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(This is an optical scan. Errors were corrected as found, other errors might exist.)

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What Every American Should Know About The Federal Reserve System

Recently the popular TV show, "Little House on the Prairie," portrayed a sharp, avaricious neighbor of the Ingalls family pulling a raw business deal on a young man who wanted to get a small farm going so he could marry Laura. The land had a small stream originating on the seller's farm. After the young man had made a down payment and worked hard all spring to put in a good crop, the seller cut off the stream of water which not only threatened the growing crop but made the farm useless. The seller then offered to buy the land back for a mere \$100 including the crop. When Mr. Ingalls challenged this conniving neighbor for pulling such a crooked deal on a trusting young man, the shrewd neighbor replied, "Well, that's business!"

The audience enjoyed the satisfaction of seeing Mr. Ingalls wind up and deliver a fistful of righteous indignation directly to the sneaky neighbor's jutting jaw.

The point is that sometimes strange things are done in the name of "business."

Cheating and Robbing in the Name of "Business"

Robbery is defined as taking property from another by threat, force or violence. When this is done by a hi-jacker or mugger it is counted a felonious crime with heavy penalties. When it is done by manipulating circumstances within the technicalities of the law, some people call it "business." Of course, it is not business in any ethical sense because legitimate business described by Adam Smith is a transaction where both parties feel they have improved their position. Business which amounts to "legal" robbery is really a very dirty business. This happens whenever a person with a technical advantage "legally" robs another under threat of using the force of the courts to support his "rights" in carrying out a deal. We mention this simply because this has been the tragic and unfortunate history of the privately-owned "central" banking business during the past four hundred years. That is what this article is about.

Different Kinds of Banks

Banks ordinarily represent depositories for the savings of the people. This accumulated capital then becomes available for loans to buy farms, build homes, construct factories and do a multitude of other things which are indispensable to a prosperous industrial society. Banks, therefore, are extremely important and represent the major source of investment capital needed to promote the growth of a nation and provide millions of new jobs for our ever-increasing population.

But then there is a different kind of bank, a sort of super-bank, which represents far larger deposits of accumulated wealth. This type of bank is often referred to as the "central" bank of a particular country. Even though each bank of this type is privately owned, it often carries the name of the country it serves because the government of that country uses it as the depository

for government funds and borrows from it in times of emergency. This privately-owned central bank therefore becomes the manager of money and credit for the entire country. It handles major investments in agriculture, industry, homes, and factories. It also provides the funds in time of war for the armaments of the nation.

The money managers of central banks are in a very powerful position to manipulate the affairs of a country for good or for ill.

Central Banks Suffer from Two Temptations

The record shows that when the managers of a central bank in any particular country are looking around for ways and means to accumulate more wealth, they are often tempted by two things which are inherently evil and totally destructive to the foundation of civilized countries. One is to encourage an involvement in war so the nation will be forced to borrow heavily. Bonds (which are really government IOU's paying substantial interest) are considered to be a most valuable form of collateral assets in a central bank.

The other temptation is to promote a cycle of "boom and bust" economics. This simply consists of starting a boom with generous loans at low interest and after a few years suddenly raising the interest rates, calling in loans, and bankrupting home-owners, industries, farmers and millions of people who had trusted the bank to continue its policies.

Some economists, including Karl Marx, have tried to maintain that these boom and bust cycles are an inescapable characteristic of a free-market economy. The truth of the matter is that these so-called boom and bust cycles are primarily a phenomenon of manipulated economics, engineered by men who find themselves in an extremely powerful position to control money and credit but seem to lack the moral integrity to resist the opportunity to fleece the common people who have genuinely trusted them.

We mention these problems right here at the beginning of our discussion because any study of central banking will disclose the highly visible profile of these two pernicious problems with which central banking has been continually involved. Wealthy money managers seem to have a strong proclivity toward both war-mongering and the manipulating of the economy in cycles of boom and bust. Having personally passed through several of these wars and cycles of boom and bust, this writer has been constantly on the lookout for any trends which might signify a repeat performance of this abusive use of power.

The Latest Banking Invention-Making Money Out of Nothing

In addition to the above, we have to mention one other problem which the central banks have invented to plague mankind. This consists of "making money out of nothing." This incredible device was invented almost by accident. Here is the story.

Several hundred years ago the goldsmiths of Europe were under the necessity of building substantial vaults for their precious metals. As one might have expected, it wasn't long before many others asked to leave their gold in these vaults for safekeeping. The goldsmiths consented and gave each depositor a certificate which could be used to reclaim their precious metal at any time. These certificates were therefore considered "as good as gold" and soon circulated in business channels as though they were gold.

In fact, they were so much more convenient to handle than gold that very few depositors ever went back to the goldsmiths' except to make more deposits.

In very short order it became entirely apparent to the goldsmiths that since only a small percentage of the depositors came back for their gold, the goldsmiths only had to keep enough on hand as a "reserve" to satisfy those who did come back. Realizing this, the goldsmiths

decided they could safely issue considerably more gold certificates than the amount of gold "on deposit." By this set of fortuitous circumstances they had discovered how a shrewd goldsmith could issue certificates on gold he didn't have and thus become super-rich by "making money out of nothing." Furthermore, these spurious certificates could be used to buy up all kinds of tangible property or they could be loaned out on interest. Here indeed was the royal road to wealth.

The Problem of a "Run on the Bank"

Of course, it was important to keep a good "reserve" for those who did want to cash in their certificates, but this ordinarily involved only a fraction of the certificates in circulation. Thus "fractional banking" was born.

It turned out, however, that once in awhile people would become suspicious that perhaps the goldsmith-banker didn't really have as much gold as he claimed. Then there would be a rush to cash in the certificates and get the available gold before it ran out. This is called a "run on the bank." On such occasions the goldsmith-bankers usually tried to allay the fears of those who first demanded their gold by promptly hauling out the precious metal and redeeming the certificates. However, if the "run" continued they would not be able to keep up the pretense for long since the bank would run out of gold. When this happened the only alternative was to "close their doors" in disgrace and go out of business.

Can You Sell a Horse Four Times in a Row?

