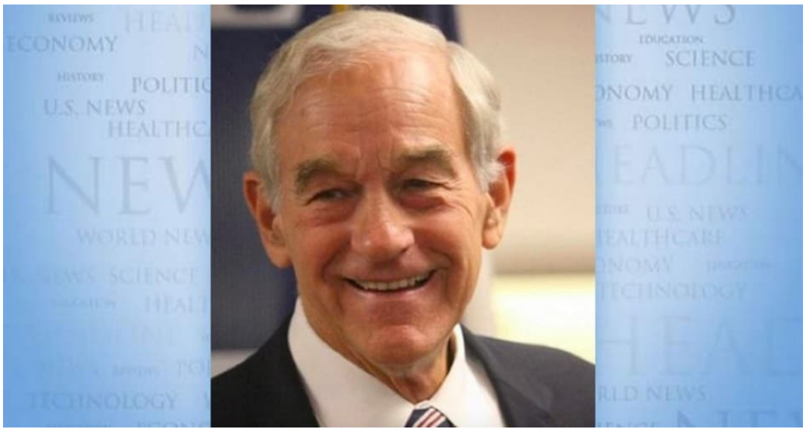
Destroy the Economy, Win a Nobel Prize



Ron Paul

Former Federal Reserve Chairman Ben Bernanke is a 2022 recipient of the Nobel Prize in economics for his writings on how government should respond to bank failures. Honoring Bernanke for his advice on what government should do when banks fail is like giving a fire safety award to an arsonist.

Bernanke was Fed chairman when the housing bubble, created by his predecessor Alan Greenspan in the wake of the bursting of Greenspan's tech bubble and the 9-11 attacks, exploded. When the housing market collapsed, Bernanke worked with Congress and the Bush administration to bail out big banks and Wall Street firms.

In the years following the meltdown, the Bernanke-led Fed tried to "stimulate" the economy via massive money creation, near zero interest rates, and "quantitative easing," where the Fed injects liquidity into the market via purchases of financial assets including Treasury bonds.

The Fed's post-meltdown policies produced sluggish growth at best, while laying the groundwork for the next bust. A sign that the next crash was around the corner came in September of 2019, when the Federal Reserve began pumping billions of dollars a day into the "repurchasing" market, which banks use to make overnight loans to each other, in order to keep that market's interest rates from rising above the Fed's target rate. The Covid lockdowns then gave the Fed an excuse to push interest rates to zero and massively expand quantitative easing.

The Fed's actions are the prime culprit behind the price inflation plaguing America's economy. The Fed has responded to the price inflation by increasing interest rates, although rates remain much lower than they would be in a free market. The fact that even these relatively small increases helped push the fragile economy into recession shows the instability of our debt-based economic system.

Bernanke, and Congress, should have responded to the meltdown by letting the recession that followed the meltdown run its course. This is the only way the economy can adjust to the market distortions caused when the Fed increases the money supply and lowers interest rates.

Those who worry that this "don't do something, just stand there" approach would inflict long-term economic pain on the American people should consider the economic depression of 1920. During this depression, the Fed refrained from trying to "stimulate" the economy, and Congress actually cut spending. The result was the downturn was quickly over. Sadly, the lessons of 1920 are largely ignored by mainstream economic historians.

In response to my questioning at a Financial Services Committee hearing, then-Fed Chairman Ben Bernanke admitted he did not consider gold to be money. Of course, gold and other precious metals are money because individuals have selected them whenever they had the freedom to choose a currency. One reason for this is that precious metals are uniquely suited to serve as a stable unit of account. In contrast, government rulers have favored fiat money precisely because it can never serve as an honest unit of account due to its value being constantly manipulated by central bankers. This is often done at the behest of power-hungry politicians.

Therefore, under a fiat monetary system we cannot know the true value of goods and services. This is why to create a sound economy that provides prosperity we should audit then end the Fed.

Ron Paul is a former U.S. congressman from Texas. This article originally appeared at the Ron Paul Institute for Peace and Prosperity and is reprinted here with permission.