

The Federal Reserve -- Treasure, or Relic?

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Many would argue that the Federal Reserve is the mainstay of the American economy — that without a Federal Reserve, the nation's finances would spin out of control and create massive global instability. But is this true? By definition, the *Fed* [is](#) “the bank of the U.S. Government and regulates the nation's financial institutions. It's comprised of a network of 12 Federal Reserve Banks and a number of branches.... This is all overseen by the Fed's Board of Governors.” The Fed's purpose [is](#) “to promote sustainable growth, high levels of employment, stability of prices to help preserve the purchasing power of the dollar, and moderate long-term interest rates.” The Fed's origins can be found during Woodrow Wilson's presidency with the signing of the Federal Reserve Act of 1913, a response to a *bank run* panic of 1907 and similar central banking failures of 1791 and 1816.

This centralized banking system established by then-President Wilson is a rather unique structure; it [is](#) “not a branch of the federal government. It is not even a federal agency. It is a private entity owned by the member banks...the reasons for their actions are not generally available to anyone, including the president of the United States or Congress.” Since the Fed has more control over the U.S. economy than any other institution of its type, economic conditions are a direct result of its actions. Originally designed to maximize employment, stabilize prices, and moderate interest rates, some see the overreaching power of the Federal Reserve as an actual threat to economic stability.

Some financial analysts maintain that instead of providing its original purpose — preventing banking failures — the Fed has actually created more instability and made inflation a normal

pattern in the U.S. economy. Since the inception of the Fed, consumer purchasing power has actually shrunk over the last 100 years; median earning male [workers](#) “actually have less purchasing power than they did 42 years ago (\$32,844 vs. \$32,137).” Over time, the entire system is bound to collapse. As one author [states](#), “Just ask anyone in the former Soviet Union...the state eventually took so much wealth from the people that the entire system broke.” As an independent entity, other privileges that the Fed enjoys are as [follows](#):

- It is accountable to no one. It has no budget, it is subject to no audit, and no Congressional committee knows of (or can truly supervise) its operation.
- The officers of the twelve regional Federal Reserve Banks are selected from among their own membership.
- The Fed is “the sole fiscal agent for the U.S. Treasury.”
- The Federal Reserve enjoys a monopoly in the issue of all banknotes.
- The Fed “only has in its assets a tiny fraction (1 to 2 percent) of the deposits it claims to insure.”

The Fed’s secretive nature has made many financial forecasters wary of the institution. Its ability to regulate the ebb and flow of the nation’s finances with a relatively free hand has caused many to question its practices. Fed Chairman Ben Bernanke’s practice of excessive money printing over the last few years, for example, has helped create a booming stock market, but has done little to create any job security or purchasing power for the average American on the street. Bernanke’s *quantitative easing* activity is actually eviscerating the value of the U.S. dollar, and what he is [doing](#) “is artificially taxing the American public by debasing its currency.”

One central argument against the need for a Federal Reserve stems from the fact that “success by its very definition includes failure. People forget that the discipline of failure is integral to capitalism....When the Fed prints money out of thin air, the risk of failure does not exist.” Without this risk, big banks don’t worry about losses because they are literally too big to fail. This distortion of reality created by excess liquidity creates a *Titanic* mindset -- because there is no risk, there is no need for caution. Nothing could be further from the truth. Dissolving the Federal Reserve would actually help create more economic stability as it [would accomplish the following](#):

- Force the national government to live within its means.
- Restore the appropriate level of risk to the global financial community.
- Nullify the risks forced upon the public in the name of political priorities.

The U.S. needs to get its fiscal house in order, and it is becoming increasingly evident that the continual perpetuation of the Federal Reserve is contrary to that goal. No amount of money-printing can get the nation out of its current debt crisis created by the Fed’s irresponsible spending policies of the last few years. The institution is a *dinosaur* whose time has passed, and continuing to support the Fed’s activities is as unwise as it is unsustainable. A federalized institution should replace it, with full transparency and accountability, so that politicians and regulators are unable to skirt the issue of responsibility for the agency’s inefficient operations.

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