What the goldsmith-bankers were doing might be compared to a farmer who had a fine saddle horse in his corral. Along came a city dude who asked to buy the horse but wanted to have the farmer take care of him. The farmer agreed. Later the farmer noticed that the new owner never rode the horse except in the early morning. Another city dude came along and asked to buy the horse, saying that he only rode during lunchtime. Therefore the farmer felt fairly safe in selling the horse a second time. Later he sold the horse a third time to a fellow who claimed he only rode in the afternoon, and eventually, the horse was sold a fourth time to another city dude who claimed he only rode in the evening.

This story would have had a wonderfully happy ending for the newly enriched farmer if it had not been for the fact that these four horse-lovers belonged to the same country club. All four of them got to bragging about their horses and finally decided they would get their horses and race them to see which one was best. Each of the dudes immediately went to the farmer to get his horse.

This is called a "run" on the bank!

How the Central Banks of Europe Learned to Avoid "Runs" on Their Banks

As "fractional banking" became an established practice, it did not take long for the wealthy bankers of Europe to realize that if they were to prevent occasional runs on their banks by suspicious depositors who wanted their gold, they would have to work out a cooperative agreement with other banking families. It was agreed that if a bank had a "run," the other banks would quickly pool their gold and send it to the trouble spot until things cooled down. They learned from experience that if a bank could demonstrate that it did have plenty of gold to redeem its certificates, the people would regain confidence in the bank and re-deposit their gold. The yellow metal could then be returned to the various central banks from which it had been hastily gathered.

Fractional Bankers Do Something Ordinary People Cannot Do

It will be immediately realized that "making money out of nothing" is selling something the money-managers don't really have.

We know it is considered a criminal fraud if a person sells a house he doesn't own. The same thing is true if he sells something which doesn't exist and never will exist. Then how do the bankers get away with it? The answer is rather amazing.

Apparently the bankers saw the danger of their position and decided to protect themselves by getting the government in on the deal. They reasoned that the government certainly wouldn't prosecute the bankers if the government itself was getting a significant benefit from the operation. So this is what the bankers set out to achieve, first in Europe and then, more recently, in the United States.

How this tricky game is played may be illustrated by the origin of the privately-owned Bank of England.

The Story of the Bank of England

In 1694 William III was involved in a war with France. He needed money and he needed it in large quantities. The British coffers were empty so he asked for vast loans of money from a super-rich Englishman named William Paterson and some of his wealthy friends. Paterson and his friends were perfectly agreeable to the loan providing they were allowed to do two things:

1. Set up a privately-owned bank to be called the Bank of England.
2. Receive authority from the king to issue their own bank notes or certificates as the official legal tender of England.

Since the Paterson bank notes were what the king would be loaned to build and equip his armies, he readily agreed. This gave legal sanction to a private bank being authorized to print bank notes as the legal tender for the whole nation. Each bill promised to pay in gold "on demand," but the bankers actually had only a small fraction of the gold needed to cover the vast quantity of bank notes being printed. By this means the bankers brought the king in as a patron and beneficiary of a system of "fractionalized banking" or making money out of nothing.

Nevertheless, it gave the king what he needed, and it gave the bankers what they wanted. What did it matter if the bankers were making money out of nothing? At least William would have the needed bank notes which merchants accepted as "money" and so he could buy the mercenaries and needed armaments to carry on his war with France! Governments take precisely the same attitude today.

The king even went so far as to eliminate any possible competition for the so-called "Bank of England" by giving Paterson and his friends an official charter from the Crown and commanding the goldsmiths of London to immediately discontinue issuing receipts as depositories for precious metals. This drove most of the merchants to store their gold with the Bank of England.

So this was the means by which a privately-owned bank became the official depository of the Crown, printed its own bank notes as the king's legal tender, and "legalized" its magic formula for "making money out of nothing." By any standard, William Paterson considered this fantastic achievement pure genius.

It is interesting that right at the time William III was setting up his privately-owned Bank of England based on "fractional banking" the American colonists were moving in the opposite direction.

How the American Colonists Developed A System of "Sound" Money

Between 1690 and 1700 Massachusetts decided that money should be issued exclusively by the central authority of the government to represent the interests of the whole people. At the same time they set out to discover a "natural law" by which they could issue sound or stable money. When money is stable people are encouraged to invest because they know their money will have the same value when they get it back as it did when they loaned it. Furthermore, stable money encourages people to save because they know it will have the same value when they are old as it had when they put it in savings. Meanwhile, it will have earned a great deal of interest. Sound money is the only way to structure a sound economy.

Historically, there are only two ways to make money stable.

One way is to relate all currency to precious metals which maintain a reliable degree of stability in their value or buying power. The other is to maintain the same relative amount of money and credit in operation and only add to the money supply as fast as the growth of the productivity of the people will justify it.

Massachusetts issued its own paper money and made it full legal tender July 2, 1692. This money could be used to pay all debts, public and private. It was used to cover public expenses, finance public works, and to lend to private citizens for long periods of time at a low rate of interest.

Notice that these bills of currency were physically loaned out as though they were gold or silver. Furthermore, the treasurer of the colony loaned out currency at a modest interest rate and the proceeds from this interest were paid into the treasury of the colony. This provided public revenue to the colony and greatly reduced taxes! Meanwhile, the colony paid no interest to anyone. Other colonies began following this same sound procedure and it soon resulted in a period of unrivaled prosperity for Colonial America.

The Bank of England Invades America

Then everything changed. The privately-owned Bank of England wanted to force the colonies to borrow "bank notes" from them.

Beginning around 1720, the Parliament was induced by the Bank of England to suppress all colonial money. Many years of defiance on the part of the colonies finally terminated in 1749 when Parliament passed the Resumption Act requiring that taxes and contracts all had to be paid in gold or silver. Gold and silver were so scarce in the colonies that the results were disastrous. A deep depression ensued. Prices fell. Trade stagnated. This was one of the major causes of the Revolutionary War.

