

The following article is reprinted from the Volume 122, #1 issue of Truth Seeker , a magazine published in San Diego with subscribers nationwide.

Is The Fox Watching The Hen House?

A divergent perspective of The Federal Reserve by Howard Blum

The Federal Reserve System in our United States is a curious case study of just what can happen when a good idea goes wrong. It is also the quintessential example of how “design by committee” in a bureaucratic structure does not work to achieve an objective. To better appreciate the condition of our monetary system, our banking system and the role the “Fed” as it is often referred to, we should take a brief look back to its origins.

Where did the Federal Reserve come from? The Federal Reserve Act of 1913 was enacted by Congress. Its original purpose was to establish a Central Bank for The United States. The original objective was clearly stated, well implemented and could have done its job efficiently. Its intended purpose was to bring stability to the banking system, the money supply and therefore to the economy at large. A principle that is neither embraced or understood by the current Fed Chairman, Mr. Alan Greenspan.

Unfortunately, there were a few inherent flaws built into the system that should have been an omen for the

future. You see, the bureaucracy rarely, if ever, undoes anything it creates. No matter how badly they mess up the situation. They simply pile more rules on top of the old flawed ones and then wonder why the whole structure seems to be leaning one way or the other.

Picture someone laying the foundation of a house on Jell-O. After a while and they begin to realize it’s not very steady. If it’s being built by the private sector, they would take down the house and redo the foundation. Our bureaucracy would prefer to put on a second floor and see what happens. That is why our bureaucracy has grown so large. They don’t really want to find solutions to problems. If they did, they might be out of work. Did you know that The Constitution says in Article 1, Section 7 that “Congress shall meet at least one day a year and that day shall be the first Monday of December.” Fancy that, private citizens getting together every now and then fixing stuff by passing laws and going home again. Great idea wasn’t it. Back to reality unfortunately.

Never again will anyone in Washington ever have the creative

capacity to configure something remotely resembling the structure of The Federal Reserve. You could say it is the only government agency ever created in this country that is owned by private business. You could say it is the only government agency responsible for regulating an industry whose only advisory committee is the industry it is supposed to be regulating. You could say it's the only government agency whose policy making body is made up of presidential appointees and a few hand picked 'barristers' of the industry under regulation. You could say it is the only agency of the government that submits no budgets, no expenses and no accounting to anyone anywhere outside it's own inner sanctum. (Even the CIA can't say that.) It even raises its own revenues! You could say all those things about The Fed and be right. Makes the old Kremlin look like an open book, doesn't it.

The concern back in 1913 was bank liquidity due to some monetary and currency crisis in the late 19th century and the first decade of the 20th century. The intent was to have it rise above politics. That is why the President appoints Fed Governors to 14 year terms. There are 7 appointed governors on the board of directors of The Fed. There are also the 12 Presidents of the 12 regional Federal Reserve Banks serving on the board. These presidents are not appointed in Washington. These regional Presidents are elected by the

boards of the regional Federal Reserve Banks. Those regional boards just happen to be composed of commercial bankers. You know, the ones that are supposed to be regulated by this whole structure. More Jell-O please.

Did I mention the Chairman yet? He gets appointed by our President for a term shorter than the 14 years of the governors, but long enough to leave his mark. Like the rest of the structure, the Chairman is not answerable or accountable to anyone or anything for his actions. The appointee is usually a Wall Street type or a banker type. Our President used to have more latitude in his choices in the old days.

The Chairman of The Federal Reserve is required by law to make regular appearances before The Congress. The law does not require him to saying anything intelligible or meaningful, so he doesn't. It is invariably an exercise in "double speak" as the feeble legislators on the various House and Senate committees ask dumb questions and get hollow, empty answers. At least they get to be seen on TV at home by the voters, appearing to be doing something besides looking and sounding pompous.

So now we come to the Open Market Committee that is the policy making body of The Federal Reserve. Every time I see pictures of The Board Room at the Fed when the Open Market Committee is in session, it reminds me the images of Al Capone and 'the boys' having a meeting on the old TV pro-

gram “The Untouchables.” The sad part is these boys really are untouchable. Anyhow, democracy gets checked at the coat room when they enter the building as the “Monetary Dictatorship” of the “Bankers Club” convenes.

“The boys” meet in total secrecy. Every now and again a lady gets invited to join the party. Since 1913 there have been 2 women who have served on The Board. Notes are taken and released to the public 2 years later, providing they feel like it. They don’t always release their notes. More often than not they destroy them. You think I’m pulling your leg, don’t you. I wish I were. These guys make minor unilateral decisions like what interest rates should be or how much credit they will allow their member banks to create. The best part is they don’t have to explain their actions to ANYONE. Even the President of these United States is powerless to demand an explanation for their actions. (Right now, that might be a blessing.)

It really was not until the 1980’s that The Federal Reserve gained absolute power and control. The Chairman of The Fed at that time was Paul Volker, a lifelong bureaucrat. He single-handedly consolidated power at The Fed in 2 ways. First he sent interest rates into orbit during the last year of the Carter Presidency causing a severe recession and destroying any chances for a Carter reelection, slim as they might have been. Second, he persuaded

the legislators on Capitol Hill to make a new law requiring every depository in the country to comply with The Fed’s reserve requirements for demand deposits (that’s an entire story in itself). Before that only members of The Fed had to meet those requirements. It is no coincidence that there was a flood of foreign bank branches appearing all over this country in the 1980’s. Why? The Dollars on deposit “off shore” could escape the reserve requirements. And you thought it was because Honda, Toyota, Datsun, Isuzu, Mazda, BMW, Mercedes Benz, Porsche VW and Audi were doing so well.

There were other pieces of legislation passed between 1913 and now, but their relevance is more obscure from view. If you have any doubts about the absolute power of The Fed, indulge me for just a moment. Stop reading this (be sure to mark your place) and take a Dollar bill out of your pocket. On the top of it on the front side it reads “Federal Reserve Note.” It didn’t always say that.

Over the years there have been several crusaders that have tried to “reign in” The Fed without much success. They recognized the potential dangers lurking within our midst. It would appear that perhaps the only truly unique thing about The Fed that our legislators created is a monster that is above the law. A monster that the politicians know is powerful enough to topple a Presidency.

