TML WEEKLY INFORMATION PROJECT

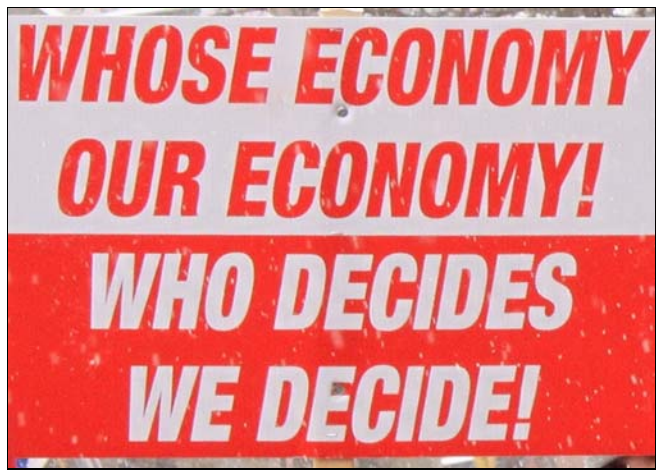
SUPPLEMENT

No. 36 September 26, 2020

The Banking Sector of the Economy

An Important Sector Over Which the Working People Must Exercise Control

- Workers' Centre of CPC(M-L) -



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The Banking Sector of the Economy

An Important Sector Over Which the Working People Must Exercise Control

- Workers' Centre of CPC(M-L) -

Why should banking be considered a private matter to enrich those in control and concentrate money and power in fewer hands? This is an important question.

A key issue is the role of the state at all levels. Should the state and its many institutions serve the people or a tiny minority of rich oligarchs? With food insecurity now a serious issue facing one in eight people; unemployment, poverty and homelessness constant threats; governments incapable of mobilizing the people and science to bring the pandemic under control; and racial and other forms of inequality and injustice plaguing the society, people are questioning the reactionary role of the state and its authority within the conditions that have developed.

Does the state at all levels, as the most important and powerful institution, not have a social responsibility to ensure the well-being of all? Would that not include the broad functioning of the economy in a manner that serves the public interest and not simply a select wealthy privileged few?

The imperialist system in both the U.S. and Canada gives state-sanctioned private banks the social responsibility of creating new money and moving it into the economy as credit. This broad social responsibility to increase the money supply and supply credit to meet the needs of the economy and people comes into contradiction with the narrow aim of private banks to make maximum profit for their private owners.

This contradiction between a private aim and social responsibility exists throughout the imperialist economy. This unresolved contradiction is a leading reason for the recurring economic crises and the inability of the imperialist economy to mobilize the tremendous productive power of modern industrial mass production to meet the needs of the people and guarantee their rights and well-being.

State-Sanctioned Banking to Pay the Rich

In assessing the role of the state within the banking sector and the important role of providing credit and creating new money the reality is clear: the state has awarded positions of power to private enterprises and individuals that use their state-sanctioned privilege for private gain. Those in control of the banking sector act with impunity to serve their narrow private interests and are not held to account for their actions. They refuse to uphold social responsibility as a matter of course, as they consider banking a private matter to enrich those in control and concentrate money and power in fewer hands.

The working people take an opposing view and demand change. Banking and the provision of credit and creation of the money supply are a public matter and entail broad social responsibility. Banking in a modern economy is a necessary public infrastructure or utility required for the proper functioning of the economy in the production and distribution of the goods and services the working class produces to meet the needs of the people.

The banking sector controls the creation of a national money supply at an appropriate level to serve the extended reproduction of the economy in conformity with the growth and development of the productive forces and the actual and potential amount of social product. Further, banks are meant to provide a safe place for people and businesses to keep their savings and for the use of those savings for nation-building to serve the local and national economy. These tasks cannot and should not be considered private responsibilities with the aim of enriching a privileged few.

Banking is a necessary infrastructure that carries important social responsibilities for the well-being of all and society. How to uphold social responsibility on all fronts and in new forms necessary to fulfil their roles are important issues to be discussed for all the different sectors of the economy and politics.

The old forms and aim that arose with the origin of the country, constitution and economy are obsolete. New political, economic, social and constitutional forms, institutions and authority are necessary that are in conformity with a modern economy and country of industrial mass production where the productive forces are completely socialized and workers who sell their capacity to work and produce the social product constitute the vast majority of the people.

Within the modern world and conditions that have developed, working people demand their rights, as they must. They demand an authority in conformity with the modern conditions; they require control over the political and economic power so as to deal effectively with those affairs that affect their lives and in ways that favour the people. Banking is an important sector over which the working people must exercise control.

The people are determined to bring into being new forms that conform to the socialized nature of the basic economy, how they acquire their living, and how they relate to one another and to nature. Modern forms must serve the broad public interest, uphold social responsibility, and have an aim to guarantee the rights and well-being of the people.

The banking and credit system is a sector that needs immediate and radical reform. The old form of state-sanctioned private banks holding the savings of the people and businesses, providing credit throughout the economy, and creating the money supply, has degenerated into parasitism and decay. Private banking has become a form of paying the rich, which plays a negative destructive role in the economy and the lives of the people.

Private banking and its aim of maximum profit for the few have become factors contributing to recurring economic crises and the further concentration of wealth and power in fewer hands. Private control of banking is part of the overall pay-the-rich economy. The ruling oligarchy uses its control of banking to block and deprive the people of the power and control they need to deal with the issues that affect their lives and to take action to solve the mounting economic, social and natural problems facing the country and the world.

State-sanctioned private banking reflects the contradiction between the conditions that have changed and an authority that has not. The resolution of this contradiction requires the renewal of the democracy with equality for all members of the polity at the core, the development of friendly peaceful relations with all humanity, and the humanization of the social and natural environment.

Fighting consciously on all fronts for a new pro-social direction for the economy and country brings to the fore the human factor and democratic personality necessary to resolve the contradiction.

The Banking and Credit System Must Become a Public Utility in the Service of the People and Under Their Control

The contradiction in the economy between the state-sanctioned private aim for maximum profit and the need for social responsibility to serve the people and society is starkly evident in the banking system. People are discussing and coming to the realization that the banking system must be torn from the clutches of the imperialist oligarchs. How to deprive the rich of their power over banking and to organize to make this reform of the economy permanent are major concerns of the movement for the New. Bringing into being a public banking system that upholds its social responsibilities to the economy, people and society is an important part of the overall struggle to build the New in opposition to imperialism.

For Your Information

U.S. Institute for Public Banking Demands Banking Become a Public Utility

Activists in the United States are discussing and taking action on the issue of the regressive destructive role of the state-sanctioned private banks. Organizations such as the Public Banking Institute are demanding a new pro-social direction for the economy and, in this instance, the banking sector. They are speaking of the necessity for banking to be recognized as a public utility with a modern aim to serve the public interest and uphold social responsibility in all its affairs.

No one can deny that the people of the United States are facing enormous challenges to move their country in a new direction. The unending aggressive wars abroad, social despair at home amid economic collapse and increasing poverty and a failure of governments at all levels to mobilize the people to control the pandemic pose difficult questions for all on how to organize effectively to move society forward in a new pro-social direction.

According to its website, the Public Banking Institute in the U.S. "was formed in January 2011 and is a national educational non-profit organization working to achieve the implementation of Public Banking at all levels of the American economy and government: local, regional, state, and national. [...] Our current private banking system has presided over the greatest concentration of wealth in human history, while the vast majority of America and the world has endured stagnant wages, declining wealth, and recurring recessions."

The founder of the Public Banking Institute, Ellen Brown, writes, "Shock waves from one Wall Street scandal after another have completely disillusioned us with our banking system; yet we cannot do without banks. Nearly all money today is simply bank credit. Economies run on it, and it is created when banks make loans. The main flaw in the current model is that private profiteers have acquired control of the credit spigots. They can cut off the flow, direct it to their cronies, and manipulate it for personal gain at the expense of the producing economy. The benefits of bank credit can be maintained while eliminating these flaws, through a system of banks operated as public utilities, serving the public interest and returning their profits to the public."

Brown writes, "The advantages of public over private banking are not rocket science. A government that owns its own bank can keep the interest and reinvest it locally, resulting in potential public savings of 35 per cent to 40 per cent. Costs can be reduced across the board; taxes can be cut or services increased; and market stability can be created for governments, borrowers and consumers. Banking and credit become public utilities, sustaining the economy rather than mining it for private gain."

Under discussion is the concept that banking should be considered a public utility to be owned and managed by a public institution with the mandate and social responsibility to serve the public interest, with branches throughout the country and an authority accountable to the people. Money creation should be a public function with the social responsibility falling to the public banks. Enterprises and individuals with excess money could lend out the amounts they have but not create new money as the state-sanctioned U.S. commercial banks and Canadian chartered banks now do.

With the creation of public banks, working people and their allies in the middle strata and small and medium-sized businesses would be encouraged to keep their money and savings in public banks and not funnel them into the hands of private financial enterprises. Workers in particular should demand and direct their pension and mutual funds be held within public banks that have the mandate and aim to serve the public interest, economy and society. The creation of public banks is a front in the movement to stop paying the rich and to increase investments in social programs, public services and public enterprise.

(With files from ellenbrown.com and publicbankinginstitute.org)

The New International Financial Institution for U.S. Expansion

- Ansonith Albano -

In the framework of the institutional transformations that the United States is advancing to regain global hegemony, in January 2020 it launched the so-called International Development Finance Corporation (DFC), as the new agency that will control the necessary financing for its repositioning in the world.

