

# **POSITION PAPER**

## **THE FINANCIAL CRISIS AND THE FEDERAL RESERVE**

**By John W. Wallace**

Back in the 18th century, Thomas Jefferson said, “If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation, the banks and the corporations will grow up around them, will deprive the people of all property until their children wake up homeless on the continent their fathers conquered. The issuing power should be taken from the banks and restored to the people, to whom it properly belongs.”

Jefferson’s words are as valid today as they were in the 18th century. For many years, the American economy has been based on an unsound system of issuing “fiat paper money” printed at will by the Federal Reserve, an organization of large private international banks that Jefferson warned us about. The Fed has kept the economy going by artificially keeping the interest rates low and by selling Treasury Bills to foreign governments like China (\$500 billion) which in turn use those securities as leverage to make our government agree to trade and others deals that favor them over American citizens, workers and businesses. Very rarely is it mentioned that the Federal Reserve is actually a private entity of international bankers who have been given the power to control our monetary system. The Federal Reserve is not accountable to the U.S. Government; and yet the Federal Reserve continues to hold the reins to our monetary system often acting at the behest of large national and international private banks.

Americans have been told for years that our economy was strong and booming. Yet, we find ourselves in the middle of a financial crisis with dire predictions of a possible recession and/or depression coming from leaders in our government, Congress, Wall Street and the big commercial banks. What is the solution these Leaders are proposing behind closed doors? They want to come up with a plan to do the very thing that caused this financial crisis in the first place: they are proposing more government intervention into the free market.

Ever since the Depression, the federal government has involved itself deeply in the national housing market by developing numerous special housing programs to encourage home ownership. Government-sponsored private organizations like Fannie Mae and Freddie Mac were able to obtain a monopoly position in the mortgage market, especially the mortgage-backed securities market, because of the advantages bestowed upon them by the federal government mostly through government loan guarantees. By coincidence, executives from these two organizations routinely made significant bribes, I mean campaign contributions, to many members of congress to keep these advantages.

Some legislation passed by Congress, such as the Community Reinvestment Act that required banks to make loans to previously underserved segments of their communities, changed the way lending institutions approved loans. Under the threat of legal action from the U.S. Attorney General, federal legislation and policy decisions forced banks to lend to people who normally would be rejected as bad credit risks. These governmental measures, combined with manipulation of interest rates by the Federal Reserve, led to an unsustainable housing boom. The magnitude of the real estate bubble that has just exploded would never have happened without the government’s constant interference in the housing market coupled with the Federal Reserve’s actions of injecting a constant stream of easy money and credit into the U.S. economy, for all too many years.

In the past two years alone, the Federal Reserve, a non-government organization of private bankers, has interceded in the financial markets over 35 times, primarily by providing fiat money backed by U.S. Treasury securities (government IOU's) to their friends in investment-banking firms in exchange for getting those companies' holdings of extremely poorly performing or non-performing mortgage-backed securities.

Here's a list of some of the more recent Federal Reserve actions in the financial markets published by Reuters:

#### **The Cost to Taxpayers and the Bailout Type**

**\$ 700 billion+ - Proposed Treasury Department legislation**  
**\$ 29 billion - Bear Stearns financing**  
**\$ 200 billion - Fannie Mae and Freddie Mac nationalization**  
**\$ 85 billion - AIG loan and nationalization**  
**\$ 300 billion - Federal Housing Administration housing rescue bill**  
**\$4 billion - Mortgage community grants**  
**\$87 billion - JPMorgan Chase repayments**  
**\$200 billion+ - Loans to banks via Fed's Term Auction Facility**  
**\$ 50 billion - Loans from Depression-era Exchange Stabilization Fund**  
**\$144 billion - Purchases of mortgage securities by Fannie Mae and Freddie Mac**

**TOTAL: \$1.8 trillion+**

**COST PER US HOUSHOLD: \$17,064+**

The members of the Federal Reserve Board have essentially been bailing out their friends in private business enterprises that pay their employees exorbitant salaries while lowering the value of assets held by ordinary people (via higher inflation) and increasing the tax burden that Americans, their children and grandchildren will need to pay sometime in the future to compensate for the worthless mortgage-backed assets now held by the Fed.

For example, Fannie Mae's previous CEO was paid a \$987,000 salary in 2007, a \$2.3 million bonus, and a total compensation (including stock) of \$11.6 million. Not to be outdone, Congress decided on July 31, 2008 (via a new housing bill) to provide financial relief to hundreds of thousands of persons who signed mortgage agreements to live in homes that they never could afford in the first place. So the individual American taxpayers who pay their mortgages on time, live within their means and successfully manage their own financial affairs, get stuck with the bill for bailing out those who do not. This particular bill raised the national debt ceiling by \$800 billion (to \$10.6 trillion) and created risks for current and future taxpayers that are virtually impossible to calculate.

The American taxpayers now own mortgage companies, insurance companies, car companies and if we keep going in this direction, we are going to own a lot more. All of these bailouts have one thing in common: They seek to prevent the quick sale of bad debt and worthless assets at market prices. Instead, the Federal Reserve is trying to artificially prop up those markets and keep those assets trading at prices far in excess of their actual market value. By using trillions of dollars of borrowed taxpayer money to purchase these bad investments, the government is going deeper and deeper into debt and is actually ensuring even greater instability in the financial system in the long term.

The questions to be asked are:

(1) What Constitutional authority exists for the U.S. Government or Federal Reserve to use *public* (taxpayer) funds for definitively *private* purposes? and

(2) What legal authority in the Constitution allows the U.S. Government to directly purchase the distressed assets and contracts of privately owned Wall Street firms for the express purpose of mitigating their *private* investment risks and losses?

The answer to both of these questions is that there is no legal authority in the US Constitution to use taxpayer money for these purposes.

The solution to the problem is to end government meddling in the free market. It is time this process is put to an end, or at the very least, reigned in. The government should sell off the assets of Fannie Mae and Freddie Mac quickly and close down these corrupt organizations. Government must reduce the volume and complexity of regulations it imposes on lending institutions and stop passing social engineering legislation, like the Community Reinvestment Act, that interferes in the free market economy and which has ultimately led to this financial crisis.

History shows us that when the destruction of monetary value becomes rampant, as the actions of our congress and the Fed would indicate, nearly everyone suffers and both the economic and political structure becomes unstable. The Federal Reserve System has been the tool used by the major bankers to allow them to gain control over the smaller regional and local banks. Our current financial crisis is an example of this with J.P. Morgan buying up the competition, sometimes with taxpayers help.

The Fed has also acted as the financing agency for Congress' unprecedented deficit spending on an ever growing, more intrusive federal bureaucracy and the expansion of the welfare state. Some people believe that the private bankers in the Federal Reserve wield so much power that they can intentionally manipulate the economy in order to influence the results of our presidential elections.

Our government and the American people do not need the help of any private banking cartel to manage our monetary system. Once we come up with a plan to solve this current crisis, we need to repeal the Federal Reserve Act and return control of our currency to Congress where it belongs, as was the intent of our Founders. We also need to have a serious national discussion about how real currency reform can be achieved. As long as the private bankers that make up the Federal Reserve Board have control over our nation's money, Congress' control of the purse-strings will not have the benefits the country's Founders intended.

I support legislation introduced by Congressman Ron Paul, of Texas, entitled "Federal Reserve Board Abolition Act that will restore financial stability to America's economy by abolishing the Federal Reserve Board.

For more information about John W. Wallace, or to find out about his positions on other issues, please go to: [www.TeaPartyRep.com](http://www.TeaPartyRep.com)