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Series: Governments submit to âEurosoeToo Big to FailâEuros  banks (part 4)

# United States : the Fed Bails Out Wall Street

- Features -

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**Since 2008, the Fed has granted unlimited credit to banks at an official rate of 0.25%. In fact, as the General Accounting Office (GAO) has revealed, the Fed has lent close to $16 trillion at an interest rate below 0.25%. The report shows it has not followed its own prudential rules and has not notified Congress.**

According to an enquiry by a US Congress Committee, there is clear and evident collusion between the Fed and the big banks:
The CEO of JPMorgan Chase served on the New York Fed's board of directors at the same time that his bank received more than $390 billion in financial assistance from the Fed. Moreover, JPMorgan Chase served as one of the clearing banks for the Fed's emergency lending programs. [2]

According to an independent study by the Levy Institute, which has the collaboration of economists such as Joseph Stiglitz, Paul Krugman and James K. Galbraith, Fed assistance to banks was much more than the $16 trillion revealed by the GAO; it was $29 trillion dollars. [3]

The big European banks had access to Fed funds until the beginning of 2011. Dexia got a loan of $159 billion dollars, [4] Barclays $868 billion, Royal Bank of Scotland $541 billion, Deutsche Bank $354 billion, UBS $287 billion, CrÃ©dit Suisse $260 billion, BNP-Paribas $175 billion, Dresdner Bank $135 billion and SociÃ©tÃ© GÃ©nÃ©rale $124 billion. The end of this funding, under pressure from Congress, was one of the reasons that from May-June 2011, the US Money Market Funds started to block their loans to European banks, considering that without support from the Fed the European banks incurred too high a risk.

 

# The Federal Reserve System of the United States

The Federal Reserve System, or Fed, is the United StatesâEuros" Central Bank. It is an independent structure with a private activity within the US government and has the responsibility for US monetary policy and thus a strong influence on the world's financial markets. In the terms of US law, the mission of the Fed is to guarantee price stability and full employment and to ensure the stability of the financial system by taking the necessary measures to predict and attenuate financial crises and panics. To achieve this, the Fed has three important means: it controls interest-rates that influence consumption, investment and inflation; it controls the money supply which permits the stability of prices in times of crisis; and it supervises and regulates financial institutions.

The Fed was created by the Federal Reserve Act of 1913 as a reaction to the growing instability of the North American financial system at the end of the nineteenth and beginning of the twentieth century. Until then the US did not have centralized control and regulation of its financial system. Each state had the charge of regulating and controlling the banks that were within its jurisdiction. The Fed was established to ensure the stability of the US financial system by becoming the lender of last resort and so to be able to supply resources to banks facing difficulties.

The institutional structure of the Fed is made up of twelve regional banks overseen globally by a Board of Governors. These regional banks function as Joint Stock Companies possessing non negotiable and non transferable shares in the Federal Reserve System; the stock may not be sold, traded, or pledged as security for a loan; dividends are, by law, six per cent per year. These shares permit the banks their participation in the elections of the regional counsellors of the Fed. The councils are made up of nine members: three are chosen by the banks and represent their interests; three more, representing industrial and commercial interests, are also chosen by the banks; the last three are chosen by the national Board of Governors.

The Board of Governors is charged with overseeing the twelve regional Federal Reserve Banks and with helping implement the United StatesâEuros" monetary policy. It has a maximum of seven members (currently five) who are nominated by the President of the United States and confirmed by the Senate for a fourteen-year term of office. One of the principal functions of the Board is to pilot the Federal Open Market Committee (FOMC), which fixes interest-rates and determines the country's general monetary policy.

There are two basic differences between the Fed and its European counter-part, the ECB. While the FedâEuros"s mission is to simultaneously guarantee price stability and full employment, the ECB has for principal mission to maintain low and stable inflation levels within the Eurozone. The other difference is in the capacities to regulate and control their financial institutions. The Fed has the means to regulate and supervise all the financial institutions operating under the Federal Reserve System, while the ECB is dependent on the central banks of each of the Eurozone countries for the application of its regulations and control over its institutions. Finally, the European Commission has approved an extension of the ECB's powers, as from autumn 2014, to responsibility for the direct control of the big banks that are subject to the European system. We shall see what we shall see.

*Translation : CADTM*

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[1] GAO, âEurosoeFederal Reserve System, Opportunities Exist to Strengthen Policies and Processes for Managing Emergency AssistanceâEuros , July 2011, http://www.gao.gov/assets/330/321506.pdf. This report, was made possible by an amendment to the Dodd-Frank act that had been introduced by Ron Paul, Alan Grayson and Bernie Sanders in 2010. Bernie Sanders, an independent Senator made it public http://www.sanders.senate.gov/imo/media/doc/GAO%20Fed%20Investigation.pdf

[2] See: http://www.sanders.senate.gov/newsroom/news/?id=9e2a4ea8-6e73-4be2-a753-62060dcbb3c3

[3] See James Felkerson, âEurosoe$29,000,000,000,000: A Detailed Look at the FedâEuros"s Bailout by Funding Facility and RecipientâEuros , www.levyinstitute.org/pubs/wp_698.pdf

[4] See, in particular, page 196 of above mentioned GAO report that refers to loans to Dexia amounting to $53 billion, which are only a part of the total loans to Dexia by the Fed. http://www.gao.gov/assets/330/321506.pdf