



The Fed's Record

By Ramesh Ponnuru
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Adam Davidson makes some strong claims for the Fed in the *New York Times Magazine*:

Congress created a new entity, the Federal Reserve System, whose experts would manage the value of the dollar by setting key interest rates. That system worked far better than anybody imagined it would. . . . The dollar has performed remarkably well under [the Fed's] power, and indeed the Fed is a part of the reason the United States became the dominant global economy in the 20th century.

Monetary economists George Selgin, William Lastrapes, and Lawrence White reach a different conclusion in this paper:

Available research does not support the view that the Federal Reserve System has lived up to its original promise. Early in its career, it presided over both the most severe inflation and the most severe (demand-induced) deflations in post-Civil War U.S. history. Since then, it has tended to err on the side of inflation, allowing the purchasing power of the U.S. dollar to deteriorate considerably. That deterioration has not been compensated for, to any substantial degree, by enhanced stability of real output. Although some early studies suggested otherwise, recent work suggests that there has been no substantial overall improvement in the volatility of real output since the end of World War II compared to before World War I.