Negative: Abolish the Fed

By Jonathan T. Helton

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

The AFF case is simple: Abolish the Federal Reserve. The NEG position is likewise simple: Replace it with what?

This is the argument that you as the Negative should hammer home: Alternatives to the Federal Reserve are flawed. This brief shows some of the benefits of the current layout of the Fed. It also demonstrates that the Great Recession was ended faster through action by the Fed. The heart of the brief is the solvency and disadvantages. The solvency simply asks what will replace the Fed: the gold standard? A government agency? Congress? A completely free market? The disadvantages go to show how some of those options would harm the U.S. and global economies since the Fed influences the money supply of 70% of the world. Finally, the Fed could act as a lender of last resort if the U.S. government has to default on its debt.

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Negative: Abolish the Fed

NEGATIVE PHILOSOPHY

Do no harm

Prof. Alan Blinder 2016 (Professor of Economics and codirector of Center for Economic Policy Studies at Princeton Univ.; former vice chairman of the Board of Governors of the Federal Reserve System and was a member of Pres. Clinton's Council of Economic Advisers ) 25 Oct 2016 “Message to the candidates: Hands off the Federal Reserve” <https://www.brookings.edu/opinions/message-to-the-candidates-hands-off-the-federal-reserve/>

The presidential campaign may not be missing much by skipping a debate over monetary policy and the Federal Reserve — especially if that debate would resemble Donald Trump’s ignorant potshots at its chair, Janet Yellen. Instead, the nation would do well to remember Hippocrates’s wise counsel: “First, do no harm.”

INHERENCY

1. Federal Reserve is weak / irrelevant / doesn’t matter

Fed. Reserve not very relevant: Handles only a small amount of the monetary system, doesn’t have much power

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>

Much more than the Fed’s critics and supporters would like us to believe, the Fed quite simply isn’t that relevant. It deals with massively overregulated and antiquated banks that represent a small – and declining (15%) – percentage of total credit in the U.S. economy, not to mention that banks are easily the least dynamic source of credit for what is the most dynamic economy in the world. As for the popular notion that the Fed creates credit, let's be serious. Pursuit of credit isn’t the pursuit of dollars created at the Fed as much as it’s the pursuit of real resources like trucks, tractors, computers, desks, chairs, buildings, labor, etc. The Fed can’t create, increase or shrink what borrowers of dollars are in need of as much as it can distort the direction of credit; albeit not that much.

2. New regulations are solving

Dodd-Frank regulations are now guiding the Federal Reserve and the financial system is much safer now

Donald Kohn 2015 (holds the Robert V. Roosa Chair in International Economics and is a senior fellow in the Economic Studies program at the Brookings Institution. He also currently serves as an external member of the Financial Policy Committee at the Bank of England. 40-year veteran of the Federal Reserve system, serving as member and then vice chair of the Board of Governors.) 22 July 2015 “Examining Federal Reserve reform proposals” <https://www.brookings.edu/testimonies/examining-federal-reserve-reform-proposals/>

I do not agree with that premise. In my view, the actions of the Federal Reserve in the crisis and slow recovery were necessary and appropriate. Its conduct of monetary policy has been as systematic as possible under unprecedented and constantly evolving circumstances, and it has been especially transparent about how those monetary policy actions were expected to foster achievement of its legislated mandate and what it would be looking at in the future to gauge the need for future actions. The Federal Reserve, working in part under the guidance of the Congress in Dodd Frank, has greatly toughened and improved its regulation and supervision of the institutions for which it is responsible, and the financial system is safer than it has been for many years.

3. Federal reserve is accountable and works fine

Current accountability methods work, and it should be left alone

Alice M. Rivlin 2015 (was a senior fellow for Economic Studies at Brookings; founder of the Congressional Budget Office (CBO), former Head of the Office of Management and Budget (OMB), and Vice Chair of the Federal Reserve Board.) 14 July 2015 “Preserving the independence of the Federal Reserve”<https://www.brookings.edu/testimonies/preserving-the-independence-of-the-federal-reserve/>

Delegating monetary policy to an independent body was a sound idea, and the Federal Reserve’s independence has become a model of central bank governance around the world. Independence in monetary policy setting must be accompanied by strong oversight of the Fed’s operations and frequent reporting on the Fed’s goals for monetary policy and how well they are being achieved. Those processes are now working well. My advice would be: leave well enough alone.

