Monetary Policy

Monetary policy is the process of:
•Supplying currency
•Setting interest rates

In the U.S. monetary policy is managed by The Federal Reserve System (The Fed) which is their central bank.

Central bank: An institution that manages currency, money supply and interest rates for a country. The role of this institution is to control the monetary system in order to reduce economic crises.

The Fed is a private organization that was created in 1910 through a secret meeting at a J.P. Morgan estate between 6 of the largest bankers (including representatives from the Rockerfellers and Rothschild). Together they wrote "The Federal Reserve Act" and were able to convince the government to sign it into law in 1913. Since The U.S. had a series of financial panics in the beginning of the 20th century, it was easy to convince them to hand over the Monetary powers to a group that could stabilize the economy and remain independent of politics. At that point the control of the money supply went from the government to this private institution which now had the power to issue currency, set interest rates and bailout banks. All of this while giving government very little oversight and no way to overule their actions.

The Fed is composed of 12 regional banks and 2 boards:
•The Board of Governors (7 members appointed by the president)
•The Federal Open Market Committee (the 7 members of the Board of Governors, the president of The Fed of New York, and 4 of the other regional banks.

The Board of Governors is responsible for setting the interest rate and reserve requirements by banks.

The Federal Open Market Committee (FOMC) is responsible for deciding on the direction of monetary policy and for open market operations (buying/selling government securities -> selling securities decreases the money supply and vise versa).