TEF COMMENT

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Happy Birthday to the Federal Reserve - 100 Years of War, Welfare, and Pork

By Dennis Constant

December 2013 is the 100th birthday of the Federal Reserve System (Fed). The Federal Reserve Act was conceived and described in a preliminary version in November 1910, at a secret meeting in the private resort of J. P. Morgan on Jekyll Island, off the coast of Georgia. Republican Senator Nelson Aldrich, Chairman of the National Monetary Commission, and five Wall Street bankers created the draft. Americans, who understand the devastating impact of that secret pact, rue the day that The Fed was crafted and provided the federal government with the means to establish their voracious appetite for spending.

Publically, the main reason for creating the Federal Reserve System was to address banking panics. As more banks failed, consumers feared they would lose their money and withdrew their funds en masse. This mania became know as a bank run. Proponents of a central bank seized this opportunity and promoted the central bank as a way to prevent and minimize bank runs, and act as a lender of last resort when a bank run does occur. Other justifications they used to sell the idea of a central bank included “to furnish an elastic currency,” which simply means the supply of money can be manipulated to impact the economy, and to provide supervision of the banking industry in the U.S.

In reality, proponents of a Federal Reserve System hijacked the “banking reform” movement to further their cause. As Prof. Gabriel Kolko put it, “…the major function, inspiration, and direction of the measure were to serve the banking community in general, and large bankers specifically.” Bankers were “hoping to offset the decentralization of banking toward small banks and state banks. The expansion and domination of banking by big city bankers was possible only with the aid of the federal government….”

“The Fed was a sinister accomplice of large member banks,” according to Chicago economist James L. Tobin. “The Fed intentionally decreased the money supply to drive non-member banks out of business, a fact confirmed by renowned economist, Milton Friedman. By 1933, one-third of all banks had gone under, and the member banks of the Fed cartel divided up the spoils.”

Nobel Prize economist Milton Friedman wrote that the Fed <u>intensified</u> the 1929 recession, creating the Great Depression. Two major factors he cited for this accusation: The Fed continued to decrease the amount of money in circulation, or the money supply, and they refused to bail out the small banks that were not members of the Federal Reserve.

These actions of the Fed wreaked havoc on the economy. The failure of so many community banks drove unemployment to an all time high of 25% at the peak of the Great Depression. Businesses that had placed their funds in local and state banks lost their cash reserves when these banks went under, laid-off their employees, and closed their doors.

On November 8, 2002, in a speech he gave at the Conference to Honor Milton Friedman on his 90th birthday at the University of Chicago, Federal Reserve Chairman, Ben Bernanke was refreshingly candid in admitting the Fed’s destructive moves during the Great Depression: “I would like to say to Milton [Friedman] and Anna [Schwartz]: Regarding the Great Depression. You’re right; we did it. We’re very sorry. But thanks to you, we won’t do it again.”

The Fed buys securities from the U.S. Treasury by means of a check drawn on itself, which literally creates money out of thin air. The Treasury then uses this new money to finance increased federal spending, which causes inflation. Inflation is a stealth tax, a tax that requires no vote and no review, which is why Washington politicians love it. Creating money from nothing makes it relatively easy to finance wars, and 'pork', or pet projects. For example, the huge corporate welfare program for farmers, where farmers are paid federal subsidies for just owning land and growing crops, or in some cases, not growing crops, is easily funded when the Fed prints more money. Inflation cheapens the value of money meaning it takes much more money to buy the same amount of goods and services. Since the creation of the Fed in 1913, prices have increased 30-fold (3,000%).

But inflation isn't the only burden caused by The Fed. The Fed was instrumental in enabling the entry of the U.S. into World War I in 1917. The Fed provided the vast amount of funds needed for the U.S. to join the war when things started to go badly for the Allies.

According to G. Edward Griffin, the only way to save the British Empire was for the U.S. to provide them with more money. But the official U.S. position regarding the war was neutral, so if the U.S. was to help the British and French, they had to be persuaded.

The British used The British ship, Lusitania, to lure the U.S. into the war. Although billed as a passenger ship, the Lusitania was built to military specifications, and the Germans considered the Lusitania to be a legitimate military target because they believed it was carrying munitions. The ship was chosen to be used as bait, and was essentially sacrificed along with her crew and passengers, as a means of inflaming war sentiment in the U.S. Britain arranged for Americans as well as British citizens to be on board, and Winston Churchill ordered her destroyer protection to abandon her, and for the ship to travel at a reduced speed. On May 7, 1915, a German torpedo struck her, *a second explosion from within* devastated her, and she sank, enraging Americans and drawing them into the war.

In the 1970s, the Fed's incompetent handling of the money supply resulted in double-digit inflation, double-digit unemployment, and an economy that had a stagnant economic growth rate – "stagflation," as economists call it.

The Fed has funded many a war since WWI as well as provided for seemingly endless pork projects. Although technically independent from the federal government, there is an unwritten agreement that whenever money is needed by the federal government for wars or pork, the Fed provides the needed cash by increasing the money supply. Jekyll Island gave birth to a monster – a monster with a voracious appetite that still eats away our assets a hundred years after its tainted birth. The Fed has, for a hundred years, been feeding the lust of our federal government to spend uncontrollably on wars, welfare, and pork.

Sources:

The Creature from Jekyll Island, by G. Edward Griffin, 5th ed.
The Triumph of Conservatism, by Gabriel Kolko.