Putting the "Federal" Back in the Federal Reserve

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In a July 19 Wall Street Journal article titled "Why No Outrage?", James Grant quoted Mary Lease, a 19th century Populist who urged farmers to "raise less corn and more hell." Grant notes that financial behavior that would have been met with outrage in the 19th century is now met with near-silence from a too-tolerant populace. For decades after the Civil War, monetary reform was a chief political issue, one around which whole political parties formed. Why is it hardly mentioned today? Grant suggests that the lack of outrage may be because the old 19th century Populists actually won:

"This is their financial system. They had demanded paper money, federally insured bank deposits and a heavy governmental hand in the distribution of credit, and now they have them. The Populist Party might have lost the elections in the hard times of the 1890s. But it won the future. . . . They got their government-controlled money (the Federal Reserve opened for business in 1914), and their government-directed credit [Fannie Mae and Freddie Mac]. In 1971, they got their pure paper dollar. So today, the Fed can print all the dollars it deems expedient and the unwell federal mortgage giants, Fannie Mae and Freddie Mac, combine [to] dominate the business of mortgage origination . . . ."

Mr. Grant may have answered his own question, in another way than he intended. Most people, evidently including Mr. Grant, actually *think* that the Federal Reserve is a federal agency; and that paper dollars are issued by the government; and that Fannie Mae and Freddie Mac are federal mortgage giants. The American people are silent because they have been duped into *believing* they have gotten what they wanted. In fact, what the people got was not at all what the Populists fought for, or what their leader William Jennings Bryan thought he was approving when he voted for the Federal Reserve Act in 1913. In the stirring speech that won him the Democratic nomination for President in 1896, Bryan expressed the Populist position like this:

"We say in our platform that we believe that the right to coin money and issue money is a function of government. . . . Those who are opposed to this proposition tell us that the issue of paper money is a function of the bank and that the government ought to go out of the banking business. I stand with Jefferson . . . and tell them, as he did, that *the issue of money is a function of the government and that the banks should go out of the governing business*. . . . [W]hen we have restored the money of the Constitution, all other necessary reforms will be possible, and . . . until that is done there is no reform that can be accomplished."

Bryan lost in 1896 and again in 1900, but he went on to lead the opposition in Congress. A major bank panic in 1907 led to a bill called the Aldrich Plan, which would have delivered control of the banking system to the Wall Street bankers. However, the alert opposition, led by Bryan, saw through it and soundly defeated it. Bryan said he would not support any bill that resulted in *private* money being issued by *private* banks. Federal Reserve Notes must be *Treasury* currency, issued and guaranteed by the government; and the governing body must be appointed by the President and approved by the Senate.

To get their bill past the opposition in Congress, the Wall Street faction changed its name to the Federal Reserve Act and brought it three days before Christmas, when Congress was preoccupied with departure for the holidays. The bill was so obscurely worded that no one really understood its provisions. Its backers knew it would not pass without Bryan's support, so in a spirit of apparent compromise, they made a show of acquiescing to his demands. Bryan said happily, "The right of the government to issue money is not surrendered to the banks; the control over the money so issued is not relinquished by the government . . . ."

That was what he thought; but while the national money supply would be *printed* by the U.S. Bureau of Engraving and Printing, it would be issued as an *obligation* or *debt* of the government to a private central bank. The Federal Reserve is wholly owned by a consortium of private banks; it is controlled by bankers; and it protects their interests. It issues Federal Reserve Notes (dollar bills) for the cost of printing them (or, more often, for the cost of entering numbers on a computer screen). This privately-issued money is then *lent* to the government, and it is owed back to the private Federal Reserve with interest. The interest is eventually refunded to the government, but only after the Fed deducts its operating expenses and a 6 percent guaranteed return for its bank shareholders.

