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# The Jekyll Island Story

How a secret meeting in 1910 shaped the money system, what it has meant for ordinary people, and whether Australia's banks are built the same way

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# Contents

## Why I wrote this

In November 1910, six men met in secret on a private island off the coast of Georgia. What they wrote there became the blueprint for the United States Federal Reserve, and eventually for the money system most of the world uses today.

That meeting has become the centre of a lot of argument. Some people treat it as proof that a small group of bankers quietly took control of the world's money. Others treat any mention of it as a conspiracy theory and refuse to discuss it.

Both reactions get in the way of a good answer. The meeting really happened. It really was secret. The men in the room really were bankers. But the plan they wrote was defeated, and what passed three years later was different in important ways.

This paper sets out what was actually designed, what it became, what it has done to people who work for a living, and whether a fairer system was ever possible. It also answers a question I get asked often in a property context: is Australia's banking system built on the American model? The short answer is no, and the reasons are interesting.

I have kept the language plain. Where the experts disagree, I say so. Where I am giving my own opinion rather than reporting a fact, I say that too. Every claim has a source, and the full source list is at the back.

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# Part 1: The problem America had before 1913

To judge the design fairly, you have to know what it was trying to fix. The American money system in 1910 was genuinely broken, and it was broken in ways that hurt ordinary people badly.

## The money supply could not grow or shrink

Under laws passed in 1863 and 1864, American banks could only issue banknotes if they held government bonds as security. That meant the amount of cash in the country was tied to how much government debt existed, not to how much money businesses and families actually needed (Meltzer, 2003).

The result was a currency that could not stretch. When farmers needed to be paid at harvest time, there simply was not enough cash to go around.

## The same crisis every single autumn

Every year at harvest, country banks pulled their money out of the big New York banks to pay farmers for crops. Interest rates in New York would spike. Loans were called in. The share market would seize up. This happened almost every year, like clockwork (Meltzer, 2003).

## Bank panics that wiped people out

There were major panics in 1873, 1884, 1890, 1893 and 1907. There was no deposit insurance of any kind. If your bank failed, your savings were simply gone. A working family could lose everything because of a bank three towns away that they had no way of assessing (Meltzer, 2003; Bruner and Carr, 2007).

### No one to step in

The Panic of 1907 was not stopped by any government body. It was stopped by J.P. Morgan, a private banker, who locked other bankers in his library until they agreed to put up rescue money. One private citizen decided which banks lived and which died (Bruner and Carr, 2007).

Whatever you think of central banks, it is worth sitting with how unacceptable that was.

### Thousands of tiny, fragile banks

This is the part most people miss, and it turns out to be the most important part of the whole story.

American law banned banks from opening branches in other states, and often banned branches within a state as well. So instead of a few large banks with branches everywhere, America had thousands of tiny banks, each with one office, each depending on one town and often one industry (Calomiris and Haber, 2014).

If the local crop failed, the local bank failed. There was no way to spread the risk, because the law forbade it.

Hold on to this point. It explains almost everything that follows.

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## Part 2: The meeting

After the 1907 panic, Congress set up a National Monetary Commission under Senator Nelson Aldrich to study how European central banks worked. In November 1910, Aldrich took a small group to the Jekyll Island Club, a private hunting retreat off the Georgia coast.

The men in the room were:

| Who | What they were |
|---|---|
| Nelson Aldrich | US Senator, head of the Monetary Commission |
| Paul Warburg | Banker at Kuhn, Loeb and Co. The main author of the plan |
| Frank Vanderlip | President of National City Bank of New York |
| Henry Davison | Senior partner at J.P. Morgan and Co. |
| Charles Norton | President of First National Bank of New York |
| A. Piatt Andrew | Assistant Secretary of the Treasury |

They agreed to use first names only and to say nothing publicly.

### The secrecy is not a rumour

We know about the secrecy because the men themselves wrote about it years later. Vanderlip described the whole trip in his 1935 memoir. Warburg wrote his own account in 1930 (Vanderlip, 1935; Warburg, 1930).

Their reason was simple. They knew that if the public found out Wall Street had written the bill, the bill would die. That judgement turned out to be exactly right. It also tells you something worth noticing: the authors understood that their own involvement was a problem.

### What the record does not support

The bigger claim, that this meeting handed control of America's money to a private cartel, does not hold up.

The Jekyll Island plan was defeated. What passed three years later was a different law, debated in public, and changed substantially by politicians who were hostile to the men in that room (Lowenstein, 2015).

Both things are true at once. The drafting was secretive and elite. The outcome was genuinely fought over and genuinely changed.

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## Part 3: What they actually designed

The plan had six main parts. Five of them still exist today in some form.

**1. A currency that could stretch.** Banks could bring short-term business loans to a central body and receive cash against them. When the loans were repaid, the cash would disappear again. Money supply would rise and fall with real business activity (Meltzer, 2003).

This idea had a serious flaw that nobody understood at the time. When business collapses, demand for loans collapses too, so the money supply shrinks exactly when the economy most needs it to grow. This helped make the Great Depression worse (Friedman and Schwartz, 1963).

