[**http://wallstreetonparade.com/2013/12/new-documents-show-how-power-moved-to-wall-street-via-the-new-york-fed/**](http://wallstreetonparade.com/2013/12/new-documents-show-how-power-moved-to-wall-street-via-the-new-york-fed/)

**[New Documents Show How Power Moved to Wall Street, Via the New York Fed](http://wallstreetonparade.com/2013/12/new-documents-show-how-power-moved-to-wall-street-via-the-new-york-fed/" \o "Permalink to New Documents Show How Power Moved to Wall Street, Via the New York Fed)**

**By Pam Martens: December 9, 2013**

[](http://wallstreetonparade.com/wp-content/uploads/2012/09/Occupy-Wall-Street-Protesters-Outside-the-New-York-Fed-September-17-2012.jpg)

Occupy Wall Street Protesters Outside the New York Fed, September 17, 2012

The Federal Reserve will celebrate its 100th anniversary on December 23 of this year. But the Federal Reserve did not function as the nation’s central bank until 1922 when it fumbled and stumbled its way into an awareness of the power of a centralized mechanism for buying and selling U.S. government securities as a means of carrying out monetary policy. Thanks to a trove of historic documents recently released by the St. Louis Fed, we are now able to see how the New York Fed, a bastion of Wall Street interests, maneuvered itself into control of that process.

Incredibly, from its legislative creation in 1913 until 1922, the Federal Reserve had 12 separate “central” banks carrying out monetary policy for their region of the country. Each of the 12 regional Federal Reserve banks was allowed to buy and sell government securities and trade acceptances. The tide turned in 1922 when the regional banks, to compensate for a dramatic loss of earnings from loans, began independently buying up hundreds of millions of dollars of U.S. government securities to shore up their earnings in order to pay the mandated 6 percent annual dividend to their member bank shareholders, making a dramatic and noticeable impact on the money markets in New York.

At a conference of the regional Federal Reserve banks on May 6, 1922, the powerful head of the New York Fed, Benjamin Strong Jr., became the first Chairman of the body that is now known as the Federal Open Market Committee. At the time, it was given the name: Committee on Centralized Execution of Purchases and Sales of Government Securities by Federal Reserve Banks. Strong, through force of personality, began to channel all trading of U.S. government securities through the New York Fed.

Denoting where power rested in the Federal Reserve System of 1922, on May 25, 1922, George Harrison, second in command at the New York Fed, wrote to the heads of the other regional Federal Reserve banks, advising them that: “Governor Strong has today suggested that Mr. Matteson of this bank act as the operating secretary of the [open market] committee, and has advised each of the banks by telegram that if there is no objection to that appointment the committee will commence functioning tomorrow.” The letter further notes that “This whole program was reported to the Federal Reserve Board at the luncheon…”

A matter as critical as the first functioning of central bank open market operations is being “reported” to the Federal Reserve Board over lunch, much as someone might whisper gossip between “pass the butter” and “where’s the salt.”

Not all of the regional banks were willing to be dictated to by the New York Fed. Ten months later, while Strong was out on sick leave, the Federal Reserve Board stepped into the fray on March 22, 1923 with a Resolution which read in part:

“Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks; Whereas the Federal Reserve Board has never prescribed any limitation upon open market  purchases by Federal reserve banks; Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market; Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market; Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time…”

The Resolution ended by disbanding Strong’s Committee and created a new body, the Open Market Investment Committee for the Federal Reserve System, consisting of representatives from five regional Fed banks and “under the general supervision of the Federal Reserve Board.” (Prior to the Banking Act of 1935, the “Governors” of the Federal Reserve were the heads of each of the 12 regional Federal Reserve banks while the title of the individuals serving on the Federal Reserve Board in Washington, D.C. was “members.”