Congress and the President have some input in appointing the Federal Reserve Board, but the Board works behind closed doors with the regional bankers, without Congressional oversight or control. Bank CEOs actually sit on the boards of the Fed's twelve branches. As just one recent example of the private control of public monies, in March of this year the New York Federal Reserve agreed in private weekend negotiations to advance $55 billion of the people's money so that JPMorgan Chase could buy Bear Stearns at the bargain basement price of $2 a share, down from a high of $156 a share. It was a hostile takeover, not approved by the Bear Stearns shareholders or the American voters. JPMorgan Chase is the bank founded by John Pierpont Morgan, who sponsored the Federal Reserve Act in 1913. Jamie Dimon, the current CEO of JPMorgan Chase, sits on the board of the Federal Reserve Bank of New York, which dominates the twelve Federal Reserve Banks; and he has huge stock holdings in JPMorgan Chase. His participation in the decision to give his bank $55 billion in Federal Reserve loans is the sort of conflict of interest that federal statute makes a criminal offense; but there is no one to prosecute the statute, because the banking lobby is too powerful to be denied. The banking lobby is powerful because private bankers, not the government, create our money and control who gets it. (See Ellen Brown, "The Secret Bailout of JPMorgan," May 13, 2008, www.webofdebt.com/articles; and "What's the Difference Between Lehman Brothers and Bear Stearns?", June 14, 2008, ibid.)

The Federal Reserve Act of 1913 was a major coup for the international bankers. They had battled for more than a century to establish a private central bank in the United States with the exclusive right to "monetize" the government's debt; that is, to print their own money and exchange it for government securities or I.O.U.s. The Federal Reserve Act authorized a private central bank to create money out of nothing, lend it to the government at interest, and control the national money supply, expanding or contracting it at will. Representative Charles Lindbergh Sr. called the Act "the worst legislative crime of the ages." He warned prophetically:

"[The Federal Reserve Board] can cause the pendulum of a rising and falling market to swing gently back and forth by slight changes in the discount rate, or cause violent fluctuations by greater rate variation, and in either case it will possess inside information as to financial conditions and advance knowledge of the coming change, either up or down.

"This is the strangest, most dangerous advantage ever placed in the hands of a special privilege class by any Government that ever existed. . . . *The financial system has been turned over to . . . a purely profiteering group. The system is private, conducted for the sole purpose of obtaining the greatest possible profits from the use of other people's money*.

In 1934, in the throes of the Great Depression, Representative Louis McFadden would go further, stating on the Congressional record:

"Some people think that the Federal Reserve Banks are United States Government institutions. *They are private monopolies which prey upon the people of these United States for the benefit of themselves and their foreign customers; foreign and domestic speculators and swindlers; and rich and predatory money lenders*. In that dark crew of financial pirates there are those who would cut a man's throat to get a dollar out of his pocket; there are those who send money into states to buy votes to control our legislatures; there are those who maintain International propaganda for the purpose of deceiving us into granting of new concessions which will permit them to cover up their past misdeeds and set again in motion their gigantic train of crime.

"These twelve private credit monopolies were deceitfully and disloyally foisted upon this Country by the bankers who came here from Europe and repaid us our hospitality by undermining our American institutions."

As for Fannie Mae – the Federal National Mortgage Association – it actually began under Roosevelt's New Deal as a government agency. But like the Federal Reserve, Fannie Mae is now "federal" only in name. In 1968, it was re-chartered by Congress as a shareholder-owned company, funded solely with private capital. If it were a bank, today it would be the third largest bank in the world; and it makes enormous amounts of money in the real estate market for its private owners. In 1970, Freddie Mac (the Federal Home Mortgage Corporation) was created to provide competition and end Fannie Mae's monopoly in the secondary mortgage market. But Freddie Mac too is a wholly shareholder-owned, publicly-traded corporation.

Under a 1992 law, if either of these two mortgage giants is seen to be severely undercapitalized, it may be placed into government conservatorship. But the plan now being pursued is to bail out these private corporations by increasing their capital base with taxpayer money and their profit margins with greater access to Federal Reserve loans. The result will be to privatize profits to their management and shareholders while socializing risk to the taxpayers. We the people will foot the bill. If the people are going to bear the risk, we should reap the benefits. Either these two mega-corporations should take their licks in the market like any other private corporation, or they should be nationalized, delivering not just their debts but their assets to the taxpayers. Not just Fannie Mae and Freddie Mac but the Federal Reserve itself should be made truly *federal* entities, as the voters have been led to believe and their names imply. Remove the myth that these Wall Street-controlled entities act by and for the people rather than being run for private gain, and we will soon see the outrage Mr. Grant says is curiously missing.

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