



Written by [Michael Tennant](#) on October 13, 2010

The Tea Party vs. the Federal Reserve

The New York Times is worried: Tea Party activists and the candidates they support are openly criticizing that most sacred of quasi-governmental institutions, the Federal Reserve. Worse still, some of these candidates might actually win and join forces with Rep. Ron Paul (R-Texas), author of End the Fed, who is poised to head the House Financial Services Committee, which oversees the Fed, if Republicans regain control of the House of Representatives in November.



The *Times* details three upstart Republican candidates who are expressing serious doubts about the Fed:

In Utah, Mike Lee has accused the central bank of trying to “monetize the debt” by printing money to buy government bonds — a motivation that Fed officials have hotly denied. Ken Buck in Colorado has called for “shining a light on the Federal Reserve,” saying it is too cozy with private interests. And in Kentucky, Rand Paul has argued that the Fed is devaluing the dollar and causing boom-bust cycles through its easy-money policies.

David Stockman, Director of the federal Office of Management and Budget under Ronald Reagan, wrote in an October 13 MarketWatch [article](#) that “national policy now amounts to monetizing 100% of the federal deficit,” an idea he says “would have been roundly denounced as banana republic finance” as recently as 2007. Under the Troubled Asset Relief Program the Fed — itself officially a private banking system — has printed billions of dollars to bail out politically connected private businesses. The dollar has lost roughly 95 percent of its value since the Fed was created in 1913. In that same time period the United States has experienced the Great Depression, stagflation, the housing bubble, the dot-com bubble, the current economic distress, and various other smaller booms and busts. How can anyone seriously contest the claims these candidates are making about the Fed?

The *Times* apparently had trouble finding anyone to make a substantive case against these accusations, too, so it resorted to the time-honored technique of labeling critics “extremists”:

“The positions that have become almost mainstream, at least on the right, used to be extreme positions,” Vin Weber, a Republican and a former congressman from Minnesota, told Bloomberg Television this month. “Only the John Birch Society used to call for the auditing of the Federal Reserve.”

Not only does the JBS call for auditing the Fed, it calls for abolishing the institution. As Birch Society CEO Art Thompson explained,

The position of The John Birch Society is that the Federal Reserve is a consolidation of the money and credit into the hands of the few as outlined in Karl Marx’s volume, *The Communist Manifesto*, where he called for a ten-step program to consolidate power into a communist government. The



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fifth step was, as we know it, the Federal Reserve. No people can be free if they do not have individual control over what they use as money and the best form of money for thousands of years has been gold, not paper. Paper places the control over money and credit into the hands of those who print it. In this case the Federal Reserve. It has to be abolished and [we must] return to sound money of intrinsic value.

To the mainstream press, such notions as “individual control” and “sound money” are anathema. The government, in their view, should be in control, and it should be able to print as much money as it needs to maintain that control regardless of the consequences for the general populace. Anyone advocating the pre-1913 state of affairs is, from this perspective, “extreme.”

Thus, the *Times* tries to head off a full audit of the Fed by pointing out that “the Wall Street regulatory overhaul that Mr. Obama signed in July already calls for a one-time audit of the Fed’s emergency lending programs as well as a study by the Government Accountability Office of how the central bank is governed.” Of course, this is far less than the complete, top-to-bottom audit that Ron Paul cosponsored last year and is, as Thompson pointed out, a “sham, for not only should the Fed be audited, the American people should be told who holds the stock in this private corporation and who has made the profit that amounts to incredible amounts of wealth.” In addition, he says, the legislation has created a situation where “for the first time in American history a private corporation has been given regulatory power over the American people. Now all financial transactions in the USA are under the purview of the Fed, from the ATM and individual bank accounts to the transfers of credit between the large banks. It is almost the final step in the consolidation theories of Marx toward the total state. If one controls all the money, credit, and transactions, they control the people.”

The newspaper points to other criticisms of the Fed, primarily those of Connecticut investor Peter Schiff, who predicted the current collapse in 2007:

Mr. Schiff assailed the Fed’s decisions to cut short-term interest rates to nearly zero and buy \$1.7 trillion in mortgage-backed assets and Treasury securities to stimulate the economy.

“What we need now is higher interest rates, severe cuts in spending,” he said. “And that will bring about a severe downturn, but there’s no way around it. We have to swallow some bitter medicine; if we don’t, we’re going to get sicker and sicker.”

He added: “The Fed is the enabler, by keeping credit flowing. It is a drug dealer.”

At the same time, it is careful to note that the Manhattan Institute’s Josh Barro wrote an [article](#) for *National Review* arguing that the Fed needs to be reformed, not eliminated, thus providing Republicans with cover for standing by the beleaguered bank. Barro told the *Times* that the Fed’s asset purchases helped stave off deflation, which Barro obviously believes is a bad idea. Yet deflation would mean lower prices for consumers — hardly something to fear. In fact, from 1800 to 1913 the U.S. price level fell by an average of about [0.5 percent per year](#), and Americans became more prosperous. Since the inception of the Fed, prices have increased by about 3.25 percent per year; and since the 1970s, when the gold standard was completely abandoned, the average American family’s income has not increased in real terms. This period of “inflation creep,” as Thompson refers to it, has been far worse for Americans than the pre-Fed period ever was, even with its occasional, brief panics.

The Fed — and the *Times* — may not really have much to fear at this point. The paper notes that an April *New York Times*/CBS poll found that while “Tea Party supporters were more likely than all adults surveyed to say they had heard or read about the Fed ... a plurality of Tea Party supporters and all



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respondents said they had confidence in the Fed to promote financial stability.” These folks obviously haven’t been reading *End the Fed*.

Nevertheless, the focus on the Fed is welcome and long overdue. A full audit showing who profits and what kinds of backroom deals the bank has been cutting to help its political patrons and corporate cronies would almost surely lead to a public outcry for the Fed’s abolition, or at least its severe curtailment. No wonder the establishment is doing everything in its power to defeat Tea Party candidates.



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