**2. Regional branches, not one central bank.** Roughly fifteen regional offices rather than one institution in one city. This was partly genuine, and partly political cover. Americans had already killed two earlier central banks and everyone in the room knew it (Lowenstein, 2015).

**3. Someone to step in during a panic.** Pool the banks' reserves and lend against good security when a crisis hits. This idea came straight from Britain. Walter Bagehot had set it out in 1873: in a panic, lend freely, at a high interest rate, against good security (Bagehot, 1873).

**4. Bankers in charge.** The new body would be owned by member banks and run by a board of bankers. This is the part that made the plan politically radioactive, and it is the part that changed most.

**5. Pooled reserves and a single cheque clearing system.** Before 1913, a cheque written on a distant bank could lose several percent of its value simply because clearing it was slow and unreliable (Meltzer, 2003).

**6. Gold as the limit.** The currency could stretch, but only within the limits of gold backing.

That last point matters enormously. Gold backing was abandoned at home in 1933 and internationally in 1971. The modern system has no external limit at all. Nothing designed at Jekyll Island imagined that.

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# Part 4: What Congress actually passed

The Aldrich Plan died. Aldrich was a Republican closely tied to the Rockefeller family and openly identified with banking. The 1912 election put the Democrats in charge, and the bill had to satisfy Woodrow Wilson, Carter Glass, Robert Owen and the farmers' champion William Jennings Bryan.

The Federal Reserve Act was signed on 23 December 1913. It differed from the Jekyll Island draft in four important ways (Lowenstein, 2015; Federal Reserve Act, 1913):

1. **A government-appointed board in Washington**, chosen by the President and approved by the Senate. Aldrich's plan had nothing like it. This was Bryan's price.
2. **Twelve separate regional banks** rather than branches of one body.
3. **The notes are government obligations.** Federal Reserve notes are liabilities of the United States and are printed by the Treasury.
4. **The profits go to the Treasury.** Member banks hold stock in their regional bank and receive a set dividend. But that stock cannot be sold, traded or borrowed against, and it gives no claim on the profits. Almost all net earnings go to the US government (Federal Reserve Act, 1913; Federal Reserve Board, annual reports).

This last point is where most popular accounts go wrong. Member banks are not shareholders in any normal sense. Calling the Fed "privately owned" misdescribes what the stock actually is.

## The compromise that was never resolved

What Congress created was a hybrid. Public purpose and public appointment at the top. Private banking involvement at the district level.

Directors of each regional bank are still partly elected by the banks themselves. Regional bank presidents, five of whom vote on interest rates at any time, are chosen by their own boards rather than by any elected official (Federal Reserve Act, 1913).

That is the real problem with the design, and it came straight from Jekyll Island. It is not a conspiracy. It is a compromise that was made in 1913 to buy banking support, and never revisited.

# Part 5: How the system changed over a century

The Federal Reserve today is not the institution that was designed. Here is how it moved.

| When | What happened | Why it matters |
|---|---|---|
| 1929-33 | About a third of US banks failed. The money supply fell by about a third | The body created to stop panics presided over the worst panic in US history |
| 1933 | Deposit insurance created | This did more for ordinary savers than the Fed itself had |
| 1951 | The Fed stops taking orders from the Treasury | The start of modern central bank independence |
| Aug 1971 | The US ends the link between the dollar and gold | The last external limit disappears |
| 1977 | Congress adds a legal duty to pursue full employment | Jobs become part of the job description |
| 1979-82 | Interest rates pushed near 20 percent to kill inflation. Unemployment hits 10.8 percent | The clearest example of who pays for low inflation |
| 2008-14 | Money creation on a huge scale to buy bonds. The balance sheet grows from under 1 trillion dollars toward 9 trillion | Policy now works mainly through asset markets |
| 2012 | A formal 2 percent inflation target is adopted | The set-up we live under today is only fourteen years old |
| 2020 | Emergency support including buying company debt for the first time | |
| 2026 | Rates held at 3.5 to 3.75 percent. Inflation still above target | Where things stand now |

Sources: Friedman and Schwartz (1963); Meltzer (2003); Bernanke (2002, 2015); Garten (2021); Silber (2012); Federal Reserve Board (2012, 2026).

In 2002, Ben Bernanke, then a Fed governor, publicly admitted the Fed caused the Great Depression to be as bad as it was. That is worth remembering when anyone defends the institution (Bernanke, 2002).

**The key point.** What was designed in 1910 was narrow and technical. What exists now manages the whole economy, has no external limit, and can decide where credit flows. Nobody ever voted on that change. It happened one emergency at a time, and every single step looked reasonable on its own.

# Part 6: What the system has done FOR working people

The criticism is much stronger if it does not pretend the system achieved nothing. It achieved a lot.

**Bank runs stopped destroying savings.** Between 1863 and 1913, a working family could lose everything because a distant bank failed. Since 1934, essentially no insured American depositor has lost money. Credit for this belongs jointly to the Fed and to deposit insurance, and arguably more to deposit insurance (Meltzer, 2003).

**The annual autumn crisis simply stopped.** Farmers, small manufacturers and the people they employed stopped facing a predictable yearly squeeze.

