

The Washington Times

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Letters

Financial markets determine interest rates, not the Fed

The Washington Times' Aug. 21 editorial, "The Fed looks things over," essentially advocates central planning for American economy when it calls upon government bureaucrats (the members of the Fed's Federal Open Market Committee) to adjust the price of credit (interest rates). Fortunately for America, the Fed's Wizard-of-Oz like influence over short-term interest rates is declining as market par-

ticipants slowly learn that the Fed lacks the raw power to actually set most interest rates.

The financial markets, not the Fed, increasingly determine interest rates. For example, the markets lowered short-term rates somewhat last winter, which helped to lift the economy from its winter doldrums. More recently, short-term rates rose sufficiently to dampen inflationary demand. The increased willingness

of the financial markets to ignore the Fed's often erroneous interest-rate signals will produce far greater economic stability than the Fed can, bringing us closer to the day when this relic of central planning can be shuttered.

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