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End the Fed? Or End the Market Economy?

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When Republican Congressman Ron Paul recently introduced legislation to audit the Federal Reserve, diverse sections of the political spectrum applauded. And rightfully so. The Fed's role in the still-developing bank bailouts is one of utter secrecy; the total cost of which — as estimated by the bailout's Special Inspector General, Neil Barofsky — could cost taxpayers $23.7 trillion. The fact that legislation needed to be introduced to raise the question of the whereabouts of these funds points to a larger breakdown in U.S. democracy.

Ron Paul's legislative maneuver is consistent with his larger political philosophy, which he attributes to the Austrian school of economics. Central to this economic outlook is a focus on monetary policy, and the blaming of central banks for much of our economic troubles. Paul's popularity has increased exponentially, rising in consequence to the bank bailouts and the Federal Reserve's role in the Great Recession. The title of his recent book, End the Fed, was also used as the slogan of protests held around the country — many organized by Ron Paul supporters — outside of central banks.

As elite-controlled as the Federal Reserve system is, it's "ending" cannot be the final goal of a progressive political movement. Larger social/economic forces must be considered too — and be dealt with.

For instance, a cursory glance at the history of the Federal Reserve shows its inadequacy as a goal for any social movement. After Andrew Jackson abolished the U.S. Central Bank in 1833, the market-economy [capitalism] continued to evolve; small companies out-competed and incorporated others, continued growing, and soon morphed into the giant corporations that we know today — driving down wages, boosting profits, and increasing social inequality.

Contrary to the beliefs of Ron Paul and Austrian economists, the lack of a national bank does not end the boom-bust cycle inherent in a market-economy. Four years after Andrew Jackson abolished the U.S. National Bank, a severe depression rocked the country, lasting seven years. The regular, capitalistic boom and bust cycle continued until the Panic of 1907, which pushed congressmen to re-institute the National Bank, re-named the Federal Reserve in 1913. The goal was to give the market economy extra stability. In 1929 the Great Depression began.

Recessions/depressions do not happen because of bad monetary policy, which can accentuate them. Instead, recessions occur naturally under capitalism, which produces a nearly unlimited amount of goods and services for a very limited market. As wages are driven down by the demands of profit-seeking corporations, the ability for the market to consume the produced goods shrinks (of course).

As wages continue their downward spiral, the demand for credit rises, as workers look to compensate for their lowered standard of living. But banks will issue only so much credit, and will shut off the money-valve when their loans come back unpaid (the “credit crunch”). When this happens, a recession begins. Austrian economics looks at the last stage of the economic cycle — the credit crunch —as its cause. Thus, the money lenders receive all the blame, while the other corporate culprits — functioning according to the “rules of the market” — are left unblemished. Bankers are blamed for what is ultimately the natural processes of capitalism: too many goods are produced to be consumed within the confines of the market.

Every major economic goal of Ron Paul would fail to alter the above dynamic. For example, if the U.S. were to return to the gold standard — another policy of Ron Paul — would giant corporations cease to dominate social life? Would the undemocratic power of the super-rich be somehow restricted? Would workers wages increase, enabling them to consume all the goods produced? Paul never asks such questions, but the answers are obvious — mega-corporations and the billionaires who own them will continue to wield more than votes to steer society in their favor, at the continued expense of workers’ wages.

It must be noted that a hero of Ron Paul, Austrian economist Friedrich Hayek, was also a hero to Margaret Thatcher, Ronald Reagan, and other founders of the neo-con movement. Workers will recognize these figures as natural enemies, who destroyed social programs, attacked unions, and drastically lowered taxes for the super-rich — helping to create the current budget deficits.

Austrian economics is simply one of the many variations of free-market capitalism. The goal being an un-regulated market economy, where there would be no limit to the mega-employers greed for profits, no minimum wage, no social security, no workplace protections, no social safety net, etc. The super-rich, however, would be “free” to do whatever they liked with their money, since the “free market” doesn’t levy income taxes.

Since Paul is for a “pure” form of capitalism, he lavishes god-like praise on the power of the market. For him, society must produce goods only if it can be sold on a market, and offer an individual (or corporation) a profit. Human needs thus belong to the realm of charities, churches, etc. The market remains the decider, and the super-rich who own the corporations control the workings of the market.

Ultimately, it’s unrealistic to focus on one aspect of our economic system in isolation, as if it were un-connected — and not subservient — to larger economic forces. In doing so, a simple cure-all is offered for the systemic breakdown of the international economy. But like all easy answers, ending the Federal Reserve is a false remedy. It thus serves as a distraction to the above workings of Paul’s revered capitalism, in the same way that his constant scapegoating of immigrants does.

The tremendous anger towards our economic system is currently directed at the banks, which deserve the hatred. But they are not the only giant corporations demanding that workers get paid less, have little or no health insurance, no pensions, no time off, etc. The mega-corporations in general deserve our attention, for they are every bit as undemocratic as the Federal Reserve, and benefit from its policies. The end goal is to boost profits by dominating the market, so that a very small number of people get incredibly rich at the great expense of the rest of society.

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