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Rahn: Fed Should Be Restructured

Thursday, July 9, 2009 8:06 AM

By: Dan Weil

The Federal Reserve needs to be split up, with the board having the sole responsibility of controlling inflation, said Richard Rahn, a senior fellow at Cato Institute.

The Fed's power to regulate banks would go to another agency, he wrote in The Washington Times.

While inflation is now low, "once excess inventories are worked off and global commodity prices begin to rise again, inflation fears will come back quickly," Rahn wrote.

"Unless the Fed can quickly extinguish all of the new money it has created, inflation will come roaring back," he wrote.

But with the Fed now extremely politicized, it's unlikely to move fast enough to halt this inflation, he wrote.

Thus, "the Fed needs to be split up," Rahn wrote. "As long as the government insists on maintaining a monopoly on the production of money, it needs to have a board that has the sole responsibility of maintaining price stability."

Stability should be defined as a specified narrow range, such as plus or minus 2 percent, he wrote.

"The Fed's bank regulatory functions need to be put into a separate agency. If the federal government wishes to bail out companies, ... it needs to put the liabilities on its own balance sheet," Rahn wrote.

Fed officials, of course, don't see their powers as excessive. Chicago Federal Reserve Bank President Charles Evans said the Fed's multiple easing methods allowed officials to learn quickly what works.

"There is a method to the madness," he told Reuters.

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