**Recessions got shorter and shallower.** Downturns since 1945 have been much less severe than those before 1913 on almost every measure (Romer, 1999). Recessions destroy working people's jobs first and give them back last, so this matters more to a wage earner than to someone with investments.

**Payments became cheap and reliable.** Cheques cleared at face value. Later, electronic transfers. This removed a hidden tax on ordinary business.

**The employment duty has actually bitten.** Keeping rates low from 2015 to 2019 pushed American unemployment to fifty-year lows. The gains in that last stretch went mostly to workers at the bottom of the pay scale and to people who had been out of work longest. This was a deliberate choice and it worked (Powell, 2019).

**Crisis floors.** American unemployment hit around 14.7 percent in April 2020 and was back under 6 percent within eighteen months. Whatever the problems with how it was done, doing nothing would have been far worse for wage earners than for anyone else.

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# Part 7: What the system has COST working people

## New money does not reach everyone at the same time

This is the most important criticism, and it is not new. An Irish-French banker named Richard Cantillon worked it out in the 1730s.

New money does not appear evenly across an economy. It enters at particular points. Whoever gets it first spends it at yesterday's prices. Whoever gets it last faces tomorrow's prices with the same income they had before (Cantillon, 1755).

In today's system, new money enters through banks and bond markets. So the first in line are banks, funds and people who already own assets. The last in line are wage earners, whose pay adjusts slowly and who often own no assets at all.

This is not about anyone's intentions. It is simply what happens when you inject money through financial markets. It would happen even if everyone involved was a saint.

## Asset prices have run away from wages

This is where that idea becomes something people feel.

Since about 1980, and sharply since 2009, the price of assets, especially housing, has risen far faster than average pay across the developed world (Piketty, 2014).

In Australian capital cities, the ratio of house prices to household income has roughly doubled since the 1980s and 1990s, though different bodies measure it differently. A deposit that once took a few years to save now takes ten or more.

The result is a hard split by generation. People who already owned assets were carried upward. People who did not found the starting line moving away from them faster than they could run.

I want to be careful here, because I think monetary policy gets blamed for more of this than it deserves. Part 9 covers why.

## Cash savings quietly lose value

A US dollar held since 1913 buys around three cents worth of goods today. Under a 2 percent inflation target, money loses half its buying power roughly every 35 years. That is not an accident. It is the design.

Someone who keeps their savings in the bank loses steadily. Someone who owns property with a mortgage gains twice, because inflation shrinks their debt while lifting their asset.

The usual defence is that wages rise with inflation too, and that falling prices would be worse because they make debts heavier. That defence is partly right. It is weakest for people with little bargaining power, and during inflation spikes, when real wages actually fall. American real wages fell for most of 2021 and 2022 before recovering.

## Rescues have not been even-handed

In 2008, institutions that had taken reckless risks were rescued, and the people who ran them mostly kept their money. Meanwhile six to seven million American households lost their homes to foreclosure (Mian and Sufi, 2014).

Help for the financial system was immediate, enormous and structural. Help for households was slow, means-tested and small.

There is a technical defence for that order. If the payments system collapses, everyone suffers. But the public's sense that there were two different rules was accurate, and the damage to trust has lasted.

The same pattern repeated more mildly in 2020. The programs to support company bond markets worked brilliantly. The program designed to lend to medium-sized employers lent a small fraction of what it was set up to lend.

The institution is built to move money into financial markets. It is not built to move money to ordinary businesses and people.

### Fighting inflation works by putting people out of work

The Volcker interest rate shock of 1979 to 1982 was probably the right policy. Inflation was destroying the currency and it had to stop.

But the cost fell almost entirely on factory workers, while the biggest benefit, forty years of rising bond and asset prices, went to people with capital (Silber, 2012; Volcker, 2018).

Here is the uncomfortable mechanism. The way a central bank reduces inflation is by reducing demand for workers. A person who loses their job in a deliberate campaign against inflation is not an unfortunate side effect. They are how the policy works.

### Cheap money favours buying things over hiring people

When borrowing is cheap, activity that uses a lot of borrowed money is favoured over activity that uses a lot of labour. Buying companies with debt and buying back shares get easier. Hiring people and raising wages do not (Turner, 2015).

The link between low rates and a growing financial sector share of profits is strong. Whether one causes the other is still argued about.

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## Part 8: How this spread to the rest of the world

Four things carried the American design outward.

**Copying, in the 1920s and 1930s.** An international conference in Brussels in 1920 declared that every country should have a central bank. The Bank of England and the New York Fed then actively helped countries set them up (Eichengreen, 2008). A wave of foundings followed: South Africa 1921, Australia's expanded powers 1924, New Zealand 1934, Canada 1935, India 1935.

**Bretton Woods, 1944.** Forty-four countries agreed that the US dollar would be convertible to gold, and that every other currency would be fixed to the dollar (Steil, 2013). From that moment, American monetary policy became everyone's monetary policy by design.

Keynes proposed something different at Bretton Woods: a world currency unit called the bancor, with rules that would force both surplus and deficit countries to adjust. It was rejected, because the United States was the world's biggest creditor and had no interest in accepting obligations that would fall on itself (Keynes, 1943).

