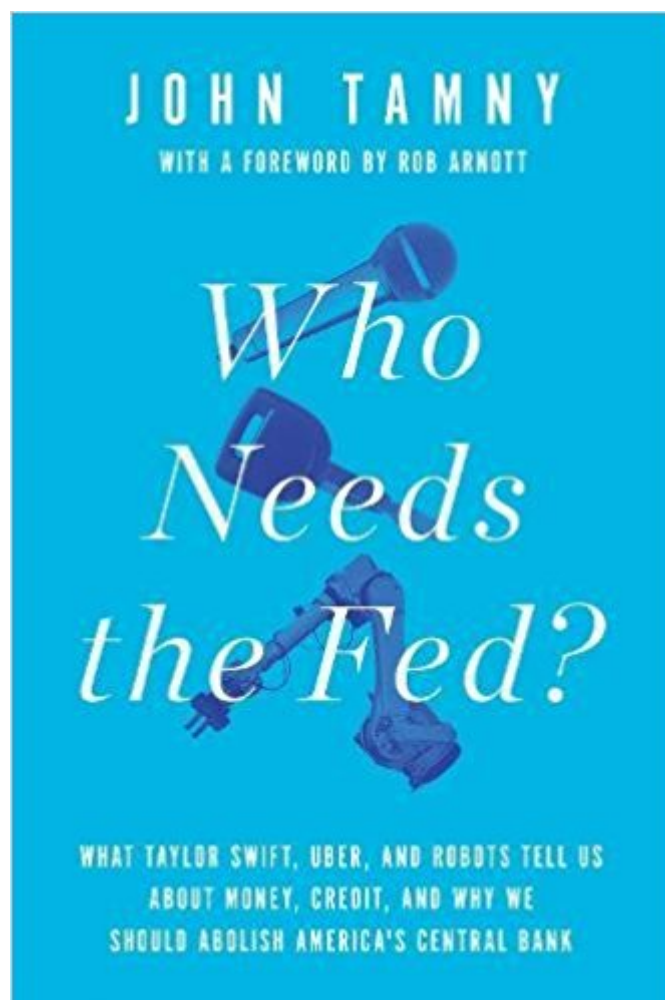




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# Who Needs The Fed?: What Taylor Swift, Uber, And Robots Tell Us About Money, Credit, And Why We Should Abolish America's Central Bank





## Synopsis

The Federal Reserve is one of the most disliked entities in the United States at present, right alongside the IRS. Americans despise the Fed, but they're also generally a bit confused as to why they distrust our central bank. Their animus is reasonable, though, because the Fed's most famous function—targeting the Fed funds rate—is totally backwards. John Tamny explains this backwardness in terms of a Taylor Swift concert followed by a ride home with Uber. In modern times, he points out, the notion of credit has been perverted, so that most people believe it's money and that the supply of it can therefore be increased. This false notion has aggrandized the Fed with power that it can't possibly use wisely. The contrast between the grinding poverty of Baltimore and the abundance of Silicon Valley helps illustrate the problem, along with stories about Donald Trump, Robert Downey Jr., Jim Harbaugh (the Michigan football coach), and robots. *Who Needs the Fed?* makes a sober case against the Federal Reserve by explaining what credit really is, and why the Fed's existence is inimical to its creation. Readers will come away entertained, much more knowledgeable, and prepared to argue that the Fed is merely superfluous on its best days but perilous on its worst.

## Book Information

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## Customer Reviews

"It's not far into John Tamny's *Who Needs the Fed?* that you realize all of your preconceived notions about the Federal Reserve need to be tossed out the window and forgotten. Instead, markets rule over opaque Fed pronouncements and analysis of the scribblings in monthly Fed Minutes. All investors should read this book." —Andy Kessler, author of *Wall Street Meat and Eat People*

"Like a blazing sun melting away a dangerously thick fog, this delightfully written, well-argued, and insightful book clears away disastrous misconceptions about money, credit, and the operations of the Federal Reserve. It will become one of the most enormously and positively influential treatises of our time." —Steve Forbes, Editor-in-Chief, Forbes Media

"In the best tradition of Henry Hazlitt and Robert Bartley, Tamny's book offers a provocative yet principled new look at the role of credit in today's economy. Properly equating credit with an economy's resources, Tamny systematically debunks the case for government or central bank efforts to increase credit." —David Resler, former chief economist, Nomura Securities

"Tamny is a brilliant and insightful writer whose provocative style will stretch your intellectual bandwidth and force you to see the world in a new way." —Anthony Scaramucci, host of Wall Street Week

"John Tamny makes a strong case that the Fed never had as much influence as either its supporters hoped or its critics feared; and that what power it had in the past is today fast diminishing. In the process, he offers iconoclastic dismissals of popular macroeconomic constructs including money supply, the multiplier, the Phillips curve, the Laffer curve, banks, stimulus, and quantitative easing." —Cliff Asness, founding principal, AQR Capital Management

