Breaking the Bank: The Case Against the Federal Reserve

By “Coach Vance” Trefethen

***Resolved: The United States federal government should substantially reform its banking, finance, and/or monetary policy.***

Case Summary: This plan abolishes the Federal Reserve. The “Fed,” as it is commonly known, attempts to manage the money supply through various devices, but all of them depend on the theory that wise bureaucrats know better than markets how to price and value things. Experience in other countries with centrally planned economies (e.g. the late Soviet Union) as well as our own experience with financial disasters since the Fed was created have proven how wrong this is. The Fed isn’t smarter than markets, and its clumsy efforts to manage the economy have created more harm than good. In addition, the Fed is in a hopeless situation with monetary policy (the supply and value of money and credit) because it constantly runs up against fiscal policy (Congress spending more than it takes in). The Fed’s existence enables Congress to continue uncontrolled deficit spending and abolishing it (a monetary policy) would have positive effects on our fiscal policy and ultimately our economy.

Breaking the Bank: The Case Against the Federal Reserve 2

OBSERVATION 1. INHERENCY, the structure of the Status Quo. One key Fact: 2

The Federal Reserve controls US monetary policy 2

OBSERVATION 2. We offer the following PLAN implemented by Congress and the President 2

OBSERVATION 3. ADVANTAGES 2

ADVANTAGE 1. Restrained federal spending 2

A. The Problem: Inflation. The Federal Reserve cannot maintain price stability because of deficit spending, so consumer prices rise dramatically over time 2

B. The Solution: Abolishing the Fed would restrain deficit spending by removing incentives and creating accountability 3

C. The Impact: Inflation has multiple bad impacts on society. 3

ADVANTAGE 2. Greater Economic Stability 3

A. The Old System: Before the Federal Reserve, we had The National Banking Acts 3

B. The Problem: The Federal Reserve creates economic instability and misery 4

C. The Comparative Advantage: We had better economic stability under the old system, before the Federal Reserve 4

ADVANTAGE 3. Stop accelerating income inequality 5

A. The Link: Federal Reserve policies have artificially boosted investment asset prices – Great for rich investors, but everyone else is left behind 5

B. The Impact: Economic inequality causes multiple bad social impacts 5

2A Evidence: Abolish the Federal Reserve 6

OPENING QUOTES 6

Poor performance, high reputation. Referring to the Federal Reserve in 1988, famous economist Milton Friedman said… 6

INHERENCY 6

Federal Reserve has great power over the US monetary system 6

Federal Reserve is expanding its own power but accepts no responsibility or accountability, just to benefit the elites 6

HARMS / SIGNIFICANCE 7

Federal Reserve created the housing crisis and crash 7

Federal Reserve mismanagement worsened the Great Depression (1930s) and caused the Housing crash (2007) 7

Federal Reserve mismanagement worsened the 2007-2008 crisis and increased unemployment 7

Federal deficits will cause higher inflation 7

Federal Reserve inflates stock prices with cheap debt (artificially low interest rates) 8

NBER study claiming Federal Reserve stabilized a bad economy is flawed: Their pre-Fed data was biased and exaggerated 8

Federal Reserve failed at price stability (preserving the value of the dollar / preventing inflation) 9

A/T “Gold Standard caused the Depression, not the Fed” – Fed’s inept policies were to blame, not the Gold Standard 9

SOLVENCY / ADVOCACY / ADVANTAGES 10

Abolishing the Federal Reserve reduces economic instability 10

Pre-Federal Reserve, old National Banking System: Economy was better, crises not as severe, economic growth was great 10

Federal Reserve failures justify ending central banking in the U.S. 10

DISAD RESPONSES 11

A/T “Need F.R. to stabilize the money supply” –Federal Reserve can’t control it, markets do 11

A/T “Destabilize money supply” - Most money supply is created by banks through lending, not the Federal Reserve 11

A/T “Fed. Reserve drives economic growth” – Reverse. Economic growth drives the Fed. Reserve 11

A/T “Need Fed Reserve for economic stability” – F.R. can’t solve the problem, all it can do is make everyone poorer 11

A/T “Bank clearing system” – Banks can do that themselves, they don’t need help 12

A/T “Manage the federal funds rate” – Banks can do that themselves 12

A/T “Bank failures” – Canada got through the Depression without a central bank… and had no bank failures 12

A/T “Bank failures” – Federal Reserve didn’t solve bank failures 12

A/T “Need Fed to regulate banks” – Fed Reserve fails at bank regulations. Too many conflicts of interests, they look the other way 13

A/T “End of the world, panic and chaos, can’t do it overnight” – No problem. Simple abolition is the best 13

No Disads at all: There is no downside, the world won’t fall apart 13

None of the functions of the Federal Reserve are needed in today’s economy: Lender of last resort, bank regulator, setting interest rates 13

Works Cited 14

Breaking the Bank: The Case Against the Federal Reserve

The collapse of communism in Russia and Eastern Europe, and the successful turn to capitalism by Communist China, illustrate a powerful lesson, if only we will listen: Central planning of an economy is guaranteed to fail. The generation alive in 1913 that established the Federal Reserve might be forgiven, since they had not yet seen central economic planning tried and fail. But we know better now. Please join my partner and me as we gain the comparative advantages of affirming that: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.

