



The 100-year great Fed experiment

After 100 years of the US central bank, does it deserve another try...?

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So, it will be 100 years on Dec. 23 since the Federal Reserve was born.

The purpose in 1913 was to form a regulatory body to help stem the tide of bank failures in the United States of America. The Fed's proponents, Senator Nelson Aldrich, Senator Owens, Congressman Glass and others, believed that if an agency controlled the flow of money and the banking institutions, it could prevent many of the economic collapses that plagued the early years of the U.S.

Whatever its faults 100 years on, has the Fed at least performed its charter well in actuality?

The establishment of such a power was in no way a unanimous decision. There were many in the government who opposed it, as G.Edward Griffin details in his history of the Fed, [The Creature from Jekyll Island](#). The name itself, the Federal Reserve, was in part intended to address their concerns. Washington avoided calling it a "central bank," because many of the congress were also opposed to the centralization of power, especially monetary control to one agency in the government. So those supporting the central bank concept had to devise a similar method of control, but avoiding the appearance of direct control. That idea gave birth to the [Federal Reserve](#).

The institution created to obfuscate the appearance of a central bank has 12 Reserve Banks across the country, which report up to the higher authorities within the system. This higher authority is the nine member board of directors, of which six are appointed by the 12 district banks themselves and the remaining three are appointed by the Board of Governors.

This of course is a centralization of power. It is apparent that the Board of Governors is the controlling arm of the Federal Reserve. Where do they come from? The Board consists of seven members, appointed by the president of the United States and confirmed by the senate. Each member may hold this position for fourteen years (though the renewable terms are every two years). From among this board, the president also chooses the chairman and vice-chairman which are ultimately the final decision makers.

Voilà! We do have a central bank, yet it has [only been recently that our government has openly admitted](#) that the Federal Reserve is the "central bank" of the United States of America. This agency

literally controls the entire banking system. They have the ability to turn on and off the spigot of cash that flows through the banking network.

Is that control a good or bad thing? Any benefits of the Federal Reserve System have as yet not been proven. Because if we take a look at the economic history of the United States of America over the last 100 years the picture "ain't pretty" as Tony Soprano would say.

Since the inception of the Federal Reserve System 100 years ago, we have been in contraction or prolonged slowdown 38% of the time. Some may say this is a good track record. But in almost half of those 38 years the U.S. had negative growth in gross domestic product.

Thanks to Isaac Newton it is generally believed that what goes up must come down. This is a law of gravity, not economics. As the population grows, the economy should grow as well, as these same new people need to eat but also produce. So why should they suffer such frequent economic decline? [Greed and stupidity](#) often are the real cause of most crises. But these two proclivities do not exist only in the purview of the private sector

Washington Mutual was [the largest bank failure ever in the U.S.](#), collapsing in 2008 with assets of more than \$300 billion. That represented a little over 2% of that year's GDP. This and other notable failures such as Lehman Brothers would help drive the country into a deep recession that we have yet to climb out of. Where was the Federal Reserve before this occurred? The Fed got a lot of credit for rescuing the banking system after the fact. But why didn't they see this coming? If it is their job to mop up during and after a crisis, is it not their job to prevent these calamities too?

This [experiment we call our central bank](#) is also now playing a game it never had before, and the Board of Governors knows it. The unbridled creation of numbers that represent money characterizes a new attempt at economic manipulation that had never been tried before. Many believe that quantitative easing is working. But others, such as [Jim Rogers, believe this artificial growth will collapse](#) around us.

The Federal Reserve System's birthday is Dec. 23, when it will be 100 years old. Yet it is still an experiment. Counterfactual history can't bear such a length of time, but there is no real proof that the Fed's existence has had any more positive effect than alternative outcomes. In fact, many such as the Cato Institute [blame Federal Reserve policies](#) and government banking deregulation, on which the Fed was often consulted, for our current economic crisis. Contrary to the Fed's charter, this not only affects millions of people in the USA but has caused a domino effect around the world.

But accepting the Fed and its power as status quo, the question for the individual becomes how does this system affect your investments or income moving forward? In a world where money is controlled by centralized agencies with ultimate power to create, and thus to destroy value, one might want to seek hard assets beyond their control. This year's drop in gold and silver prices doesn't undo their many thousands of years' use as stores of value, far longer than the US Fed's fiat Dollar. And with the odds basis historical data that there will be another economic crisis inside the next 10 years, many of us today should expect to live through a fresh recession despite the best intentions of the Federal Reserve System's creators 100 years ago.