

BOOK REVIEW

THE FED UNBOUND: CENTRAL BANKING IN A TIME OF CRISIS

LEV MENAND

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For those who have long complained of an out of control Federal Reserve, Lev Menand's *The Fed Unbound: Central Banking in a Time of Crisis* is a must read. For in just a few pages Menand, a former Treasury Department and Federal Reserve insider, confirms everything Austrians have been saying all along. From repeated violations of its mandate to having laid the groundwork for the Great Financial Crisis, Menand, now a professor at Columbia Law, conceals nothing from the reader about the last seventy years of evolving Federal Reserve practices and policies. What he admits is shocking, unconstitutional, and could well serve as a summary of all the reasons the Federal Reserve System needs to be ended. That Menand can write such things while retaining his insider status is due to the fact that he remains defensive of the Federal Reserve System overall, and further because the book is addressed

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to fellow insiders. Published by Columbia's Global Reports series, it is a dense and highly technical explication decidedly not aimed at the *New York Times* bestseller list. It was written, in short, for the policy community not the voting community. Menand's book is perhaps doubly important, therefore, because while it tries systematically to catalog all the Fed's prior errors, it ends by describing and prescribing all the new ones it and Congress are likely to make in the future. Sadly, for all his awareness of its inadequacies and the ills it has burdened Americans with, Menand wants a Fed only slightly bound rather than unbound.

To start with the book's preface, in just three pages Menand summarizes the whole problem. Describing the Fed's response to the events of 2007–08, he writes: "It [the Fed] took a series of extraordinary actions, crossing 'red lines,' stretching its legal authorities, and using its balance sheet to lend to financial enterprises of all sorts" (Menand 13). Ultimately, however, he continues, "Despite their herculean efforts, this system remains economically and politically unstable. It undermines the legal framework governing money and finance and threatens our democracy." Concluding, it ultimately "[d]epends on central bank actions that, though designed to avoid worse outcomes, transfer wealth to the financial sector and increase inequality" (15).

While no Austrian is surprised by any of this, these amount to fairly shocking admissions coming from someone of Menand's background, credentials, and current post. But Menand has serious reform on his mind, and in order to make his case he decides to first make clear he is fully aware of everything the Fed has been doing, why it did it, what the consequences were, and why those were the consequences. With some minor quibbles excepted, Menand excels at his task. From detailing the Fed's responsibility for the Eurodollar crisis (112), to how it came to backstop the entire U.S. shadow banking industry (117), Menand's technical analysis is of the highest level, though his bias is always clearly toward the home team. Take the example of shadow lending, and how the Fed was working around troubled banks in order to service their non-bank-chartered money claims—this was a highly questionable use of the Fed's powers to say the least. Of Congress' retroactive approval of those activities, Menand writes they were, "a nod by Congress to the reality of shadow banking and the important role its money claims play in the economy" (104).

This is, unfortunately, a recurring theme. Actually, apart from a chapter devoted to the deeper monetary history of the United States, it could well serve as the book's template, variously repeated right up to the conclusion:

- *First*: present an instance of the Federal Reserve either making an outright mistake or overstepping its authority.
- *Second*: defend the practices as acceptable or at least understandable in lieu of Congress' own supposedly required actions in those instances.
- *Third*: detail how Congress retroactively rubber-stamped the Fed's activities anyway.

Indeed, for all Menand's sagacity and economical prose, he is a central bank official to his core, with all the natural biases and aversions one might expect. Of deflation, for example, Menand is predictably allergic, believing a strictly private banking sector would inevitably fail due its "tendency to issue too little money" (88). And, of course, he firmly believes the economy can be managed more effectively by central banks and political bodies than by market forces (15). For all that, Menand's courage to cut against both the entrenched establishment and the insurgent progressives fighting for prominent places at the Fed demands a degree of respect—as does his command of the historical material and technical analysis he succinctly presents. For example, he disapproves of the Fed's now regular utilization of purchase and repurchase agreements, even swaps, pointing out that they do not execute at market prices and are therefore clear abuses of the Fed's open market authority (129). Menand is arguably even more opposed to those who would expand the scope and power of the Federal Reserve to address issues like climate change, warning that already the Fed's expansionary mission has "costs that have often been overlooked or underappreciated" (124).

