The Monetary Control Act of 1980

The New Money Monster

by Dan Piro

It was April 1, 1980. The press hailed it as banking reform legislation. Everyone spoke about giving the small saver a break by lifting the restrictions on rates he could earn. It was April Fools Day.

The event was the signing into law of the Depository Institutions Deregulation and Monetary Control Act of 1980. It marked the third time that fraud, deception, crisis, and confusion were used to unleash a money monster on the American people. The creation of the Federal Reserve System in 1913, and the abandonment of the gold standard in 1933 employed similar tactics. These two measures were used in tandem to depreciate the currency by 87% from 1933 to 1980.

The powers granted in the Monetary Control Act expand the bank privilege to create money. As banks flood the economy with more and more paper money, the currency in circulation loses value. It is conceivable that with their new powers, the banks could engineer an 87% depreciation of the currency by 1990.

The passage of the Act was a victory for the paper money power structure over the American people. This power structure, consisting of the banks, the largest corporations, Wall Street, and a cadre of pseudo-intellectuals, was on the defensive. First Pennsylvania had failed, many savings banks were in trouble, Chrysler was bankrupt, and Ford was about to absorb heavy losses. Worse yet, a quiet revolution for a balanced budget was threatening to obstruct their basic system of creating paper money.

The Monetary Control Act had floundered in the 95th Congress. It fared better in the 96th Congress as the Eastern Banking Establishment and all its friends maneuvered skillfully and forcefully. Led by Henry Reuss, Chairman of the House Banking Committee, and all the resources the Federal Reserve Board could muster, the forces of paper money overcame a series of political obstacles until they had reshaped the law.

In Spring of 1979, I suddenly found myself taking on the banking and economic establishment in a fight waged against the bill. I was opposing it on behalf of the Committee to Establish the Gold Standard. We were joined in this battle by the American Economic Council.

Legislative History

Let me review for you, in detail, the process by which the legislation has become law. This may give you some insight into the intention behind certain provisions of the bill.

In 1978, a version of the Monetary Control Act was introduced into Congress. At that time G. William Miller was head of the Fed. Mr. Miller announced that this legislation – which he clearly did not understand – was his top priority. Miller's bill died in that session of Congress.

When the 96th session convened last year, the bill was reintroduced as the Monetary Control Act of 1979. For reasons unrelated to its easy money provisions, the bill was defeated three times.

However, this bill, known in 1979 as H.R. 7, was the baby of Henry Reuss, Chairman of the House Banking Committee. Mr. Reuss was following a strategy that could only work for someone who was a committee chairman.

If at first you don't succeed, keep trying until you have bargained the committee members into passing your bill.

For more than a year and one half, the press paid no attention to this legislative effort. Finally, after the third defeat, a small news item was carried by one of the wire services indicating that the bill contained a provision to lower bank reserve requirements.

It was at this point, in the spring of 1979, that the American Economic Council and the Committee to Establish the Gold Standard became greatly interested in the bill. We discovered that this bill would dramatically extend the bank privilege of creating demand deposits. Under the terms of H.R. 7, banks would be able to create $25 in demand deposits for every cash dollar they held. This would be a fourfold expansion of their existing privilege. Technically, the bill would accomplish this by allowing the Fed to lower bank reserve requirements.

This would triple the money supply, triple prices, and cause the dollar to lose two-thirds of its current value.

Interestingly, the money supply could be tripled even if the budget were balanced.

We lobbied against H.R. 7 as it went before the banking committee for the fourth time. Unfortunately, we were several months too late. We fell seven votes short of defeating it in committee. On the fourth try it passed.

Only 3 of the 26 congressmen who voted for the bill in committee understood its impact on the value of the dollar. The others were led to believe that they were voting on the issue of voluntary vs. mandatory membership in the Federal Reserve System.

In fact, H.R. 7 was informally known as the "Fed Membership" bill. Once it got through the House Banking Committee it was passed overwhelmingly by the full House. Again fewer than five of the Congressmen who voted for the bill on the floor understood its consequences.

