Inside Santa's workshop for all the needy banksters, what insights can we glean?

CHAPTER 26

The Federal Reserve – The Vault of the Stat?

"The Fed is the Washington branch of the New York banking establishment."

In the Belly of the Fed

If anyone knows the worth of Earth in America, a good candidate is the lender to lenders, the bank of all banks, the US Federal Reserve. The Fed has the means and the motive to know the value of land and resources.

- It has the power to tabulate all rents, what with its huge staff and ability to demand data from member banks. And …
- It has a good reason to know the size of that spending stream. Knowing how much society spends to use locations, the central bank can predict how big its income will be, and when a current wave of rent may recede.

While the Fed never has to worry about a recession hurting it directly, it can still cash in by granting favors that must be paid back later.

What does the Federal Reserve know about the size of the value of natural assets? Does it censor the answer? With eyes wide open, let's wander into that lion's den. Since the Fed can not derail us from our career track, we, at least, can make our findings public.

While the US was created to be a democracy by democrats, the Fed was created to be a printing press by and for plutocrats. Our newest central bank took over the power to create new money, a function that the Constitution had charged to Congress. That means the Fed gets to control the money supply. The Fed claims to be a part of the government, which does underwrite it and other global banks. However, during the 2019 shutdown, the government mothballed its websites from lack of funding, while the Fed had its own funds to keep it up and running.

We say "print money" only out of habit. Paper money is for common people in their daily business. Between major players, transactions are usually worth at least 10 figures. For those deals, a big bank taps keys on a computer and – poof! – transfer complete. (An exception was the millions of bills that the Fed of New York printed, wrapped, and sent to the US military in Iraq, which the soldiers used as footballs.)

The Fed says they buy bonds and other paper assets. Yet their buying bears no relation to your or my buying. When you lack the cash yet purchase, first you borrow and go into debt. When the Fed lacks the cash yet purchases, once again you go into debt; you're obliged to pay the taxes that pay off the US bond that the Fed "bought" without money. The money was never transferred from Fed to bond seller but simply appeared in the US Treasury's account. Spending non-money is not counterfeiting, but the Fed did design their notes to look exactly like United States notes, which they are not. What they do is legal but misleading, like the bankers' naming their prize "Nobel."

The Fed Inflates

The Fed makes it easy to take on debt, public and private, when it extends credit to member banks and the government. The banks create more mortgages. Congress deficit-spends. Since the last recession, the Fed has tripled its holding of US Treasury notes. Government spending has not kept pace, but it has not slowed, either. Without spending a penny – since none of the pennies formerly existed – the Fed over-expands the money supply, resulting in inflation.

Borrowers like inflation. You borrow dollars that are worth more and pay back with plentiful dollars that are worth less. Yet lenders like inflation, too; banks are debtors. The average debt-to-equity ratio for retail and commercial US banks, as of January 2015, is approximately 2:2. For investment banks, the average debt/equity is higher, about 3:1. Repaying with cheap dollars works for banks, too.

When prices inflate, banks must pay depositors more to keep them, and charge borrowers more to profit. When their rates for deposits and loans rise, banks get away with increasing the spread. They also raise their rates on credit cards. For bankers, inflation is a big money-maker.

Knowing this, whenever inflation rises, investors bid up the price of bank stock. When the government announced the CPI went up 1% a month, the same day the stock of the Bank of New York Mellon rose nearly 5%, and by over 10% in one month following the announcement.

Excess-dollars inflates some costs faster, some slower, or not at all. You go to the supermarket and find food costs more, but has your salary risen by a like amount? Not likely. Who benefits? Not the wage-earner. Who benefits are those who can buy low (early) and sell high (later). So, if you're first in line to get the fresh cash, you can make hay while the sun shines. Typically, that's people whose lobbyists stalk the corridors of power and whose money managers trade in big blocks of stock, bonds, and real estate. Of course, the trades must be well-timed, but that's what you have the broker for. Private recipients of the excess money use it to bid up prices – inflation. Since the Fed started replacing US Notes with their own in 1913, the dollar began losing its value at a rate unlike before. When the US stopped "backing" the dollar with gold (1971), then the Fed could print to its heart's content. Americans could not turn to gold coins, being rarely minted, and stamped with a purchasing power far less than the gold's intrinsic value. Inflation since 1971 has soared. Over the past century, the dollar has lost 96% of its former value. In real-speak: The cost of living has risen accordingly.

