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Why Are Free Thinkers So Comfortable With Fed Intervention?

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Cato Institute co-founder Ed Crane has routinely observed that once economists resort to mathematical equations, you know they're "bs-ing" you. Which is Crane's pithy way of saying that an "economy" is not some machine that wise minds can "model" or plan as much as it's a collection of individuals making infinite decisions every second of every day. When governments intervene in the infinite decisions born of copious information, problems regularly ensue. Or as Crane might put it, central planning fails *always and everywhere*.

While markets are the combined wisdom of everyone, government intervention is the substitution of vast and unlimited knowledge for the highly limited knowledge of one or many experts. The former Soviet Union was long on experts, which was telling. Crane predicted the U.S.S.R.'s collapse in 1981.

Crane's disdain for market intervention came to mind while reading a recent piece by Cato scholars Norbert Michel and Jai Kedia asserting that "it's difficult to argue" with Fed Chairman Jerome Powell's recent decision to "to keep its rate target steady." On its face the comment is surprising coming from scholars at Cato. We borrow "money" for what it can be exchanged for, which means interest rates amount to the cost of borrowing the monetary units exchangeable for goods, services, labor, and everything else produced in a market economy. Which means the price of credit is a very important one, arguably the most important price in the world.

No card-carrying libertarian would ever approve the fixing of the price of chocolate chips by officials in government, yet there's seeming comfort with the Fed fixing the cost of accessing the money necessary to buy chocolate chips, and everything else produced in the market economy. Why?

Really, what could Powell and other Fed officials know about the proper price of credit? Logic tells us that market prices are born of – yes – the infinite decisions made every second of every day by the individuals who populate what we call an "economy." From this, it's surprising that Michel and Kedia would endorse intervention in a price that couldn't possibly be divined by Powell, or the hundreds of economists in the Fed's employ.

Michel and Kedia then argue for more intervention on top of what they already approved. They write that the Fed's target rate may already be "too high" based on some mathematical modeling (remember what Crane said about the use of math…), and "a case could be made to marginally *reduce* rates." Michel and Kedia justify more intervention because a "too high" rate from the Fed "could unnecessarily slow economic activity down so much that it causes a recession." Forget high or low rates, isn't the intervention itself the wet blanket laid on economic growth?

After which, libertarians are clear about government having no resources. By extension neither does the Fed. Which means credit is produced in the real economy, by market actors. And it powerfully flows to its highest use, without regard to what the Fed does. See a surge of capital inflows into northern California ($10.7 billion in the first three months of 2023) amid so-called Fed "tightening." The massive inflow is rather loud evidence that the Fed's power over the cost of and amount of credit is theoretical, as opposed to real. Put another way, the only closed economy is the world economy. The Fed can't do what economists think it can.

If the central bank's market interventions actually had teeth, "recession" wouldn't come close to describing our economic desperation. Maybe this is what Crane meant by economists using equations to explain a price that is far too complex to be modeled.