The Federal Reserve Has Been a Disaster for America. How the Fed Triggers "Bank Insolvency"

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Like all indoctrinated economics PhDs, I used to teach students that the Federal Reserve was created as a central bank in order to provide cash to banks experiencing a run on deposits so that bank failures would not become general and collapse the money supply and, thereby, employment and output. It all sounds so reasonable and rational until you realize that finance least of all is idealistic.

The Federal Reserve was actually created in order to save the big New York banks from their greed-driven mistakes, and that is the Fed's principal activity.

In recent decades the Fed has gone beyond merely saving the big banks from their mistakes to helping the big ones concentrate more banking into their hands.

The Fed causes banking crises and then provides funds for the big banks to absorb the troubled regional banks. The Fed's current policy of raising interest rates after a decade of negative interest rates has the entire banking system insolvent.

This resulted in runs on the banks, which the Fed did not save by expanding reserves, instead permitting failure and acquisition. Obviously, what I had been trained to teach was false.

This is true of so much of what is taught in every subject.

This bit of history is only a prologue to my expose of the Fed.

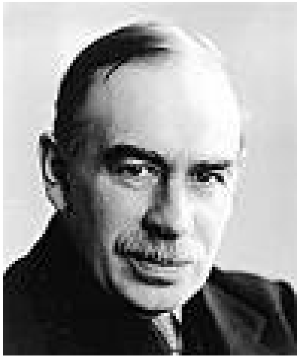
The Federal Reserve has the sole responsibility for all inflation, depression, and recession since its creation. Until the Fed's creation, the purchasing power of the US dollar was essentially constant over massive periods of time.

Since the creation of the Federal Reserve (1913), today's dollar is a small fraction of the value of a dollar in 1912. I recently published a menu from 1914, around the time when my parents were born, showing restaurant prices ranging from 10 to 25 *cents. Today you cannot purchase anything for 10-25 cents.*

Milton Friedman and Anna Swartz in their Monetary History of the United States proved conclusively that the Federal Reserve caused the Great Depression of the 1930s by allowing the money supply to contract.

So, it was the Fed that was responsible for the ability of President Franklin D. Rosevelt, a destroyer of American liberty, to use the Great Depression to coerce the US Supreme Court with threats of packing the court with his stooges and to force the US Congress to delegate legislative authority to new executive branch regulatory agencies.

Previously under the US Constitution, Congress wrote laws that also governed their implementation. But with Roosevelt's new regulatory agencies, this power passed to the executive branch. Today Congress is nothing but an authorizing agency for the executive branch to make the law.



Economists, unable or unwilling if they were existing on bank grants to point a finger at the Fed as the cause of the money supply shrinkage that caused the Great Depression, misread John Maynard Keynes and blamed the Great Depression on the inadequacy of consumer, investment, and government demand.

The Keynesian solution was to increase demand. Keynesians said the easiest way to do this was for the government to increase government demand by running a deficit in its budget.

Keynes himself said no such thing. Keynes said that the problem was caused by central banks causing the money supply to shrink. See this.

But this explanation did not fulfill the aspirations that liberal economists had for fiscal policy. Insufficient demand gave them an excuse for expanding demand via government deficit spending for causes and agendas that they supported.

The consequence was the rise of one-dimensional macroeconomics.

In Keynesian economics demand (consumer, investment, government) is the only operative principal. Supply is passive. It only responds to demand.

Prior to Alfred Marshall, economists argued whether price was determined by what people were willing to pay–demand–or by the cost of production–supply. Alfred Marshall resolved this controversy by saying it was like arguing over which blade of the scissors cut the paper. Price, Marshall said, was determined by supply and demand, and there it has rested since.

But in Keynesian macroeconomics there is only demand. This one-dimensional model has caused massive economic hardship.

The Federal Reserve in the past and currently fights inflation by fighting employment and by reducing output. This is because the Fed only has a demand model. The incompetent Fed is incapable of realizing that by fighting employment and output, the Fed is *reducing supply, thus rising prices.*

The current "inflation" is a supply-side inflation caused by Covid lockdown and Russian, Iranian, etc. sanctions that have without any doubt reduced supply.

Simply observe the inflation in the UK and Europe. It cannot have anything whatsoever to do with "excess consumer demand" in the U.S. Prices will fall as a result of disrupted and destroyed supply chains being reestablished, not because of the incompetent Fed's high interest rates. The Fed's high interest rate policy is interfering with the rebuilding of the damaged supply chains.

The Fed's high interest rates only serve one purpose–bank insolvency, the result of which is more concentration in the hands of the Big Banks. The Federal Reserve chairman recently said that inflation was caused by a strong labor market driving demand and that more interest rate hikes would be necessary. The stupidity of this position is incomprehensible. *People working and earning money by providing goods and services is inflationary!* Amazing stupidity. But stupidity is all that can be found in Washington.

What the Fed is doing is frustrating the lives of people who want to sell and buy homes, frustrating businesses who need loans to finance inventories, frustrating investors by driving down the value of their financial instruments.

No good purpose is being served. It is amazing that Americans tolerate an institution that seeks to make them unemployed, to prevent them from selling and buying homes, that drives up prices by driving up the cost of borrowing.

Listen to Jerome Powell and you will hear a harmful policy described as beneficial: click here.

An alternative view to Jerome Powell's view of a hot labor market: click here.

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