The intention to modernize the international development financing scheme is contained in the new National Security Strategy (NSS), promulgated at the end of 2017, and where it states that the United States must arm itself with new tools to face the growing influence of China and other powers on the international scene.

The NSS recognizes that the United States has been losing the battle for that global pre-eminence, and provides orientation to the formation of the new financing scheme, understanding that this action will be essential to update its geopolitical position. The questioning that the document makes of the situation of U.S. hegemony is linked to its inability to offer fair and attractive trade relations, in contrast to what China has been achieving, especially in Latin America and the Caribbean. "Today, the United States must compete for positive relationships around the world.

China and Russia direct their investments in the world to expand their influence and gain competitive advantages against the United States," reiterates the NSS.

China and its promotion of a multi-polar world is defined in the NSS as the greatest threat to the objectives of the United States. And from this criterion, the NSS states that this country must use a new methodology for international financing, prioritizing the promotion of private capital over areas that contribute to the great objectives of imperial foreign policy.

The new U.S. national security doctrine proposes that the new DFC should openly confront the China Belt and Road initiative,[1] and at the same time, favour the expansion of U.S. private capital, to foster new alliances and strengthen existing ones: "The United States can play a catalytic role in promoting economic growth, led by the private sector," the document clarifies.

The legal initiative that creates the DFC, approved by consensus by Republicans and Democrats, merges the former Overseas Private Investment Corporation (OPIC), and the Development Credit Authority (DCA), belonging to USAID, in a supra development aid agency, the largest and most important created in that country.

To materialize this geopolitical operation, the DFC will manage some U.S.$60 billion, doubling the financial capacity of its predecessor OPIC. The new corporation will also assume the management of the credit portfolios of OPIC and DCA; that is, it starts its work, managing just under U.S.$30 billion, distributed in a variety of projects around the world.

The legislation provided the DFC with innovative financial tools, which guarantee it greater flexibility in its new role, and prioritizing its line of action, in the investment in energy and infrastructure projects, contained in the following regional initiatives arranged by the United States for its geopolitical repositioning: Connect Africa, 2X Women's Initiative, Feed the Future, América Crece [America Grows], Indo-Pacific Strategy, U.S.-India Development Foundation and, European Energy Security and Diversification.

From this perspective, in December 2019 the United States government launched the "America Grows" initiative as the response of Donald Trump's government to the significant progress made by China and Russia on the continent.

In recent years, Latin American and Caribbean countries have deepened their economic relations with China, establishing more and more agreements and trade flows with the Asian nation. According to a 2018 World Economic Forum report, China displaced the United States as the main trading partner of Argentina, Brazil, Chile, Peru and Uruguay, and has invested more than $110 billion in government projects across the region. The report highlights the peculiarity that Chinese banks refrain from imposing political conditions on the governments receiving loans.

In this scenario, which envisions a transition of the political, economic, and cultural order in Latin America and the Caribbean, the United States raises the America Grows initiative, as an updated implementation of the old Monroe Doctrine.

Among other things, with the implementation of the America Grows initiative, the United States seeks to change the energy matrix of the Caribbean region, in order to redirect its growing surpluses of liquefied natural gas (LNG) there. The International Energy Agency (IEA) noted in a report dated November 2017, that in 2025, the United States will become the world's largest exporter of LNG, from the extraction of shale gas on its territory. A substantial core of the projects, contained in the America Grows initiative, reflects the intention of the United States to move its gas surpluses to the Caribbean region.

On July 21, 2020, the United States and Honduras signed a memorandum of understanding, in which the Central American country formalizes its incorporation into the America Grows initiative, with the promise of investment of U.S.$1 billion, in private projects, during the next three years, prioritizing the energy issue: "Our focus will be on projects to strengthen the country's infrastructure, advance digital connectivity, strengthen the health sector, expand financial services, and help lay the foundations for a more prosperous future," declared the Executive Director of the DFC Adam Boehler during the signing of the document, which was attended virtually by the Honduran President Juan Orlando Hernández.

The document, negotiated between the United States and Honduras, adopts reference points from the agreements already signed with Panama, Chile, Argentina, Jamaica, Colombia, Brazil, Peru, and El Salvador, and establishes the legal framework of reference for future financial actions of the DFC in Latin America and the Caribbean.

Unlike the type of financing that China provides to Latin American and Caribbean countries, where national projects are prioritized, and the capacities of governments are strengthened to generate higher levels of well-being for the population, the action of the DFC would reinforce economic dependence and the expansion of U.S. private capital, commodifying the phenomenon of development assistance.

The configuration of the DFC as the new financial body of U.S. foreign policy has generated enthusiasm in anti-Chinese conservative groups. On August 14, 2020, Senators Marco Rubio (Republican) and Bob Menéndez (Democrat), characterized by their extremist positions against sovereign governments in Latin America and the Caribbean, presented the bill entitled *Advancing Competitiveness, Transparency and Security in the Americas Act* (ACTSA). According to the initiative presented, the bipartisan proposal would seek, on the one hand, to strengthen the economic competitiveness of the United States, and on the other, to criminalize China's political and commercial presence in the region. "China's goal is to use economic power to displace the U.S. I am proud to join Senator Menéndez in presenting this project, which seeks to strengthen our economic capacity, to counter the growing evil influence of Beijing in Latin America and the Caribbean," Senator Rubio pointed out on his social networks. The ACTSA project involves the new DFC, and will propose, for the approval of Congress, that 35 per cent of the financial budget of said agency be dedicated to the region during the next 10 years.

The DFC's agenda, since the formal start of its operations on January 2 of this year, has been affected by the institutional rearrangement, the capture of human capital that will make the work of this body effective, and, of course, the consequences of the COVID-19 pandemic.

However, its Executive Director Adam Boehler, a young businessman linked to the provision of health services who graduated in 2000 in economics from the University of Pennsylvania, has wasted no time and has established work meetings with different characters and officials of Latin America and the Caribbean, carrying the promise of the Trump administration to generate large investments for the projects that may be presented to this institution.

Before the end of 2019, he visited the Colombian President, Iván Duque, in Cartagena, where he confirmed that his agency will promote efforts that guarantee the financing of the largest number of projects, especially in energy and infrastructure. He also held meetings with the same discursive criteria, with President Nayib Bukele from El Salvador, Juan Orlando Hernández from Honduras, Alejandro Giammattei from Guatemala, and Mexican Foreign Minister Marcelo Ebrard with whom he signed a letter of intent to finance a gas pipeline, which will be built by the company Rassini

SAB de CV in the southern states of the country, for U.S.$632 million.

As the new agenda of the DFC is proposed, based on the guidelines set forth in the U.S. National Security Strategy, it could contribute to the deepening of political instability in the region, and even more explosive scenarios, with the intensification of economic inequality, inequity in the distribution of resources, and political dependence.

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TML Note

1. The Belt and Road Initiative is a global infrastructure development strategy adopted by the Chinese government in 2013 to invest in nearly 70 countries and international organizations. Its stated aim is to strengthen China's connectivity with the world. It combines new and old projects, covers an expansive geographic scope, and includes efforts to strengthen hard infrastructure, soft infrastructure, and cultural ties. Originally called One Belt, One Road it is a Chinese economic and strategic agenda by which the two ends of Eurasia, as well as Africa and Oceania, are being more closely tied along two routes -- one overland and one maritime.

(ALAI, September 9, 2020. Translated from original Spanish by TML.)

How Was the World Bank Formed? A Brief History

Signing of the agreement founding the World Bank, December 27, 1945.

The following is an excerpt from an article by Gustavo Castro Soto, Chiapas al Dia Bulletin, *May 8, 2002, No. 289.*

Together with the International Monetary Fund (IMF), the World Bank (WB) was formed in 1945 with the participation of 38 countries -- it now has 181 member countries. The WB was formed with the principal goal of boosting the economies of the European countries that participated in World War II and that ended up destroyed and impoverished. Among these countries were France, Germany, Japan, Italy, the United Kingdom and others. France was the first country to receive a loan for the equivalent of $250,000,000 at the time. Later, loans were given to Chile, Japan and Germany, among many other countries. Bit by bit the WB Group was formed, composed of diverse types of banks for diverse types of loans. Since its foundation, the WB has had profits each year from the payment of interest, speculation on the stock exchange and for the fees that the governments must pay to be members and thus have a right to request loans from the bank. For example, in 1970 the WB lent out $2 billion and two years later in 1972 it lent out $3 billion and then $10 billion in 1979.

The debt of the poorest countries or those in the process of developing reached such height that the WB began to lend these governments money to pay the interest on their original debts to the WB. In 1980, the owners of the WB took advantage of these debts to grant Turkey a loan of $200,000,000 under the severe conditions of the so called Structural Adjustment Program (SAP), the function of which will be explained later. For the year 1990, Mexico received the largest loan ever granted for a total amount of $1,260,000,000 in order to pay its external debt. In 1992, Switzerland, the Russian Federation and twelve republics of the former Soviet Union became part of the WB.

The protests and pressure against the WB, its Structural Adjustment Programs and it debt policies were such that, in 1994 the Public Information Centre was opened so that citizens could obtain information about the projects that the WB was carrying out in different nations. In 1997, Uganda was the first country to which the Heavily Indebted Poor Countries (HIPC) Initiative was applied. Part of Uganda's debt with the WB would be pardoned in exchange for the application of the very extreme policies of structural adjustment. However, this pardon will take place years after these changes have been in effect.

What Institutions Make Up the WB Group?