Early Americans Learn a Bitter Lesson in How Not to Issue Money

Following the Declaration of Independence, the American Congress began issuing their own paper money again but without any particular limitation. The States did the same. None of this money was tied to precious metal nor was it limited in quantity. Naturally, these "continental" dollars soon inflated out of sight, eventually becoming worthless --worth less than a penny. Even after winning the Revolutionary War, this fatal monetary system almost resulted in the destruction of the United States as a nation. There was not only skyrocketing inflation but a deep depression and rioting. The New England States became so antagonistic toward developments that at one point they threatened to secede. This was the critical situation when the Constitution was finally put into operation to save the country.

With the adoption of the Constitution, Jefferson hoped the nation would go back to the earlier procedure with government issuing its money based on a precious metal standard. The treasury could then set up branches for loaning money as was done prior to 1720. And as before, all payments of interest would go to the general funds of the nation, thereby greatly reducing the required taxes.

The first of Jefferson's hopes were realized when the gold and silver standard was explicitly written into the Constitution (Article I, Section 10). However, his second hope was shattered when Alexander Hamilton was appointed Secretary of the Treasury and pushed through a private central bank similar to those in Europe.

The First Bank of the United States

Even though most of the stock in Hamilton's bank was privately owned by some of his associates in New York, it was called the Bank of the United States. This led people to assume it was a government bank. This same trick was used in 1913 when a group of bankers called their consortium of financial power the Federal Reserve System. But that story comes later.

The advantages of the new bank was that it provided immediate credit resources for the nation which was otherwise bankrupt. This practical reality is what appealed to Washington first and foremost. He also recognized the dangers involved but felt these could be circumvented by the fact that the charter for the bank would end in 20 years.

The disadvantages of the bank were vigorously protested by Jefferson and dispute with Hamilton became so heated that it finally led to Jefferson's resignation as Secretary of State. Critics of the new bank points out that:

1. The issuing of the charter for the bank was without any Constitutional authority. In other words, the bank was unconstitutional.
2. It was authorized to issue bank notes or paper money which was also without Constitutional authority.
3. It allowed this private central bank to loan out its bank notes for interest.
4. This private central bank was made exempt from paying any taxes.
5. It was unconstitutionally designed to collect taxes and serve as the depository of government funds instead of the U.S. Treasury.
6. The banking act also held the U.S. Government responsible or liable for the fiscal transactions of the bank.
7. Only one-fifth of the stock was owned by the government so policies and decision-making would always be in the hands of the private banks.

Jefferson considered the whole scheme an unconstitutional threat to the basic fabric of the American civilization. He prophesied:

"If the American people allow the banks to control the issuance of their currency, first by inflation, and then by deflation, the banks and corporations that will grow up around them will deprive people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs." (Oliver Cusing Swinell, *The Story of Our Money*, Forham Publishing Co., Hawthorne, California, 1964, p. 84)

The Second Bank of the United States

Dissatisfaction with the First Bank of the United States resulted in its charter expiring in 1811. However, the financial pressures of the War of 1812 resulted in demands for another

entral bank. The Second Bank of the United States went into operation in 1816 with the U.S. government owning only 5% of the stock. The bank fulfilled its basic function during a period of relative prosperity and was popular with many people. However, President Jackson saw this small body of powerful bankers gradually building a financial kingdom at the expense of the American people and so he vetoed the act which would have extended the life of the bank with a new charter. Stockholders of the bank never forgave him for that.

Nevertheless, the fiscal policies of Andrew Jackson resulted in the Government getting completely out of debt. He even ended up with a surplus of \$35,000,000! Jackson made \$28,000,000 available to the various States as "loans." There had never been anything like it before and certainly nothing like it since.

The Bankers' Feud with Abraham Lincoln

When the Civil War broke out the new President found the treasury empty and payments in gold had been necessarily suspended. Since supplies were desperately needed to mobilize and equip the Union Army, he appealed to the banks for loans.

At that time there were 1600 banks chartered by 29 different States and altogether they were issuing 7,000 different bank notes. To the shocked amazement of President Lincoln, these banks demanded 28% yearly interest for any loans granted to the Federal Government in this hour of crisis.

Lincoln immediately induced the Congress to let him borrow from the American tax payers without interest. This was done by having Congress authorize the issuing of Government notes (called Greenbacks) promising to pay "on demand" the amount shown on the face of the note. These notes were not issued as "dollars" but as promissory notes authorized under the borrowing power of the Constitution. As the notes were gradually turned in for payment of taxes it allowed the government to pay off these notes in an orderly way without interest. Undoubtedly these notes helped Lincoln save the Union. Lincoln wrote: "...we finally accomplished it and gave to the people of this Republic the greatest blessing they ever had --their own paper to pay their own debts." (Dwinell, *The Story of Our Money*, p. 115)

But the banks retaliated and open hostilities were launched against Lincoln's Greenbacks. By a variety of devious techniques, the Congress was induced to pass several bills which seriously distorted everything the President was trying to accomplish. Circumstances finally forced him to issue bonds which the banks could buy with depreciated Greenbacks and then charge the Government substantial interest rates on the bonds. Even Chase, the Secretary of the Treasury joined the Bankers in their demand that the power to issue the nation's money be returned to them.

In 1863, the Congress capitulated under the pressure of Wall Street and authorized the setting up of a privately-owned system of National Banks. Each bank was given virtually tax-free status and was allowed to print money. By 1939 there were 14,348 National Banks.

After the end of the Civil War and Lincoln's death, the major banking interests jockeyed the economy back and forth in a series of boom and bust disasters that finally set the stage for the biggest coup of all, the creation of the Federal Reserve System.

The circumstances which created the climate for the U.S. adoption of a European-type central bank in the guise of the Federal Reserve System, evolved in an atmosphere of intrigue, political manipulation and a deliberately fabricated economic crisis. It would be virtually impossible to believe the unfolding of events unless the size of the prize and the desperation of the major money-managers to capture it, are allowed to account for the totally ruthless tactics employed.

The record shows that in this instance there was certainly no honor among thieves. Probably one of the most shocking aspects of the nation's financial history during this period was the savage and unrelenting malevolence with which the top money-managers treated each other. In Western vernacular, it was the jungle law of "dog-eat-dog". Furthermore, the record shows that when it came to abusing, deceiving and exploiting the small fry --the common people-- the same jungle code applied except that the common people were far more helpless because they didn't really understand what was happening to them.