The Fed is as transparent as other government agencies

Professors Neil H. Buchanan & Michael C. Dorf 2016 (Buchanan: Professor of Law, The George Washington University Law School, and Senior Fellow at the Taxation Law and Policy Research Institute, Monash University. Dorf: Robert S. Stevens Professor of Law, Cornell Law School) November 2016 “Don 't End or Audit the Fed: Central Bank Independence in an Age of Austerity” <https://scholarship.law.cornell.edu/cgi/viewcontent.cgi?article=2602&context=facpub>

In carrying out its regulatory mandates, the Fed ought to be-and is-no less transparent than most other agencies. In general, modem administrative law strikes a balance between deference to agency expertise and accountability by imposing procedural constraints on agency rulemaking, enforcement actions, and adjudication. More than anything, these constraints aim to expose the reasons for agency decision-making-that is, to render agency action transparent. The Fed falls within the sweeping definition of covered agencies in the Administrative Procedure Act (APA), and thus, as a regulator, it is legally as transparent as any other agency-and more transparent, at least as a formal matter, than those agencies that are speciflcally exempt from the APA. With respect to rulemaking, for example, like any other agency covered by the APA, if the Fed wishes its regulations to receive deference in court, it must follow the notice-and-comment procedure affording the public rights to participate.

4. Criticism is unjust

President Trump’s blame was wrong

Prof. Teresa Ghilarducci 2018 (25 years as a professor of economics at the University of Notre Dame; trustee of the $53 billion Medical Health Care Trust for GM, Ford, Chrysler UAW retirees and past trustee of the Indiana Public Employees Retirement System) 11 October 2018 “Is A 'Crazy' Federal Reserve Killing The Stock Market?” <https://www.forbes.com/sites/teresaghilarducci/2018/10/11/is-a-crazy-federal-reserve-killing-the-stock-market/#1cb584f25af2>

An ominous week on Wall Street has President Trump blaming the Federal Reserve for raising interest rates, which the President claims has caused stock indices to fall for six consecutive days – for example, the Dow Jones average fell by over five percent in two days. Presidents second guess the Fed when rates increase, but Trump went beyond second-guessing when he described the Fed’s policies as “loco”, and said yesterday it “has gone crazy.” The President is not right about the Fed; the central bank is steadily raising interest rates for solid reasons.

HARMS / SIGNIFICANCE

1. A/T “Fed caused the Great Depression”

No, it was caused by government spending, regulations, trade tariffs, dollar devaluation, tax hikes, and stupid politicians

John Tamny 2015 (political economy editor at Forbes Magazine; senior economic adviser to Toreador Research & Trading) 18 Oct 2015 “The Fed And The Great Depression: A Myth That Just Won't Die” <https://www.forbes.com/sites/johntamny/2015/10/18/the-fed-and-the-great-depression-a-myth-that-just-wont-die/#7842bb821037> (brackets added)

The 1929-30 recession wasn't anything special, it was in fact softer than 1920-21; the only difference being what the political class did in response. Having forgotten that recessions are a healthy sign of an economy on the mend, and that if left alone will set the stage for the next boom, politicians meddled. Government spending soared, the top tax rate was increased from 25 to 83%, regulations on hiring and investing grew, trade was made much less free (Smoot-Hawley tariff), and the dollar was devalued from 1/20th of a gold ounce to 1/35th. Politicians fell over one another trying to erect barriers to production, they succeeded, and with a substantial drop in production came a major decline in the supply of money. [Milton] Friedman put the cart before the horse in blaming the Fed for the Great Depression.

“Money supply” problems (supposedly caused by the Fed. Reserve) could not have caused the Depression. Money supply decline was the RESULT of the Depression, not the cause

John Tamny 2015 (political economy editor at Forbes Magazine; senior economic adviser to Toreador Research & Trading) 18 Oct 2015 “The Fed And The Great Depression: A Myth That Just Won't Die” <https://www.forbes.com/sites/johntamny/2015/10/18/the-fed-and-the-great-depression-a-myth-that-just-wont-die/#7842bb821037> (brackets added)

Missed by what Friedman allegedly proved, what Bernanke supposedly verifies, and that Stein apparently agrees with, is that money supply contracted substantially in the 1920-21 recession too, but with no "Great Depression" as a result. This shouldn't surprise anyone. Production is money demand. When economies recess, so-called "money supply" naturally shrinks. Recessions signal a decline in production, hence a so-called "money supply" shrinkage. The Fed itself can't shrink money supply. A decline in money supply is an effect of a contraction in production. If readers doubt this, they need only consider what would happen if Silicon Valley were a country and its central bank presumed to contract M2. If so, money supply meant to replace what the Fed took away would return to Silicon Valley as quickly as the central bank contracted it. If the Fed tried to reduce supply of dollars in the Valley now in order to subdue the froth, it would fail. If it had tried to do the same a few years ago in oil-abundant Williston, ND (when the dollar was still very weak), it would have failed impressively then too. Implicit in the shrinking money supply argument as a source of economic malaise is that money is wealth, that prosperity is a function of "money fairies" dropping it in certain places. The view is backwards. Money flows to where the production is, as opposed to money being the source of production.