OBSERVATION 1. INHERENCY, the structure of the Status Quo. One key Fact:

The Federal Reserve controls US monetary policy

Federal Reserve 2019. “Monetary Policy” last updated 22 May 2019 <https://www.federalreserve.gov/monetarypolicy.htm>

Monetary policy in the United States comprises the Federal Reserve's actions and communications to promote maximum employment, stable prices, and moderate long-term interest rates--the three economic goals the Congress has instructed the Federal Reserve to pursue. The Federal Reserve conducts the nation's monetary policy by managing the level of short-term interest rates and influencing the overall availability and cost of credit in the economy.

OBSERVATION 2. We offer the following PLAN implemented by Congress and the President

1. Congress repeals the 1913 Federal Reserve Act and subsequent amendments, and abolishes the Federal Reserve. Printing money and any functions not related to monetary policy are taken over by the Treasury Department.

2. Funding and enforcement through normal means.  
3. Timeline: Plan takes effect one year after an affirmative ballot.   
4. Addendum: Affirmative speeches may clarify

**No Plan can guarantee a permanently prosperous economy where we all live happily ever after with no more problems. But this Plan is comparatively better than the Status Quo, as we see in our…**

OBSERVATION 3. ADVANTAGES

ADVANTAGE 1. Restrained federal spending

A. The Problem: Inflation. The Federal Reserve cannot maintain price stability because of deficit spending, so consumer prices rise dramatically over time

Gerald P. O’Driscoll 2013 (senior fellow at the Cato Institute, was vice president at the Federal Reserve Bank of Dallas) “Debunking the Myths about Central Banks” <https://www.cato.org/publications/commentary/debunking-myths-about-central-banks>

Pursuit of price stability is the one goal that nearly everyone agrees is a central bank responsibility. Yet it is the one on which the Fed and other central banks have failed miserably. Since the Fed’s founding in 1913, consumer prices have increased by a factor of 23 times. If the U.S. can extricate itself from fiscal deficits, price stability would be an attainable goal for central banks. Otherwise, central banking is nothing but mythology.

B. The Solution: Abolishing the Fed would restrain deficit spending by removing incentives and creating accountability

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

There is plenty of downside to having a central bank. It tempts politicians to believe there is no cost to endless debt issuance. Without a default premium and rational investing decisions, there is no punishment for fiscal irresponsibility. Think of how state governments have to have balanced budgets. This is because they have no central bank to guarantee payment on the debt. Ending the Fed would do far more to restrain spending than pious speech or even a Constitutional amendment for a balanced budget at the federal level.

C. The Impact: Inflation has multiple bad impacts on society.

Prof. Jeffrey Dorfman 2016 (professor of economics at The University of Georgia and consultant on economic issues to a variety of corporations and local governments) 19 Aug 2016 “Inflation Is Still Bad For The Economy” FORBES <https://www.forbes.com/sites/jeffreydorfman/2016/08/19/inflation-is-still-bad-for-the-economy/#f2a211f43400>

Most importantly, higher inflation is bad for capital investment, meaning lower accumulation of productive capital which leads to slower economic growth for decades into the future. Businesses are less interested in building factories using today’s dollars if the products made have to be sold in the future in exchange for dollars that are worth less thanks to inflation. A smaller capital stock means lower labor productivity, which means slower wage growth. These remaining costs of inflation are profound and potentially large. Louis Woodhill has [documented](http://www.forbes.com/sites/louiswoodhill/2014/01/23/why-higher-inflation-is-a-very-very-bad-idea/#31d9f93a7e10) that higher inflation periods have lower levels of investment, lower real GDP growth, and higher unemployment.

ADVANTAGE 2. Greater Economic Stability

A. The Old System: Before the Federal Reserve, we had The National Banking Acts

Dr. Patrick Newman 2016 (PhD economics) “The Origins of the National Banking System: The Chase-Cooke Connection and the New York City Banks” November 2016 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2865721>

The National Banking System (1863-1913) was the United States’ monetary structure before the founding of the Federal Reserve in 1913 and was created by the National Banking Acts, originally called the National Currency Acts, of 1863 and 1864 in the midst of the Civil War. It significantly changed the financial landscape of the country compared to the previous “Free Banking” era (1837-1861). Most importantly, it standardized the country’s currency by replacing state bank notes with national bank notes and created a multi-tiered credit structure where reserves were ultimately concentrated in a handful of bankers’ banks. It also created a Comptroller of the Currency who had the power to charter and regulate the new national banks, and federal management of national banks’ reserve requirements (Timberlake 1993, 86-87; Rockoff 2000, 651-52; White 2013, 8-10).