"John Tamny has written an easy-to-read and crucial-to-know overview of the Federal Reserve today, showing how the well-intentioned actions of central bankers in fact hurt our long-term economic potential. Who Needs the Fed? is an outstanding work of contrarian common sense; a must read." —Tom Adams, former CEO of Rosetta Stone, CEO, Workaround LLC

John Tamny is the Political Economy editor at Forbes, editor of RealClearMarkets, a senior economic adviser to Toreador Research & Trading, and a senior economic fellow at Reason Foundation. He is a weekly panelist on Forbes on Fox, and his columns have appeared in the Wall Street Journal, Investor's Business Daily, National Review, the Financial Times, and London's Daily Telegraph. His first book was Popular Economics: What the Rolling Stones, Downton Abbey, and LeBron James Can Teach You about Economics. Tamny and his wife, Kendall, live in Washington, D.C.

In a triumphant sequel to his essential book Popular Economics, John Tamny has written a treatise on money and credit entitled Who Needs the Fed? What Taylor Swift, Uber, and Robots Tell Us About Money, Credit, and Why We Should Abolish America's Central Bank (Encounter Books). Ever the original thinker, Tamny offers a view of credit that is a clear challenge to the conventional

wisdom. Tamny states emphatically that credit is simply access to real economic resources, such as tractors, computers, airplanes, and labor. Credit cannot be created out of thin air by central banks or governments. The latter point may make heads explode on both the left and the right. In Part One, Tamny focuses on his view of credit in a most effective way by offering numerous interesting examples from the world of popular culture (Taylor Swift, Hollywood), sports (college football coaches), and politics (Hillary Clinton, Donald Trump). His method is unique in that he has made explaining economics this way a feature of his writing. Using no higher math or statistics, it's what made *Popular Economics* a classic in the image of Henry Hazlitt's *Economics in One Lesson*. And this style is what animates his regular commentary on *Forbes Opinion* and *Real Clear Markets*. These examples provide the reader with easy to understand narratives of how credit is actually created in the real world. Tamny rightfully mocks the Federal Reserve's attempt to deem credit cheap by manipulating interest rates. The Fed ignores the fact that by setting interest rates at an artificially low level, fewer savers will offer up their surplus resources to be lent to those in need of funds for immediate consumptive needs. The end result is not an abundance of credit, but rather its scarcity. Like the manipulation of other prices by government such as wages or apartment rents, bureaucrats believe they can divine proper prices in a dynamic marketplace where supply and demand conditions are shifting constantly. The hubris is staggering. Supply-siders do not escape criticism in Chapter 7. Although he considers himself a supply-sider, Tamny believes it's time to ditch the Laffer Curve and focus on finding the income tax rate that actually results in less revenues for the government to raise and then subsequently waste. The reason is simple. The government has no resources of its own. It must extract those resources from the private sector. There is simply no way a politician or bureaucrat, undisciplined by the market, can invest better than someone in the accountable private sector. Part Two of the book deals with banking and contains the most fascinating chapter of the entire book. In Chapter 11, Tamny takes on the Austrian School's belief in fractional-reserve banking and the notion that money can be "multiplied". This requires the reader to keep an open mind and think through the author's logic and the examples provided. It may take awhile for many to come around to his viewpoint, if at all, but it cannot be denied that Tamny has thought through these issues methodically and logically. Chapters dealing with the declining importance of the banking industry as a source of credit and the real reason behind the housing boom during the decade of the 2000's smash conventional thinking. Part Three deals with the Fed and how its impact on the economy is overstated. Tamny shatters the widely believed myth that the Fed controls the supply of money. Production is the source of money; it is an effect of productive economic activity. And since the Fed cannot plan production, it will never have the ability the control

the money supply. I particularly enjoyed the vivid example of Baltimore. This economically depressed city would presumably benefit from the Fed's attempts to inject money into its local banks in an effort to stimulate economic activity. But no sooner would the money arrive it would get loaned out by the banks to businesses and consumers outside of the city. As Tamny makes clear, money migrates to the productive. The author helpfully reminds us that economic growth and prosperity cannot come from government. Government spending isn't stimulative, simply because politicians can only spend what they extract from the real economy first. Real economic advancement results from entrepreneurial ideas being matched with savings. Economic "stimulus" provided by government is a cruel hoax. The Fed's manipulation of interest rates is another distortion of markets that is anti-credit creation. As Tamny points out, the Fed's imposition of artificially low interest rates on the way to supposedly easy credit would have to have been one of the few instances in global economic history of price controls actually leading to abundance over scarcity. He again emphasizes that an interest rate is a price like any other. As a price, the interest rate is meant to float to whatever rate maximizes the possibility that those who have access to credit (savers) will transact with those who need access to economic resources (borrowers). So why is it assumed by so many that a handful of bureaucrats at the Fed can define what the proper level of interest rates should be? It is also assumed by too many people that the Fed's quantitative easing (QE) scheme created a boom in the U.S. stock market. According to Tamny, the Fed wasn't "printing money" to conduct QE. It was doing something much worse by borrowing trillions from America's banks while backed with America's credit. His more credible claim is that the Fed helped to deprive the U.S. economy of a massive rebound that would've taken place absent the central bank and federal government presuming to allocate so many trillions of the economy's resources. If the Fed's QE machinations were the reason for the rise in stock prices in recent years, why didn't Japan's multiple bouts of QE since the 1990s not boost the Japanese stock market? The Nikkei 225 is no where near the level it was in the late 1980s. A more plausible reason for the rebound in U.S. stocks since early 2009 can be better explained by the impressive recovery in corporate profits from the lows of the last recession. Tamny addresses the Fed's ludicrous belief in the Phillips Curve, which posits an inverse relationship between inflation and unemployment. Essentially, the Fed believes that inflation is created by too much prosperity. Could a theory more antithetical to prosperity possibly be promulgated? It must be stressed that economic growth, if anything, leads to lower prices. Goods that are initially available only to the wealthy become available to the masses as entrepreneurs find ways to lower prices of such goods to serve a much larger market. Historical examples abound, including the automobile, the personal computer, flat-screen televisions, and cell phones. All were

