



Written by [Thomas R. Eddlem](#) on January 29, 2009

Federal Reserve as Corporate Overlord and “Super-Cop”?

“We need to give some regulator the power to restrain risk-taking that is excessive,” Frank told the *Post*. The *Post* report described the Fed’s role as that of financial “super-cop.”

And the Republican Party appears to be willing to comply with a financial overlord. “There is agreement that we need a systemic regulator,” Rep. Spencer Bachus (R-Ala.) told the *Post*. But Bachus also expressed skepticism over whether the Fed should be the “systemic regulator.”

He — and the rest of the Republicans — should be skeptical that such powers should be given to the Fed, an unelected body not accountable to voters. The possibility for corruption is unlimited, and choosing the Fed as the recipient would be an example of the [Peter Principle](#) in action within government.

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The Federal Reserve is responsible more than any other body for the current recession, more than the executives of AIG or even Bernie Madoff. The Fed caused the housing and banking crisis by deliberately and artificially lowering interest rates below the market rate for the past decade. These below-market interest rates not only caused a wave of money creation (inflation) through the banking system by encouraging more borrowing, but they also created malinvestments when borrowers took on more debt than they could afford to pay back — and more debt than they would have taken on if interest rates were dictated by the market.

By artificially keeping the Fed Discount Rate lower than what the market would bear, the Federal Reserve Bank also gradually loosened banks’ lending standards on real estate. Real estate has long been considered one of the safest investments, but the long-term below market interest rates created a lending bubble that drove the prices of property artificially high. The inevitable housing bust lowered





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property prices nearer to market levels and made the banks insolvent.

So Congress is considering giving overall authority for preventing a financial collapse to precisely the same quasi-government agency that created the current crisis.

That's about as dumb an economic strategy as President Obama's plan to spend and borrow more money as a means to "stimulate" the economy. If the path to prosperity, as Obama's plan implies, is to spend more and have record deficits, then why isn't the economy already in hyperdrive?

The federal government's plans to "rescue" the economy seem destined to further the recession into a major depression.

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