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SPECIAL REPORT

Who owns and controls the Federal Reserve

by Dr. Edward Flaherty

Is the Federal Reserve System secretly owned and covertly controlled by powerful foreign banking interests? If so, how? These claims, made chiefly by authors Eustace Mullins (1983) and Gary Kah (1991) and repeated by many others, are quite serious because the Fed is the United States central bank and controls U.S. monetary policy. By changing the supply of money in circulation, the Fed influences interest rates, affecting the mortgage payments of millions of families, causing the financial markets to boom or collapse, and prompting the economy to expand or to stumble into recession. Such awesome power presumably would be used to benefit the U.S. economy. Mullins and Kah both argued that the Federal Reserve Bank of New York is owned by foreigners. Although the New York Fed is just one of twelve Federal Reserve banks, controlling it, they claimed, is tantamount to control of the entire System. Foreigners use their command of the New York Fed to manipulate U.S. monetary policy for their own and, as Kah asserted, to further their global political goals, namely the establishment of the sinister New World Order.

This essay examines the accuracy of these claims. Specifically, it investigates the charge that the New York Federal Reserve Bank is owned, directly or indirectly, by foreign elements, whether the New York Fed in effect runs the whole Federal Reserve System, and whether its enormous annual profits accrue primarily to foreigners or to the U.S government. This essay shows that there is little evidence to support the idea of foreign ownership and much that contradicts it. In addition, it presents evidence to show that the New York Fed does not command the entire System, as well as recent data demonstrating that the System's profits are paid to the federal government.

Who Owns the Federal Reserve Bank of New York?

Each of the twelve Federal Reserve Banks is organized into a corporation whose shares are sold to the commercial banks and thrifts operating within the Bank's district. Shareholders elect six of the nine the board of directors for their regional Federal Reserve Bank as well as its president. Mullins reported that the top eight stockholders of the New York Fed were, in order from largest to smallest as of 1983, Citibank, Chase Manhatten, Morgan Guaranty Trust, Chemical Bank, Manufacturers Hanover Trust, Bankers Trust Company, National Bank of North America, and the Bank of New York (Mullins, p. 179). Together, these banks owned about 63 percent of the New York Fed's outstanding stock. Mullins then showed that many of these banks are owned by about a dozen European banking organizations, mostly British, and most notably the Rothschild banking dynasty. Through their American agents they are able to select the board of directors for the New York Fed and to direct U.S. monetary policy. Mullins explained,

'... The most powerful men in the United States were themselves answerable to another power, a foreign power, and a power which had been steadfastly seeking to extend its control over the young republic since its very inception. The power was the financial power of England, centered in the London Branch of the House of Rothschild. The fact was that in 1910, the United States was for all practical purposes being ruled from England, and so it is today' (Mullins, p. 47-48).

He further commented that the day the Federal Reserve Act was passed, "the Constitution ceased to be the governing covenant of the American people, and our liberties were handed over to a small group of international bankers" (Ibid, p. 29).

Unfortunately, Mullins' source for the stockholders of the New York Fed could not be verified. He claimed his source was the Federal Reserve Bulletin, although it has never included shareholder information, nor has any other Federal Reserve periodical. It is difficult researching this particular claim because a Federal Reserve Bank is not a publicly traded corporation and is therefore not required by the Securities and Exchange Commission to publish a list of its major shareholders. The question of ownership can still be addressed, however, by examining the legal rules for acquisition of such stock. The Federal Reserve Act requires national banks and participating state banks to purchase shares of their regional Federal Reserve Bank upon joining the System, thereby becoming "member banks" (12 USCA 282). Since the eight banks Mullins named all operate within the New York Federal Reserve district, and are all nationally chartered banks, they are required to be shareholders of the New York Federal Reserve Bank. They are also probably the major shareholders as Mullins claimed.

Are these eight banks on Mullins' list of stockholders owned by foreigners, what Mullins termed the London Connection? The SEC requires the name of any individual or organization that owns more than 5 percent of the outstanding shares of a publicly traded firm be made public. If foreigners own any shares of Mullins' eight banks, then their portions are not greater than 5 percent at this time. With no significant holdings of the major New York area banks, it does not seem likely that foreign conspirators could direct their actions.

Perhaps foreigners own shares of the New York Federal Reserve Bank directly. The law stipulates a small portion of Federal Reserve stock may be available for sale to the public. No person or organization, however, may own more than $25,000 of such public stock and none of it carries voting rights (12 USCA 283). However, under the terms of the Federal Reserve Act, public stock was only to be sold in the event the sale of stock to member banks did not raise the minimum of $4 million of initial capital for each Federal Reserve Bank when they were organized in 1913 (12 USCA 281). Each Bank was able to raise the necessary amount through member stock sales, and no public stock was ever sold to the non-bank public. In other words, no Federal Reserve stock has ever been sold to foreigners; it has only been sold to banks which are members of the Federal Reserve System (Woodward, 1996).