The WB Group is made up of five institutions:

1) *The International Bank for Reconstruction and Development* (IBRD): This was the first WB institution created in 1946. It grants loans to countries with average incomes and to the poorest nations which are able to pay their debts and low interest rates but at the cost of other conditions which impoverish nations. For this reason, their external debts are now unsustainable. The majority of its funds come from international capital markets (speculation on the stock exchange). The number of votes held by its members is according to the member's economic contribution and its offices are in the country that contributes the most money. That is to say that the U.S. both hosts and operates this institution. The loans and low interest should be repaid within 15 to 20 years. All of the countries have been obliged to pay on time. If a country wants to be a member of the IBRD, it must pay into the IMF which also controls the economies of the nations. The IBRD consists of 181 member countries. Mexico became part of the IBRD in 1945 and it is from this bank that it receives its loans.

2) *The International Development Association* (IDA): Formed in 1960, the IDA gives loans to the poorest nations -- those that do not have resources and hence, only pay a commission (less than 1 per cent) for administrative costs. The loan should be paid back over a 35-40-year time period with the first payment being made after 10 years. Not one country has delayed its debt. The money comes mainly from the U.S., France, Japan, the United Kingdom and Germany, and other developing countries such as Argentina, Brazil, Hungary, Botswana, Korea, Turkey and Russia. There are almost 40 countries that contribute to this fund and they recover their contributions every three years. In the past few years, the IDA's funds have represented 25 per cent of the total resources of the WB. If a country wishes to join the IDA, it must be a member of the IBRD and it must pay its fee. The IDA presently has 160 member countries. Mexico joined the IDA in 1961 though it does not actually fit the bill of an impoverished country since, according to the WB, Mexico has the 13th largest economy in the world. Only a very few countries are categorized as being very poor. Such is the case for Haiti, Bolivia, Honduras and El Salvador.

3) *The International Finance Corporation* (IFC): The IFC was created in 1956 to lend money to companies with the goal of promoting foreign investment after World War II. If a country wants to

join the IFC, it must be a member of the IBRD, and to join the IBRD, it must be a member of the IMF. The IFC has loaned funds to about two thousand companies in 129 countries. In 1999 alone, the IFC lent $5,280,000,000 to companies. The IFC has a membership of 174 countries.

4) *The Multilateral Investment Guarantee Agency* (MIGA): MIGA was created in 1988 and it provides security for company investments in the event that wars, civil unrest or terrorism arise or if a government does not comply with the rules of the market or if it expropriates goods that affect investment. This is another way in which the poor governments benefit companies in that these governments must repay MIGA the money that was given out to the insured companies for losses. For this reason, not all countries want to accept that there are political conflicts within their borders. MIGA offers insurance to countries for no more than $225,000,000 at a rate of $50,000,000 of insurance per company project. Until now, MIGA has provided insurance to no more than 300 companies in 52 countries and not one has had to collect its insurance. Given that both MIGA and the IFC offer loans to companies, they do not give out much public information and society does not have the power to influence the projects that it supports nor to evaluate their impacts. MIGA has 151 countries as members.

5) *The International Centre for Settlement of Investment Disputes* (ICSID): The ICSID was created in 1966 to resolve the differences and conflicts that arise between foreign investors and the national governments where the investment is taking place. It has 131 member countries. Although this allows companies to secure their investments (i.e., they can procure compensation from the government via insurance), Indigenous peoples, campesinos and the general population have no insurance against the damage caused by WB projects.

Who Is the Owner of the WB?

Although one might suppose that all of the member countries are the "owners" of the WB, the five most important shareholder countries are the real owners. Among these shareholders are: the United States (which contributes 16.98 per cent of the WB funds), followed by Japan (6.24%), Germany (4.82%), France (4.62%) and the United Kingdom (4.62$). These five nations, along with Canada and Italy make up the G7. Obviously, the one that contributes the most, has the greatest influence over the decisions that are made.

What Is the Structure of the WB?

The Board of Governors meets once a year (September or October) and is made up of the government representatives from the 181 member countries. At this meeting, nothing is decided. It is an information meeting only. Later, the 181 countries divide into 24 Executive Directors according to their economic contribution to the WB. The United States, Germany, France, Japan and the United Kingdom each have their own post and they have the greatest weight in the making of decisions. The remaining 176 countries make up the rest of the 19 groups in such as way that the sum of their economic contributions equals one vote. In these latter groups, countries take turns representing their group. Mexico shares its Executive Director post with eight other countries -- El Salvador, Costa Rica, Guatemala, Nicaragua, Panama, Honduras, Venezuela and Spain. Some of these countries will also share in the Plan Puebla-Panama.

The Executive Directorate names the president of the WB. This position is always filled by the country that contributes the most economically to the WB and is renewed every five years. Hence, the United States always occupies this position. The current WB president is James Wolfensohn. There are also six regional vice-presidents: East Asia and the Pacific, South Asia, Europe and Central Asia, Middle East and North Africa, Africa Sub-Saharan and, Latin America and the Caribbean. As well, there are four sector vice-presidents. The WB employs around 6,000 people around the world.

Where Are the Offices of the WB?

In addition to the main offices in Washington, DC, USA, there are 67 offices in total throughout the world and 25 per cent of them are in Latin America. In Latin America there are 17 offices in 15 countries: Mexico, Jamaica, Haiti, Guatemala, Honduras, Venezuela, Nicaragua, Costa Rica, Colombia, Ecuador, Peru, Bolivia, Paraguay, and Argentina and there are three offices in Brazil.

Where Does the WB Get Its Money?

The main source of money is from the personal taxes and other public funds that governments collect and then use to pay their WB fee. This makes them WB members and hence, they are able to solicit WB loans. As well, the WB makes a lot of money from stock exchange speculation -- money that does not generate employment and that is not taxable. Finally, the foreign debts that have been created in many countries are so great that the WB makes easy money from the interest paid by these indebted governments.

How Does the WB Lend Money?

The WB is the largest financial institution in the world and each year it loans out around $30 billion to its client governments and companies. The WB states that it wants "to fight poverty with passion..." and it promises loans with low interest rates. Nonetheless the number of people who now live in poverty, with less than two dollars a day to live on, is at three billion and growing. How is it then that the WB states that it has combatted poverty for the past 50 years of the WB's existence? The key to understanding this is in the other conditions that the WB imposes on those who ask for a loan under the Structural Adjustment Program. As with all banks, the WB is a bank intent on doing good financial business, as they themselves acknowledge. It is not a humanitarian bank nor a charity and much less a bank to distribute the wealth of the world.

The SAPs that the WB imposes as a condition on those governments that are granted money, consist of adjusting the economic and political structure of the nations with the goal of adapting the country to the free market and to liberal macroeconomic policies, thus, facilitating the investment of transnational capital from the most powerful companies in the world. If, with one hand they "lend" money to the poorest nations via the IDA, with the other hand they demand that severe measures be taken to benefit their economies, their companies and to secure their investments with the MIGA.

The severe measures of the WB's SAPs are made in close coordination with the IMF, with the goal of increased economic liberalization and reform. Thus, loans are made with the conditions that governments carry out the following:

1) Privatize the companies, institutions and other areas controlled by the government (in Mexico -- CONASUPO, telephones, highways, mines, ports, airports, gas, petroleum, natural resources, water, electrical energy, education, health care, research centres, etc). This leaves investors with a monopoly on basic services, in addition to generating unemployment and leaving the state without resources.

2) Eliminate subsidies and liberate price controls (on corn, social programs for the poorest sectors, etc.). The companies argue that subsidies for only some are unfair, that it is not equitable, etc. However this would cause more poverty, migration, an increase in the price of basic products, etc.

3) Eliminate or reduce social costs (health care, education, services, etc). Companies argue that private investment will be responsible for the distribution of these services to people. For its part, the WB wants to be certain that the government will have money to pay its debt.

4) Adjust laws and rules to eliminate obstacles for transnational companies (labour laws, investment laws, etc).

5) Strengthen the judicial systems to give security to investments, combat corruption, etc.

6) Assure property rights with the goal being that companies have legal security regarding land ownership.

7) Free the market by eliminating duties on imports and all mechanisms (administrative, legal and economic) that impede exportation and importation of goods.

8) Devalue the national currency.

In the event that a government is complying with the SAP, the WB pays, bit by bit, the rest of the loan. The WB also lends to areas that will benefit foreign investment -- these are called sector adjustment loans. In this way the WB loans money to a country to improve the highway infrastructure necessary for businesses; to improve railways and other companies that it might later demand be privatized; to endow an industrial park with the infrastructure necessary for investment; to do feasibility studies for investors; to allow a government to modify its laws in such a way as to benefit the free market and/or to execute privatizations; to pay the same WB and/or other loaning institutions the money that it owes; to modify property laws with the goal that the government is guaranteed more taxes for paying the debt; etc.

The WB has loaned money to those countries that have had to pay compensation to the workers and employees that were dismissed from their jobs when state companies were closed or privatized. Nonetheless, when the government has to pay back this loan, the cost for the compensated unemployed is the trimming of other subsidies and services as part of the Structural Adjustment with which the government is obliged to comply.

Each year, the WB promises more loans for the Structural Adjustment of countries (more than 65 per cent of its funds in recent years) and for the payment of interest and capital that is owed to them by these same clients. Less money goes towards development projects, specific investments and aid to the poorest nations. To these, the poorest nations, the WB offers to pardon their debts years after they have put into place the severe measures of Structural Adjustment. In this way, the IDA takes the lead in promising loans for business development in Latin America. Society, of course, is not able to check out such projects, to examine their impacts and success because such loans are for private initiatives. We recall that at the first Summit of the Americas carried out in 1994 to form the Free Trade Area of the Americas (FTAA), the governments of the continent mandated that the IDA be in charge of returning more and more funds to the WB as regards financing of businesses and governments.