No consensus the Fed. Reserve caused the Depression: It was a combination of complex factors, and nobody knows all of them yet

PAUL EVANS, IFTEKHAR HASAN & ELLIS W. TALLMAN 2004. (Evans is a professor of economics at Ohio State University and the editor of the Journal of Money, Credit, and Banking. Hasan is a professor and acting dean at the Lally School of Management at Rensselaer Polytechnic Institute in Troy, New York. Tallman is a vice president and head of the macropolicy team in the Atlanta Fed’s research department) Monetary Explanations of the Great Depression: A Selective Survey of Empirical Evidence (brackets added) <https://pdfs.semanticscholar.org/93a4/066359c4646ba76649e2adc622b028c34165.pdf>

The empirical literature on the Great Depression is far from consensus about the source of the contraction or the quantitative role of monetary shocks in the real output contraction. The VAR literature offers evidence both in favor of and in opposition to a central role for monetary policy among the causes for the Great Depression. Similarly, recent work using the real business cycle or DSGE [dynamic stochastic general equilibrium] modeling approach displays a similar lack of consensus regarding Fed culpability for the Great Depression. The search for one conclusive empirical study of the Great Depression is likely futile, akin to the search for a single source of the contraction. The “synthetic consensus” offered by Eichengreen (2002, 2004) may offer a coherent explanation of the Great Depression using the accumulation of empirical evidence to suggest that the Great Depression arose from circumstances and undesirable shocks too complex to capture in econometric models.

Gold Standard and the Bank of France caused the Great Depression

Robert Yee 2018. (Ph.D. student at Princeton University) THE BANK OF FRANCE AND THE GOLD DEPENDENCY: OBSERVATIONS ON THE BANK'S WEEKLY BALANCE SHEETS AND RESERVES, 1898-1940 <https://sites.krieger.jhu.edu/iae/files/2018/10/Bank-of-France-1-1.pdf>

According to Sanchez, by 1928 confidence in the “French State” and the possibility of any successful fiscal reform had reached its lowest point in over a century. The franc had returned to the gold standard after over a decade of inconvertibility. Perhaps leaving the standard had been necessary as a wartime finance measure. But, as some government officials believed, there did not seem to be a need to continue such a currency regime. Poincaré considered that requiring the franc be tied to a stable metric would have helped to deter future currency speculation as well. In contrast, the gold standard failed to deter unmitigated expansion of the money supply and augmented the severity of the next crisis.   
The Bank of France’s Gold Reserves and the Great Depression   
The Bank became a key agent in exacerbating, or perhaps even creating, the Great Depression. By one estimate, around 40 percent of worldwide deflation could have been attributed to the neutralization (non-monetization) of gold reserves by the central banks of the United States and of France. According to Professor Barry Eichengreen, this practice among surplus countries like France was “seen as a reflection of the desire to accumulate gold.” Since June 1928, the Bank had been accumulating both gold and foreign-currency reserves, mainly British pounds. An estimated 40 billion francs in sterling and an additional 12 billion in gold reserves had been accumulated over the previous two years. (The Federal Reserve Bulletin of the period does remark, however, that the sharp rise in reserves may have been in part due to the re-categorization of the “Miscellaneous assets” into the “Purchases of gold, silver, and foreign exchange” item on the 23 June balance sheet.) Professor Douglas Irwin has likewise noted that the Bank of France was a key player in the depression, as it greatly increased its share of world gold reserves and, more importantly, neutralized (failed to monetize) that accumulation.

2. A/T “Fed caused the Great Recession”

Fed. Reserve contained the Great Recession, and it was falsely blamed on banks and the financial system

Prof. Michael Bordo 2017 (prof. of economics, Rutgers Univ.) AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME Dec 2017 <https://www.nber.org/papers/w24154.pdf>

The Global Financial Crisis of 2007-2008 began with the Subprime Mortgage crisis. It was caused by US housing policy, aggravated by loose monetary policy in a departure from the rule like behavior of the Great Moderation. Other forces were: the failure of the financial regulatory and supervisory authorities to contain the growth of credit derivatives, leverage and the shadow banking system ,and global imbalances. The Global Financial Crisis and the Great Recession were contained by effective monetary and fiscal policies and an unorthodox extension of the lender of last resort by the Fed and other authorities who had learned the lessons of the 1930s. However, like the 1930s, the GFC was blamed on the banks and the financial system and this has led to the creation of a new regime of financial regulation and the elevation of the financial stability mandate to primary importance.

They’re not perfect, but they didn’t do badly

Prof. N. Gregory Mankiw 2019 (Professor of Economics at Harvard Univ. He chaired the Council of Economic Advisers for President George W. Bush.) 11 April 2019 “Keep the Federal Reserve I Love Alive” <https://www.nytimes.com/2019/04/11/business/mankiw-moore-cain-federal-reserve.html>

No, I have not. As [I wrote](https://www.nytimes.com/2018/07/27/business/lessons-from-the-financial-crisis.html?module=inline) just last year, the Fed’s decision not to rescue Lehman Brothers when the investment bank faced a liquidity shortfall in September 2008 was arguably an unforced error. And though we’ll never know for sure, subsequent events might have been less tragic if the Fed had acted more boldly. Yet the Fed’s inaction at that moment, even if mistaken, did not diminish my love for our central bank. Given human fallibility and the inevitable imperfections of information, institutions, like people, should not be judged by the standard of perfection. They should be judged by whether they are doing the best they can. By this standard, I give the Fed a top grade.