But in the circles of high finance all of the contestants vying for power knew exactly what was going on. Carefully and stealthily they maneuvered their way through the maze of the money markets seeking to squirm into some surprise position of superior legal advantage where they could annihilate one or more opponents.

This was the game the money managers were playing when they triggered the crash of 1907.

Wall Street Goes for a Bust in 1907-1908

The war on Wall Street which spread economic devastation across the nation during 1907-1908 was the direct result of one huge money trust trying to cannibalize its competition. The record shows that the Rockefeller interests of "Amalgamated Copper" set out to destroy the Heinze combination which owned Union Copper Company. By cleverly manipulating the stock market, the Rockefeller faction drove down Heinze stock in Union Copper from 60 to 10. The rumor was then spread that not only Heinze Copper but also the Heinze banks were folding under Rockefeller pressure. J.P. Morgan joined the Rockefeller enclave to announce that he thought the Knickerbocker Trust Company would be the first Heinze bank to go.

That was all it took to send depositors storming to the tellers' cages of the Knickerbocker Bank to get their money. Within a few days the bank was forced to close its doors. Similar fear spread to other Heinze banks and then to the whole banking world. The crash was on. Millions of people were sold out and rendered homeless. The destitute and hungry shifted for themselves as best they could. Circulating money was hoarded by any who happened to get some, so before long a viable medium of exchange became practically nonexistent. Many business concerns began printing IOU's on small pieces of paper and exchanging these for raw materials as well as giving them to their workers for wages. These "tokens" passed around as a temporary medium of exchange.

At this critical juncture, J.P. Morgan came to the front. He offered to salvage the last Heinze bank (Trust Company of America) if it would turn over to him for merely a pittance of its true worth, the fabulously valuable Tennessee Coal and Iron Company in Birmingham. Morgan wished to add this to the U.S. Steel Company which he had purchased from Andrew Carnegie. This arrangement violated the anti-trust laws but in the prevailing climate of crisis, the proposed transaction was approved in Washington.

At this point J.P. Morgan told his partners he was intrigued by the "tokens" of paper or printed IOU's which various business houses were being allowed to circulate as a medium of exchange. He sold Washington on the idea of letting him put out 200 million dollars in such "tokens" issued by one of the Morgan establishments. He said this flow of Morgan "certificates" might get the economy going again. Approval was granted and as these new forms of Morgan "money" began circulating, the public regained its confidence so that hoarded money began to circulate again as well. Morgan never forgot how exciting it was to circulate 200 million dollars in "certificates" creating out of nothing more than his own "corporate credit" and the formal approval of Washington. Here was a superb device to make millions. In the mind of J.P. Morgan, the seeds for the Federal Reserve System had been sown.

How J.P. Morgan Became Attracted to Woodrow Wilson

On the surface J.P. Morgan seemed to have saved the day --like throwing a child in the river and then being lionized for saving him. No one was more fascinated with the new heroic image of Mr. Morgan than Woodrow Wilson.

In the early 1900's Woodrow Wilson had gained a tremendous reputation as a writer and educator. People listened to him. He had practically "founded" the department of political science soon (sic) at Princeton. In fact, his philosophy of political science permeated universities all across the nation and to a large extent still represents the prevalent view today. Wilson reflected a strong criticism of what some called the "archaic nature" of the American system of government and the necessity of getting stronger administrative control over the affairs of the people. In many areas Wilson was very critical of the Founders' Constitutional concepts. Wilson wrote: "All this trouble (the 1907 depression) could be averted if we appointed a committee of six or seven public-spirited men like J.P. Morgan to handle the affairs of our country." Although, reputed to be a great spokesman for "democracy", Woodrow Wilson actually had a powerful instinct for the further strengthening of centralized power. Morgan liked what Wilson was saying.

Soon after Wilson became President of Princeton University, certain Morgan interests began encouraging him to enter the political arena. By 1910, he found himself winning the election for Governor of New Jersey. In 1912, these same forces pushed Wilson into the Presidency of the United States. But that is getting ahead of our story.

The Popular Demand for Monetary Reform

By 1908 J.P. Morgan was already working through his wealthy friend, Senator Nelson Aldrich of Rhode Island, to establish a private central banking system similar to those operating in Europe. Mr. Morgan could not forget the exhilarating satisfaction of printing and circulating millions of dollars worth of "certificates" merely on Morgan's corporate "credit." It was even better than the schemes of the goldsmith-bankers!

Meanwhile, public pressure was making increased demands for a plan to eliminate Wall Street control and exploitation of the economy. Accordingly, Morgan's friend, Senator Adlrich, had arranged to have himself made the chairman of the National Monetary Commission. Congress assigned this Commission the task of studying the United States monetary system and making recommendations of ways to improve it. The Commission promptly took off for Europe and after spending \$300,000 returned to write 20 massive volumes extolling the advantages of Europe's central banking system.

This report was barely published when there arrived on the scene none other than Paul Warburg whose brother, Max Warburg, was in charge of the Reichsbank, the privately-owned central bank of Germany. Paul Warburg came well-financed by the Rothschild family and they bought him a partnership in the Rothschild-dominated firm of Kuhn, Loeb and Company. Paul Warburg immediately associated himself with other Wall Street financial leaders as well as Senator Nelson Aldrich. Then he began circulating all over the country lecturing to universities and business organizations. He emphasized the absolute necessity of setting up a new national banking system which would prevent Wall Street from putting the nation through those devastating "boom and bust" cycles as it had in the past. He promised that the new system he had in mind would really "clip the wings" of the big bankers.

It was exactly the sound of monetary music the people had been waiting to hear! Little did people know that Wall Street was preparing a plan of its own.

The Meeting at Jekyll's Island

On November 22, 1910, a private railroad car pulled out of the station at Hoboken, New Jersey, with some notable people aboard. Others joined them later. They met at the J.P. Morgan estate on Jekyll's island, Georgia. This secret meeting included Senator Nelson Aldrich, A.P. Andrews, professional economist and Assistant Secretary of the Treasury who had traveled with Aldrich to Europe, Frank Vanderlip, President of the National Bank of New York City, Harry P. Davidson, senior partner of the J.P. Morgan Company; Charles D. Norton, President of Morgan's First National Bank of New York; Paul Warburg, partner of the banking house of Kuhn, Loeb Company in New York; and lastly, Benjamine Strong of the J.P. Morgan Company central office in New York.