Menand does not mean, of course, the cost to Americans' purchasing power due to the Fed's policy of purposeful inflation. Rather, his chief complaint is that the Fed has "tackled many serious policy problems," rather than forcing Congress to do the hard work of effective policy making (124). But herein lies the problem. As outlined above, the third step of the cycle that repeats throughout *The Fed Unbound* is that Congress is always several steps behind

events and the Fed's responses, and eventually catches up only in time to rubber stamp what the Fed had run on ahead and done in accordance with what it saw fit. Particularly during crises, when Congress seems slow or unlikely to react as it deems appropriate, the Fed has a variety of levers it can start pulling to try and redirect the market and economy as it sees fit. As Menand makes clear on an entire chapter devoted to the Fed's activities during the early stages of the COVID-19 pandemic, section 13 (3) has thus been distorted and abused to such an extent that even members of Team Fed such as himself are calling for a timeout and reset (49). For as things now stand, the phrase "the Fed unbound" could just as easily be translated as: "the Fed no longer has any effective charter." When it is doing whatever it thinks necessary, performing whatever legal or mental gymnastics required to fit the letter of its given authority and satisfy later Congressional approval, to say the Fed is "violating its charter" has been rendered an essentially meaningless statement.

But really, even though they messed up continually and made greater messes with their responses, in Menand's view this isn't really the Fed's fault. As he writes, in lieu of Congress's necessary actions, from different regulations to massive Keynesian counter-cyclical measures, "it was the best Fed officials could do with the tools they had" (19). This unwillingness to lay real blame and unqualified criticism at the Fed's feet is part and parcel of Menand's omission of several important historical points acknowledged by other mainstream academic economists. To take just a few of the grossest examples, while he makes sure to detail the 1907 Panic and the impetus for the Federal Reserve's creation, Menand is silent on its precipitating role in the massive recessions of 1920, 1929, and 1937. That, perhaps, would have been too much a violation of the acceptable parameters of discourse set by the prevailing power elite. After all, the predominant narrative in policy, academic, and media circles is that the Federal Reserve has helped protect us from innumerable harms—and always, counterfactually, prevented such economic downturns as did occur from being even more calamitous. As though the problems facing the country today, from rampant inflation, a still-overleveraged financial sector, massive wealth transfers to Wall Street, and distorted bond markets are merely some aberrations from an otherwise sage normalcy. But this is revisionism in the extreme.

Disappointingly, for all his awareness of its inadequacies and inherent dangers, from asset price inflation, moral hazard, and more, Menand remains to the end convinced the Fed can be brought back under control and directed toward that elusive public good. But as his own retelling makes clear, Congress isn't up to the task—and plenty support politicizing and empowering the institution even more than at present. As *The Fed Unbound* makes clear, there isn't really any effective charter anymore. The Fed tries to maintain its dual mandate of price stability and employment, but as it is unelected, incapable of being supervised, and in its entirety part of the great myth of progressivist social engineering, it is no surprise that it fails time and again. For what it is worth, his own suggestions, though unlikely to be adopted, are far from the worst on offer. After putting the Fed back in its box, eliminating programs like QE for example, he recommends that Congress put itself in a box by setting various aspects of government policy on virtual autopilot (148). *Ceteris paribus*, automatic sequesters, stabilizers, and interest rate adjustments are, in this author's opinion, far preferable to the present arrangement. But the obvious answer is clear: it is past time to end the Fed.

REFERENCES

Menand, Lev. 2022. *The Fed Unbound: Central Banking in a Time of Crisis*. New York: Columbia Global Reports.