B. The Problem: The Federal Reserve creates economic instability and misery

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

Imagine a world in which financial markets were not constantly buffeted between optimism and pessimism based on the words of the Fed chairman. The current system is not bringing stability but just the opposite. I’m thinking too of the long history. The Fed was created more than a century ago. Its first great achievement was not ending “wildcat banking” but rather providing the funding for the first World War. Not a good beginning. That blew a bubble that popped in 1921. Then it blew another that popped in 1929. Then it botched an attempt to reflate from 1930 all the way to the second World War, which it also funded. The postwar history was of endless screw ups: inflation, recession, stagflation, and all-around mercy that culminated in the great pillaging of 1979. Then came the [Savings and Loan Crisis](https://en.wikipedia.org/wiki/Savings_and_loan_crisis), the dotcom bubble, the reflation after 9/11, the housing fiasco that blew up 7 years later, then the bailout of banks with balance-sheet manipulations, then the convoluted and contradictory regime that followed.

C. The Comparative Advantage: We had better economic stability under the old system, before the Federal Reserve

Dr. Norbert J. Michel 2019. ( PhD in financial economics from the University of New Orleans) The Fed Has Not Been Independent – Perhaps It Should Be Restructured <https://www.heritage.org/markets-and-finance/commentary/the-fed-has-not-been-independent-perhaps-it-should-be-restructured>

[At least one major peer-reviewed study of the Fed’s overall performance](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755) found that the nation has experienced more symptoms of monetary and macroeconomic instability during the Fed era than in the decades before its creation. The study pointed out that while the Fed’s performance has undoubtedly improved since World War II, even its postwar performance has not clearly surpassed that of its undoubtedly flawed predecessor, the National Banking system, before World War I.

ADVANTAGE 3. Stop accelerating income inequality

A. The Link: Federal Reserve policies have artificially boosted investment asset prices – Great for rich investors, but everyone else is left behind

Danielle DiMartino Booth 2019 (former adviser to the president of the Dallas Federal Reserve Bank) 12 Mar 2019 “The Fed’s Failures Are Mounting” <https://www.bloomberg.com/opinion/articles/2019-03-12/the-federal-reserve-s-failures-are-mounting> (ellipses in original; brackets added)

But at the National Association for Business Economics recent annual conference, University of California-Berkeley economics professor Gabriel Zucman presented his findings on the widening divide between the “haves” and “have nots” in the U.S. His conclusion: “Both surveys and tax data show that wealth inequality has increased dramatically since the 1980s, with a top 1 percent wealth share around 40 percent in 2016 vs. 25 – 30 percent in the 1980s.” Zucman also noted that increased wealth concentration has become a global phenomenon, albeit one that is trickier to monitor given the globalization and increased opacity of the financial system. That is not to say the most powerful players in finance haven’t had to [adapt to a post-crisis world](https://www.bloomberg.com/news/articles/2019-03-11/trump-bid-to-ease-wall-street-rules-hurt-by-regulators-missteps). The inability to undertake risky lending under tightened regulation has pushed business to an increasing degree out of the conventional banking system into the [shadow banking industry](https://www.bloomberg.com/news/articles/2019-03-06/who-needs-a-bank-why-direct-lending-is-surging-quicktake-q-a). Private equity presides over more than $2.1 trillion in committed capital to be deployed outside the purview of regulators’ watchful eyes, according to research firm Preqin. While, Powell acknowledged that risks had built up among highly leveraged companies, he said the scale is not “the kind of thing that we saw in the … subprime mortgage crisis. It doesn’t seem to be like that, generally. But at the same time, it could be an amplifier in a downturn.” As for any notion that Fed policy has elevated asset prices and left behind those without the means to benefit, circumstances that have skewed both wealth and income inequality, [journalist Scott] Pelley asked, “Where are we headed in this country in terms of income disparity?” Echoing his predecessors, [Federal Reserve Chairman Jerome] Powell replied, “Well, the Fed doesn’t have direct responsibility for these issues.” Except that the Fed does have direct responsibility. If the “wealth effect” used to justify a generation of quantitative easing hasn’t kicked in yet, trickling down to those who need it most, it’s past time the Fed acknowledged its failings and opened the door to a new policy framework.