**The Nixon shock, 15 August 1971.** The United States ended dollar convertibility to gold without consulting the countries whose currencies were tied to it (Garten, 2021). Every trading nation had to redesign its exchange rate system.

**Dollar funding markets.** Banks in London, Sydney, Toronto and Singapore borrow in US dollars they cannot create and their own central banks cannot supply (Tooze, 2018). This is why the Fed affects countries that have floating currencies and no formal link to the dollar at all. It is the channel that matters most for Australia.

## The dollar queue

Here is the least discussed and most concrete way the Fed exercises power over people who have no vote in it.

When dollar funding markets freeze, a country's banks can only keep operating if they can borrow US dollars. The Fed decides who can.

There are three tiers (Federal Reserve Board, swap line records):

- **Permanent access:** Canada, the United Kingdom, the eurozone, Japan, Switzerland.
- **Emergency access, granted in 2008 and again in 2020:** Australia, New Zealand, Brazil, Denmark, South Korea, Mexico, Norway, Singapore, Sweden.
- **Everyone else:** a facility that requires posting US government bonds as security.

That is a ranking of countries decided by an American committee. There is no treaty, no vote and no appeal. Australia and New Zealand are in the middle tier.

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# Part 9: Australia

## We did not copy the American design

The Reserve Bank of Australia was set up as a fully public institution from the beginning. No bank shareholders. No bank-elected directors. No ambiguity about who owns it (Schedvin, 1992).

Australia simply did not import the Jekyll Island compromise, and as a result has never had America's argument about who owns the central bank.

## Our legal instruction to the RBA is better than most

The Reserve Bank Act 1959 tells the Board to work toward three things: a stable currency, full employment, and the economic prosperity and welfare of the people of Australia (Reserve Bank Act 1959, section 10(2)).

That is a stronger, more people-focused instruction than the Federal Reserve's, and far stronger than the European Central Bank's, which is only required to care about prices.

## The main dates

- **1911:** The Commonwealth Bank is founded as a government-owned "people's bank", two years before the Federal Reserve Act.
- **1924:** Central banking functions begin moving to it.
- **1930 to 1931:** During the Depression, Commonwealth Bank chairman Sir Robert Gibson refuses credit to the Scullin government and effectively forces through the deflationary Premiers' Plan. Wages and pensions are cut by around 10 percent. An unelected banker overrides an elected government (Schedvin, 1970).
- **1937:** A Royal Commission reports. Ben Chifley sits on it and writes a dissent arguing for public ownership of the banks.
- **1945:** Sweeping government control over bank lending, interest rates and foreign exchange.
- **1947 to 1949:** The Chifley government legislates to nationalise the private banks outright. The High Court strikes it down, and the Privy Council agrees (Bank of New South Wales v The Commonwealth, 1948).
- **1959:** The Reserve Bank Act separates the central bank from the commercial bank. The RBA starts on 14 January 1960.
- **1983:** The dollar is floated on 9 December under Hawke and Keating.
- **1993:** Inflation targeting of 2 to 3 percent on average over time begins.
- **2025:** A new specialist Monetary Policy Board replaces the old Reserve Bank Board on 1 March, following the 2023 review (RBA Review, 2023; RBA, 2025).

Two of those deserve more attention than they get.

**Australia already tried public banking.** The Commonwealth Bank was a genuine, nationwide, government-owned bank competing with the private sector for eighty years. It was sold off between 1991 and 1996. When people suggest public banking as an alternative, they are describing something Australia had and sold, not something untested.

**Australia nearly abolished private banking.** In 1947 the government legislated to nationalise the lot. It was stopped by the High Court, not by a change of political heart. Nothing like that has ever happened in America.

## The 2020 to 2022 sequence, and why it hurt

In March 2020 the RBA cut the cash rate to 0.25 percent, then to 0.10 percent in November. Through 2021 the Bank's communication suggested rates were unlikely to rise before 2024. Rates began rising in May 2022 and reached 4.35 percent by November 2023 (RBA cash rate records).

This is the clearest recent example of monetary policy shifting wealth between age groups.

People who bought at the peak in 2021, partly on the strength of guidance that rates would stay low, took on debt priced for a world that never arrived. People who already owned property gained from the same low rates. The RBA's own review criticised that guidance (RBA Review, 2023).

## The Perth test

Here is a local example that I think settles an argument.

Between about 2014 and 2019, Australian interest rates fell repeatedly to record lows. Sydney and Melbourne prices rose hard. **Perth prices fell** for that entire period, because the mining investment cycle had turned and people were leaving the state.

Identical monetary policy. Opposite outcomes.

Anyone who says central banking is the main cause of housing unaffordability has to explain Perth between 2014 and 2019. The honest answer is that land release, approval times, construction capacity, migration and local incomes matter more than interest rates do.

That does not let monetary policy off the hook. It just puts it in proportion.

## How the Fed reaches us anyway

Three ways:

1. **Bank funding.** Australian banks raise a lot of their wholesale funding overseas in US dollars. When those markets freeze, Australian mortgage and business rates rise no matter what the RBA does. In September 2008 the Fed gave the RBA a 30 billion dollar swap line, and did it again in March 2020.
2. **The exchange rate.** US rate rises tend to push the Australian dollar down, which makes imports dearer, which raises Australian inflation, which forces the RBA to respond.
3. **Commodity prices.** American and Chinese demand set iron ore and gas prices, which set Western Australian income directly.

