

 DELTA DENTAL

Every
Smile
Matters

Learn more now. >



Read our Ideas Contributors

Driving the Conversation:

Is the Fed getting too much power?

[expand all](#)



David Boaz, Executive VP, Cato Institute:

The Federal Reserve was the principal cause of the financial crisis, so it's an odd solution to give it more power. The Fed's artificially low interest rates created cheap money and easy credit that sent the wrong signals to investors, who made lots of unsustainable investments. Meanwhile, it wasn't a lack of regulation that caused the crisis. Regulators pushed lenders to make "affordable," no-down-payment, and subprime loans. And there's no evidence that Congress and the regulators have learned to stop distorting the decisions of investors and businesses.

During the crisis last fall the Fed assumed unprecedented powers, with little oversight from Congress. The Fed chairman worked hand in glove with the Bush administration. It's troubling enough to have an unaccountable body in charge of our money supply, and in fact its record on inflation and on continuous boom-bust cycles is dismal. (Better than most other central banks, but still dismal.) But at least the independence of the Fed gave us some protection from politicians' constant desire to pump up the economy before elections. If the Fed assumes more regulatory power, and works closely with the political authorities, how can it retain its independence? It will become another player in the morass of politics and lobbying that characterizes most of Washington.

We can count on the Fed creating more cheap money to get us out of this crisis -- indeed, it's already doing it -- and to "stimulate" the economy in the future. As the money-creation side of the Fed pumps out money, will the regulatory side tell banks and other businesses "ignore the interest-rate signals from the other side of the building! Lend prudently! Don't believe what the cost of money is telling you!"? That's a prospect only Washington could come up with.

By the way, the FDIC reported recently that total government financial assistance to firms in the current crisis now exceeds \$13.9 trillion (almost exactly annual GDP). How will that ever be paid for, other than by monetization and resulting inflation? And why is it that in Googling for the details, I find the FDIC's report on financial sites, at Reason magazine, and at the Economic Times of India, but apparently not even mentioned at major American newspapers?

Full Archive List

© 2008 Capitol News Company LLC

Please read our Privacy Policy. By using this site, you accept our Terms of Service.