B. The Impact: Economic inequality causes multiple bad social impacts

Prof. Richard Wilkinson 2011 (professor emeritus of social epidemiology at the University of Nottingham) “Why inequality is bad for you -- and everyone else” 6 Nov 2011 <https://www.cnn.com/2011/11/06/opinion/wilkinson-inequality-harm/index.html>

People have always known that inequality is divisive and socially corrosive. What is surprising, now that we have the data to compare societies, is how clear the effects of inequality are. A wide range of social problems are worse in societies with bigger income differences between rich and poor. These include physical and mental illness, violence, low math and literacy scores among young people, lower levels of trust and weaker community life, poorer child well-being, more drug abuse, lower social mobility and higher rates of imprisonment and teenage births. The differences in performance of more and less equal societies is often enormous: Most of these problems are between twice and ten times as common in countries like the United States, Britain and Portugal, which have large income differences compared to countries with smaller income differences like the Nordic countries or Japan.

2A Evidence: Abolish the Federal Reserve

OPENING QUOTES

Poor performance, high reputation. Referring to the Federal Reserve in 1988, famous economist Milton Friedman said…

Dr. Milton Friedman 1988 (PhD and Nobel prize in economics) quoted by George Selgin, William Lastrapes and Lawrence White (Selgin& Lastrapes are with Dept of Economics at Univ. of Georgia. White is with Dept of Economics, George Mason Univ.) “Has the Fed Been a Failure?” written 2010 revised 2012 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755>

“No major institution in the U.S. has so poor a record of performance over so long a period, yet so high a public reputation. Milton Friedman (1988)”

INHERENCY

Federal Reserve has great power over the US monetary system

Dr. Alexander Salter 2019 (PhD economics; Assistant Professor of Economics in the Rawls College of Business and the Comparative Economics Research Fellow with the Free Market Institute at Texas Tech University ) 12 Mar 2019 “The Federal Reserve: A Failure of the Rule of Law” <https://www.aier.org/article/sound-money-project/federal-reserve-failure-rule-law>

The Fed has a monopoly on the creation of base money, the fundamental asset underlying the banking and financial system. And over decades, with each instance of financial turbulence, the Fed has become less constrained in how, when, and why it creates base money. Since the Great Recession, the Fed has been able to bestow purchasing power, liquidity, and solvency on just about any financial organization it pleases. If that isn’t power, there’s no such thing.

Federal Reserve is expanding its own power but accepts no responsibility or accountability, just to benefit the elites

Dr. Alexander Salter 2019 (PhD economics; Assistant Professor of Economics in the Rawls College of Business and the Comparative Economics Research Fellow with the Free Market Institute at Texas Tech University ) 12 Mar 2019 “The Federal Reserve: A Failure of the Rule of Law” <https://www.aier.org/article/sound-money-project/federal-reserve-failure-rule-law>

More than a decade after the financial crisis, we’re left grappling with the Fed as an organization with incredible power but subject to minimal responsibility. History shows that the Fed is eager to expand its own powers with each macroeconomic snafu. From clearinghouse to monetary tinkerer to direct allocator of purchasing power, each real or perceived crisis has been used by the Fed to move one step further on the road to monetary central planning. At no time has this process been approved through any of the institutions of collective action Americans recognize as lawful. Nor can it be justified by circumstances, since the only durable beneficiaries of the Fed’s transformation are politically connected bankers and would-be monetary policy makers.

HARMS / SIGNIFICANCE

Federal Reserve created the housing crisis and crash

Jeffrey A. Tucker 2015 (Editorial Director of the American Institute for Economic Research) 21 Sept 2015 “How Do We Get Rid of the Fed?” <https://fee.org/articles/how-do-we-get-rid-of-the-fed/>

When the Fed monkeys with interest rates, it distorts investment patterns, diverting resources from rational economic ends toward those with far less merit. People think of the Fed as the benefactor who saved us from the housing crash. But to get at the truth, look at the history leading up to the crash. What provided the implicit bailout guarantee for the entire banking sector? What incentivized the reckless lending that goosed up housing prices for so long? However you ask the question, the answers point back to the central bank. The institution that caused the problem cannot also be a reliable fix for the problem.

Federal Reserve mismanagement worsened the Great Depression (1930s) and caused the Housing crash (2007)

Dr. Alexander Salter 2019 (PhD economics; Assistant Professor of Economics in the Rawls College of Business and the Comparative Economics Research Fellow with the Free Market Institute at Texas Tech University ) 12 Mar 2019 “The Federal Reserve: A Failure of the Rule of Law” <https://www.aier.org/article/sound-money-project/federal-reserve-failure-rule-law>

It’s well accepted in macroeconomics that the Fed bears a large share of the blame for putting the “Great” in Great Depression. The turmoil that gripped not only US but global markets starting in 1929 was so disruptive, in part, because the Fed bungled its handling of the money supply. Milton Friedman and Anna Schwartz famously demonstrated this in their much-celebrated *Monetary History of the United States*. So compelling was their case that in 2002, future Fed Chairman Ben Bernanke admitted, “I would like to say to Milton and Anna:Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.” But the Fed did do it again. The 2007-8 crisis was a replay of central bank mismanagement.