Who Pays the Consequences?

To avoid having its policies exacerbate misery, the WB grants loans to cushion poverty's blow. The "Advisory Group for Aid to the Poorest lends support to financial institutions that grant loans, generally between $50-$100, and usually for women, to assist them in starting up small businesses such as the production of clothing, artesania and milk." This demonstrates an intention to keep the labour of the poorest at a subsistence level but it does not make them competitive in the international market. The interests behind the WB will never permit that their assistance leads to their own death: competition.

During the 1980s, the policies of the WB created alarming conditions of poverty. In its 1990 Report on World Development, the WB proposed to reduce the number of poor in the world to 300 million by the year 2000; but it didn't take long for them to realize that it would be the opposite. In 1994 the WB confirmed that the measures of economic stabilization and adjustment had not overcome illiteracy, malnutrition and growing misery; and, now there were 219 million more poor people in the world.

The WB recently confirmed that of the 4.7 billion people living in the 100 client countries of the WB: 3 billion people live on less than two dollars a day; ... 130 million children do not attend primary school (80 per cent of these children are girls); 1.3 billion lack drinking water. Moreover, it stated that, "...the increase in poverty can produce adverse effects in the wealthier nations, decreasing their markets and investment opportunities ...."

Given the social complaints against the sharpening impoverishment of women in the world, in 1994 the WB published its first document about gender policy. For this to happen many years had to pass and millions of women and children had to lose their lives to poverty. In 1995, the WB carried out an evaluation of its projects and it concluded that, "about one-third of the projects (33%) financed by the WB, once completed, had been categorized as "unsatisfactory" by the Operations Evaluation Department. And the failure rate (33%), had stayed at this level for five years." It added that, "the global results after 20 years of this monitoring and evaluation initiative have been disappointing ... and have been characterized by a lack of completion." Among other lamentable things is the fact that this poverty that the WB has provoked is subsidized by the same taxes taken from the increasingly poor. In other words, the poor provide the money to make them even poorer.

In general we can say that there are three positions regarding the WB:

1) Those that consider the WB to be contributing effectively to development and to the fight against poverty in the world and who believe that the WB's projects are effective. This position is one that even the officials of the WB don't dare defend.

2) Those that consider that, although the WB is the body structurally responsible for poverty, it is possible to influence and even pressure the WB on its policies at a high level and, from below to monitor and evaluate their projects, demanding the incorporation of better policies and citizen participation.

3) Those that consider that, even though it is necessary to influence the policies of the WB, in the end it will continue to put forward the neo-liberal model and generate more structural poverty. For this reason, the WB should disappear and resign itself to other world mechanisms in a new economic model that balances justice with a real distribution of wealth.

And you, what do you think?

Chiapas al Dia Bulletin was a publication of the Centre for Economic and Political Investigations of Community Action of Chiapas (CIEPAC). CIEPAC was a member of the Movement for Democracy and Life (MDV) of Chiapas, the Mexican Network of Action Against Free Trade (RMALC).

(Translated from original Spanish by TML.)

U.S. Federal Reserve System

- K.C. Adams -

Originally published in TML Daily, July 3, 2002.

The U.S. Federal Reserve System (Fed) was established as a federal government agency in 1913 by an act of Congress. The Fed consists of a Board of Governors (BoG) in Washington and twelve Reserve Banks situated throughout the country. The BoG overseas all the operations of the Fed including the twelve Reserve Banks. The most important bank with the greatest responsibilities is the Federal Reserve Bank of New York. The Board of Governors consists of seven members appointed by the President of the United States and confirmed by the U.S. Senate. The full term of a Board member is fourteen years; the Chairman and the Vice Chairman of the Board are also appointed by the President, confirmed by the Senate and must be members of the Board. A Washington staff numbering about 1,700 supports the Board of Governors.

Shareholders privately own the twelve Reserve Banks. The shares are owned by banks that are members of the federal reserve system. Member banks must subscribe to stock in their regional Federal Reserve Bank in an amount at least equal to 3 per cent of their capital and surplus. The holding of this stock is a legal obligation that goes along with membership, and the stock may not be sold or pledged as collateral for loans. Member banks receive a 6 per cent dividend annually on their stock, as specified by law, and vote for the Class A and Class B directors of the Reserve Bank in their district. The BoG appoints Class C directors. The stock is not available for purchase by individuals.

The presidents and directors of the Reserve Banks are powerful members of the Fed, holding key positions on committees that decide U.S. fiscal and monetary policy. They also participate in selecting nominees to the BoG. Studies that chart the history of Reserve Bank directorships and members of the BoG since 1913 reveal a "who's who" of the U.S. (and European) financial and industrial elite. (See charts below) The most powerful families of the financial oligarchy were responsible for the original design of the Fed and at its inception manoeuvred to own a controlling interest of stock in the Reserve Banks.

The Fed is a powerful arm of the U.S. capitalist state controlled directly by the richest families. It is only marginally accountable to elected representatives. The Fed is somewhat unusual as a U.S. state institution as it makes no attempt to hide its control by the monopoly capitalist class. Most state institutions try to create an illusion of being above classes, operating in the interests of all the people regardless of social class -- not the Fed. The most powerful U.S. capitalists have never allowed any interference with the workings of the Fed. Most proceedings of the BoG and the Reserve Banks are secret even from Congress and the Executive Branch. Only a small sector of its financial accounts are subject to audit by the General Accounting Office (GAO) and its decisions cannot be overturned by the President, the Senate or House of Representatives. The Chairman of the BoG routinely reports to a Senate Oversight Committee and publishes reports on the activities and decisions of the Fed but that is about the extent of elected political contact. The Congress usually receives the Chairman of the BoG as a paramount leader with such influence that no individual or group dare criticise him. The Fed is extremely profitably in its own right returning 95 per cent of its earnings after expenses to the U.S. Treasury. Only five per cent of earnings is needed to pay the established annual six per cent dividend to shareholders of the Reserve Banks.

Activities of the Federal Reserve System

The Fed conducts U.S. monetary policy, distributes currency within the U.S. and abroad, operates a payments system, supervises the banking industry, has international responsibilities and serves as central banker for the U.S. Treasury.

The Fed's activities fall into four general areas:

1) Conducting the nation's monetary and economic policy by influencing the money and credit conditions in the economy;

2) Supervising and regulating banking institutions;

3) Maintaining the stability of the financial system and containing systemic risk (collapse) that may arise in financial markets and monopolies; and

4) Providing certain financial services to the U.S. government, to the public, to financial institutions, and to foreign official institutions, including playing a major role in operating the nation's payments system.

Monetary Policy

The Federal Reserve System conducts monetary policy using three major tools:

1) Open market operations-the buying and selling of U.S. government (mainly Treasury) securities in the open market to influence the level of reserves in the depository system;

2) Reserve requirements-deciding the amount of funds commercial banks and other depository institutions must hold in reserve against deposits;

3) Discount rate-the interest rate charged commercial banks and other depository institutions when they borrow reserves from a regional Federal Reserve Bank.

These activities all influence and control the amount of money circulating within the U.S. economy and abroad, the amount of hard currency and coins needed at home and abroad, the level of borrowing, the foreign exchange rate and the credit rate. Monetary policy also affects economic activity generally, prices of most commodities, the real income of the working class, the purchasing power of consumers and the level of capital flowing from within the U.S. and abroad into the stock markets, bonds or other interest bearing securities.

Federal Open Market Committee

The Federal Open Market Committee (FOMC) consists of twelve members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and, for the remaining four memberships, which carry a one-year term, a rotating selection of the presidents of the eleven other Reserve Banks. The FOMC holds eight regularly scheduled meetings per year to direct the conduct of open market operations by the Federal Reserve Bank of New York. The FOMC is charged under law with overseeing open market operations, the principal tool of national monetary policy. These operations influence the amount of reserves available to depository institutions, the amount of money in the economy and interest rates. The FOMC sets ranges for the growth of the monetary aggregates and directs operations undertaken by the Fed in foreign exchange markets. Decisions in the FOMC directly influence money market conditions and the growth or contraction of money and credit. The actions of the Fed affect the volume of money and credit and their price-interest rates, thus influencing the level of prices generally in the economy.

Controlling "Systemic" Disruptions

The Fed is charged by the ruling class with containing wide-scale "systemic" (complete) disruptions, such as those that can occur during a plunge in stock prices, recession at home or abroad or the serious difficulties of a monopoly such as the Long-term Capital Management in

1998, a hedge fund with great influence in the Fed. Monopolies are a combination of banking and industrial capital and through their financial arm have direct access to the resources of the Fed. If a threatening disturbance develops, the Fed can sometimes cushion its effects on the monopoly or monopolies involved, the financial markets and the economy by providing liquidity through its monetary policy tools, mainly capital to cover debts of a troubled monopoly or monopolies. Covering shortfalls of capital by a monopoly within a federal reserve bank are highly guarded secrets and extremely difficult to confirm. Even borrowing by financial institutions at the Fed discount window is secret. In order to contain rumours, no accounting of Fed monetary actions is allowed by any other state agency including the powerful General Accounting Office. The Fed argues that secrecy is important, as the stock price of a monopoly would fall if emergency borrowing were confirmed, or worse, a panic removal of deposits from financial institutions may occur as happened in Argentina. The ability to provide almost unlimited emergency capital to financial institutions has made the Fed one of the most powerful and influential agencies in the United States. Control of the Fed and its most important decisions by certain wealthy families has guaranteed their leading position within the U.S. ruling class. A monopoly's relations, good or bad, with the BoG, especially its chairman and the president of the Reserve Bank of New York, may determine its survival or demise during a crisis. This may explain the dearth of criticism of the Fed by official political circles or academics even though the Fed is grossly undemocratic by modern standards and unaccountable to the people in any way, shape or form.

