Powell has already publicly committed to using racial disparities as an excuse to continue the Fed's current policy of perpetual money creation. Since inflation occurs whenever the Fed creates new money, Powell and his supporters want a policy of never-ending inflation.

Supporters of this scheme say that inflation raises wages and creates new job opportunities for those at the bottom of the economic ladder. However, these wage gains are illusory, as wages rarely, if ever, increase as much as prices. So, workers' real standard of living declines even as their nominal income increases. By contrast, those at the top of the income ladder tend to benefit from inflation as they receive the new money — and thus an increase in purchasing power — before the Fed's actions cause a general rise in the price level. The

damage done by inflation is hidden and regressive, which is part of why the inflation tax is the most insidious of all taxes.

When the Fed creates new money, it distorts the market signals sent by interest rates, which are the price of money. This leads to a bubble. Many people who find well-paying jobs in bubble industries will lose those jobs when the bubble inevitably bursts. Many of these workers, and others, will struggle because of debt they incurred because they listened to “experts” who said the boom would never end.

The Federal Reserve’s manipulation of the money supply lowers the dollar’s value, creates a boom-and-bust business cycle, facilitates the rise of the welfare-warfare state, and enriches the elites, while impoverishing people in the middle and lower classes. Progressives who want to advance the wellbeing of people in the middle and lower classes should stop attacking free markets and join libertarians in seeking to restore a sound monetary policy, The first step is to let the people know the full truth about the central bank by passing the Audit the Fed bill. Once the truth about the Fed is exposed, a critical mass of people will join the liberty movement and force Congress to end the Fed’s money monopoly.

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