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# Part 10: Britain, New Zealand and Canada

## Britain

Britain is the source, not the recipient. The Bank of England dates from 1694, and it was Bagehot's 1873 book that gave America the crisis-lending idea in the first place (Kynaston, 2017; Bagehot, 1873).

Britain also provides the clearest example anywhere of monetary decisions hurting working people.

In 1925 Churchill returned the pound to gold at its pre-war value, which left it overvalued by 10 to 15 percent. Keynes attacked the decision and predicted exactly what happened: because the exchange rate could not move, the adjustment had to come out of wages instead. Coal owners demanded pay cuts and longer hours. The result was the General Strike of 1926 (Keynes, 1925; Skidelsky, 1992).

**That lesson generalises, and it is the most reliable rule in this whole subject.** When a currency cannot adjust, wages and jobs adjust instead. It was true of the gold standard. It is true of a fixed exchange rate. It is true of the euro today. And it happens regardless of who owns the central bank.

It happened again in 1992. Britain had tied the pound to other European currencies at too high a rate. Defending that rate meant interest rates the economy could not carry, and on 16 September the Bank of

England raised rates twice in a single day before giving up and letting the pound go. British households on variable mortgages paid for that defence directly.

Britain nationalised the Bank of England in 1946, and gave it independence over interest rates in 1997.

## New Zealand

New Zealand's contribution is bigger than most people realise. **The framework the whole world now uses is more a New Zealand invention than an American one.**

The Reserve Bank of New Zealand Act 1989 created the first explicit legal inflation target anywhere, with a published agreement between the Minister and the Governor, and the Governor personally accountable for hitting it (RBNZ Act 1989). Canada copied it in 1991, Britain in 1992, Australia and Sweden in 1993, and dozens of countries since.

So Jekyll Island supplied the institution. Wellington supplied the job description.

The cost was severe. New Zealand unemployment rose to around 11 percent in 1991 and 1992, with much higher rates among Maori and Pacific workers, and heavy emigration followed.

New Zealand is also running the exact experiment this paper is about, right now. An employment objective was added in 2018 and removed in December 2023, in the first bill of the new government's term (Reserve Bank of New Zealand (Economic Objective) Amendment Act 2023). As at mid-2026, inflation is 4.1 percent, driven substantially by petrol prices, unemployment is near a decade high, and the central bank raised rates on 8 July because the law no longer requires it to weigh jobs (Reuters, 2026; interest.co.nz, 2026).

## Canada

Canada gives us the single most damaging fact for the whole Jekyll Island design.

**Canada had no central bank until 1935, and no bank failures at all during the Great Depression.** America had a central bank and thousands of failures (Calomiris and Haber, 2014; Bordo, Redish and Rockoff, 2015).

The difference was branch banking. Canadian banks were few, large, and allowed to have branches nationwide, so they were spread across regions and industries automatically. American banks were legally forbidden from doing that.

This suggests something uncomfortable: the fragility that justified building the Federal Reserve was created by American law, and could have been cured by repealing that law instead.

Canada also has the best accountability mechanism anyone has designed, and almost nobody has heard of it. After a public clash between the Governor and the government in 1961, Canada gave the Finance Minister the power to issue a **written, public instruction** to the Governor, who must either follow it or resign (Powell, 2005).

That solves the problem elegantly. The central bank stays independent day to day. But if an elected government wants to overrule it, it must do so in writing, in public, and wear the consequences. The power has never been used, which is probably evidence that it works.

Canada also renews its inflation target every five years by joint agreement between the Bank and the government (Bank of Canada, 2021). That forces a public re-examination rather than letting a decision made once harden into permanence.

**And here is the honest counterweight.** Canada has arguably the best-designed central bank in the English-speaking world, and among the worst housing affordability in the OECD (OECD housing data). Good central bank design did not fix the problem people actually care about.

# Part 11: Europe, Japan and poorer countries

**Europe.** The European Central Bank is only required to care about prices. Member countries cannot devalue. So when the crisis hit from 2010, adjustment fell where it always falls when the exchange rate cannot move: on wages and jobs. Greek unemployment passed 27 percent and youth unemployment passed 50 percent (Eurostat).

**My assessment:** for working people specifically, a price-only mandate combined with a fixed exchange rate and no shared budget is the most damaging monetary set-up in the developed world.

**Japan.** Japan shows the opposite lesson: falling prices are bad for workers too. After the 1990 crash, Japan pioneered zero interest rates and money creation on a huge scale. Japanese wages were roughly flat for twenty-five years. Anyone arguing that hard money and low inflation are automatically better for wage earners has to explain Japan (Koo, 2008).

**Poorer countries.** When Volcker raised American rates, much of the developing world had borrowed in US dollars at floating rates. Short-term American rates went from about 9.5 percent in 1979 to over 16 percent by 1981 (Boughton, 2001). In August 1982 Mexico announced it could not pay. Sixteen Latin American countries rescheduled their debts, and by the end of 1983 forty-seven nations were affected.

