

The Dual-Mandated Failures of the Federal Reserve

By [The Mogambo Guru](#)

11/30/10 Tampa, Florida – I thought I knew everything about the foul Federal Reserve in that I knew they cause inflation in prices by deliberately creating too much money, which is the One Big Thing (OBT) that you do not want because of the social upheaval of people starving to death and rioting in the streets.

And I thought I knew that the Federal Reserve was originally charged with preserving the value of the dollar, but apparently that is not so. Ergo, the Federal Reserve was not prevented, or warned, or even suggested to refrain from actually being evil, in that we have had continuous inflation in prices since the inception of the Federal Reserve in 1913 because of the vast increase in the money supply since 1913, and only a vast and expensive expansion of the welfare state has kept starvation and rioting under control... So far.

So I was happy to learn a few things from *The Wall Street Journal*, like how only since 1978 has the Fed been given a so-called “dual mandate” to achieve both price stability and full employment, where “in the original Federal Reserve Act of 1913 Congress asked the central bank to supervise banks. It did not mention explicit economic goals. Even in the Keynesian heyday of the Employment Act of 1946, Congress did not ask the Fed to manage the economy.”

Of course, there are those who ask, “Why quibble about whether the Federal Reserve is a failure in both its ‘mandates’ of maintaining stable prices and high employment now that the horrible Federal Reserve is actually beginning their promised creation of another \$600 billion in the next six months, and by extension another \$1.2 trillion in the next year, and in fact will be buying a total load of almost \$2 trillion in Treasury debt in the next twelve months, when you should be working and not standing around discussing this stupid stuff on company time?”

As I was slumping back to my desk, I was muttering under my breath, “The reason is because of inflation in prices from all of this inflation in the money supply and how it is going to destroy us, you moron!”

I’ll bet that if I was in China, my stupid Chinese boss wouldn’t be asking me such a stupid question, as David Stevenson in the *Money Morning* newsletter notes that “the official figures showed China’s cost of living climbing by 4.4% year-on-year.” Yikes!

And all of this inflation in prices is because, “In the last seven years, China’s M2 money supply measure – how much cash is sloshing around the system – has increased more than threefold. In other words, there’s been a massive credit bubble” that has not only produced alarming inflation in prices, but “rapid economic growth – China is growing at around 10% a year just now,” which means more demand and higher prices still! Yikes!

And as bad as that is, Mr. Stevenson goes on that “a member of the Chinese Academy of Social Sciences, one of the government’s top think tanks, said that by its own calculations the country’s consumer price index had been understated by more than 7% over the past five years,” which means that the terrifying 4.4% inflation is grossly understated, and has been estimated by others to be as high as 10%!

This probably comes from the fact that “Food prices are already rising at 10% year-on-year. The Xinhua news agency reported that a basket of 18 staple vegetables cost 62% more during the first ten days of November than in the same period last year.”

They did not mention anything about pepperoni prices, sausage, bacon, cheese or any other ingredients of pizza, so I imagine that’s why food riots have not broken out, plus the fact that the Chinese are said to be buyers of gold, protecting themselves against the debasement of their money by their banks and government.

And since the same strategy of buying gold, silver and oil when so much money is being created works everywhere, I imagine that in Chinese they say something that sounds like “Ah-so! Oy chow wan go!” while we here in America say, “Whee! This investing stuff is easy!”