After nine days, they had prepared a bill for Congress which was later submitted as "The Aldrich Plan." Five million dollars were pressured out of major banks to "educate" the Congress and the American people to accept the plan.

The main resistance to the Plan came from the House of Representatives where an official investigation had revealed some of the ruthless operations of powerful financial interests on Wall Street and definitely fixed responsibility on Wall Street (especially Rockefeller and Morgan) for the crash of 1907-1908. With the tide of opposition rising, it was obvious that the Republicans were not going to be able to get the Aldrich plan adopted.

Strategy then switched to the Democratic Party which immediately came up with an "alternate" plan to be called the Federal Reserve System. It was almost identical with the Aldrich Plan but with a different name.

The Election of President Wilson

The next task was to defeat the Republican President, William Howard Taft, in the 1912 election and get a Democratic administration in power. Taft was popular, but opposed to the Aldrich Plan. The political strategy was therefore redesigned to induce another Republican, popular Teddy Roosevelt, to run on an independent ticket against Taft and thus divide the Republican Party. Two prominent Morgan officers, Fran Munsey and George Perkins, provided both the money and the strategy to help Roosevelt win Republican votes away from Taft. Meanwhile, George Harvey, President of the Morgan-controlled *Harpers Weekly*, and the Rockefeller money got behind Wilson. The Wilson team included Cleveland H. Dodge of Rockefellers' National City Bank, J. Ogden Armour, James Stillman, George F. Baker, Jacob Schiff, Bernard Baruch, Henry Morgenthau, and the publisher of the New York *Times*, Adolph Ochs.

It is interesting that the Morgan officials who managed Teddy Roosevelt's campaign were also found to have put extensive money behind Wilson. As might have been expected, the strategy worked and Wilson was elected.

The Wilson Administration Begins Reshaping America

When Woodrow Wilson took over the White House in 1913, he brought with him his Wall Street advisors including "Colonel" Edward Mandell House who is now known to have been the major policy-maker and manager of the entire Wilson administration. In his personal writings, House describes the pile-driver tactics that were used to force a bill through Congress which would authorize the setting up of the new Federal Reserve System as a privately-owned central bank.

A strong element of deception surrounded the team involved in the promoting of this legislation. To begin with, the bill was simply the Aldrich Bill in new dress, something the Congress had already rejected. Secondly, the leading financiers of Wall Street went into a carefully orchestrated act of vehemently pretending to protest against the bill.

In his autobiography, William McAdoo, Wilson's son-in-law, who became Secretary of the Treasury, says he was very impressed by the way the "bankers fought the Federal Reserve legislation --and every provision of the Federal Reserve Act -- with the tireless energy of men fighting a forest fire. They said it was populist, socialistic, half-baked, destructive, infantile, badly conceived and unworkable."

But Mr. McAdoo found that when he engaged these bankers in private conversation, he realized their opposition was merely a smokescreen to hide their true feelings. He wrote: "These interviews with bankers led me to an interesting conclusion. I perceived gradually, through all the haze and smoke of controversy, that the banking world was not really, as much opposed to the bill as it pretended to be.

It was in this illusionary climate of Wall Street antagonism that Congress finally bit the bullet and took a chance on this new wonder-plan which promised to prevent depressions, stabilize the nation's money system and get Wall Street off the back of the American people. Congressman Charles Lindbergh of Minnesota whose son would later fly the Atlantic, raised a mighty voice of protest against the whole scheme, but the majority of the Congress were either too busy or too enamored with the promises of the new system to detect the snare.

On December 22, 1913, with the prospects of the Christmas Holiday pressuring the Congress into final action before the session closed, the House voted 298 to 60 in favor of the new Federal Reserve System, and the Senate passed it 43 to 25.

Had Thomas Jefferson, James Madison or Andrew Jackson been around, they would have no doubt exploded with indignation.

Perhaps without quite realizing it, the Congress had created a powerful engine of private central banking which was given the power to indulge the bankers' voracious appetite for boom-and-bust economics, confiscatory taxation, smothering national indebtedness and the promotion of war on a world-wide scale. No one suspected that this power would be used to confiscate the people's gold, diminish their savings with inflation, erode away the value of insurance policies and fixed incomes, destroy the stability of the dollar, and eventually engulf the nation in a miasma of foreign entanglements which would threaten the very existence of the United States as a free and independent people.

All of this would have to be demonstrated as the future unfolded chapter by chapter during the Twentieth Century.

In our next "Behind the Scenes" letter we will cover "What Every American Should Know About How the Federal Reserve System Works." In this next letter we will trace the well-nigh incredible story which is finally coming out in several national best-sellers. These include *Time For Truth* by former U.S. Treasury Secretary William Simon, and *Free to Choose* by the Nobel prize-winning economist, Dr. Milton Friedman

#2

What Americans Find Hard to Believe- How the Federal Reserve System Works

The American colonists suffered so bitterly from the constant manipulation of their economy by the British money-trust and the privately-owned Bank of England that they

structured the Constitution so that the issuing of money and the fixing of its value would be under the exclusive control of the people's government.

Unfortunately, their original design was never carried out. From the very beginning the vested interests of the private money-trusts were successful in acquiring sufficient control of the country's finances so that they were able to make fabulous profits from carefully engineered "boom and bust" cycles which came on the average of about once every seven to fifteen years.

One of the worst of these "busts" came in 1907-8 and the universal outcry from coast-to-coast was "Monetary Reform!" So the Federal Reserve was set up with elaborate machinery which its sponsors promised would achieve some very exciting things. It would stabilize the dollar, prevent depressions and promote prosperity. The fact that the entire operation would be in direct violation of the Constitution seemed trivial compared to all of the marvelous things it promised to accomplish.

How America Adopted the Idea of a Privately-Owned Central Bank

In spite of the warning of Jefferson, Jackson, Lincoln, and the provisions of the Constitution, Woodrow Wilson ran for President on the platform of adopting a privately-owned central banking system to be called the Federal Reserve.