The human cost: Latin American poverty rose from 40.5 percent in 1980 to 48.3 percent in 1990, and did not return to 1980 levels until 2005 (United Nations, 2017).

**In fairness,** this attribution is disputed. Some recent research argues Mexico would have defaulted anyway given its own finances, and that the rate rise was not the deciding factor. Other work reaches the opposite conclusion. The defensible statement is that American tightening was a major trigger acting on countries already made vulnerable by their own decisions and by reckless lending from international banks.

# Part 12: Is Australia's banking system built on the American model?

**No. And the difference started nearly a hundred years before Jekyll Island.**

## Two completely different family trees

| | The British and Scottish model | The American model |
|---|---|---|
| Number of banks | Few | Thousands |
| Branches | Nationwide from the start | Banned across state lines until 1994 |
| Risk spread | Automatic | Impossible by law |
| Failures | Rare | Frequent and clustered |
| Used by | Britain, Scotland, Canada, Australia, New Zealand, South Africa | The United States, almost alone |

Australia's first bank, the Bank of New South Wales, was founded in Sydney in 1817 on a charter modelled on the Bank of England. It is now Westpac. British-backed banks followed in the 1830s and branched aggressively across the colonies (Butlin, 1953).

By the 1880s an Australian could bank with the same institution in Melbourne, Perth and Brisbane. No American could do the equivalent until 1994.

## Australia had its own banking disaster, and answered it differently

In 1893 the Melbourne land boom collapsed and **thirteen of Australia's twenty-two trading banks suspended payment** (Merrett, 1989). Proportionally that was as bad as anything America suffered.

Australia's answer was not to build a central bank. It was to let the banks reopen by converting people's deposits into shares and deferred deposits. **Depositors bore the losses**, some waiting a decade to be repaid, and the surviving banks emerged bigger.

Two consequences still shape Australian banking:

1. We got a highly concentrated, cautious banking system, because the survivors absorbed the failures and their boards never forgot 1893.
2. We got no depositor protection at all, and would not get any for another 115 years.

Neither country's response was obviously fairer. America eventually socialised the losses through deposit insurance. Australia put the loss on the depositors of the day and bought stability at their expense.

## Australia versus America, side by side

| | United States | Australia |
|---|---|---|
| Bank structure | One-office banks until 1994 | Nationwide branches since the 1830s |
| Number of banks | About 4,500 | About 130 deposit-takers, four dominant |
| Who owns the central bank | Member banks hold stock and elect directors | Wholly public. Bank officers are legally barred from the policy board |
| Does the central bank supervise banks? | Yes | No. APRA does |
| Regulator structure | Five federal agencies plus fifty states | Twin peaks: APRA, ASIC, RBA, ACCC |
| Deposit insurance since | 1933 | 2008 |
| Typical mortgage | 30-year fixed rate | Variable or fixed for one to five years |
| Who holds the mortgage | Sold off and packaged up | Kept on the bank's books |
| Result in 2008 | Hundreds of bank failures, mass foreclosure | No bank failed, none was rescued |

## The thing that actually explains 2008

American banks made loans and sold them within weeks, so they had little reason to check whether the borrower could repay. Australian banks kept the loans, so they had every reason to check.

Australia's strong performance in 2008 was not mainly a triumph of regulation or of the RBA. It was the result of a business model where the lender still carried the consequences of a bad loan.

## What Australia did import

Being fair about influence matters, so here is what is genuinely American or international in our system:

- The idea of a central bank at all, which came through a 1920s international movement led by London as much as Washington.
- The Bretton Woods dollar system and its collapse.
- The Basel capital rules, which are the international rules setting how much of its own money a bank must hold against its lending. APRA applies them with an "unquestionably strong" margin on top.
- Mortgage packaging technique, adopted from the mid-1990s, which let non-bank lenders compete and cut mortgage margins. Australia's version stayed conservative, which is why it did not blow up.
- The October 2008 crisis playbook of guarantees and swap lines.

## The Australian invention nobody mentions

Australia's twin peaks regulation, separating prudential safety (APRA) from market conduct (ASIC), came out of the 1997 Wallis Inquiry. **Britain copied it in 2013. South Africa copied it in 2018. America has never adopted it.**

The Federal Reserve still supervises the banks that elect directors to its regional boards. In Australia, the central bank does not supervise banks at all, and by law since 2025, bank directors and employees cannot sit on the Monetary Policy Board.

That is a deliberate and continuing rejection of the Jekyll Island model by Australia.

## Stability has a price

Concentration is what makes Australian banking safe. It is also what makes it expensive.

In 1990 the government announced what became the **four pillars policy**, which blocks the largest banks from merging with each other. It is not a law. It is a standing decision that any government can change. Its effect is to lock in the market structure that came out of 1893 and out of the state bank failures of 1990 and 1991.

Four institutions holding most of the deposits, protected from merging and from serious new competition, do not compete the way a hundred would. The Hayne Royal Commission of 2017 to 2019 set out what that produced: fees charged for services never delivered, charges taken from the accounts of customers who had died, and pay structures that rewarded staff for selling people products that did not suit them.

