# How to *Really* Reform the Fed

*An irreverent take on the U.S. history of money.*

**By Christopher Whalen**

In 1932, President Franklin Delano Roosevelt and most of the New Dealers contended that the surest path to economic recovery was a balanced budget and cuts in government spending, a largely Republican perspective. A banker from Utah named Marriner Eccles, however, believed just the opposite and pushed for aggressive government spending to counteract deflation. When FDR asked Eccles to become governor of the Fed Board in November 1934, Eccles stipulated that he would take the job only if he were given a free hand to reform the central bank.

Eccles and his collaborator, Lauchlin Currie, a Canadian-born socialist and a member of the Roosevelt "brain trust" at the Treasury, were the chief architects of the new central bank. Part of the cell of radical socialists that included Harry Dexter White, architect of the International Monetary Fund, Eccles and Currie had two main goals: first to centralize control of Open Market Operations under the Board, and second, to subject all of the governors of the reserve banks to annual appointment by the Board.

"The stage was set for the Board to become the focus of the economic and legislative drama of the second half of the 1930s," wrote researcher Walker Todd, "featuring the Banking Act of 1935, the doubling of reserve requirements in 1936–1937, the overhaul of discount-window policies, and the regulatory agreement of 1938." The change was so radical that the Roosevelt administration distanced itself from what became known as the "Eccles Bill." The Banking Act of 1935 created the seven-member Board of Governors of the Federal Reserve as a Washington agency. More important, it destroyed the decentralized, Jeffersonian design of the central bank in favor of an explicitly authoritarian European model.

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In the dark days of the Great Depression, few members of Congress other than Senator Carter Glass (D-VA) publicly challenged FDR and Marriner Eccles. "When the measure was unanimously reported to the Senate last week," wrote *Time Magazine* in July 1935, "all hands agreed that a neat job of compromise had been executed on the ticklish issue of centralizing the U.S. Banking System under White House (i.e. political) control. The Senate bill will centralize bank credit but not under direct political control."

The final provisions of the Banking Act of 1935 expanded the type of loans that the Fed could make, particularly in time of emergency. But in a larger sense, the Banking Act of 1935 completed the transition of the Fed from an institution that at least nominally paid homage to the gold standard. The Act preserved the procedural framework of an asset currency system, but in reality was closer to a pure fiat money system. The legislation passed the Congress by a unanimous vote, as was often the case in the 1930s.

Senator Glass, who had served as Treasury Secretary under President Woodrow Wilson, was critical of the Banking Act of 1935, viewing it as a politically motivated power grab by FDR that centralized too much control over the Federal Reserve in Washington. He believed the Federal Reserve's regional banks should have more power and opposed the concentration of authority in the new seven-member Board of Governors. He also clashed with Governor Eccles over the bill's contents, which he saw as centralizing credit policy and altering the original intent of Congress.

Not only did the Banking Act of 1935 consolidate the central bank into Washington, but it invested total executive authority in the chairman. "You got two centralizations going on here in the Fed after 1935," noted scholar Alex Pollock in a recent interview with the author. "One is a centralization of power out of the rest of the country into Washington, into the Board. And the second is the centralization of power in the office of the Chairman of the Federal Reserve Board, who is the chief executive of that agency and for whom all the staff works."

When the Trump administration thinks about reforming the operations of the Fed, reversing the Banking Act of 1935 should be top of the list. The post-1935 Fed is the keystone of progressive socialism in America, as evidenced by the steady mission creep observed at the central bank in recent years. But many of the Fed's more recent innovations, such as paying interest on bank reserve deposits and "quantitative easing," are political workarounds to accommodate massive fiscal deficits.

The critique published in *TIE* (Spring 2025) by Treasury Secretary Scott Bessent makes a lot of specific recommendations about changes in Fed policy, but perhaps the most significant institutional change will be the elimination of the Board of Governors. Doing so would improve the independence and internal governance of the Fed system by separating the central bank from Washington and particularly from the executive branch.

Some readers of *TIE* may think the idea of local selection and Senate confirmation for reserve bank governors is a radical idea, but in fact such a configuration is consistent with the original 1913 Federal Reserve Act. More importantly, separating the Fed from the executive branch is essential in terms of central bank independence. "The Treasury is the borrower and the Fed is the banker," Pollock notes, "the two functions cannot be under the power of the President. The central bank should be independent of the Executive, but by definition cannot be independent of Congress."