The Reserves Market

The Fed's policies influence the demand for or supply of reserves at banks and other depository institutions. The demand for reserves has two components: required reserves and excess reserves. Congress expanded the Fed's role in the payment system with the enactment of the *Monetary Control Act* of 1980 (MCA). The MCA subjected all depository institutions, not just member banks, to reserve requirements and also gave all depository institutions access to the Federal Reserve's payment services. All depository institutions-commercial banks, saving banks, savings and loan associations, and credit unions-must retain a percentage of certain types of deposits to be held as reserves (subject to reserve requirements set by the Fed) in specified assets, either as cash in their vaults or as non-interest-bearing balances at the Federal Reserve. At the end of 1993, 4,148 member banks, 6,042 non-member banks, 495 branches and agencies of foreign banks, 61 *Edge Act* and agreement corporations, and 3,238 thrift institutions were subject to reserve requirements. Since the early 1990s, reserve requirements have been applied only to transaction deposits (basically, interest-bearing and non- interest-bearing checking accounts). Required reserves are a fraction of such deposits; the fraction-the required reserve ratio-is set by the BoG.

The BoG has tremendous power to impose reserve requirements on transaction deposits and on non-personal time deposits solely for the purpose of implementing monetary policy. The MCA also empowers the BoG under extraordinary circumstances to establish a supplemental reserve requirement of up to 4 percentage points on transaction accounts if such an action is deemed essential for the conduct of monetary policy.

Changes in Required Reserve Ratios

Increasing the ratios reduces the volume of deposits that can be supported by a given level of reserves and, in the absence of other actions, reduces the money stock and raises the cost of credit. Decreasing the ratios leaves depositories initially with excess reserves, which can induce an expansion of bank credit and deposit levels and a decline in interest rates; it also lowers the costs of bank funding by reducing the amount of non-interest- bearing assets that must be held in reserve.

Total required reserves expand or contract with the level of transaction deposits and with the required reserve ratio set by the Board. Depository institutions hold required reserves in one of two forms: vault cash (cash on hand at the bank) or, more important for monetary policy, required reserve balances in accounts with the Reserve Bank for their Federal Reserve District. Depositories use their accounts at Federal Reserve Banks not only to satisfy their reserve requirements but also to clear many financial transactions. Given the volume and unpredictability of transactions that clear through their accounts every day, depositories need to maintain a cushion of funds to protect themselves against debits that could leave their accounts overdrawn at the end of the day and subject to penalty. Depositories that find their required reserve balances insufficient to provide such protection may open supplemental accounts for required clearing balances. Some depository institutions choose to hold reserves even beyond those needed to meet their reserve and clearing requirements. These additional balances, which provide extra protection against overdrafts and deficiencies in required reserves, are called excess reserves; they are the second component of the demand for reserves.

Supply of Reserves

The Federal Reserve supplies reserves to the banking system in two ways:

1) Lending through the Federal Reserve discount window Buying government securities (open market operations).

2) Reserves obtained through the first channel are called borrowed reserves. The Fed supplies these directly to depository institutions that are eligible to borrow through the discount window. Access to such credit by banks and thrift institutions is established by rules set by the BoG, and loans are made at a rate of interest-the discount rate-set by the Reserve Banks and approved by the BoG.

Basic Discount Rate

The basic discount rate that each Federal Reserve Bank charges on its loans is established by the Bank's board of directors, subject to review and determination by the BoG. In the past the U.S. banking system was fragmented and state-based. The Fed has fought this feature on behalf of the largest financial institutions. Gradually, smaller local banks have been eliminated as big banks and the Fed gained power and influence. Regional credit markets are almost a thing of the past as a national credit market has been created with a national discount rate. Today, the Federal Reserve maintains a uniform structure of discount rates across all districts of the Reserve Banks.

Discount Window

Institutions eligible to borrow at the Fed's discount window include domestic commercial banks, U.S. branches and agencies of foreign banks, savings banks, savings and loan associations, and credit unions. Many depository institutions meet the eligibility criteria -- about 11,000 banks (including U.S. branches and agencies of foreign banks) and 16,000 thrift institutions (including credit unions) at the end of 1993. Any institution holding deposits subject to reserve requirements (such as transaction accounts and non-personal time deposits) whether it is a Fed member or not have access to the discount window.

All discount window credit must be secured to the satisfaction of the Federal Reserve Bank that is providing the credit. Satisfactory collateral generally includes U.S. Treasury and federal agency securities and, if of acceptable quality, mortgage notes covering one to four -- family residences; state and local government securities; and business, consumer, and other customer notes.

Types of Credit

The three basic types of discount window credit are adjustment credit, seasonal credit, and extended credit.

Adjustment credit helps depository institutions meet short-term liquidity needs. For example, an institution experiencing an unexpectedly large withdrawal of deposits may request adjustment credit overnight or for a few days until it finds other sources of funding. Seasonal credit assists institutions in managing liquidity needs that arise from regular, seasonal swings in loans and deposits, such as those at agricultural banks associated with the spring planting season or during the Christmas gift buying season when people traditionally drain their accounts. Extended credit may be provided to depositories experiencing somewhat longer-term liquidity needs that result from exceptional circumstances. The Fed sometimes provides credit to troubled depositories to facilitate an orderly closure of the institution and stop "contagion" to other companies or allow a takeover.

Buying Government Securities (Open Market Operations)

The other source of reserve supply is non-borrowed reserves. The Fed exercises a certain control over this supply through open market operations-the purchase or sale of securities by the Domestic Trading Desk at the Federal Reserve Bank of New York. When the Fed buys securities in the open market, it creates reserves to pay for them, and the supply of non-borrowed reserves increases. Conversely, when it sells securities, it absorbs reserves in exchange for the securities, and the supply of non-borrowed reserves falls. In other words, the Federal Reserve adjusts the supply of non-borrowed reserves by purchasing or selling securities in the open market, and the purchases are effectively paid for by additions to or subtractions from a depository institution's reserve balance at the Federal Reserve. A Federal Reserve securities transaction changes the volume of reserves in the depository system: A purchase adds to non-borrowed reserves, and a sale reduces them.

When the Federal Reserve buys securities from any seller, it pays, in effect, by issuing a check on itself. When the seller deposits the check in its bank account, the bank presents the check to the Federal Reserve for payment. The Fed, in turn, honours the check by increasing the reserve account of the seller's bank at the Federal Reserve Bank. The reserves of the seller's bank rise with no offsetting decline in reserves elsewhere; consequently, the total volume of reserves increases (the amount of money in the economy). Just the opposite occurs when the Fed sells securities: The payment reduces the reserve account of the buyer's bank at the Federal Reserve Bank with no offsetting increase in the reserve account of any other bank, and the total reserves of the banking system decline (less money in the economy). This characteristic-the dollar-for-dollar change in the reserves of the depository system with a purchase or sale of securities by the Fed makes open market operations the most common tool of monetary policy (controlling the money supply).

The only financial instrument that is suitable for open market operations is U.S. government securities. The Fed carries out the greatest part of its open market operations in that market. The U.S. government securities market, in which overall trading averages more than $100 billion a day, is the broadest and most active of U.S. financial markets. Transactions are handled over the counter (that is, not on an organized stock exchange), with the great bulk of orders placed with specialized dealers (both bank and non-bank). Although most dealer firms are in New York City, a network of telephone and wire services links dealers and customers regardless of their location to form a worldwide market.

Most Fed purchases and sales of securities to adjust conditions in the reserves markets are not undertaken as a result of a general policy decision. Rather they are made to offset other influences on reserves. Certain factors beyond the immediate control of the Fed stimulate purchasing of securities such as the amount of currency in circulation and the size of Treasury balances at Federal Reserve Banks. The amount of currency in circulation rises late in the year because individuals tend to hold more currency during the holiday shopping season. This rise in currency in circulation drains reserves from the depository system because, when a depositor withdraws currency from a bank, the bank turns to the Federal Reserve to replenish its depleted vault cash and pays for the shipment of currency by drawing down its reserve account. In contrast, a decline in currency in circulation provides added reserves.

Effects on Other Rates

The Fed's monetary policy works through the market for reserves and involves the federal funds rate. A change in the reserves market will trigger a chain of events that affect other short- term interest rates, foreign exchange rates, long-term interest rates, the amount of money and credit in the economy, even levels of employment, output, and prices. For example, if the Federal Reserve reduces the supply of reserves, the resulting increase in the federal funds rate tends to spread quickly to other short- term market interest rates, such as those on Treasury bills and commercial paper. Because interest rates paid on many deposits in the money stock adjust only slowly, holding balances in money (in a form counted in the money stock) becomes less attractive. As investors pursue higher yields available in the market (for example, on Treasury bills), the money stock declines. Moreover, as bank reserves and deposits shrink, the amount of money available for general lending may also decline.