A/T “Slow recovery from the Great Recession” – would have been even slower without the Fed’s actions

Donald Kohn 2015 (holds the Robert V. Roosa Chair in International Economics and is a senior fellow in the Economic Studies program at the Brookings Institution. He also currently serves as an external member of the Financial Policy Committee at the Bank of England. 40-year veteran of the Federal Reserve system, serving as member and then vice chair of the Board of Governors.) 22 July 2015 “Examining Federal Reserve reform proposals” <https://www.brookings.edu/testimonies/examining-federal-reserve-reform-proposals/>

To be sure, policy has taken unexpected steps over the past seven years, but this was in response to unexpected developments. Moreover, the recovery from the financial crisis was disappointingly slow. But it would have been even slower had the FOMC not undertaken unconventional and sometimes unexpected policy actions. The pricing of actual and expected volatility in financial markets has not suggested an unusual amount of uncertainty about the path of interest rates or the Federal Reserve’s portfolio holdings going forward.

A/T “Fed made Great Recession worse” – It helped the economy get out of it

Alice M. Rivlin 2013 (She was a senior fellow for Economic Studies at Brookings; founder of the Congressional Budget Office (CBO), former Head of the Office of Management and Budget (OMB), and Vice Chair of the Federal Reserve Board) 12 Dec 2013 “The Federal Reserve: Balancing Multiple Mandates” <https://www.brookings.edu/testimonies/the-federal-reserve-balancing-multiple-mandates/>

Once the unnecessary crisis happened, the Fed moved aggressively and imaginatively in cooperation with the Treasury to mitigate the economic damage and stabilize the financial sector using all the tools it could find. The lessons learned in that desperate period of damage control, helped this Committee and its Senate counterpart craft the Dodd-Frank legislation aimed at avoiding repetition of the debacle of 2008. The Fed and other regulators now have new tools, which, if used courageously and intelligently, can reduce the chances of a similar catastrophe.

3. A/T “Artificially inflating the stock market”

No, the Fed is working against it. Trump’s tax cuts are causing it

Prof. Teresa Ghilarducci 2018 (25 years as professor of economics at the University of Notre Dame; trustee of the $53 billion Medical Health Care Trust for GM, Ford, Chrysler UAW retirees and past trustee of the Indiana Public Employees Retirement System) 11 October 2018 “Is A 'Crazy' Federal Reserve Killing The Stock Market?” <https://www.forbes.com/sites/teresaghilarducci/2018/10/11/is-a-crazy-federal-reserve-killing-the-stock-market/#1cb584f25af2>

Some market analysts believe the Fed is correcting a worrisome convergence between short and long-term interest rates—the [“flattening yield curve,”](https://www.nytimes.com/2018/10/11/upshot/interest-rates-are-rising-thats-great-news-for-most.html) which often signals an impending recession. Others justify the rate increases as offsetting the economic stimulus provided by Trump’s tax cuts, which come at a time of steady economic growth but will balloon the federal debt and deficit in the future. And many analysts (including me) believe the stock market is highly overvalued, pumped up by the tax cuts which went mostly to the wealthy, and are fueling unsustainable price/earnings ratios. Corporations are generally not using their new found net-of-tax revenue to make productive investments, but instead are [buying back their own stock](https://www.forbes.com/sites/teresaghilarducci/2018/09/28/who-benefits-from-the-tax-cut-10-months-later/#3190143e26bb) and making aggressive mergers and acquisitions, further driving up the market.

4. A/T “Income inequality”

Income inequality is insignificant, it isn’t coming from Wall Street, and it has no bad impacts

Michael D. Tanner 2016 (Senior Fellow at Cato Institute) Five Myths about Economic Inequality in America 7 Sept 2016 <https://www.cato.org/publications/policy-analysis/five-myths-about-economic-inequality-america>

Although we are frequently told that we are living in a new Gilded Age, the U.S. economic system is already highly redistributive. Tax policy and social welfare spending substantially reduce inequality in America. But even if inequality were growing as fast as critics claim, it would not necessarily be a problem. For example, contrary to stereotypes, the wealthy tend to earn rather than inherit their wealth, and relatively few rich people work on Wall Street or in finance. Most rich people got that way by providing us with goods and services that improve our lives. Income mobility may be smaller than we would like, but people continue to move up and down the income ladder. Few fortunes survive for multiple generations, while the poor are still able to rise out of poverty. More important, there is little relationship between inequality and poverty. The fact that some people become wealthy does not mean that others will become poor.