On occasion, bankers (those typically in charge of the lone legal currency) have issued less new money, which supposedly had the opposite effect and deflated prices, *ceteris paribus*. But things are not all equal. During the Great Depression – an exceptional era – bankers drastically shrank the supply of money and credit. Ever since, the economics profession and its pundits in the press have been able to use the specter of deflation as an excuse for the policy of inflation.

However, a closer look at that Depression yields more powerful factors. Every time, during that lost decade-and-more, the economy showed signs of recovery, the government intervened. FDR's New Deal meant destruction of crops and cattle, tariffs on trade, taxes on investment, curbs on competition between producers, union wages well above commensurate output which entrenched unemployment, etc. Refusing to lend may have been an error but worse ones were made.

Is it wise to fear deflation? Throughout the history of our species, humans are constantly building the better mousetrap. By driving down costs, prices should follow. It's the excessive supply of money that won't let the lower cost of living appear before consumers. In reality, a shrinking supply of money in circulation would suffice in an economy always finding ways to get more from less.

Bankers and politicians say they created the central bank to balance inflation and unemployment by controlling interest rates. However, that method has proven itself ineffective – the economy still exhibits plenty of both; as did inflation, unemployment soared. Further, that method – and the central bank that wields it – is not necessary.

Fed & Land

While he was head of the Fed and one of the most powerful people on the planet ("God on a good day"), Alan Greenspan told Americans that the housing bubble would not burst, that it made homeowners rich. Publicly a cheerleader, privately Greenspan stifled any dissent within the Fed. When the bubble burst and made homeowners poor and mere tenants, and worried investors shifted from stock to bonds, Greenspan's personal wealth (already in millions) rose with the demand for owning the more secure US debt.

When the Fed credits lesser banks in exchange for their bonds, those banks have more to lend to borrowers, who are mainly homebuyers. That means more demand for housing, inflating the price for land, swelling the mortgages. While mortgages still stand out in banks' portfolios, the value of locations can also be part of a business loan or asset management. It's hard to pinpoint how much land enriches banks.

Homeowners like high site-value when selling, dislike it when buying. Realtors and lenders always like it since they gain both ways. Rising land prices not only mean heftier mortgages but also faster turnover, since people are always defaulting or moving in search of a better job.

Hence, the truest value of land is not during the peak – the pre-collapse apex when exuberant speculators engage in a feeding frenzy. Nor is it during recession when many wannabe buyers lack the wherewithal. Rather, it's at some mid-point in the business cycle that paying for land – usually beneath a house – claims around one-fourth of one's income.

To help their ilk laboring away in high-rise office buildings on Wall Street, the Fed "buys" bundles of mortgages from the big banks (much more now than ever), turning the Fed into a de facto landlord. It's also an actual landlord; of the Fed's "assets," over 10% is land – concrete collateral, for a change. How much and how valuable is the land the Fed could foreclose on?

Political Tentacles

Sorry, economists are not telling. Thousands of them find jobs within the Federal Reserve. At seven top journals, 84 of the 190 editorial board members were affiliated with the Federal Reserve in one way or another. Journal articles determine which economists get tenure and what ideas are considered respectable. Criticism of the central bank has become a career liability for members of the profession, which silences economists (never a bold bunch to begin with).

While the Fed rides herd on economists, it bestows blessings on insiders. In the year before a presidential election, the Fed tightens monetary policy if a Democrat is in office and loosens it if a Republican is in office. When banks lend less, there's less business, and voters blame the party in power. The editor at the *Review of Economics and Statistics*, a fellow at the Fed, rejected the paper exposing this favoritism, authored by James K. Galbraith, Olivier Giovannoni, and Ann Russo.

A bigger favor than jiggling rates is bailing out big banks teetering on bankruptcy. When Americans were so understandably agitated during the recent recession, Congress felt it had to do something. It went along with Bernie Sanders and Rand Paul and audited the Fed.

Why was a special audit needed? The government has watchdogs. Sort of. As with most of government and big business, there is a revolving door. Regulators spend part of their career in government, part in business, back and forth. Our seeing lobbyists and the lobbied as different entities is only superficial; the elite and the state are actually a partnership.