Federal Reserve mismanagement worsened the 2007-2008 crisis and increased unemployment

Dr. Alexander Salter 2019 (PhD economics; Assistant Professor of Economics in the Rawls College of Business and the Comparative Economics Research Fellow with the Free Market Institute at Texas Tech University ) 12 Mar 2019 “The Federal Reserve: A Failure of the Rule of Law” <https://www.aier.org/article/sound-money-project/federal-reserve-failure-rule-law>

The 2007-8 crisis was a replay of central bank mismanagement. Bernanke’s Fed focused more on shoring up the balance sheets of politically connected banks and nonbank financial houses than combating the liquidity crunch that characterized the early day of the crisis. The result was many irresponsible banks got bailouts, while financial markets as a whole were left scrambling for liquidity. The reverberations of this misdiagnosis were not limited to financial markets: as the spike in unemployment and the precipitous decline in output demonstrate, the Fed’s actions had dire consequences for those far removed from the financial sector.

Federal deficits will cause higher inflation

Greg Rob 2019 (journalist) “Greenspan warns U.S. budget deficit will ultimately lead to higher inflation” <https://www.marketwatch.com/story/greenspan-warns-us-budget-deficit-will-ultimately-lead-to-higher-inflation-2019-02-28>

The yawning federal budget deficit is ultimately going to eventually lead to higher inflation, former Federal Reserve Chairman Alan Greenspan said Thursday. The federal debt-to-gross domestic product ratio is on track to be as large as it was during World War II, Greenspan said during a talk at a National Association for Business Economics conference. “Unless you believe in fairies, that is not an economy that can function without inflationary instability,” Greenspan said. The former Fed chairman despaired the lack of political pressure to control entitlement spending and narrow the deficit.

Federal Reserve inflates stock prices with cheap debt (artificially low interest rates)

Richard Bowen 2017 (former Business Chief Underwriter for Citigroup – whistleblower who tried to warn about bad loans before the housing crisis blew up in 2007) 22 June 2017 <http://www.richardmbowen.com/fed-up-an-insiders-take-on-why-the-federal-reserve-is-bad-for-america/> (brackets added) Ethical disclosure: Mr Bowen is quoting the views of Danielle Booth. In the context of this article he neither expresses agreement nor disagreement with the statement quoted here, merely urges readers to go read her material for themselves.

She [Danielle DiMartino Booth , former adviser to the president of the Dallas Federal Reserve Bank ] says she repeatedly pointed out the dangers inherent in Fed policy such as the deeply depressed interest rates. Ms. Booth notes that “In five thousand years of record keeping debt has never been cheaper.”… and “Since 2007 world debt has grown by about $60 trillion, enriching legions of investment bankers one bond at a time.” The Fed has made it so cheap to borrow that companies, with their management driven by incentive compensation on increased stock prices, have driven a significant amount of debt-fueled common stock purchases to, for the short term, increase EPS [earnings per share] and, therefore, stock price. This is simplistically called financial engineering based solely upon cheap debt.

NBER study claiming Federal Reserve stabilized a bad economy is flawed: Their pre-Fed data was biased and exaggerated

George Selgin, William Lastrapes and Lawrence White 2012 (Selgin & Lastrapes are with Dept of Economics at Univ. of Georgia. White is with Dept of Economics, George Mason Univ.) “Has the Fed Been a Failure?” this paper was originally written 2010 revised 11 January 2012 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755>

The NBER’s chronology has nonetheless been faulted for seriously exaggerating both the frequency and the duration of pre-Fed cycles and for thereby exaggerating the Fed‘s contribution to economic stability. According to Christina Romer (ibid., p. 575), whereas the NBER’s post-1927 cycle reference dates are derived using data in levels, those for before 1927 are based on detrended data. This difference alone, Romer notes, results in a systematic overstatement of both the frequency and the duration of early contractions compared to modern ones.22 The NBER’s pre-1927 indexes of economic activity, upon which its pre-Fed chronology depends, are also based in part on various nominal time series which (for reasons considered above) are a further source of bias (ibid., p. 582; also Watson 1994). Using both the Fed’s and an adjusted version of her and Jeffrey Miron‘s indexes of industrial production (Miron and Romer 1990), Romer arrives at a new set of reference dates that ―radically alter one‘s view of changes in the duration of contractions and expansions over time (ibid., p. 601).

Federal Reserve failed at price stability (preserving the value of the dollar / preventing inflation)

George Selgin, William Lastrapes and Lawrence White 2012 (Selgin & Lastrapes are with Dept of Economics at Univ. of Georgia. White is with Dept of Economics, George Mason Univ.) “Has the Fed Been a Failure?” this paper was originally written 2010 revised 11 January 2012 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755>

The Fed has failed conspicuously in one respect: far from achieving long-run price stability, it has allowed the purchasing power of the U.S. dollar, which was hardly different on the eve of the Fed’s creation from what it had been at the time of the dollar‘s establishment as the official U.S. monetary unit, to fall dramatically. A consumer basket selling for $100 in 1790 cost only slightly more, at $108, than its (admittedly very rough) equivalent in 1913. But thereafter the price soared, reaching $2422 in 2008 (Officer and Williamson 2009).