5. A/T “Causes all kinds of economic problems”

Fed helped during 2008 crisis and there are too many other factors to blame them for all the economy’s problems now

Ron Insana 2019 (senior analyst & commentator for CNBC; lecturer on domestic and global economics, financial markets and economic policy issues) 25 Feb 2019 “Here’s why it’s a mistake to blame the Fed for the world’s economic ills” <https://www.cnbc.com/2019/02/25/heres-why-its-a-mistake-to-blame-the-fed-for-the-worlds-economic-ills.html>

A new [University of Chicago paper](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3320551), recently cited by the website Zero Hedge, suggests that former Fed Chairman Ben Bernanke’s unconventional monetary policies were among the most damaging ever implemented on the global stage. It blamed the Fed’s policies for the rise of new business monopolies, lower productivity and possibly even lower wage gains than would have otherwise helped rank and file workers. Much of this is hogwash. Anyone who experienced and understood the severity of the 2008 financial crisis, and the deflation and recession that accompanied it, understands that the Fed kept the banking system from collapsing and the U.S., and maybe even the global, economy from cascading into another Great Depression. Criticism of the Fed is nothing new. But, of late, the Fed is being blamed for all the economy’s ills, which fails to take into account the multiplicity of variables that affect growth: wages, inflation, income inequality, monopoly power and pricing.

6. A/T “Enabling federal deficits and national debt”

No federal debt crisis

Prof. Noah Smith 2016 (assistant professor of finance at Stony Brook University ) 18 Apr 2016 CHICAGO TRIBUNE “Commentary: America is nowhere close to having a debt crisis” <https://www.chicagotribune.com/opinion/commentary/ct-america-debt-crisis-insolvency-20160418-story.html>

There are sometimes good reasons to be worried about the U.S. national debt. The debt has to be serviced, and that requires collecting taxes, which distort the economy. If government debt gets so large that the only way to avoid a default is to hold down interest rates forever, those low rates can eventually have negative effects on the economy. In the worst-case scenario, investors can lose their confidence in a government's ability to repay its debt, forcing the central bank to print money to fund the government, which raises the risk of inflation. The U.S. is nowhere near this point, however. The national debt is modest and sustainable, and the federal government's borrowing has been remarkably responsible. You wouldn't know this from reading the breathless debt hysterics in the media. Just recently, Time ran a cover story titled "The United States of Insolvency." It simultaneously ran other debt scare stories, such as one by Maya MacGuineas, who heads two think tanks devoted to lobbying for lower government debt. According to Time's article, every American owes about $43,000 because of the national debt. This concern is misplaced for a large number of reasons. First, the U.S. government isn't insolvent. Insolvency tends to happen when liabilities are greater than assets. That's very basic accounting. One of the U.S. government's assets is its ability to tax the U.S. economy for revenue. The national debt — which includes debt held by the public and money owed to other branches of the government — is only equal to about six years' worth of tax revenue. If the U.S. devoted a fifth of tax revenue to paying down the entire national debt, it would take 30 years to do it. That's not insolvency.

No need for hysterics, the US debt isn’t out of control

Prof. Noah Smith 2016 (assistant professor of finance at Stony Brook University) 18 Apr 2016 CHICAGO TRIBUNE “Commentary: America is nowhere close to having a debt crisis” <https://www.chicagotribune.com/opinion/commentary/ct-america-debt-crisis-insolvency-20160418-story.html>

So the U.S. debt isn't frighteningly large, nor is it growing in relation to the economy. In the future, it might do so, if health care prices accelerate again, or if the population ages more. But the U.S. can take steps to address those contingencies when they happen. For now, the U.S. is living in the greatest period of fiscal responsibility since the second Clinton administration. Resist the urge to engage in debt hysterics, please.

SOLVENCY

1. No good alternatives

Have to replace the Fed with something

Mark Koba 2012 (senior editor at CNBC.com) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

But abolishing the **Fed**only raises the bigger issue: What would—or should—be in its place?

Absent the Fed, someone needs to control monetary policy

Daniel Indiviglio 2011 (was an associate editor at The Atlantic from 2009 through 2011. He is now the Washington, D.C.-based columnist for Reuters Breakingviews. Prior to becoming a journalist, he spent several years working as an investment banker and a consultant.) 14 January 2011 “Why We Need the Fed” <https://www.theatlantic.com/business/archive/2011/01/why-we-need-the-fed/69554/>

So the first important point is that the Fed actually does a lot. You can't simply eliminate these functions. If you got rid of the central bank, you would need to push many of these functions to other regulators or private firms. For example, inflation has to be kept in check somehow. Prudential supervision is also important. The problem with eliminating the Fed is that you would need to delegate these responsibilities to another entity that could do them better.

Politicians suffer from short-term bias and would be a bad option

Daniel Indiviglio 2011 (was an associate editor at The Atlantic from 2009 through 2011. He is now the Washington, D.C.-based columnist for Reuters Breakingviews. Prior to becoming a journalist, he spent several years working as an investment banker and a consultant.) 14 January 2011 “Why We Need the Fed” <https://www.theatlantic.com/business/archive/2011/01/why-we-need-the-fed/69554/>

When trying to understand the monetary policy function of the Fed, who better to talk to than the [recently retired](https://www.theatlantic.com/business/archive/2010/03/fed-vice-chairman-kohn-to-retire-in-june/36820/) vice chairman of the Board of Governors and 40-year Fed veteran Donald Kohn? He now works as a Senior Fellow for the Brookings Institution. He believes that an independent central bank is the best way to control money supply to achieve price stability. Of course, there are other ways in which monetary policy could be conducted. One option would be to put the government directly in charge of monetary policy. For example, the Treasury could do it, or Congress could directly vote on changes to interest rates or policy shifts. "There tends to be an inflation bias to central banking when (monetary policy is) closely controlled in the political process," Kohn explains. He says history has shown that politicians worried about re-election tend to engage in short-term monetary policy easing to stimulate the economy, while ignoring long-term price stability. This can lead to excessive inflation.