Those costs fell almost entirely on ordinary customers. So the honest summary is that Australians bought safety with concentration, and paid for it in price and in conduct.

## The part that should worry us

Here is the structural issue in Australian banking that almost nobody names.

**Roughly 60 percent of Australian bank lending goes to housing**, not to business, and that share has risen steadily since deregulation (RBA credit statistics).

The reason is not sinister. Mortgages carry lower capital requirements under international rules and are cheaper to assess than a small business loan. Banks respond to those incentives, as anyone would.

But think about what it means. A banking system that puts most of its credit into bidding up the price of existing houses, rather than into businesses that employ people, will produce exactly what we see: expensive housing, thin business investment, and wage growth that depends on commodity cycles rather than on building productive capacity at home.

Germany does it differently. Roughly a third of German banking sits in publicly owned regional savings banks and member-owned cooperatives, with a legal duty to serve their local area and lend to local businesses.

**My view:** if you want a fairer Australian banking system, the lever is not who owns the Reserve Bank, and probably not even the four pillars policy. It is the capital rules and tax settings that make lending against an existing house more attractive than lending to a business that employs people. That is technical, unglamorous, entirely fixable, and a very long way from Jekyll Island.

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# Part 13: Could a fairer system have been built?

Yes. And most of the rest of the world went on to build parts of it.

## Option 1: A properly public central bank

This was argued in 1913 and lost. **Fixes** the legitimacy problem completely. **Costs** you a barrier against politicians printing money, and history on that is frightening.

**Verdict:** the middle path was available and almost everyone else took it. Public ownership with legal independence. Britain from 1946, Canada from 1938, Australia from 1960.

## Option 2: Banks must hold every dollar they take in

Proposed by economists at Chicago in 1933 and developed by Irving Fisher. Banks would become pure custodians, and all money creation would be an open public act (Fisher, 1935).

**Fixes** bank runs completely and puts all the profit from creating money in public hands. **Costs** you credit, which would become scarcer and dearer, hurting small business and first-home buyers most. Money-like substitutes would also pop up outside the rules, moving the risk rather than removing it.

Switzerland voted on a version of this in 2018 and rejected it three to one.

## Option 3: No central bank at all

Competing banks issuing their own notes. Scotland ran this from 1716 to 1845 with a better record than England (White, 1984). Canada's record before 1935 is the stronger modern case.

**Costs** you anyone to step in during a genuine panic, and it asks ordinary people to judge whether their bank is sound, which is unreasonable.

**Verdict:** the Canadian evidence suggests the real fix was branch banking, not abolishing central banks. And Canada eventually built one anyway.

## Option 4: Change the target, not the institution

This is the one I find most persuasive.

Instead of targeting inflation, target total spending in the economy. It sounds technical, but the difference for workers is large.

Under an inflation target, a petrol price spike forces rate rises that destroy jobs, even though the spike had nothing to do with too much demand. Under a total spending target, it does not.

New Zealand right now is the live demonstration. Inflation at 4.1 percent driven mostly by petrol. Unemployment near a decade high. And a law that only lets the central bank look at the first number.

**My assessment:** this is the most plausible and least disruptive pro-worker reform available, because it changes the goal rather than tearing up the institution.

## Option 5: Change where the new money enters

If the problem is that new money enters through asset markets, put it in somewhere else. Central bank accounts for households. Direct payments to people instead of bond buying.

**Fixes** the unfairness at its root. **Costs** you the line between the central bank and the government's budget, which puts unelected officials in the business of handing money to citizens. That is a serious objection, not a trivial one. Payments are also much harder to reverse than bond purchases.

### Option 6: Public and community banking alongside

Do not redesign the central bank. Change who does the lending. The Bank of North Dakota has done this since 1919. Germany's savings banks and cooperatives do it at scale. Australia did it with the Commonwealth Bank for eighty years.

**Verdict:** the most practical, lowest-risk idea on this list, and the one that would most directly reach ordinary people.

### Option 7: Fix the governance

Remove bank shareholding. Keep bankers out of choosing policymakers (Australia legislated exactly this in 2025). Allow proper audits. And require the central bank to publish, before each decision, who gains and who loses by income group.

None of this fixes the money-enters-at-the-top problem. All of it is achievable. The last item would change the institution's culture more than people expect, because organisations pay attention to what they have to publish.

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## Part 14: The short answers

**Was the Jekyll Island meeting real and secret?** Yes, and the men in the room wrote about it themselves.

**Did it hand control of the money to a private cartel?** No. That plan was defeated. What passed in 1913 was substantially different and was fought over in public.

**Is the Federal Reserve privately owned?** Not in any normal sense. Member banks hold stock they cannot sell or profit from, and essentially all earnings go to the US Treasury. But bankers do help choose people who vote on interest rates, and that is a real and legitimate criticism.

**Has it hurt working people?** In specific and identifiable ways, yes. New money reaches asset owners first. Fighting inflation works by putting people out of work. Rescues have not been even-handed.

**Has it helped working people?** Also yes. Bank runs stopped destroying savings. Recessions got shorter. The employment duty has genuinely produced better outcomes for low-paid workers at times.