once available exclusively to the ultra-wealthy but soon became ubiquitous. That's the beauty of capitalism. In the final chapter, Tamny states that robots will ultimately be the biggest job creators, because automation will free up humans to do new types of work by virtue of robots eliminating work that was once essential. It seems every major advance that improves human living standards initially creates fears that workers will be displaced. But as Tamny notes, what resources are saved on labor will redound to increased credit availability for new ideas. We "see" the jobs destroyed by advances in technology but the "unseen" is all the new forms of work that will be created. Tamny repeats key points frequently throughout the book. Some may find that somewhat annoying, but I believe his repetition helps drive critical points home. Readers outside of the United States may not be quite familiar with the names of the college football coaches cited in Chapter Two, but that shouldn't distract from an understanding of the points Tamny is conveying about labor as a form of credit. Tamny has a real gift for clear writing and making sense of issues that are unnecessarily complicated by the economics profession and the media. *Who Needs the Fed?* is a provocative, yet highly enjoyable companion volume to his 2015 book *Popular Economics*.

A timely and well written piece by John Tamny that should make us question our selves. Why do we have this agency that actually hurts America more than it helps. John Tamny uses common sense and down to earth explanations to explain how we got into this pickle and suggestions for fixing our money system. Mr. Tamny constantly reminds us that money is not wealth but nothing more than a measure of value. He points out how a few in the government misuse money through printing and distribution. A very easy read and common sense approach to the free market economy.

Mr. Tamny's second effort presenting the wonderful world of economics is gratifying for clarifying in lucid and entertaining manor the true workings of the world's single most powerful institution affecting everything. Mr. Tamny may not strike this level of hyperbole, but to the degree that we're homo economicus, I'll stick to the statement when I say "everything." If the Fed then is this significant, it should be of at least some passing interest to see behind the wizard's curtain and have explained to us why we're possibly making the decisions we're making in the next several minutes. It's "mind control" no one escapes, not the 99%, not the 1%; and yet we can't cut our marionettist's strings, although, the string master, or svengali, can surely be retired. While *Who Needs the Fed* may

exculpate, it steers away from stridency or conspiracy mongering. It's a remarkably warm and fuzzy book if the term may be applied to a book built on facts and reason. This author's unenviable task seems to be to call out within the deafening agitation of the casino, that the game is rigged, and that we may consider a nobler calling than to double down in just figuring out how to stay in the pit boss's tangle in order to survive another day. To be sure, it may be fun while you can keep finding some advantage, but wouldn't we like a more upright way to organize growth and wealth creation than one founded on the wheel and deal of the house? In Mr. Tamny's genteel Sturm und Drang we find it.

Very insightful and easy to read and understand. John Tamny describes general economic principles and the role of the government, and specifically the Fed, and how it is generally detrimental to the economy or, thankfully, less relevant than most financial and economic journalists portray. It is vitally important that the electorate be soundly educated in fundamental aspects of how our country operates in order to best govern themselves and this book is an excellent tool for that education. Any adult can relate to the examples that Tamny uses to illustrate his points and demonstrate that fundamental economics is not that complicated - it's mostly common sense. This is a great book to develop critical thinking regarding economic policy, which is desperately needed today. I wish it were required reading for all elected officials and high school students.

The great thing about John Tamny's writing - in addition to razor sharp analysis of economic trends and conditions through his unique Austrian lens - is its optimism. The four barriers to economic growth that government erects (taxation, regulation, tariffs and monetary policy) can't beat back the productivity of investment, creativity, division of labor and human action. The Fed and the Treasury will continue to fail and ultimately be left buried by innovative humans (and their robots). End the Fed? Not necessary. It is largely irrelevant now and will disappear under its own volition and as a result of its own stupidity shortly. This book is a great read.

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