A/T “Gold Standard caused the Depression, not the Fed” – Fed’s inept policies were to blame, not the Gold Standard

George Selgin, William Lastrapes and Lawrence White 2012 (Selgin & Lastrapes are with Dept of Economics at Univ. of Georgia. White is with Dept of Economics, George Mason Univ.) “Has the Fed Been a Failure?” this paper was originally written 2010 revised 11 January 2012 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755>

Some economic historians, most notably Barry Eichengreen (1992), have blamed the Great Depression in the United States on the gold standard rather than on the Fed‘s misuse of its discretion, claiming that the Fed had to refrain from further monetary expansion in order to maintain the gold standard. But Elmus Wicker (1996, pp. 161-2) finds that gold outflows played only a minor role in the banking panics that were the proximate cause of the monetary collapse of 1930- 1933, while Bordo, Choudri, and Schwartz (2002) show that, even had there been perfect capital mobility (which was far from being the case), open market purchases on a scale capable of having prevented that collapse would not have led to gold outflows large enough to pose a threat to convertibility. Hsieh and Romer (2006), finally, draw on both statistical and narrative evidence to examine and ultimately reject the specific hypothesis that the Fed was compelled to refrain from expansionary policies out of fear that expansion would provoke a speculative attack on the dollar. Instead, they conclude (ibid., p. 142), ―the American Great Depression was largely the result of inept policy, not the inevitable consequence of a flawed international monetary system.”

SOLVENCY / ADVOCACY / ADVANTAGES

Abolishing the Federal Reserve reduces economic instability

journalist Jennifer Schonberger and Rep. Ron Paul 2009. (Paul was a congressman from Texas at the time) Should We Abolish the Federal Reserve? 25 Sept 2009 <https://www.fool.com/investing/international/2009/09/25/should-we-abolish-the-federal-reserve.aspx>

**Jennifer Schonberger:** In the wake of [the financial crisis](https://www.fool.com/investing/general/2009/09/10/the-market-meltdown-a-year-later.aspx), some in Congress want to give even greater power to the Fed. You want to abolish the Fed. Why?   
**Congressman Ron Paul:** Because they caused all the trouble. A monetary policy of easy credit and artificially low interest rates was the main source of the financial bubble, and the correction is always trying to fix what the Federal Reserve has done. The only way you can address the business cycle and prevent wild swings in the business cycle is by addressing the Federal Reserve and how they cause nothing but mischief.

Pre-Federal Reserve, old National Banking System: Economy was better, crises not as severe, economic growth was great

Gerald P. O’Driscoll 2012 (senior fellow at the Cato Institute, was vice president at the Federal Reserve Bank of Dallas) 15 Oct 2012 “Central Banks: Reform or Abolish?” <https://object.cato.org/sites/cato.org/files/pubs/pdf/WorkingPaper-11.pdf> (brackets in original)

Until the creation of the Federal Reserve System, the United States operated with the national banking system. It had a number of flaws and has been much‐maligned. It has been portrayed as prone to bank panics and crises in 1873, 1884, 1890, 1893, and 1907. Yet the national bank era was one of the strongest periods of economic growth in the country’s history. Salsman (1993: 86) argued that the 19th century crises “were briefer, milder, and involved acute illiquidity, whereas this [20th] century crises have involved prolonged periods of recession and depression, widespread bank failure, and chronic insolvency.” The 21st century appears to be following suit.

Federal Reserve failures justify ending central banking in the U.S.

Richard Ebeling 2019 (American Institute for Economic Research Senior Fellow, is the BB&T Distinguished Professor of Ethics and Free Enterprise Leadership at The Citadel, in Charleston, South Carolina) 24 Apr 2019 “Central Banking Is Central Planning” <https://www.aier.org/article/central-banking-central-planning>

By their fruits you will know them: the post-World War I inflation and depression; the 1920s false promise of prosperity and stability, followed by the Great Depression; the booms and busts of inflations and recessions in the 1950s; the monetary inflation of the 1960s and especially the high price inflation of the late 1970s and early 1980s; then a relative calm in the 1990s, but followed by the monetary expansion between 2003 and 2008 that set the stage for the great financial and housing crisis of 2008-10; and now the great experiment with “quantitative easing” and the ballooning Federal Reserve asset portfolio filled with private sector mortgages. (See my article [“Ten Years On: Recession, Recovery, and the Regulatory State.”](https://www.fff.org/explore-freedom/article/ten-years-recession-recovery-regulatory-state/)) The long history of central banking, and especially over the last 100 years of paper monies and out-of-control government deficit spending partly funded by “monetization” of the debt, has more than clearly demonstrated that the epoch of modern central banking needs to come to an end. And in its place, we need the opening and freeing of financial markets to private competitive free banking, with markets — meaning all of us — deciding what we want to use as money.