Bank Supervision

The Federal Reserve also plays a major role in the supervision and regulation of the U.S. banking system. The Fed's supervisory responsibilities extend to all national banks, which by law are automatically members of the Reserve System, the roughly 1,000 state banks that are members of the Federal Reserve System, all bank holding companies, the foreign activities of member banks, the U.S. activities of foreign banks, and *Edge Act* and agreement corporations (institutions that engage in a foreign banking business). One member of the BoG serves as the Fed's representative to the Federal Financial Institutions Examination Council (FFIEC), which is responsible for coordinating, at the federal level, examinations of depository institutions and related policies.

International Responsibilities

The Fed Chairman has formal responsibilities in the international arena. He is the alternate U.S. member of the Board of Governors of the International Monetary Fund, a member of the board of the Bank for International Settlements (BIS), and a member, along with the heads of other relevant U.S. agencies and departments, of the National Advisory Council on International Monetary and Financial Policies. Fed staff represent U.S. and Fed interests at meetings at the BIS in Basle and at the Organisation for Economic Co-operation and Development in Paris. The Chairman is also a member of U.S. delegations to key international meetings, such as those of the finance ministers and central bank governors of the seven largest industrial countries-the Group of Seven, or G7.

Federal Reserve Banks

A network of twelve Federal Reserve Banks and their twenty-five Branches operates a nationwide payments system, distributes the nation's currency and coin, supervises and regulates member banks and bank holding companies, and serves as banker for the U.S. Treasury. All U.S. currency carries the letter and number designation of the Reserve Bank that first puts it into circulation. Each Reserve Bank acts as a central depository for the banks in its own District. The income of the Federal Reserve System is derived primarily from the interest on U.S. government securities that it has acquired through open market operations. Other major sources of income are the interest on foreign currency investments held by the System; interest on loans to depository institutions (the rate on which is the so-called discount rate); and fees received for services provided to depository institutions, such as check clearing, funds transfers, and automated clearinghouse operations. The twelve Federal Reserve Banks are privately owned through stocks by member banks.

Stockholders and the BoG choose the leadership of the Reserve Banks. Theoretically the Reserve Banks have unlimited access to U.S. securities for use in emergencies. They are accountable to the BoG and in a more limited way to a Congressional Oversight Committee.

Member Banks of the Fed System

U.S. banks can be divided into three types according to which governmental body charters them and whether or not they are members of the Federal Reserve System. Those chartered by the federal government (through the Office of the Comptroller of the Currency in the Department of the Treasury) are national banks; by law, they are members of the Federal Reserve System. Banks chartered by the states are divided into those that are members of the Federal Reserve System (state member banks) and those that are not (state non-member banks). State banks are not required to join the Federal Reserve System, but they may elect to become members if they meet the standards set by the BoG. At the end of 1993, 4,338 banks were members of the Federal Reserve System -- 3,360 national banks and 978 state banks -- out of 11,212 commercial banks nationwide.

Payment System

The U.S. payments system is the largest in the world. Each year billions of transactions, valued in the trillions of dollars, are conducted between payers (purchasers of goods, services, or financial assets) and payees (sellers of goods, services, or financial assets). The Fed is an active intermediary in clearing and settling interbank payments. The Fed Banks play this role because they maintain reserve or clearing accounts for the majority of depository institutions. They can settle payment transactions by debiting the accounts of the depository institutions making payments and by crediting the accounts of depository institutions receiving payments. The Reserve Banks, as the mandated central bank, are immune from liquidity problems (not having sufficient funds to complete payment transactions) and credit problems. Payments received in accounts maintained at the Federal Reserve are free of liquidity and default risk. For depository institutions, the Fed Banks maintain reserve and clearing accounts and provide various payment services including collecting checks, electronically transferring funds, and distributing and receiving currency and coin. For the federal government, they act as fiscal agents, maintaining the U.S. Treasury Department's transaction account, paying Treasury checks, processing electronic payments, and issuing, transferring and redeeming U.S. government securities. The Fed Banks also perform numerous specialized services for the federal government and its agencies, such as redeeming food coupons and monitoring special accounts -- Treasury tax and loan accounts -- in which tax receipts are held until the Treasury needs funds to make payments.

Providing Guarantees to the Largest Banks

The Fed's direct and ongoing participation in the operation of the payments system lessens the risks for individual banks. For example, the Fed's final and irrevocable Fedwire funds transfer service reduces the risk that failure of one institution could be transmitted rapidly to other institutions. One of the most controversial and powerful weapons of the Fed is to provide emergency funds to U.S. financial institutions in trouble such as the billions of dollars loaned to the Long-term Capital Management hedge fund in 1998. The Fed states that this is necessary to "ensure that the inability of a depository institution to make or process payments will not trigger its insolvency and that the institution's problems can be resolved in an orderly fashion with minimum disruptive effects." This ability to furnish large amounts of capital in emergencies has long been a major weapon in the hands of those wielding influence at the Fed.

Providing Currency and Coins

The Federal Reserve, the nation's central bank, distributes, processes, and accounts for U.S.

currency and coin in the United States and abroad. The *Federal Reserve Act* delegates the Fed "to furnish an elastic currency," or to ensure that there is enough currency and coin to meet demand. According to the U.S. Constitution, Article I, Section 8, the Congress has the power "to coin Money, regulate the Value thereof, and of foreign Coin, and fix the Standard of Weights and Measures." In 1913, the Congress delegated this authority to the Fed, a private institution controlled by the financial oligarchy. The thirty-seven Federal Reserve Bank cash offices provide cash services to more than 9,600 of the 22,000 banks, savings and loans, and credit unions in the United States. The remaining depository institutions obtain currency and coin from correspondent banks rather than directly from the Federal Reserve. The amount of currency in circulation as cash is a decision of the Fed. Domestic demand largely results from the use of currency in transactions and is influenced primarily by prices for goods and services, income levels, and the availability of alternative payment methods. International demand for U.S. currency is high due to neo-liberal globalisation and the annexation of other economies by the U.S. Recent estimates show that about two-thirds of the value of currency in circulation is held abroad.

Currency and Coin

Ninety-nine per cent of U.S. currency in circulation is composed of Federal Reserve notes; the remainder is composed of United States notes, national bank notes, and silver certificates, all of which remain legal tender. Each year the Fed determines the need for new currency and submits a print order to the Treasury's Bureau of Engraving and Printing (BEP). Typically, most of the newly printed currency replaces currency destroyed by the Reserve Banks because it is unfit for further circulation. The remainder is printed to meet Fed increases in the amount of currency in circulation if any. The Federal Reserve pays the BEP the cost of printing new currency and arranges and pays the cost of transporting the currency from the BEP facilities in Washington, D.C., and Fort Worth, Texas, to the Federal Reserve cash offices across the country. Before the Reserve Banks issue currency to the banking system, the currency must be secured by legally authorized collateral, most of which is in the form of U.S. Treasury and federal agency securities held by the Reserve Banks. The notes are a first lien on the assets of the issuing Reserve Bank and are obligations of the U.S. government. The Federal Reserve System pays the Bureau of Engraving and Printing only for the cost of printing the notes. The Fed distributes a large amount of currency to overseas markets through its Extended Custodial Inventory (ECI) program, which was established in 1996 to introduce the Series-1996 $100 notes to the international community. ECI locations are selected overseas depository institutions that hold U.S. currency in their vaults but carry the inventory on the books of the Federal Reserve Bank of New York.

From 1990 to 2001, the number of Federal Reserve notes in circulation increased 61.6 per cent, which represents an average annual growth rate of 3.8 per cent. Over the past several decades, the value of currency in circulation has risen dramatically -- from $31.2 billion in 1955 to $365.3 billion in 1993. The total number of notes in circulation (15.5 billion at the end of 1993) and the demand for larger denominations ($20, $50, and $100 notes) have also increased.

The Federal Reserve's role in coin operations is more limited than its role in currency. The U.S. Mint determines the annual coin production and monitors the Federal Reserve coin inventories weekly to identify trends in coin demand.

Federal Reserve Accounting for Currency and Coin

Federal Reserve notes are liabilities on the Fed's balance sheet. The Fed pledges collateral, usually U.S. Treasury securities, equal to the face value of currency in circulation. As payments to and receipts from depository institutions change the value of currency in circulation on a daily basis, the Fed ensures that the currency in circulation is fully collateralised. When a Reserve Bank makes a currency payment to a depository institution, the Reserve Bank charges the depository institution's account (or the account of the bank that acts as the settlement agent) for the amount of the order. Similarly, when a depository institution returns excess currency to a Federal Reserve Bank, it receives a corresponding credit to its account.

Unlike currency, coin is represented on the Federal Reserve's balance sheet as an asset. Coin is a direct obligation of the U.S. Treasury; the Fed buys coin from the Mint at face value. When a depository institution orders and deposits coin, its Reserve Bank adjusts the institution's account accordingly.

Non-Cash Transactions

Checks continue to account for the largest share of non-cash payments by number (about 90 per cent in 1993) but for a minor share in terms of value (less than 4 per cent). Fedwire funds transfers, in contrast, accounted for less than 1 per cent of the number of non-cash transactions processed by the Federal Reserve in 1993 but nearly 55 per cent of the value.

In 1993, an estimated 59 billion checks were written in the United States. The Fed collected 19 billion checks with a value of $14.1 trillion. Also in 1993, the Fed, acting as fiscal agent for the U.S. Treasury, paid 480 million checks and 192 million postal money orders.