**Could a fairer system have been built?** Yes, and most of it was built elsewhere. Public ownership. Canada's written public instruction power. New Zealand's clear published targets. Canada's five-yearly review of the target. Australia's separation of the central bank from bank supervision.

**Is Australia's banking system built on the American model?** No. Ours is British and Scottish in structure, publicly owned at the top, and separates the central bank from bank regulation. On nearly every point the popular criticism of Jekyll Island raises, Australia already went further in the direction the criticism points.

**And yet.** Canada has the best-designed central bank in the English-speaking world and terrible housing affordability. Australia has a legal mandate that names the welfare of its people, and Perth first-home buyers are still locked out.

That should tell us where the real causes lie. Not in who owns the central bank. In land supply, in tax settings, in capital rules that push bank lending toward existing houses instead of toward businesses that employ people.

Those are the things we can actually change. And unlike a secret meeting in 1910, they are decided in public, by people we elect, every year.

# Timeline

| Year | Event |
|---|---|
| 1694 | Bank of England founded |
| 1817 | Bank of New South Wales founded, now Westpac |
| 1893 | Australian banking collapse. Thirteen of twenty-two banks suspend |
| 1907 | Panic of 1907. Morgan's private rescue |
| 1910 | Jekyll Island meeting |
| 1911 | Commonwealth Bank founded as a people's bank |
| 1913 | Federal Reserve Act signed |
| 1925-26 | Britain returns to gold at the wrong rate, then the General Strike |
| 1929-33 | A third of US banks fail. Canada and Australia have none |
| 1933 | US deposit insurance created |
| 1934-35 | Reserve Bank of New Zealand and Bank of Canada open |
| 1944 | Bretton Woods. Keynes's bancor rejected |
| 1946 | Bank of England nationalised |
| 1947-49 | Australia's bank nationalisation attempt fails in court |
| 1960 | Reserve Bank of Australia begins |
| 1961 | Canada creates the written public instruction power |
| 1971 | Nixon ends the dollar's link to gold |
| 1979-82 | Volcker interest rate shock |
| 1982 | Mexico defaults. Forty-seven nations affected by 1983 |
| 1983 | Australian dollar floated |
| 1985 | New Zealand dollar floated |
| 1989 | New Zealand invents the modern inflation target |
| 1991 | Canada adopts inflation targeting |
| 1992 | Black Wednesday in Britain |
| 1993 | Australia adopts a 2 to 3 percent target |
| 1994 | America finally allows nationwide branch banking |
| 1997-98 | Australia's Wallis Inquiry creates twin peaks regulation. APRA and ASIC begin |
| 2008 | Global financial crisis. Australia introduces deposit insurance |
| 2019 | Hayne Royal Commission reports |
| 2025 | RBA Monetary Policy Board established on 1 March |
| 2025 | New Zealand finally introduces deposit protection on 1 July |
| 2026 | Fed leadership change. Rates held at 3.5 to 3.75 percent |

# Countries affected by US monetary decisions

Grouped by how strongly they are tied. This list is drawn from IMF classifications and should be checked against current sources, as these arrangements change.

**Completely tied. They use the US dollar and have no monetary policy of their own.** Ecuador, El Salvador, Panama, Timor-Leste, Marshall Islands, Micronesia, Palau.

**Almost completely tied. Their currency is locked to the dollar by law.** Hong Kong, Djibouti, and the Eastern Caribbean group: Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines.

**Strongly tied. Their currency is pegged to the dollar.** Saudi Arabia, United Arab Emirates, Qatar, Bahrain, Oman, Jordan, Iraq, Bahamas, Barbados, Belize, Aruba, Curacao, Turkmenistan, Eritrea, Maldives, Cuba. Lebanon held a peg for decades until it collapsed from 2019.

**Partly tied through managed exchange rates.** Cambodia, Vietnam, Bolivia, Honduras, Nicaragua, Guyana, Bangladesh, Nepal, Bhutan, with Egypt and Pakistan managing variably.

**Floating, but heavily exposed through bank funding and trade.** Australia, Canada, New Zealand, United Kingdom, Japan, South Korea, Singapore, Switzerland, Norway, Sweden, Denmark, all eurozone countries, Mexico, Brazil, Chile, Colombia, India, Indonesia, Malaysia, Thailand, Philippines, South Africa, Turkey, Israel, Poland, Czechia, Hungary, Nigeria, Kenya, Ghana.

**Institutional descendants.** Every country with an independent central bank and a published inflation target inherited the American institutional form and the New Zealand target design. That is now well over forty economies.

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### A note on one popular book

G. Edward Griffin's *The Creature from Jekyll Island* (1994) is where most public awareness of the 1910 meeting comes from. Its account of the meeting itself is broadly accurate and draws on the participants' own memoirs. Its wider argument, that the Federal Reserve is a private cartel operating against the public, goes well beyond the evidence and gets the ownership structure wrong. Read it for the 1910 story, not for the analysis. I have not relied on it for any factual claim in this paper.

*Where this paper gives a range rather than an exact number, that reflects genuine disagreement between the bodies that measure it. Sections covering current policy settings and exchange rate arrangements should be checked before being relied upon, as both move quickly.*