## Poor Thomas

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*—C. Whalen*

*President* **Thomas Jefferson as he** *appears on the U.S. $2 Federal Reserve note.*

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## Washington's New Weak Dollar Man

*Fed Governor*
**Stephen Miran**

The Trump administration has made no secret of its desire to see the dollar lower against other currencies. Fed Governor Stephen Miran advocates a policy to weaken the U.S. dollar, viewing its current overvaluation as a cause of trade deficits and a hindrance to American manufacturing. His proposals, outlined in the "Mar-a-Lago Accord," involve a combination of tariffs and potential currency interventions, similar to the 1985 Plaza Accord, to achieve a managed dollar devaluation. A weaker dollar would make U.S. exports cheaper, he argues, rebalance trade, and potentially benefit emerging markets.

*—C. Whalen*

Congress should repeal the Banking Act of 1935. The Fed's bank supervision and market surveillance duties would be transferred to the Treasury, the Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation. After eliminating the Board of Governors and expanding the newly revivified Federal Open Market Committee to fifteen members, the next key reform that must be made is in the instructions from Congress regarding monetary policy. The Fed's dual mandate from the 1978 Humphrey-Hawkins Act, including price stability and encouraging "full employment," has become an engine of inflation and market volatility. A single mandate focused on maintaining the soundness of the currency should be adopted.

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After eliminating the Board in Washington and refocusing the Fed on the soundness of the dollar, the next step in rolling back the fascist designs of FDR and Marriner Eccles is to restructure the Fed districts to better reflect the distribution of the American population and economy. Several new districts must be created mostly in the West by upgrading existing branches of federal reserve banks and merging some now moribund districts east of the Mississippi River. The Chicago and Cleveland reserve banks should be merged, for example.

*Marriner Eccles and Lauchlin Currie had two main goals: centralize control of Open Market Operations under the Board, and subject all of the governors of the reserve banks to annual appointment by the Board.*

The Fed's twelve existing districts should be reorganized into fifteen federal reserve banks, each with a chief executive nominated by the local board of directors and confirmed by the Senate to staggered seven-year terms. The fifteen governors will comprise the Federal Open Market Committee, which will be organized according to the wishes of the FOMC as Congress directed before 1935. The governors will elect one among them to serve as chairman, but with specific limits on that person's power and tenure to avoid the concentration of power in the current design.

Secretary Bessent has rightly focused on the damage done by the Fed under Ben Bernanke, Janet Yellen, and most recently Jerome Powell, who was appointed by President Trump in 2017. For Bessent and many other observers, the primary mistake of the Fed since Bernanke, who opened the door for massive purchases of securities

under the guise of economic stimulus, has been doing too much. The Orwellian term "quantitative easing" or QE illustrates just how far afield the Fed has wandered without effective direction and oversight from Congress.

A comprehensive reform of the Fed must put in place some limits on open market actions similar to the specific instructions on monetary policy. The decision by the Fed's Board of Governors to initiate massive purchases of securities was a radical departure that arguably required legislation. Instead, the Federal Reserve Board unilaterally created its own hedge fund to fuel speculative adventures in central economic planning and lost hundreds of billions in taxpayer funds in the process. The net result of QE as practiced in 2020–2021 was a vast increase in inflation generally and home prices specifically, this under the loose rubric of protecting jobs.

Any credible reform of the central bank must be performed in the context of a larger reform of the fiscal posture of the United States, including serious deficit reduction. Without a reduction in federal deficits, any real discussion of price stability is moot. FDR's confiscation of gold in 1933 was about political survival, but the wave of public fear caused by Roosevelt's actions and the subsequent dollar devaluation made the Great Depression far worse. And the progressive Federal Reserve Board under Chairman Eugene Black facilitated Roosevelt's repression of gold as money, seizing gold from both individuals and the member banks of the Federal Reserve System.

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In the wonderfully sarcastic book *The New Dealers,* published anonymously in 1934 by Simon & Schuster, the "Unofficial Observer" described the FDR devaluation and repudiation of gold:

> *On the one hand, you have the good old traditional way of doing business, which required the entire population of the country to "walk home" at twenty-year intervals in the name of God and the Gold Standard. On the other hand, you have the new technique of the financial sheik who claims that you can use buttons instead of money. The old school claims that buttons belong in button-holes, the new school asks what is the Gold Standard between friends. The times are on the side of the new school, for the financing of a revolution—even an unconscious one—takes a lot of money, and a lot of buttons.*

Rather than selling U.S. gold stocks to achieve a weaker dollar, Stephen Miran should take a page from FDR and the New Dealers a century ago, buy gold for the U.S. account to devalue the fiat dollar, and re-establish gold as a measure of inflation and value. The reconfigured Federal Reserve System should start to accumulate gold as a reserve asset like other central banks. We cannot eliminate the dollar as a fiat currency, but by reforming the Fed and ending the official policy against gold, we can strengthen the long-term mandate for price stability. ◆