DISAD RESPONSES

A/T “Need F.R. to stabilize the money supply” –Federal Reserve can’t control it, markets do

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

There is a disconnect between what the Fed says and what it does simply because the system is too complex to be run from the center. Money in circulation is determined by a combination of depositor/borrowing behavior and the risk tolerance of banks themselves. There is no money wizard in Washington who can operate the whole like some precision machine.

A/T “Destabilize money supply” - Most money supply is created by banks through lending, not the Federal Reserve

Douglas French 2016 (Associated Scholar at the Johnson Center at Troy University and adjunct professor at Georgia Military College) Another Case for Abolishing the Fed 5 July 2016 <https://fee.org/articles/another-case-for-abolishing-the-fed/>

Steve Hanke, professor of Applied Economics at the Johns Hopkins University, explains there are two types of money: what the central bank creates, and “[t]he rest of the money supply is produced by banks. It’s called bank money,” says Hanke. Banks manufacture this kind of money in electronic form by creating a matching amount of loans and deposits. In October 2013, Valentin Schmid wrote for the [Epoch Times](http://www.theepochtimes.com/n3/332519-what-is-money/), “Money printed by the Fed increased by 3.5 times since the collapse of Lehman Brothers in 2008 and now constitutes 20 percent of the total money supply. Bank money has decreased 12 percent, bringing down the total increase to around 3 percent, which is not very much.” Bank money may have decreased, but it was still 80 percent of the money supply.

A/T “Fed. Reserve drives economic growth” – Reverse. Economic growth drives the Fed. Reserve

John Tamny 2018 (Director of the Center for Economic Freedom at FreedomWorks, editor of RealClearMarkets, and a senior economic adviser to Toreador Research & Trading) 14 Oct 2018 “Sorry Mystics, Central Banks Cannot Finance Government Spending” FORBES <https://www.forbes.com/sites/johntamny/2018/10/14/contrary-to-what-economists-tell-you-central-banks-cannot-finance-governments/#13a1d3be5d30>

Bringing it all back to the United States, the humanitarian disaster unfolding in Yemen is a small-scale reminder that central banks can’t stimulate economic growth as much as they’re an effect of it. The Federal Reserve is large precisely because the U.S. economy is. It can’t finance the federal government, but it *can* buy U.S. Treasuries in size precisely because the American people who make the Fed and federal government possible produce economic growth in size. Though various economic schools relentlessly try to revive Santa Claus through their mysticism about governments, central banks and printing presses, the reality is that wealth and economic growth are always produced in the private sector. Government spending and printing presses are a consequence of the latter, and never a driver.

A/T “Need Fed Reserve for economic stability” – F.R. can’t solve the problem, all it can do is make everyone poorer

Richard Rahn 2011 (senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth) “Abolish Central Banks” 25 Oct 2011 <https://www.cato.org/publications/commentary/abolish-central-banks>

I have some sympathy for the central bankers because they have been given an impossible job — namely, they are supposed to be smarter than markets “and lean against the wind.” But they aren’t smarter and they don’t know which way the wind is blowing. They also have been saddled with correcting a problem brought on by politicians of governments that are accumulating debt far faster than their respective economies are able to finance them. The central banks can get rid of the debt problem by inflating the currency (i.e., reducing its value by printing too much money) to the point where the debts are almost meaningless but, as we learned in the 1970s, inflation only serves to make almost everyone poorer.

A/T “Bank clearing system” – Banks can do that themselves, they don’t need help

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

Which raises the topic: why do we need the Fed? It manages a clearing system for banks but banks can do that themselves without help from Washington. It manages the federal funds rate because it holds overnight loans between banks. Here again, banks can perform those operations without help.

A/T “Manage the federal funds rate” – Banks can do that themselves

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

Which raises the topic: why do we need the Fed? It manages a clearing system for banks but banks can do that themselves without help from Washington. It manages the federal funds rate because it holds overnight loans between banks. Here again, banks can perform those operations without help.

A/T “Bank failures” – Canada got through the Depression without a central bank… and had no bank failures

Gerald P. O’Driscoll 2012 (senior fellow, Cato Institute) 15 Oct 2012 “Central Banks: Reform or Abolish?” <https://object.cato.org/sites/cato.org/files/pubs/pdf/WorkingPaper-11.pdf> (brackets in original)

I tentatively suggest that the history tells us that chronic government budget deficits are a sufficient, but not a necessary condition for the rise of a central bank in a country. Canada got through the Great Depression without a central bank and experienced no major bank failures. The Bank of Canada was created in 1935 mainly to conform to international practice (Selgin, et al. 2012: 583).