In the campaign Wilson promised that the Federal Reserve would get the nation out from under the oppressive control of Wall Street. What the public was never told, however, was the astonishing fact that the Federal Reserve Act actually had been written and promoted by the Wall Street money-trust itself. Nevertheless, Woodrow Wilson had come to trust these men. They had financed his campaign for President.

It is not necessary to review all of the intrigue and deception which surrounded the passage of the Federal Reserve Act. We will simply outline its highly persuasive promises compared with the cold reality of its historical performance during the past 65 years. The record shows that Woodrow Wilson was one of the first to recognize what a horrendous mistake had been made.

"From Woodrow Wilson with Regrets"

In 1916, just three years after the Federal Reserve System got into operation President Wilson seems to have suddenly realized what a virtually uncontrollable power monopoly had been vested in the nation's new Federal Reserve System. He wrote: "A great industrial nation is controlled by its system of credit. Our system of credit is concentrated (in the Federal Reserve System). The growth of the nation, therefore, and all our activities are in the hands of a few men.... We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the civilized world -- no longer a government by free opinion, no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of small groups of dominant men." (Quoted in "National Economy and the Banking System," Senate Documents Co. 3, No. 23, 76th Congress, 1st session, 1939.)

President Wilson's protest against the "duress" of a few dominant men is especially interesting in view of the dozens of articles he had written as head of the political science department at Princeton criticizing the thinking of the Founding fathers and calling for stronger centralized power in Washington.

In fact, these men from whom President Wilson was feeling such duress and domination in 1916 were the very ones he had been praising a few years earlier when he said: "All this trouble (1907 depression) could be averted if we appointed a committee of six or seven public-spirited men like P. Morgan to handle the affairs of the country." H.A. Kenan, *"The Federal*

Reserve Bank," p. 103.) It would seem that by 1916 the superior wisdom of the Founding Fathers had become increasingly apparent, even to Wilson.

Additional Mourners

The Federal Reserve Act was sponsored by Senator Robert L. Owen and Senator Carter Glass. Senator Owen was chairman of the Senate Banking and Currency Committee where the bill was drafted. The original bill *required* the Federal Reserve to maintain stable money which would produce a stable price level. Very shortly Senator Owen also became one of the mourners and wrote:

"This *mandatory* provision was stricken out in the House under the leadership of Carter Glass. I was unable to keep this mandatory provision in the Bill because of the secret hostilities developed against it, the origin of which at that time I did not fully understand."

But he later found out where these hostilities were coming from. He said:

"Under the administrations of Wilson, Harding, Coolidge and Hoover, this Act was diverted from its proper purpose on the advice of some who controlled the policies of a number of the largest banks." (Gertrude M. Coogan, *Money Creators*, p. IX of Introduction.)

Owen spent the rest of his life trying to get the Federal Reserve System repealed.

It is mentioned in most of the texts that the Federal Reserve Act would never have passed the House without the support of the Democratic Party whip, William Jennings Bryan, who later became Secretary of State.

Bryan also became a mourner and wrote: "In my long political career, the one thing I genuinely regret is my part in getting the banking and currency legislation enacted into law." (Quoted by H.S. Kenana, *The Federal Reserve Bank*, 1967 ed. rev., p. 125.)

Unfortunately, all of these powerful political personalities who had so much to do with adoption of the Federal Reserve System, found that it was too big and too powerful to control or repeal once it had become entrenched. All they could do was mourn.

Federal Reserve System Operates on Three False Premises

The whole purpose of establishing the Federal Reserve System was to prevent depressions, stabilize the currency, and protect the savings and checking deposits of the people in the custody of the banks.

However, there are three things Jefferson, Jackson and Lincoln identified as outright enemies of a sound money system, and the Federal Reserve contains all three of them.

The first thing they said the nation should avoid is turning over to a group of private bankers the right to print the official currency of the nation. They said this right is inherent in the people and belongs to the people's government. Whenever this right has been delegated to private bankers they have always used it to abuse the people and gradually devour the wealth of the nation. Jefferson wrote:

"If the American people ever allow private banks to control the issue of currency, first by inflation, then by deflation, the banks and corporations that will group up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers conquered." (K.S. Kenan, *The Federal Reserve Bank*, 1967 ed. rev., p. 234.)

When Abraham Lincoln was not able to initiate a monetary reform act but was compelled to accept the National Bank Act in 1863, he wrote:

"I see in the near future a crisis approach which unnerves me and cause me to tremble for the safety of my country. Corporations (of banking) have been enthroned, an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until the wealth is aggregated in a few hands and the Republic destroyed." (H.S. Kenan, *The Federal Reserve Bank*, p. 6.)

Why the U.S. Now Borrows Its Own Currency and Pays interest on It

The second fallacy in the whole Federal Reserve System is the fact that the private banks which own the stock in the Federal Reserve System, charge the United States interest for borrowing the country's own currency!

The Federal Reserve scheme not only provides that all U.S. currency shall be printed up as Federal Reserve Notes but that if the government wants to use these notes it must give the Federal Reserve IOU's in the form of government bonds on which interest will be paid until the bonds have been redeemed.

The question immediately arises, "Well, what did the banks loan to the government in exchange for these bonds?" The answer is, "Nothing, absolutely nothing." The banks paid for the printing of their Federal Reserve notes and gave them to us, but they are not redeemable in gold, silver or anything else of value. They are just paper, backed by virtually nothing. The question next arises, "Then why are they able to charge us interest when all they are doing is printing up some of our own currency?"

The answer is that in 1913 the Congress gave the Federal Reserve the legal "right" to print our money and that right is "as good as gold." Therefore, if we want to use the Fed's money, we have to borrow it and give them Fed IOU's, for the amount obtained. And, of course, each IOU (government bond) is something on which interest must be paid.

This whole arrangement is so totally irrational that the chairman of the Banking and Currency committee, Congressman Wright Patman, asked Marriner Eccles, Chairman of the Federal Reserve Board, the following:

"Mr. Eccles, how did you get the money to buy these two billion dollars of government bonds?"

Mr. Eccles: "We created it."

Mr. Patman: "Out of what?"

Mr. Eccles: "Out of the *right* to create credit money."