Can’t go back to the gold standard—not enough gold

Mark Koba 2012 (senior editor at CNBC.com. Topics for his feature story writing include the business of politics, health care, employment and the economy.) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

Reverting back to gold would do more harm than good, even in the Fed's worst days, says David Abuaf, CFA and CIO of Hefty Wealth Partners. "The gold standard brought about some long-run price stability but it's also led to short-run volatility," Abuaf explains. "It acts as a limit on economic growth. The money supply would be based on the production of gold. The management of money is easier with a fiat currency." And there may not be enough gold to go around to back up the dollar — it could be hostage to the whims of gold traders.

Can’t move responsibility to the Department of the Treasury—too political

Mark Koba 2012 (senior editor at CNBC.com) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

If there were no return to the gold standard—and no Fed—what about the [Treasury Department](http://www.treasury.gov/Pages/default.aspx)**?** It could be responsible for the amount of money being injected into the economy. But that would create a political earthquake over who would be Treasury Secretary—as they are appointed by the President but must be approved by the Senate. The Fed currently has legal independence from the White House and Congress—but must make frequent Congressional appearances—but if the decisions were made by the Treasury, that economic autonomy could easily disappear. The politicking over economic theories would be endless.

2. A/T “Fed manipulation of interest rates”

Private banks wouldn’t do a better job

Cullen Roche 2015 (independent financial analyst with a background in financial accounting and portfolio management; former large asset fund manager with Merrill Lynch) 17 March 2015 “A World Without the Federal Reserve” (brackets added; LIBOR is a system of setting interest rates when banks do short-term loans to one another, run by private markets, not any central bank. The LIBOR scandal involved bankers secretly colluding to manipulate the market interest rate.) <https://www.pragcap.com/a-world-without-the-federal-reserve/>

What about interest rates? We constantly hear that interest rates are being “manipulated” by the Fed. I guess this is true. The Fed is setting interest rates in a manner in which it so chooses. But the Fed just sets the overnight rate. So, if the Fed didn’t exist then the overnight rate would be set by the banking system. It would resemble something like the LIBOR [London Interbank Offered Rate] system where bankers set the overnight interest rate. But we all know about the LIBOR scandal in recent years. So again, letting private banks manage the interest rate system doesn’t seem like a much better alternative.

DISADVANTAGES

1. Over-reaction to the Great Recession

Link: AFF uses the Great Recession / Global Financial Crisis (“GFC” 2008) as justification for abolishing the Fed

It’s in their case and their evidence.

Link & Impact: Radical changes in monetary policy based on singular events like the Recession lead to even worse policies and outcomes

Prof. Michael Bordo 2017 (prof. of economics, Rutgers Univ.) AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME Dec 2017 <https://www.nber.org/papers/w24154.pdf>

My evidence suggests that the coincidence between credit boom peaks and serious financial crises is quite rare . It also suggests that credit booms are not very closely connected to asset price booms. Indeed a look at when most of the coincidence occurs as is discussed in Appendix I was in two episodes (which some refer to as perfect storms with multiple causes): the Great Contraction 1929- 33 and the GFC. This leads to the question whether such rare events should lead to a sea change in monetary policy and financial stability policy. After the Great Contraction the world’s monetary authorities believed that it should, and repressed both the domestic and international financial system for 40 years. That strategy led to unintended consequences driven by the dynamics of financial innovation and may in turn have set the seeds for the GFC 80 years later. The current obsession with financial stability ( and the increased use of the tools of macro prudential policy and LAW) raises the risk of repeating the mistakes of the 1930s and creating a new regime of financial repression which will most likely have unintended consequences.

2. No Lender of last resort

Link: Run on a bank can occur if customers doubt its stability, leading to system-wide failure.

Paul Tucker 2014 (former Deputy Governor of the Bank of England) The lender of last resort and modern central banking: principles and reconstruction <https://www.bis.org/publ/bppdf/bispap79b_rh.pdf> (ethical disclosure: The article is undated but references materials from 2014 and none later)

If a bank is faced with a surge of withdrawals, it may have to sell assets at discounted prices; either because it is straining the liquidity of asset markets or because it is treated as a forced seller. That will impair its solvency position. There is a first-come, first-served incentive for customers to draw on their liquidity insurance, by either simply withdrawing existing deposits or transferring deposits immediately after drawing down committed credit lines. Such runs will tend to occur whenever there is an actual or perceived ex ante solvency problem, but also when an ex ante solvent bank is liable to become insolvent ex post due to the fire sales necessary to meet withdrawals in what amounts to a self-fulfilling panic. A run on an ex ante sound banking system can, thus, undermine the private-banking liquidity insurance system. This can have major social costs. Since the private money system is based on credit money, the afflicted part of the banking system loses its capacity to lend unless its deposits are accepted as money. And if the crisis is widespread, other parts of the banking system might not be able to substitute seamlessly, or may even be pulled into the vortex themselves. Payments and loans – or if you prefer, the monetary system and the credit system – are inextricably intertwined, surviving or falling together. Enter the central banks.