In the early formative years of the Federal Reserve System, Strong functioned much as Ben Bernanke functions today – as the pivotal mover and shaker.  Strong came from Wall Street and headed the New York Fed from its very first Board meeting on October 5, 1914 to his death in October 1928. Strong was one of the attendees of the infamous meeting on Jekyll Island where Wall Street power brokers designed the Federal Reserve system.

During Strong’s 14 years in office, he traveled abroad, hobnobbing with foreign central bankers and holding the reins on open market operations at the New York Fed.

By 1936, the New York Fed was still attempting to write itself into the formalized role as the sole regional Fed bank authorized to carry out open market operations on behalf of the Federal Reserve System. In the March 16, 1936 [Proposed Regulations of the Open Market Operations of the Federal Reserve](http://wallstreetonparade.com/wp-content/uploads/2013/12/PROPOS1.pdf) by the staff of the Federal Reserve Board, the Board had deleted the proposed language (see page 6; second paragraph) denoting the New York Fed as the bank authorized to carry out open market operations and inserting corrected wording: “The purchase or sale of obligations for the system open market account shall be executed by a Federal Reserve bank selected by the Committee.”

The final published Regulations dated March 19, 1936 carried this wording: “Transactions for the System Open Market Account shall be executed by a Federal Reserve bank selected by the Committee. Each Federal Reserve bank shall make available to the Federal Reserve bank selected by the Committee such funds as may be necessary to conduct and effectuate such transactions.”

Today, even Benjamin Strong would be shocked at the power concentrated at the New York Fed. The New York Fed is the only one of the 12 regional Federal Reserve Banks [to have a Wall Street-syle trading floor](http://wallstreetonparade.com/2013/11/trading-floor-of-the-federal-reserve-bank-of-new-york-in-photos-over-the-years/) with Bloomberg terminals and speed dials to the biggest firms on Wall Street. Since 1935, all open market operations of the entire Federal Reserve system have been carried out by the New York Fed.

On its web site, the New York Fed explains its unique role as the central bank’s central bank: It is the sole manager of the System Open Market Account (SOMA) and sole regional bank engaged in open market operations; it is “responsible for intervening in foreign exchange markets to achieve dollar exchange rate policy objectives.” It stores “monetary gold for foreign central banks, government and international agencies.” Despite being the regulator in charge of the largest Wall Street banks at the time that obscene levels of leverage and corruption collapsed the financial system of the United States in 2008, [even while top Wall Street CEOs sat on its Board of Directors](http://wallstreetonparade.com/2013/11/janet-yellen-confirmation-expect-great-theatre-and-no-hard-answers-on-fed-conflicts/), the New York Fed continues to be in charge of placing examiners in these banks and functioning as their regulator.

The New York Fed also “acts as fiscal agent to the U.S. Treasury by providing settlement services in support of government securities auctions.”

The fact that the New York Fed needs the goodwill of the major Wall Street banks to carry out its open market operations and to facilitate the orderly functioning of U.S. Treasury auctions, makes it a highly inappropriate regulator of the same firms, in the opinion of many observers.

On November 12, Senator Elizabeth Warren delivered a speech on the continuing, inherent dangers on Wall Street. She told her audience:

“Who would have thought five years ago, after we witnessed firsthand the dangers of an overly concentrated financial system, that the Too Big to Fail problem would only have gotten worse? There are many who say, ‘Sure, Too Big to Fail isn’t over yet, but Congress should wait to act further because the agencies still have to issue a bunch of Dodd-Frank’s required rules.’ True, there are rules left to be written, but that’s because the agencies have missed more than 60 percent of Dodd-Frank’s rulemaking deadlines. I don’t understand the logic. Since when does Congress set deadlines, watch regulators miss most of them, and then take that failure as a reason not to act? I thought that if the regulators failed, it was time for Congress to step in.  That’s what oversight means.  And that’s certainly a principle that would have served our country well prior to the crisis.”

If Congress ever decides to get serious about preventing the next crash of the financial system, there is no better place to start than the New York Fed.