Until that recession, the Fed had always refused to be audited. To avoid being audited even then, the Fed lobbied Congress. Do other government departments do that? Does the EPA lobby to allow more pollution? Does the Department of Labor lobby to rein in OSHA? May happen.

The audit of Fed books revealed what they wanted kept from the public – how many trillions was their bailout and to whom extended. Even after the audit, the Fed kept doling out credits to their associates – their "quantitative easing". They rescued not just banks but also corporations and not just ones headquartered in the US but foreign ones, too. They didn't stop inflating the value of big business until they'd created and lent nearly $30 trillion dollars. How many dollars is that? If you were to receive them as silver dollars and stack them up then climb them, you'd be on Mars. That's a lot of silver, Tonto.

The recipients of the bailouts found it easy to pay back such huge sums. Getting bailed out confirmed their status as too big to fail, so their stocks and bonds seemed safer to investors. The recipients not only stayed afloat but also swallowed up competitors who were not bailed out (like Lehman), expanding their market share. Recipients used the money they got at close-to-zero interest to buy US bonds which paid a few percentage points – magnified by the huge sums, a tidy profit – all guaranteed.

From the POV of the biggies, while miracles are nice, bailouts are mandatory – a gratifying success for recent recipients. However, for many others, such as those who lost their homes, the bailouts never tricked down. For the public at large, the recession was a missed opportunity for Shumpeter's creative destruction – sweep out the old bankrupt institutions (literally and figuratively) and usher in the new.

Meanwhile, with all those excess bailout trillions floating around, don't expect inflation to halt or even slow down any time soon. Anyone worried about the deflation bogeyman need not be. Maybe next recession.

Spawn of Jekyll Island

In the interest of full disclosure, let's depart economics for a stroll through political history.

Banks, when functioning well, safeguard savings. When one's savings are many millions – even billions – a local bank is way too small; a global bank fits much better. With investments worldwide and influence internationally, its dividends dwarf its interest payments. Mega-banks stabilize fortune, becoming a place to park hundreds of millions of dollars. When big banks control a central bank, risk to fortune is virtually eliminated.

In 1910, the richest financiers of the richest families met in secret on Jekyll Island off the coast of Georgia, not to reform the economy so it would work right for everyone but to curb its mood swings that panicked the very rich. In 1913, the night before recessing for the Christmas break, when few members were still in session, Congress approved their plan to create a central bank. Rather than rename it the "US National Bank," an entity that the popular sentiment had eradicated twice before, financiers christened their corporation the "US Federal Reserve."

Ironically, the Federal Reserve is neither federal nor a reserve. The US president does rubber-stamp each new Chairman of the Reserve and the Fed does pay the Treasury royalties annually. However, the Fed has a corporate charter and stockholders (whose identity is debated). Nor does it keep a reserve of its own cash for a rainy day but rather holds IOUs from lesser banks, corporations, and governments, along with smaller amounts of US notes, foreign currency, and gold.

Some of that gold is not theirs. During the Cold War, West Germany thought it safer to store its tons of gold in the basement of the Fed's New York branch. The Fed was not supposed to count it on its asset sheet or use it in any way. In the late 2010's, well after the collapse of the Soviet

Union, Germany managed to repatriate some its gold from the Fed – but only half.

Ten banks control the twelve branches of the Fed:

Goldman Sachs of New York (which supplies so many Secretaries of the Treasury), JP Morgan Chase Bank of New York, Kuhn Loeb Bank of New York, Lehman Brothers of New York (now amalgamated into Barclay's of London), N.M. Rothchild of London, Rothchild Bank of Berlin, Warburg Bank of Hamburg, Warburg Bank of Amsterdam, Lazard Brothers of Paris, and Israel Moses Seif Bank of Italy.

That arrangement between financiers and government did not sit well with everybody. Back in the Great Depression, one congressman, Louis T. McFadden, having served as Chairman of the Banking and Currency Committee for more than 10 years, brought formal charges against the Board of Governors of the Federal Reserve Bank system, the Comptroller of the Currency, and the Secretary of United States Treasury for numerous criminal acts, including but not limited to, conspiracy, fraud, unlawful conversion, and treason. The petition for Articles of Impeachment was thereafter referred to the Judiciary Committee and has yet to be acted on. (Sort of like Congress illegally refusing to call a Constitutional Convention.)