A/T “Bank failures” – Federal Reserve didn’t solve bank failures

George Selgin, William Lastrapes and Lawrence White 2012 (Selgin & Lastrapes are with Dept of Economics at Univ. of Georgia. White is with Dept of Economics, George Mason Univ.) “Has the Fed Been a Failure?” this paper was originally written 2010 revised 11 January 2012 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1713755>

A conventional view holds that the Fed did indeed make panics less common by eliminating the currency shortages and associated credit crunches that were notorious features of previous panics; and Jeffrey Miron’s research (1986) appears to support this view by showing how, in its early years at least, the Fed did away with the seasonal tightening of the money market, and consequent spiking interest rates, that characterized the pre-Fed era. However, more recent and consistent accounts of the incidence of banking panics suggest that the Fed did not actually reduce their frequency. Andrew Jalil (2009) concludes, on the basis of one such new reckoning, ―that contrary to the conventional wisdom, there is no evidence of a decline in the frequency of panics during the first fifteen years of the existence of the Federal Reserve (ibid., p. 3). That is, there was no reduction between 1914 and 1930, and hence none until the conclusion of the national bank holiday toward mid-March of 1933.

A/T “Need Fed to regulate banks” – Fed Reserve fails at bank regulations. Too many conflicts of interests, they look the other way

Richard Bowen 2017 (former Business Chief Underwriter for Citigroup – whistleblower who tried to warn about bad loans before the housing crisis blew up in 2007) 27 Apr 2017 “Is the Fed Really Interested In Protecting Consumers or Is It just Lip Service?” <http://www.richardmbowen.com/is-the-fed-really-interested-in-protecting-consumer-or-is-it-just-lip-service/>

Our regulators and that includes the Fed do not have a culture which permits dissent. In fact, their own retaliation against Fed whistleblower Carmen Segarra, for not going easy on the banks is another example. The Fed’s actions during and after the financial crisis have raised serious concerns about its leadership’s priorities. It seems that it prefers the financial interests of America’s banking elite over those of the general public. [Numerous examples of revolving](http://www.richardmbowen.com/the-goldman-sachs-takeover-of-the-fed)doors (Mr. Dudley himself is a former Goldman Sachs chief economist) and conflicts of interest have been exposed in the Fed since the financial crisis.

A/T “End of the world, panic and chaos, can’t do it overnight” – No problem. Simple abolition is the best

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

The best policy will be the one that has the least steps, remembering that the main point is to end the system of centralized, discretionary policy that is so subject to abuse. The simplest solution would be to normalize the Fed’s balance sheet (it’s already happening) and then pull the plug by freezing the monetary base. No more printing via open-market operations. Let banks and other intermediaries take it from there, issuing their own branded and redeemable notes on a competitive basis in response to consumer demand. Competition, redemption requirements, transparency, and no more too-big-to-fail would prevent overissue and incentivize a system far more sound than the current one.

No Disads at all: There is no downside, the world won’t fall apart

Jeffrey A. Tucker 2018 (Editorial Director of the American Institute for Economic Research) 2 Dec 2018 “It’s a Snap to Abolish the Fed” <https://www.aier.org/article/its-snap-abolish-fed>

Wouldn’t the world fall apart? Not at all. I predict that the news would be front page for the usual 48-hour news cycle and then the world would move on. No big deal. There is no downside. And a huge upside. All it requires is some political courage. Ideally, Congress, which created the creature in the first place, would step up and do the right thing. It’s also intriguing to imagine what would happen if the president, famous for his edgy uses of the executive order, would shutter the place with the stroke of a pen. Even if it doesn’t happen, I am safe to predict the Fed’s growing irrelevance in an age of innovation in cryptocurrency and ever more choice over depository institutions. Might as well call it now and end the Fed.

None of the functions of the Federal Reserve are needed in today’s economy: Lender of last resort, bank regulator, setting interest rates

John Tamny 2017 (Director of the Center for Economic Freedom at FreedomWorks, editor of RealClearMarkets, and a senior economic adviser to Toreador Research & Trading) 2 Apr 2017 “Danielle DiMartino Booth And Ron Paul Both Miss The Federal Reserve's Rising Irrelevance” FORBES <https://www.forbes.com/sites/johntamny/2017/04/02/danielle-dimartino-booth-and-ron-paul-miss-the-federal-reserves-rising-irrelevance/#4bc621757ce6>

Precisely because we’re not a banana republic, we don’t need a central bank acting as lender of last resort to insolvent banks (solvent ones don’t need the Fed), regulator of the banking system (if Fed officials could reliably detect future trouble spots they wouldn’t work at the central bank), or as planner of an overnight borrowing rate that is a price like any other.

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