Link: Central bank prevents or reduces bank runs by reassuring depositors and preserving stability

Paul Tucker 2014 (former Deputy Governor of the Bank of England) The lender of last resort and modern central banking: principles and reconstruction <https://www.bis.org/publ/bppdf/bispap79b_rh.pdf> (ethical disclosure: The article is undated but references materials from 2014 and none later) LOLR = Lender of Last Resort. “Ex Ante” = before the event occurs. “Ex Post” = after the event occurs

In principle, it brings two benefits. Ex ante, knowing that the LOLR is there, banks’ short-term creditors should be less inclined to run. Ex post, if nevertheless they do run, by providing liquidity the central bank reduces the need for a forced sale of assets that otherwise would depress values, causing avoidable insolvencies and knocking the economy as a whole onto an inferior equilibrium growth path. In other words, the LOLR can reduce both the probability and impact of runs. It helps to preserve stability in the face of unwarranted runs and contains the spread of panic to sound firms in the face of warranted runs on other, fundamentally bust firms. Its purpose or objective is to contain contagion.

Link: No Federal Reserve = return to totally private banking, which leads to more bank panics

Cullen Roche 2015 (independent financial analyst with a background in financial accounting and portfolio management; former large asset fund manager with Merrill Lynch) 17 March 2015 “A World Without the Federal Reserve” <https://www.pragcap.com/a-world-without-the-federal-reserve/>

Anyway, I often hear complaints about the Fed and see people say that the Fed should be abolished. But let’s think about that for one second and try to be, oh, *pragmatic* about this. If the Fed didn’t exist then we’d essentially revert back to the old private clearing system we had before the Fed existed. For instance, the New York Clearinghouse was established in 1853 as the dominant clearinghouse for interbank payments. In the 60 years between 1853-1913 when the Fed was created the US experienced TEN different banking panics. It was an unstable system because it was comprised of private entities who would lock up during panics. Similar to 2008, the private banks would stop doing business with one another for fear of counterparty risk. The private clearinghouses improved the system by creating joint liabilities, but this did not halt the panics.

Impact: Bank runs lead to recession and unemployment. Example: Panic of 1893

Dr. [Gary Richardson](http://www.socsci.uci.edu/~garyr/welcome.html) and Tim Sablik 2015 (Richardson – PhD economics; professor of economics, Univ of California-Irvine. Sablik - economics writer in the Research Department at the *Federal Reserve Bank of Richmond*) “Banking Panics of the Gilded Age” <https://www.federalreservehistory.org/essays/banking_panics_of_the_gilded_age>

In June, bank runs swept through midwestern and western cities such as Chicago and Los Angeles. More than one-hundred banks suspended operations. From mid-July to mid-August, the panic intensified, with 340 banks suspending operations. As these banks came under pressure, they withdrew funds that they kept on deposit in banks in New York City. Those banks soon felt strained. To satisfy withdrawal requests, money center banks began selling assets. During the fire sale, asset prices plummeted, which threatened the solvency of the entire banking system. In early August, New York banks sought to save themselves by slowing the outflow of currency to the rest of the country. The result was that in the interior local banks were unable to meet currency demand, and many failed. Commerce and industry contracted. In many places, individuals, firms, and financial institutions began to use temporary expediencies, such as scrip or clearing-house certificates, to make payments when the banking system failed to function effectively. In the fall, the banking panic ended. Gold inflows from Europe lowered interest rates. Banks resumed operations. Cash and credit resumed lubricating the wheels of commerce and industry. Nevertheless, the economy remained in recession until the following summer. According to estimates by Andrew Jalil and Charles Hoffman, industrial production fell by 15.3 percent between 1892 and 1894, and unemployment rose to between 17 and 19 percent.

3. U.S. Economic instability

Link: Abolishing the Fed would create even greater economic instability

Professor Arthur Macewan 2012 (He is professor emeritus of economics at the University of Massachusetts-Boston and a Dollars & Sense Associate.) 2012 “Abolishing the Fed is No Solution to a Real Problem” <http://dollarsandsense.org/archives/2012/0712macewan.html>

In any case, the problem with the Fed is not the existence of a government authority that regulates the country’s money. Before the Fed started operating in 1914, economic crises had been at least as frequent and severe as in later years. The gold standard (which the U.S. abandoned in steps, especially in the 1930s and ultimately in 1971) certainly did not provide stability and general economic well-being. The problem is the nature of the regulatory authority, run as it is in the interests of the banks and bankers, in particular, and of business, in general. The right’s effort to “end the Fed,” however, would likely throw us into an era of even greater economic instability, having us jump out of the frying pan and into the fire.