Who are the stockholders in these money-center banks? This information is guarded closely; queries to bank regulatory agencies are denied on "national security" grounds. Yet many of the banks's stockholders reside in Europe.

What's been ascertained is that the American aristocracy still control the Fed. William Rockefeller, Paul Warburg, Jacob Schiff of Kuhn Loeb, and James Stillman of Citigroup (his family married into the Rockefeller clan at the turn of the century) own large shares of the Fed.

The four major US lenders, Bank of America, JP Morgan Chase, Citigroup, and Wells Fargo, own the four major oil extractors – Exxon Mobil, Royal Dutch/Shell, BP, and Chevron Texaco, in tandem with Deutsche Bank, BNP, Barclays and other European old-money behemoths. Those four big US banks are among the top ten stockholders of virtually every Fortune 500 corporation.

Our Military at Their Beck-and-Call

Who benefits from the Fed? With a central bank as a supposed part of the federal government, the eight richest and best-connected families knotted tighter their financial power to the military and diplomatic might of the US government. If their overseas loans went unpaid, the oligarchs could now deploy US Marines to collect the debts.

Marine Major-General Smedley Butler confessed, "I spent 33 years and four months in active military service and during that period I spent most of my time as a high-class muscle man for Big Business, for Wall Street, and the bankers. In short, I was a racketeer, a gangster for capitalism. I helped make Mexico and especially Tampico safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank boys to collect revenues in. I helped in the raping of half a dozen Central American republics for the benefit of Wall Street. I helped purify Nicaragua for the International Banking House of Brown Brothers in 1902–1912. I brought light to the Dominican Republic for the American sugar interests in 1916. I helped make Honduras right for the American fruit companies in 1903. In China in 1927 I helped see to it that Standard Oil went on its way unmolested. Looking back on it, I might have given Al Capone a few hints. The best he could do was to operate his racket in three districts. I operated on three continents."

Who was Butler? He held the highest rank authorized at that time, and at the time of his death was the most decorated Marine in US history. In 1934 he exposed the Business Plot to overthrow President Franklin D. Roosevelt. He died relatively young at 58.

The bankers who own the Fed lend heavily to munitioneers during war time. They also have a voice in the subsequent peace. At the end of the First World War, Jack Morgan, J. Pierpont's son and successor, presided over the 1919 Paris Peace Conference, which led both German and Allied reconstruction efforts.

The US still backs up big banks and big brokers. In 2012, when a couple of New York speculators demanded that Argentina pay a debt they claimed to have paid, the US Navy detained an Argentinian warship until the cash was transferred. On a bigger scale, all the Muslim nations into which the US military intervened since the fall of the Iron Curtain, before the US went in, had several independent banks; after the US went in, the nation had one central bank. Unlike many disparate banks, one central bank gets integrated into the global banking system.

To cement their ties with the military on the personal level, big banks and big brokers hire retired officers.

The facts above by themselves are not damning. The fact that you have to read them assembled here, may be. The story of the Fed shows how insufficient and misleading, perhaps dishonest, it is to discuss economics while leaving out politics.

Cracking the Fed

Ironically, the US Federal Reserve is not necessary. The market can set lending rates. Competing currencies can reverse inflation. And productive use of land now withheld by speculators can cure unemployment.

It's OK for the Fed to be an umbrella for banks, but to be the lone entity with the power to control currency? And to stonewall inquiries into its bailouts? All could be forgiven if they'd just divulge the worth of Earth in America and the true benefits of ownership privileges.

Petitioning the Fed to release the total value of nature and privilege feels like David vs. Goliath. But if they truly are a public agency as they sometimes claim, they could use their immense resources to calculate and publicize the value of land. But they don't.

The Federal Reserve has outsourced their job (as have many public agencies) of tabulating the value of land. Nowadays they limit their role to being a middleman and introducing curious researchers to the private firm that they, the Fed, uses. For the right price, that firm will provide an answer. Yet if that firm can tally up the rents, the vastly more powerful Fed can, too.

You can see why a programming whiz would be tempted to hack the Fed, though not me. Not because of the rumors that the central bankers play hardball (some theorize they had a hand in assassinations; for me those are dead ends). And not because the Fed has its own oversized and well-equipped police force. And not because the Fed collaborates with the Secret Service, all of which would really chill an interview. But because, first, hacking is snooping, and second, many useful statistics are already available. We ought to be able to cobble together a figure from them.