Regardless of the foreign ownership conjecture, Mullins argued that since the money-center banks of New York owned the largest portion of stock in the New York Fed, they could hand-pick its board of directors and president. This would give them, and hence the London Connection, control over Fed operations and U.S. monetary policy. This argument is faulty because each commercial bank receives one vote regardless of its size, unlike most corporate voting structures in which the number of votes is tied to the number of shares a person holds (Ibid). The New York Federal Reserve district contains over 1,000 member banks, so it is highly unlikely that even the largest and most powerful banks would be able to coerce so many smaller ones to vote in a particular manner. To control the vote of a majority of member banks would mean acquiring a controlling interest in about 500 member banks of the New York district. Such an expenditure would require an outlay in the hundreds of billions of dollars. Surely there is a cheaper path to global domination.

An historical example may make clear that member banks do not control the Federal Reserve's policies. Galbraith (1990) recounted that in the spring of 1929 the New York Stock Exchange was booming. Prices there had been rising considerably, extending the bull market that had begun in 1924. The Federal Reserve Board decided to take steps to arrest the speculative bubble that appeared to have been forming: it raised the cost banks had to pay to borrow from the Federal Reserve and it increased speculators' margin requirements. Charles Mitchell, then the head of National City Bank (today known as Citibank), which was the largest shareholder of the New York Federal Reserve Bank according to Mullins, was so irritated by this decision that in a bank statement he wrote, "We feel that we have an obligation which is paramount to any Federal Reserve warning, or anything else, to avert any dangerous crisis in the money market" (Galbraith, p. 57). National City Bank promised to increase lending to offset any restrictive policies of the Federal Reserve. Wrote Galbraith, "The effect was more than satisfactory: the market took off again. In the three summer months, the increase in prices outran all of the quite impressive increase that had occurred during the entire previous year" (Ibid). If the Fed and its policies were really under the control of its major stockholders, then why did the Federal Reserve Board clearly buck the intent of its single largest shareholder?

This information also eluded fellow conspiracy theorist Gary Kah, who disagreed with Mullins on who owns the New York Fed. His Swiss and Saudi Arabian contacts identified the top eight shareholders as the Rothschild Banks of London and Berlin; Lazard Brothers Banks of Paris; Israel Moses Seif Banks of Italy; Warburg Bank of Hamburg and Amsterdam; Lehman Brothers of New York; Kuhn, Loeb Bank of New York; Chase Manhatten; and Goldman, Sachs of New York (Kah, p. 13). It is impossible to verify Kah's information because it is not known who his "contacts" were. Nevertheless, Kah's list differs substantially from Mullins' compilation. Most interestingly, in Kah's list foreigners own the New York Fed directly without having to own majority interests in U.S. banks, as is the case with Mullins' list. The discrepancies in the two lists mean that at least one of them is wrong, and possibly both. Kah's list is the bogus one because no public stock has ever been issued, so it is not possible for anyone on Kah's list other than Chase Manhatten to own shares of the New York Fed.

Moreover, Kah seemed ignorant of important details about the organization of Federal Reserve stock and management, especially for someone claiming to have done as much research on the subject as he did. He referred to the organizations on his stockholders list as "Class A shareholders," which is curious because Federal Reserve stock is not classified in this manner (Ibid). It can be either member stock, which can be purchased only by commercial banks and thrifts seeking to become members of the Federal Reserve System, or public stock. However, the directors of a Federal Reserve bank are separated into Class A, B, and C categories, depending on how they are appointed (12 USCA 302, 304, 305). Three class A directors are chosen by the member banks. Three class B directors are also elected by the member banks to represent the non-bank sectors of the economy. The final three directors, class C, are picked by the Board of Governors also to represent the non-bank public. This may be the source of Kah's confusion, but it is a relatively simple point that he should have detected had his research efforts been thorough.

Does the New York Fed Call the Shots?

Mullins and Kah further argued that by controlling the New York Fed the international banking elite could command the entire Federal Reserve System, and thus direct U.S. monetary policy for their own profit. "For all practical purposes," Kah stressed, "the Federal Reserve Bank of New York is the Federal Reserve" (Ibid). This is the linchpin of their conspiracy theory because it provides the mechanism by which the international bankers execute their plans.