Federal Reserve Automated Clearinghouse Operations

The automated clearinghouse (ACH) is a nationwide mechanism that processes electronically originated batches of credit and debit transfers. ACH credit transfers include direct deposit payroll payments and payments to contractors and vendors. ACH debit transfers include consumer payments on insurance premiums, mortgage loans, and other kinds of bills. Debit transfers also include new applications such as the point-of-sale (POS) check conversion pilot program. The Federal Reserve Banks are collectively the nation's largest automated clearinghouse operator and in 2000 processed more than 80 per cent of commercial interbank ACH transactions.

Fedwire Funds Transfers

The Fedwire funds transfer system is a real-time gross settlement system in which more than 9,000 depository institutions initiate funds transfers that are immediate, final, and irrevocable when processed. Depository institutions that maintain a reserve or clearing account with a Federal Reserve Bank may use Fedwire to send payments to, or receive payments from, other account holders directly. Through the Fedwire service, depository institutions typically transfer large dollar payments (the average value of a Fedwire transfer in 1993 was approximately $3 million). Depository institutions generally use the ACH for small-dollar payments. In 1993, the Reserve Banks processed 70 million Fedwire payments having a total value of $208 trillion. When the Fed processes a funds transfer, it electronically debits the account of the sending institution and credits the account of the receiving institution. The Fed guarantees the payment to the bank receiving the transfer and assumes any risk if the bank sending the payment has insufficient funds in its Fed account to complete the transfer.

Fedwire also allows depository institutions to transfer the ownership of U.S. Treasury securities and the securities of various federal agencies, such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, for themselves and for their customers. Most of these securities are held in safekeeping by the Reserve Banks as book entries (as electronic records of securities holdings rather than as paper certificates). The Federal Reserve Banks safekeep and transfer U.S. government securities in their capacity as fiscal agents for the U.S. Treasury. They carry out these functions for government agencies as a service to depository institutions. In 1993, 12.7 million book-entry securities transfers with a value of $154 trillion were transferred using Fedwire.

When the Fed receives a request to transfer a security, it determines that the security is held in safekeeping for the institution requesting the transfer and withdraws the security from the institution's safekeeping account. It then electronically credits the proceeds of the sale to the account of the depository institution, deposits the book-entry security into the safekeeping account of the receiving institution, and electronically debits that institution's account for the purchase price. The Fed guarantees payments to institutions sending book-entry securities transfers.

Fiscal Agency Functions

As fiscal agents of the United States, the Federal Reserve Banks function as the federal government's bank and perform several services for the U.S. Treasury. These services include the following:

- Maintaining the Treasury's funds account
- Clearing Treasury checks drawn on that account
- Conducting nationwide auctions of Treasury securities
- Issuing, servicing, and redeeming Treasury securities

Federal Reserve Banks also perform fiscal agency services for various federal and federally sponsored agencies. One service performed by the Reserve Banks on behalf of the Treasury is the daily monitoring of federal tax receipts. Taxes paid by businesses and individuals flow into special, interest-earning accounts, called Treasury tax and loan (TT&L) accounts, at more than 12,000 depository institutions (TT&L depositaries) nationwide. The TT&L depositaries accept tax payments directly from employers and individuals and report the amount received to a Fed office.

The Reserve Banks also handle the weekly, monthly, and quarterly auctions of Treasury securities, through which the Treasury raises money to finance government spending and to refinance the national debt. The Reserve Banks announce the sales, accept the bids (called tenders), communicate the bids to the Treasury, issue the securities in book- entry form once the Treasury has chosen the successful bids, collect payment from the successful bidders, and deposit the money in the Treasury's funds account at the Fed. The Federal Reserve Banks provide another unique securities service for the Treasury: They maintain a separate safekeeping system, called Treasury Direct, which holds book- entry Treasury securities purchased by individuals who wish to hold their securities directly with the Treasury instead of with a depository institution. At year-end 1993, 1.2 million investor accounts were maintained on the Treasury Direct system, and the securities holdings had a par value of more than $60 billion. The Federal Reserve Banks also issue, service, and redeem tens of millions of U.S. savings bonds each year on behalf of the Treasury. As authorized by the Treasury, they also qualify depository institution and corporations as issuing agents and paying agents for savings bonds.

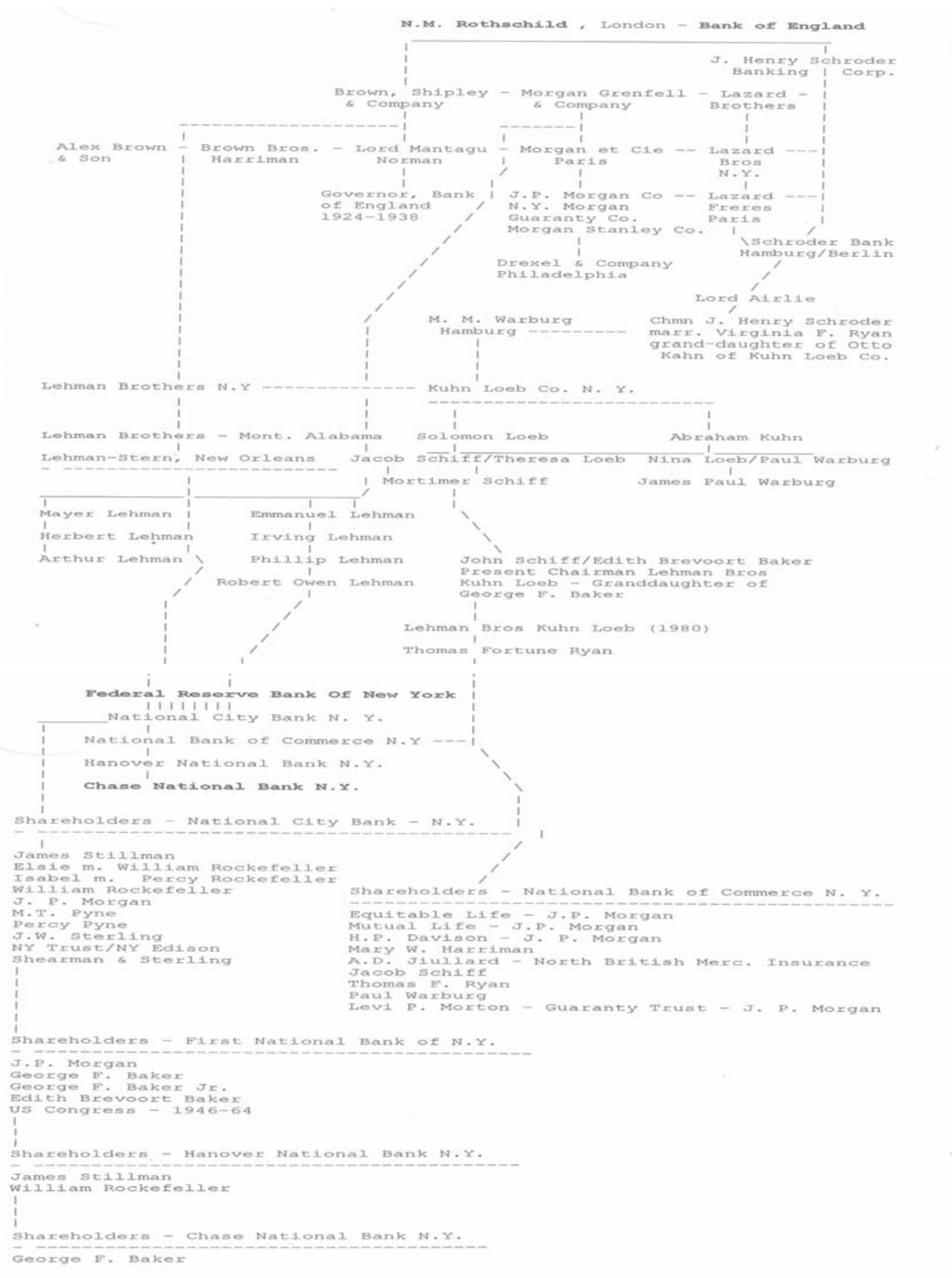
The federal government disburses funds to the public from the account it maintains with the Fed. These disbursements can be made as Fedwire funds transfers, ACH payments, or checks. Fedwire disbursements are typically associated with, but not limited to, the redemption of Treasury securities. Certain recurring payments, such as social security benefits and government employee salaries, are increasingly processed by the ACH and electronically deposited directly to the recipients' accounts at their depository institutions. Other government payments, such as income tax refunds, are usually made using Treasury checks drawn on the Treasury's funds account at the Federal Reserve.

International Services

As the central bank of the United States, the Fed performs services for foreign central banks and for international organizations, such as the International Monetary Fund, the World Bank, and the Bank for International Settlements. The Federal Reserve Bank of New York generally provides these services. At the Federal Reserve Bank of New York, a foreign official institution can establish a non-interest-bearing funds account (in U.S. dollars), safekeeping accounts for book-entry and definitive securities, and an account for safekeeping gold.

The following charts and comments are from: Federal Reserve Directors: A Study of Corporate and Banking Influence -- Published 1976; and from, Federal Reserve Directors: A Study of Corporate and Banking Influence -- Published 1983.

Chart 1



Source: "Federal Reserve Directors: A Study of Corporate and Banking Influence"-- Published 1976 *(Click on image to enlarge)*

Chart 1 reveals the linear connection between the Rothschilds and the Bank of England, and the

London banking houses which ultimately control the Federal Reserve Banks through their stockholdings of bank stock and their subsidiary firms in New York. The two principal Rothschild representatives in New York, J. P. Morgan Co., and Kuhn, Loeb & Co. were the firms which set up the Jekyll Island Conference at which the *Federal Reserve Act* was drafted, who directed the subsequent successful campaign to have the plan enacted into law by Congress, and who purchased the controlling amounts of stock in the Federal Reserve Bank of New York in 1914. These firms had their principal officers appointed to the Federal Reserve Board of Governors and the Federal Advisory Council in 1914. In 1914 a few families (blood or business related) owning controlling stock in existing banks (such as in New York City) caused those banks to purchase controlling shares in the Federal Reserve regional banks. Examination of the charts and text in the House Banking Committee Staff Report of August, 1976 and the current stockholders list of the 12 regional Federal Reserve Banks show this same family control.