Lincoln Denounces This Second Fallacy in Government Financing

Since it is the Government's right to create money in the first place, why should it have to borrow its own money from the Federal Reserve Banks and give interest-bearing bonds or IOU's in exchange for the money?

Lincoln said: "Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation or otherwise, *need not* and *should not* borrow capital at interest as the means of financing governmental work and public enterprises. The government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity." (H.S. Kenan, *Federal Reserve Bank*, 1967 ed. rev. pp. 187-8.)

By creating and issuing its own money, Lincoln said the people could avoid a national "debt" economy which bankers instinctively promote. By creating their own money, "The taxpayers will be saved immense sums of interest, discounts and exchanges. The financing of all public enterprises, the maintenance of stable government and ordered progress, and the conduct of the treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power." (Ibid. p. 188.)

The Third Fallacy of the Federal Reserve is "Fractional" Banking

Fractional banking was invented in Europe around four hundred years ago. It allows a bank to set up a "reserve" to cover any claims which happen to come in and then go ahead and loan many times more money on credit than the "reserve" in the bank. By this means the bank loans out and charges interest on something it doesn't even have. With everybody else it is a fraud to loan, rent or sell something which does not exist. Fractional banking should have been outlawed 200 years ago.

One of the most dangerous devices employed by the Federal Reserve under fractional banking, is its power to bounce the level of required reserves up and down so as to control the money supply and the interest rates. The Congress which passed the Federal Reserve Act assumed that this would be done in the interest of the public, but as we shall see later, the very opposite occurred.

Promises of the Federal Reserve Turned Out to be Pie-Crusts Made to be Broken

As mentioned earlier, the original promises of the Federal Reserve promoters were so glorious that it seemed it would be the height of stupidity to turn down such a marvelous opportunity, the Constitution to the contrary notwithstanding.

All the Federal Reserve wanted was the privilege of printing the nation's currency and serving as the government's bank. In exchange for this great privilege, the following promises were made:

1. The Federal Reserve promised to operate entirely under the direction and control of the President and his appointees to the Board of Governors. The Fed escaped from this control almost immediately. It has so much influence in Congress that over 200 amendments were added to the original Act, and these gradually altered the entire statutory profile of the Act. Even the Secretary of the Treasury and the Comptroller of Currency were eliminated from its Board of Governors. Hundreds of times the Fed has defiantly acted against the interests of the American people and made billion-dollar decisions favorable to its banker stockholders. In these cases, the President and the Congress found themselves helpless and unable to intervene. The Chairman of the Board, Marriner Eccles, admitted this to the head of the Banking and Currency Committee of the House. When Mr. Eccles was asked if the Federal Reserve had more power than either the Congress or the President, Mr. Eccles replied: "In the field of money and credit, yes." (*Joint Economic Committee Report*, 1962, p. 525, quoted by Kenan, p. 192.)

Fed Pays Nothing for the Right to Print Money

2. Section 16 of the Act provided that the Federal Reserve would pay the Government interest for the privilege of printing Federal Reserve notes as the nation's currency. However, the Act left this to the discretion of the Board of Governors who elected from the beginning to pay the government zero interest for this right to manufacture the nation's money. No legal remedy to enforce this section is available.

Failure to Provide Free Banking Services

3. The Fed promised to perform many banking services for the Government free of charge, but in spite of this provision it began charging for its services right from the start. Wright Patman, Chairman of the House Banking and Currency Committee asked Mr. Eccles: "Wasn't it intended when the Federal Reserve Act was passed that the Federal Reserve Bank would render this service without charge-since under the Act the Government would give them the use of Government's credit free?" Mr. Eccles seemed shocked and replied, "I wouldn't think so!"

Failure to Stabilize the Dollar

4. It was promised that the Federal Reserve would manage the nation's money supply so that the American dollar would be protected and remain stable so as to keep prices relatively stable. The Federal Reserve stockholders are now known to have manipulated the dollar until today its purchasing power is not worth more than ten cents of what it was when the Federal Reserve took over. The Federal Reserve was behind the legislation which took the nation off the gold standard and used its lobby in Congress to force the bill through without a hearing. Later it removed the nation from what was left of the silver standard and has since been found maneuvering behind the scenes in an attempt to get the dollar replaced with some kind of international money.

Failure to Eliminate the Control of Wall Street

5. It was promised that the Federal Reserve Act would take the United States out from under the control of Wall Street. This was the biggest deception of all. The most powerful money trusts on Wall Street were the ones behind the passage of the bill and it was their money-managers who took over the Federal Reserve System as soon as the Act went into operation. During debates in the House, Congressman Charles Lindbergh, father of the famous Atlantic non-stop flyer, declared, "This Act establishes the most gigantic trust on earth. When the President signs this bill, the invisible government by the Monetary Power will be legalized... The worst legislative crime of the age is perpetrated by this banking and currency bill. The caucus of the party bosses have again operated and prevented the people from getting the benefits of their own government." (Kenan, p. 137.)

Failure to Forestall Depressions

6. It was promised that the Federal Reserve would prevent any future depressions. Now it is known that the Federal Reserve deliberately engineered and prolonged the worst depression in the history of the United States. As the well-known economist, Dr. Milton Friedman, states in his text, *Capitalism and Freedom*: "I am myself persuaded, on the basis of extensive study of the historical evidence, that ... the severity of each of the contractions [depressions] --1920-21; 1929-33, and 1937-38 -- is directly attributable to acts of commission and omission by the Reserve authorities and would not have occurred under earlier monetary and banking arrangements." (p. 45.)

Failure to Serve the Farmer and Small Business

7. The promise was made that the Federal Reserve would be the friend and helper of the farmer and the monetary needs of small businesses. The Fed so completely failed in this promise that entirely new lending agencies had to be created by Congress to help the farmers and small businessmen. Furthermore, the Federal Reserve used its power in 1920 to deliberately manipulate the economy to produce an agriculture collapse. This caused tens of thousands of farmers to lose their farms. (Kenan, p. 128.)