One congressional aide who opposed the bill said that if we had been around six months earlier, we probably would have killed it in committee.

The Tactics of Obfuscation

We did enjoy one victory.

The paper money faction was looking to expand the *ways* in which the Fed could create money. Under existing law, the Fed could create money in exchange for gold or U.S. Government obligations. Under this system, the government would be encouraged to run deficits. The Fed would create money for the purpose of lending it to the government. In the event the balanced budget movement forced a balanced budget through a Constitutional Amendment, the Fed would need a new basis for creating money. It could accomplish this legally by expanding the definition of Federal Reserve collateral.

When Henry Ruess finally pushed H.R. 7 through the House Banking Committee, it included a provision which removed all restrictions on **Federal Reserve collateral.** The Fed would be allowed to use anything it chose as collateral. The Fed could create money for the purpose of lending it to Government agencies, corporations, foreign governments, or any other entity. It could become a cornucopia of paper money.

This change in the definition of Federal Reserve collateral was defeated on the floor of the House in June 1979, by Congressman Ron Paul. As a result, H.R. 7 passed the House with no change in the definition of Federal Reserve collateral. H.R. 7 was subsequently amended to H.R. 4986. This latter legislation was known principally for its provision to lift the ceiling on interest rates offered to savers. The Senate never voted on H.R. 7.

The conditions under which H.R. 7 was amended to H.R. 4986 demonstrated the intensity with which the paper money forces were operating. After H.R. 7 passed the House in June 1979, the bill's supporters needed similar legislation passed in the Senate.

They had excellent allies in Senators John Tower (R-Tex) and Jake Garn (R-Utah). Both these men had introduced their own versions of the Monetary Control Act. One important roadblock existed on the Senate side. Banking Committee Chairman William Proxmire had no interest in moving the bill. He appeared content to let it die.

Proxmire had his own favorite bill which was receiving most of his attention. This bill would lift the lids on interest rates offered to small savers. As interest rates surged towards 20% in the winter of 1979-80, Proxmire's bill became politically popular. No one in Congress wanted to be identified with the position of holding rates to 5¼% for the little guy. Suddenly, Proxmire's bill was moving through both houses of Congress. On the House side, Proxmire had to contend with Henry Ruess. They worked out a deal in which Ruess would amend his Monetary Control Act to the House version of Proxmire's bill. Proxmire and Ruess agreed to arrange a joint conference between the House and Senate as soon as possible. This was how H.R. 7 became amended to H.R. 4986. **The expanded version of H.R.** 4986 became officially known as the "Depository Institutions Deregulation and Monetary Control Act of 1980."

The legislation went to a joint conference between the House and the Senate on March 4th and 5th. Neither the House version nor the Senate version contained any provision to change the definition of Federal Reserve collateral. (The purpose of such a conference is to amend the differences between the Senate and House versions of similar bills).

However, the definition was amended in the joint conference.

This time, the paper money forces lifted all but a small portion of the restrictions on the definition of the Fed collateral. The only restriction that was not completely eliminated was the one concerning the power to intervene directly in the stock and bond markets. However, the door was opened wide enough in this area to create a technical loophole. There could be no doubt that the Fed would return in the future to consolidate this power.

It was clear that the Fed was hard at work fine-tuning its paper money machine. No more than one or two of the members of the joint committee had the knowledge of money needed to understand the consequences of an expanded definition of Federal Reserve collateral. It was likely that the staff from the Fed presented these changes to the Congressmen as mere technical adjustments.

When Congressman Paul defeated the collateral provision on the House floor, no argument was made on its behalf. Not a word was said as to why the Fed needed a change in the definition. It appeared at all points, that the Fed was seeking substantial powers, but did not want to reveal its motives.

On March 13, John Robbins, who is the Banking Committee aide to Congressman Paul, received a memorandum summarizing the major changes determined by the conference committee. This report, prepared by the Re-