

## The Federal Reserve Isn't Federal?

What is the Federal Reserve? 'What do they do' as an organization? Are they public and owned by the government, or are they a private corporation? 58% of undergraduate college students at UC San Diego do not know the answer to this question; do you?<sup>i</sup>

The Federal Reserve prints money to enter the US economy, just as you go to work everyday 'for money.' Most individuals do not think about this, but the United States prints money almost every day, adding dollars to the US money supply every month.<sup>ii</sup> This means that each month the value of your money is literally decreasing, in economic terms we call this inflation averaging 2%-3% per year. Coincidentally the average yearly increase for Corporate America is 2%-3% as well; in economic terms this means they are holding your pay constant year over year.<sup>iii</sup>

Janet Yellen is the Federal Reserve Chairman, who took over for Ben Bernake at the end of his term in 2013.<sup>iv</sup> The Federal Reserve Chair'woman', Janet Yellen, is the sole individual in charge of dictating the interest rate for the United States.<sup>v</sup> Right now, the Federal Reserve is paying banks 'interest fees' in order to stop lending money at such low interest rates. Since the Economic Stabilization Act of 2008 after the bail outs, and large flush of money was entered into the economy via big banks that bought the newly printed Federal Reserve Notes. Institutions such as Chase and Bank of America are higher paid interest to hold their money, than to lend it out.<sup>vi</sup> This is the difficulty with raising interest rates after they are dropped to bail out institutions; banks take advantage of their cash with risky investments and have the ability to hurt the economy, just like 2008 and the mortgages.

President Woodrow Wilson established the Federal Reserve in 1913, after the 'Panic of 1907,' for the reason of "establish[ing] a more effective supervision of banking in the United States, and for other purposes." It is "for other purposes' that has an interesting meaning that changes over time. "The Federal Reserve is the Central Bank of the United States that provides the United States with a monetary system."<sup>vii</sup> They 'Key Word' that I would like to highlight here is the word 'Bank.' The Federal Reserve is a Bank, and banks have shareholders that demand profits to increase each year. In fact, before 1913 there were over 47 different type of

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currency circulating in the United States, some redeemable for gold or silver, and others redeemable for a bond, or goods and services.<sup>viii</sup>

'Fractional Reserves' is where the Federal Reserve System really gets interesting, because it allows banks to lend out more money than it has on its books. How is that possible? Well when gold was the standard for the dollar, people would not want to carry their gold around in their pockets because it was heavy. So individuals would go to a bank and ask them to hold their gold, but they would want a receipt for it, and this in essence was the first currency. When the banks began acquiring a lot of gold, only a small percentage from asked for that back each day; therefore banks began lending out some of the extra gold they had "on interest." However, this creates the issue that if everyone at one time tries to get the gold back it will not be possible.

Every year each of us pays our taxes and may get audited, although the chances of an audit are very small, unless you claim over \$10 million Income or \$0 Income.<sup>ix</sup> Large corporations are often audited by on the 'Big Four' institutions with each quarterly posted result. As we have been through, the Federal Reserve is not part of the government, but instead a private institution. Therefore it is logical to believe that the Fed has been audited as well, to prove their financial workings are Kosher; unlike the previous collapses of Enron, Gold Sterns, and the list goes on and on. There are multiple reasons cited by Ben Bernake as to the reasons why the Fed 'cannot' be audited such as "if [the Fed] takes what could be an unpopular step, Congress will order an audit, which would be a way of applying pressure, or perceived as a way of applying pressure, to our policy decisions."<sup>x</sup> However, the Fed has never been audited because the government is not allowed to dictate the correctness of financial policy.<sup>xi</sup> Understanding how an audit would do anything other than make sure their numbers add up after the trillions of dollars of defunct loans they purchased is difficult, until you see the Presidential Candidates of 2016.<sup>xii</sup>

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<sup>i</sup> Brett Blazys study @ UCSD

<sup>ii</sup> <http://www.tradingeconomics.com/united-states/money-supply-m2>

<sup>iii</sup> [http://www.tradingeconomics.com/fact-tank/2014/10/09/for-most-workers-real-](http://www.tradingeconomics.com/fact-tank/2014/10/09/for-most-workers-real-wages-have-barely-budged-for-decades/)

<sup>iii</sup> <http://www.pewresearch.org/fact-tank/2014/10/09/for-most-workers-real-wages-have-barely-budged-for-decades/>

<sup>iv</sup> [https://en.wikipedia.org/wiki/Janet\\_Yellen](https://en.wikipedia.org/wiki/Janet_Yellen)

<sup>v</sup> [https://en.wikipedia.org/wiki/Janet\\_Yellen](https://en.wikipedia.org/wiki/Janet_Yellen)

<sup>vi</sup> <http://www.aljazeera.com/programmes/countingthecost/2016/03/negative-interest-rates-people-paying-banks-hold-money-160312130146372.html>

<sup>vii</sup> <http://www.federalreserve.gov/>

<sup>viii</sup> <https://www.youtube.com/watch?v=5IJeemTQ7Vk>

<sup>ix</sup> <http://www.taxdebthelp.com/tax-problems/tax-audit/irs-audit-statistics>

<sup>x</sup> [http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?\\_r=0](http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?_r=0)

<sup>xi</sup> [http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?\\_r=0](http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?_r=0)

<sup>xii</sup> [http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?\\_r=0](http://dealbook.nytimes.com/2009/12/03/bernanke-criticizes-attempts-to-audit-the-fed/?_r=0)