A brief look at how the Fed's powers over monetary policy are actually distributed shows that the key assumption in the Mullins-Kah conspiracy theory is erroneous. The Federal Reserve System is controlled not by the New York Fed, but by the Board of Governors (the Board) and the Federal Open Market Committee (FOMC). The Board is a seven member panel appointed by the President and approved by the Senate. It determines the interest rate, known as the discount rate, for loans to commercial banks and thrifts, selects the required reserve ratio which determines how much of customer deposits a bank must keep on hand (a factor that significantly affects a bank's ability create new loans), and also decides how much new currency Federal Reserve Banks may issue each year (12 USCA 248). The FOMC consists of the members of the Board, the president of the New York Fed, and four presidents from other Fed Banks. The FOMC formulates open market policy, which determines how much in government bonds the Fed Banks may trade, and is the most effective and commonly used of the Fed's monetary policy tools (12 USCA 263). The key point is that a Federal Reserve Bank cannot change its discount rate or required reserve ratio, issue additional currency, or purchase government bonds without the explicit approval of either the Board or the FOMC.

The New York Federal Reserve Bank through its direct and permanent representation on the FOMC has more say on monetary policy than other Federal Reserve Banks, but it still only has one vote of twelve on the FOMC and no say at all in setting the discount rate or the required reserve ratio. If it wanted monetary policy to go in one direction, while the Board and the rest of the FOMC wanted policy to go another, then the New York Fed would be out-voted. The powers over U.S. monetary policy rest firmly with the publicly-appointed Board of Governors and the Federal Open Market Committee, not with the New York Federal Reserve Bank or a group of international conspirators.

Mullins also made a great to-do about the Federal Advisory Council (the Council). This is a panel of twelve representatives appointed by the board of directors of each Fed Bank. The Council meets at least four times each year with the members of the Board to give them their advice and to discuss general economic conditions (12 USCA 261, 262). Many of the members have been bankers, a point not at all missed by Mullins. He speculated that it is able to force its will on the Board of Governors.

The claim that the "advice" of the council members is not binding on the Governors or that it carries no weight is to claim that four times a year, twelve of the most influential bankers in the United States take time from their work to travel to Washington to meet with the Federal Reserve Board merely to drink coffee and exchange pleasantries (Mullins, p. 45).

A point very much missed by Mullins is that the Council has no voting power in Board meetings, and thus has no direct input into monetary policy. In support of his hypothesis that Council members have been able to impose their will on the Board, Mullins offered no evidence, not even an anecdote. Moreover, his Council theory is inconsistent with his general thesis that the Federal Reserve System is manipulated by European banking interests through their control of the New York Fed. If this were true, then why would they also need the Council?

Who Gets the Fed's Profits?

Gary Kah and Thomas Schauf have also maintained that the huge profits of the Federal Reserve System are diverted to its foreign owners through the dividends paid to its stockholders. Kah reported "Each year billions of dollars are 'earned' by Class A stockholders of the Federal Reserve" (Kah, p. 20). Schauf further lamented by asking, "When are the profits of the Fed going to start flowing into the Treasury so that average Americans are no longer burdened with excessive, unnecessary taxes?"

The Federal Reserve System certainly makes large profits. According to the Board's 1995 Annual Report, the System had net income totaling $23.9 billion, which, if it were a single firm, would qualify it as one of the most profitable companies in the world. How were these profits distributed? By an agreement between the Board of Governors and the Treasury, nearly all of the Fed's annual profits are paid to the federal government. Accordingly, a lion's share of $23.4 billion, which represents 97.9 percent of the Federal Reserve's net income, was transferred to the Treasury. The Federal Reserve Banks kept $283 million, and the remaining $231 million was paid to its stockholders as dividends.

Given that less than one percent of the Fed's net earnings are distributed as dividends, it seems that an investor could easily find much more profitable ways to store their wealth than buying Federal Reserve stock. Regarding Schauf's lamentation, the Federal Reserve System has been paying its profits to the Treasury since 1947.

Conclusion

It does not appear that the New York Federal Reserve Bank is owned, either directly or indirectly, by foreigners. Neither Mullins nor Kah provided verifiable sources for their allegations, nor did their mysterious sources agree on exactly who owns the New York Federal Reserve Bank. Moreover, their central assumption that control of the New York Federal Reserve is the same as control of the whole System is wrong and demonstrates a lack of understanding of the System's basic organizational structure. The profits of the Federal Reserve System, again contrary to the assertion of Kah and Schauf, are funneled back to the federal government, not to an "international banking elite." If the U.S. central bank is in the grip of a banking conspiracy, then Mullins and Kah have certainly not uncovered it.

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Editorial questions and comments:
editor@usagold.com