

The Biggest Federal Reserve Scandal

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Following revelations that Federal Reserve officials made trades in financial assets while the Fed was taking extraordinary efforts to “stimulate” the economy, Federal Reserve Chairman Jerome Powell ordered a review of the Fed’s ethics rules. While these trades appear problematic, they pale in comparison to the biggest Fed scandal — the Fed’s impoverishment of ordinary Americans, enrichment of the elites, and facilitation of government debt and deficits.

The depression induced by coronavirus, though really caused by so-called public health actions government took in response, was the official reason for the Fed’s increased asset purchases last year. However, the Fed actually started ramping up its money creating activities in September of 2019, when it began pouring billions a day into the repo markets, which banks use to make short-term loans to each other, in order to keep repo market interest rates low.

Coronavirus was just a convenient excuse for the Fed to do more of what it was already doing. Now, the Fed is using the limited reopening as a scapegoat for rising prices. Of course, anyone who understands Austrian economics understands that rising prices are a symptom, not a cause, of inflation. Inflation is the very act of money creation by the Fed.

Rising prices that diminish the average American’s standard of living are not the only result of the Fed’s manipulation of the money supply. The manipulation distorts economic signals, producing results including booms, bubbles, and busts.

Inflation has always benefited the well-connected elites who receive the Fed’s newly created money before the new money causes widespread price increases. The true motivation behind Fed policies was revealed by former Fed official Andrew Huszar in 2013. Huszar, writing for the Wall Street Journal, confirmed that quantitative easing kept stock prices high, instead of helping Americans struggling with the aftereffects of the 2008 meltdown.

Other beneficiaries of the Fed are big-spending politicians. The Federal Reserve’s purchase

of federal debt instruments keeps the federal government's debt servicing costs manageable. This is why, despite Chairman Powell's recent suggestion that the Fed will soon begin "tapering" its purchases of Treasuries, the Fed is unlikely to significantly reduce its purchase of Treasuries or allow interest rates to significantly increase.

Powell is also unlikely to upset President Biden and Biden's congressional allies as long as progressives are urging Biden not to reappoint Powell. Progressives want to replace Powell with someone more committed to fighting climate change and systemic racism, two boogymen routinely bought out as excuses for vast expansions in government spending and power.

Another major scandal involving the Fed is Congress' refusal to pass the Audit the Fed bill and let the American people know the truth about the Fed's operations. Audit the Fed authorizes a Government Accountability Office (GAO) audit of the Fed's dealing with foreign governments and central banks, the Fed's discount window operations, reserves of member banks, securities credit, interest on deposits, and open market transactions. Audit the Fed would finally reveal the truth about the Fed's operations.

A limited audit authorized by the Dodd-Frank Act found that between 2007 and 2010, the Federal Reserve committed over 16 trillion dollars to foreign central banks and politically influential private companies. Imagine what a full audit would find. It is time to end the scandal of allowing a secretive central bank to have so much power over the economy and our liberty. It is time to audit, and end, the Fed.

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