Impact: Recessions and Depressions. Historically, without the Fed. Reserve, we had more recessions and depressions than we’ve had since it was established

Mark Koba 2012 (Mark Koba is a senior editor at CNBC.com. Topics for his feature story writing include the business of politics, health care, employment and the economy.) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

[If history is any guide](http://recession.org/history), having some sort of central bank may have been better than none. Out of 100 years of Fed control, the country has had 22 recessional years, including one depression. The 100 years before the Fed saw 44 recessions and six depressions.

4. Global economic instability

Link: 70% of the world economy is pegged to the U.S. dollar

David Beckworth 2017 (senior research fellow with the Program on Monetary Policy at George Mason University's Mercatus Center, and a former international economist at the U.S. Treasury Dept.) 18 May 2017 “Trump’s Appointments to the Fed Could Affect the Global Economy” <https://www.nationalreview.com/2017/05/federal-reserve-trump-appointments-global-economy-monetary-policy-dollar-bloc-banker-world/>

This U.S. influence over the global financial system exists for two reasons: First, many countries tie their currencies to the U.S. dollar, and their currency values closely track it. These so-called dollar-bloc countries adjust their monetary policy so that it mimics the monetary policy of the Federal Reserve. For example, if the Federal Reserve were to tighten monetary policy by raising interest rates, the dollar-bloc countries would do the same, and vice versa. This way their currencies’ values stay relatively stable against the dollar. Not all dollar-bloc countries mimic U.S. monetary policy to the same degree, but enough do so that about [70 percent of the world economy](http://macromarketmusings.blogspot.com/2017/02/the-monetary-superpower-strong-as-ever.html) is closely tied to the dollar. In other words, Federal Reserve chair Janet Yellen is setting monetary policy not just for the United States but for most of the global economy. The Federal Reserve is effectively a monetary superpower.

Brink: Fed. Reserve is key to making US assets a safe haven for the rest of the world

David Beckworth 2017 (David Beckworth is a senior research fellow with the Program on Monetary Policy at George Mason University's Mercatus Center, and a former international economist at the U.S. Department of the Treasury.) 18 May 2017 “Trump’s Appointments to the Fed Could Affect the Global Economy” <https://www.nationalreview.com/2017/05/federal-reserve-trump-appointments-global-economy-monetary-policy-dollar-bloc-banker-world/>

If anything, the real question is whether the U.S. financial system can provide sufficient safe assets for the world. During the 2008–09 crisis, investors raced toward the safety of U.S. Treasury securities, as fewer private-sector safe assets were being created. Since then, demand has remained strong for safe U.S. assets, as evidenced by the continuation of low interest rates. The Federal Reserve plays an important role here, too, as it is the most important financial regulator in the United States. It helps determine the capacity of the U.S. financial system to produce safe assets for the world. If its regulations are too onerous, enough safe assets may not be produced by the private sector. If it is too lax, too many may be produced, which could fuel a global credit boom.

Link & Impact: Global market chaos

Mark Koba 2012 (senior editor at CNBC.com. Topics for his feature story writing include the business of politics, health care, employment and the economy.) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

Global markets would also need some sort of economic direction from the U.S. The Fed manages the dollar — and as the world's leading currency, a void left by a Fed-less America could throw those markets into chaos with uncertainty about who's managing U.S. interest rates and the American economy.

Impact: US economy depends on global economy. We suffer if they do, we benefit if they do

Christine Lagarde 2013 (Managing Director, International Monetary Fund) 19 Sept 2013 "The Interconnected Global Economy: Challenges and Opportunities for the United States—and the World" By Christine Lagarde, Managing Director, International Monetary Fund <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp091913>

America’s global financial ties are even deeper. Foreign banks hold about $5½ trillion of U.S. assets, while American banks hold about $3 trillion of foreign claims. Meanwhile, close to half of the S&P500’s sales originate from foreign operations. These interconnections have great benefits for the United States. But they are not without risks—two-way risks—and we saw some of these play out during this crisis. We all remember, five years ago, how the collapse of one U.S. bank ushered in a harsh new reality across sectors, across countries, and across the world. As those tensions traveled across the Atlantic, for example, they exposed tensions in Europe. Considering that 20 percent of U.S. exports are destined for Europe, and that more than half of U.S. overseas assets are held in Europe, you clearly have a large stake in the recovery there. And yet, despite the risks, I know that you are also deeply aware of how much can be gained from engaging with the rest of the world. President Taft, who helped establish the Chamber, captured this when he said: *“I am in favor of helping the prosperity of all countries because, when we are all prosperous, the trade with each becomes more valuable to the other.”* What was true in President Taft’s day is even more true in today’s interconnected world: a strong U.S. economy and a strong global economy are two sides of the same coin.

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