The Federal Reserve's interest rate price-setting board, the FOMC, met last week. They will continue to set the federal funds rate at well below 1%, and plan to keep it low until the end of 2014. That's a year and half longer than they planned when they met just last month. Chairman Bernanke says they are keeping interest rates so low for so long because the economic outlook warrants it.

The fallacies in their reasoning would be amusing if they weren't so dangerous. The Fed wants to keep the price of money at essentially zero – in other words "free" – to boost the economy. But the boost they are attempting won't get here for another three years. That's not a recovery. And we've already tried this tactic. That's how we got into this mess in the first place: with interest rates artificially low for a very long time. Free money doesn't stimulate growth, as Japan's two lost decades clearly show. Artificially low interest rates only serve to punish saving, distort market signals, and cause further malinvestment. They also do nothing to address the only real solution to our economic woes: liquidation of the bad debt that hangs around the neck of the world's economy, preventing recovery. Artificially low interest rates merely ensure that we remain a debt-financed consumer economy guaranteed to end up with a weaker economy and higher prices.

What baffles me even more is that two decades after the collapse of Soviet planning and decades more since the U.S. and economists purportedly rejected the idea of price setting, we find nothing wrong with the Fed setting the price of money. We all agree it is a bad idea to have a board saying the price of wheat should be $250 a ton today, or carpenters wages should be $25 an hour until the end of 2014. But we are perfectly comfortable with having a board set the price of one half of every transaction in our economy. And our markets are supposedly free.

The Fed policies of low interest rates, Operation Twist, and rounds of quantitative easing are all attempts to keep the economy alive artificially. But the 12 FOMC participants cannot manage the economy any better than the bureaucrats of the Soviet Union. The policies haven't worked. They won't work. Real economic recovery cannot come until we liquidate the bad debt, until we eradicate the poor decisions we made over the last decade, and start with a sound foundation. It is time we acknowledge the truth of the Fed's activities: they are merely using fancy words for price setting.

Treasury Secretary Andrew Mellon was correct in the 1920s when he said "liquidate everything." That's what we did in the severe depression of 1920-21, and we recovered so quickly it is never even talked about. We didn't take his advice after the 1929 crash, and ended up with the Great Depression. We are committing the same mistakes, destined to live in this Great Recession for a decade or more—it has already been four years, the Fed says it will be at least three more! It's time we start rethinking what the Fed's policies are really doing to our economy, because obviously, by their own admission, they haven't helped.