Chart 2

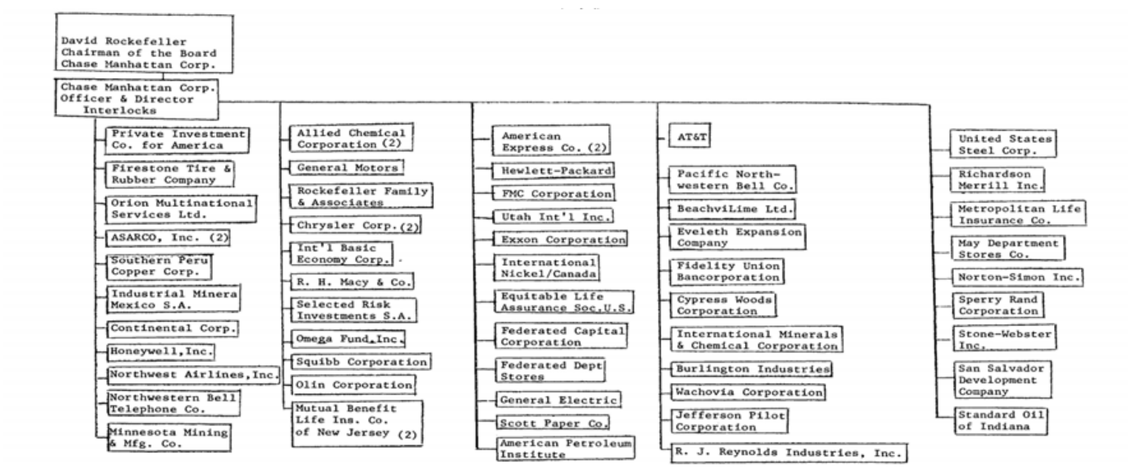
Source: "Federal Reserve Directors: A Study of Corporate and Banking Influence" -- Published 1983 *(Click on image to enlarge)*

The J. Henry Schroder Banking Company chart encompasses the entire history of the twentieth century, embracing as it does the program (Belgium Relief Commission) which provisioned Germany from 1915-1918 and dissuaded Germany from seeking peace in 1916; financing Hitler in

1933 so as to make a Second World War possible; backing the Presidential campaign of Herbert Hoover; and even at the present time, having two of its major executives of its subsidiary firm, Bechtel Corporation serving as Secretary of Defense and Secretary of State in the Reagan Administration.

The head of the Bank of England since 1973, Sir Gordon Richardson, Governor of the Bank of England (controlled by the House of Rothschild) was chairman of J. Henry Schroder Wagg and Company of London from 1963-72, and director of J. Henry Schroder, New York and Schroder Banking Corporation, New York, as well as Lloyd's Bank of London, and Rolls Royce. He maintains a residence on Sutton Place in New York City, and as head of "The London Connection," can be said to be the single most influential banker in the world.

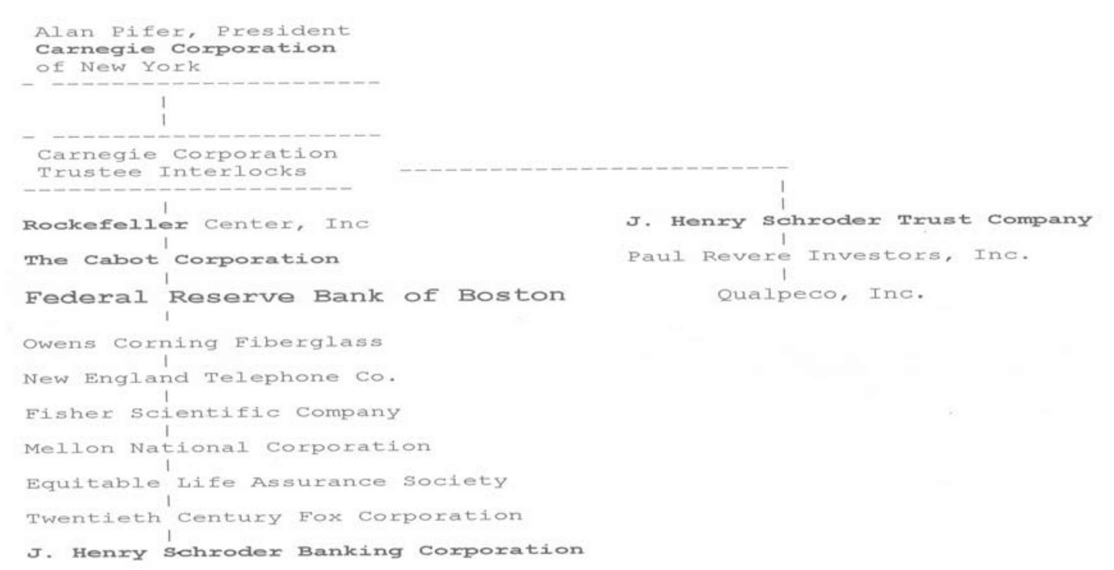
Chart 3



Source: "Federal Reserve Directors: A Study of Corporate and Banking Influence" -- Published 1976 *(click on image to enlarge)*

The David Rockefeller chart shows the link between the Federal Reserve Bank of New York, Standard Oil of Indiana, General Motors and Allied Chemical Corporation (Eugene Meyer family) and Equitable Life (J. P. Morgan).

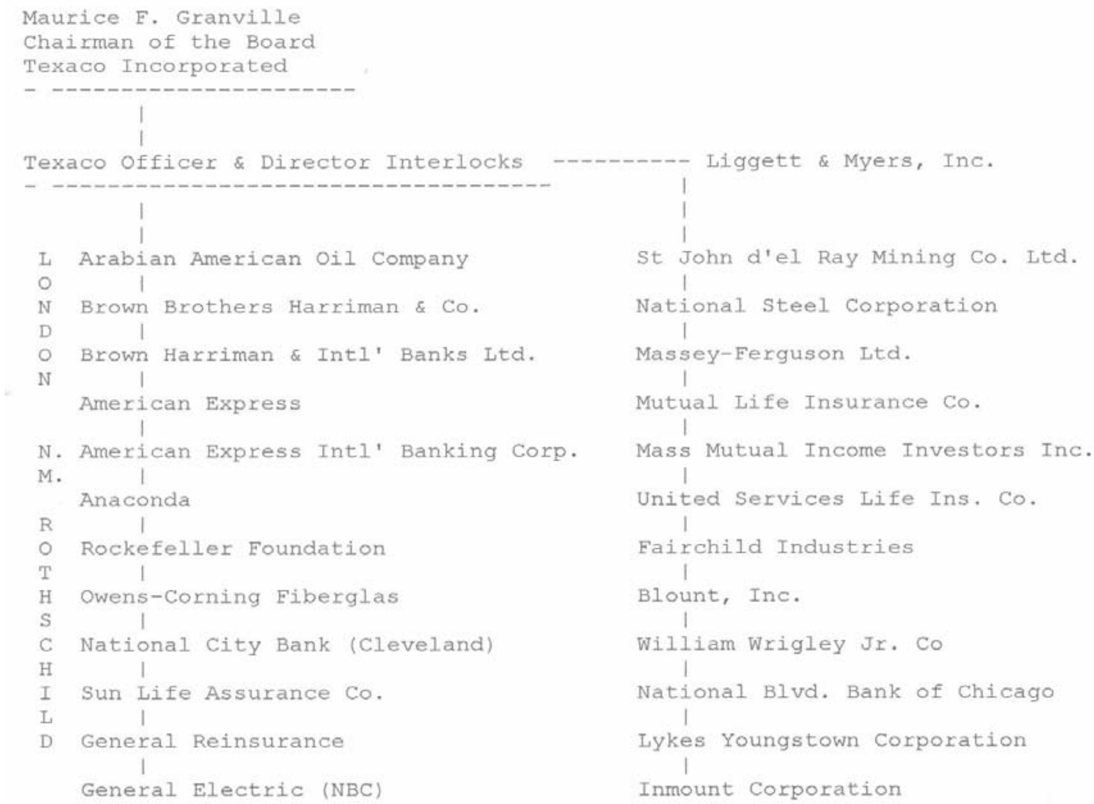
Chart 4



Source: "Federal Reserve Directors: A Study of Corporate and Banking Influence" -- Published 1976

This chart shows the interlocks between the Federal Reserve Bank of New York J. Henry Schroder Banking Corp., J. Henry Schroder Trust Co., Rockefeller Center, Inc., Equitable Life Assurance Society (J.P. Morgan), and the Federal Reserve Bank of Boston.

Chart 5



Source: "Federal Reserve Directors: A Study of Corporate and Banking Influence" -- Published 1976

This chart shows the link between the Federal Reserve Bank of New York, Brown Brothers Harriman, Sun Life Assurance Co. (N.M. Rothschild and Sons), and the Rockefeller Foundation.

Source: Federal Reserve Directors: A Study of Corporate and Banking Influence. Staff Report,Committee on Banking,Currency and Housing, House of Representatives, 94th Congress, 2nd Session, August 1976.

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