Fed Up with the Fed?

When people in Washington start creating fancy new phrases, instead of using plain English, you know they are doing something they don't want us to understand.

It was an act of war when we started bombing Libya. But the administration chose to call it "kinetic military action." When the Federal Reserve System started creating hundreds of billions of dollars out of thin air, they called it "quantitative easing" of the money supply.

When that didn't work, they created more money and called it "quantitative easing 2" or "QE2," instead of saying: "We are going to print more dollars — and hope it works this time." But there is already plenty of money sitting around idle in banks and businesses.

The policies of this administration make it risky to lend money, with Washington politicians coming up with one reason after another why borrowers shouldn't have to pay it back when it is due, or perhaps not pay it all back at all. That's called "loan modification" or various other fancy names for welching on debts. Is it surprising that lenders have become reluctant to lend?

Private businesses have amassed record amounts of cash, which they could use to hire more people — if this administration were not generating vast amounts of uncertainty about what the costs are going to be for ObamaCare, among other unpredictable employer costs, from a government heedless or hostile toward business.

As a result, it is often cheaper or less risky for employers to work the existing employees overtime, or to hire temporary workers, who are not eligible for employee benefits. But lack of money is not the problem.

Those who are true believers in the old-time Keynesian economic religion will always say that the only reason creating more money hasn't worked is because there has not yet been enough money created. To them, if QE2 hasn't worked, then we need QE3. And if that doesn't work, then we will need QE4, etc.

Like most of the mistakes being made in Washington today, this dogmatic faith in government spending is something that has been tried before — and failed before.

Henry Morgenthau, Secretary of the Treasury under President Franklin D. Roosevelt, said confidentially to fellow Democrats in 1939: "We have tried spending money. We are spending more than we have ever spent before and it does not work."

As for the Federal Reserve today, a headline in the Wall Street Journal of April 25th said, "Fed Searches for Next Step."

That is a big part of the problem. It is not politically possible for either the Federal Reserve or the Obama administration to leave the economy alone and let it recover on its own.

Both are under pressure to “do something.” If one thing doesn’t work, then they have to try something else. And if that doesn’t work, they have to come up with yet another gimmick.

All this constant experimentation by the government makes it more risky for investors to invest or employers to employ, when neither of them knows when the government’s rules of the game are going to change again. Whatever the merits or demerits of particular government policies, the uncertainty that such ever- changing policies generate can paralyze an economy today, just as it did back in the days of FDR.

The idea that the federal government has to step in whenever there is a downturn in the economy is an economic dogma that ignores much of the history of the United States.

During the first hundred years of the United States, there was no Federal Reserve. During the first one hundred and fifty years, the federal government did not engage in massive intervention when the economy turned down.

No economic downturn in all those years ever lasted as long as the Great Depression of the 1930s, when both the Federal Reserve and the administrations of Hoover and of FDR intervened.

The myth that has come down to us says that the government had to intervene when there was mass unemployment in the 1930s. But the hard data show that there was no mass unemployment until after the federal government intervened. Yet, once having intervened, it was politically impossible to stop and let the economy recover on its own. That was the fundamental problem then — and now.

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