Failure to Decentralize Banking

8. The promise was made that the new system would forever remain decentralized so that the Federal Reserve Bank in San Francisco would have as much to say about monetary policies as New York. This proved fallacious from the first year of operation. The centralized money market in the United States is in New York and the New York Federal Reserve Bank has dominated the other eleven districts to the point where the latter are usually not even consulted when decisions are made by the Open Market Committee.

Foreign Entanglements

9. The promise was made that the Federal Reserve would protect American interests against foreign monetary assaults. Studies show that the privately-owned money-trust which set up the Federal Reserve System is riddled with foreign entanglements. It operates European branch banks and was found to have drained off billions in American resources to underwrite its

interests abroad. In the midst of the depression, Congressman Louis T. McFadden of Pennsylvania, declared:

"Mr. Chairman, we have in this country one of the most corrupt institutions the world has ever known. I refer to the Federal Reserve Board and the Federal Reserve Banks, hereinafter called the Fed. The Fed has cheated the Government of the United States and the people of the United States out of enough money to pay the Nation's debt.... The wealth of these United States and the working capital have been taken away from them and has either been locked in the vaults of certain banks and the great corporations or exported to foreign countries for the benefit of foreign customers of these banks and corporations. So far as the people of the United States are concerned, the cupboard is bare." (*Congressman Louis T. McFadden on the Federal Reserve*, Forum Pub. Co., Boston, p. 3. 26.)

Domestic Commercial Banks at the Mercy of the Federal Reserve

10. The Federal Reserve System was specifically committed to supervising and inspecting the local banks and also providing funds in case they were pressed by unexpected demands for payment. It was recognized that every time a bank is forced to close its doors the savings and deposits as well as the stock of the bank's investors and stockholders are lost. But instead of being its protector, the policies of the Federal Reserve frequently have been a nightmare to the neighborhood commercial bank with which most Americans are familiar. Thousands of them have been forced into bankruptcy by inconsistent and selfish policies imposed on them by the big money trusts operating out of New York and Europe.

How the Federal Reserve System is structured

The present structure of the Federal reserve consists of a Board of Seven Governors who serve 14 years with the term of one of the members expiring every two years. The new members of the Board are appointed by the President of the United States who also selects the Chairman. The original design was to have these 7 men represent the "public interest" as opposed to the special interest of the member banks. However, the chairman of the Board of Governors has nearly always been a prominent member of the banking community. Great pressure is also exerted from Wall Street to have sympathetic board members appointed by the President.

The nation is divided into 12 Federal Reserve Districts with a Federal Reserve bank in each district and branch banks in major cities as needed. Local commercial banks which become part of the Federal Reserve System are called "member" banks. Each member bank is required to subscribe "stock" in the Federal Reserve bank. This amounts to 6% of its capital and surplus. Only 3% must be paid into the bank, but the remainder is subject to call if needed. The bank receives an interest payment of 6% per annum on its paid-up stock. Washington will tell the bank how much "reserve" it must maintain with the Federal Reserve but this will always be a small fraction of what the bank is allowed to loan out at interest. On occasion it may be allowed to loan out as much as thirty times more than what it has in reserves. Of course, by doing so, it may risk having a "run on the bank" by its depositors if they begin to suspect the soundness of the bank. In these instances, the Federal Reserve is supposed to come to the bank's rescue, but very often it has not. Thousands of banks have gone under in recent years with losses of hundreds of millions by its depositors.

Each of the 12 District banks has a board of directors. Six are usually bankers and 3 are selected from the non-banking business sector.

Four times a year each of the 12 Districts sends a representative to Washington to confer with the Board of Governors. These meetings are called the Federal Advisory Council but it is not really too significant.

An important function of the Federal Reserve System is to provide clearing houses for collecting checks, notes, drafts, etc. This is not done by transferring currency but by simply adding and subtracting from the accounts of the various banks. Banks with a balance-owing send in the difference.

The Board of Governors is also responsible for a large staff of bank inspectors to check the practices and lending policies of the members banks. The Board can suspend a bank from operation or remove the officers of any bank which are considered to be using unsound practices.

The inspection and check clearing services of the Federal Reserve is one part of the system which is reported to be administered with dispatch and efficiency.

The Real Center of Power is the Federal Open Market Committee

When it comes to controlling the money supply, interest rates, and the purchase or sale of securities, the real foot on the throttle and toe on the brake belong to the Open Market Committee. It makes all of the important decisions and meets in Washington behind closed doors every three weeks.

The Open Market Committee consists of the 7 members of the Board of Governors and 5 of the Board chairmen selected from the 12 District Banks. One of these will always be the chairman of the New York Bank. The others rotate in turn. Although the chairman from all 12 Districts may attend these meetings, only the 5 who serve on the Committee can vote. The Congress originally intended this powerful committee to be under the close supervision of the non-banking members of the Board of Governors, but it is recognized today that this is a strictly banking-fraternity committee operating completely outside the control of the President, the Secretary of the Treasury, the Comptroller or the Congress. As of this point in time, the Open Market Committee operates just like any of the privately-owned central banks of Europe. Dr. Milton Friedman, a most astute student of the Federal Reserve, and also William Simon, former Secretary of the Treasury, consider this Open Market Committee a dangerous threat to the economic stability of the United States and recommend that it be terminated.

There Has to Be a Better Way

There is no doubt but what history has caught up with the Federal Reserve System. It has had disgraceful record almost from the moment it went into operation. The Act unconstitutionally delegated to a consortium of private bankers one of the most precious rights a nation possesses -- the right to manage their own system of money and credit.

Under the policies of the Federal Reserve System national indebtedness has been encouraged, inflation has sky-rocketed, and the value of the American dollar has sunk so low that savings have been eaten up, fixed incomes have become a dribble, and a once wealthy nation finds itself owing more than all the rest of the nations of the earth combined.

Fortunately, there is a way out of all this. It was provided in the last section of the Act, section 30. It is time Americans began talking seriously about Section 30 of the Federal Reserve Act so that we can save what is left of the American economic heritage.

In our next "Behind the Scenes" letter we will discuss this exciting possibility. It will be called, "Save the Dollar!"

#3

The Urgent Need for U.S. Monetary Reform

Save the Dollar, Save the People Save the Banks!

No issue is creating more turbulence in the minds of Americans today than our money system. Double-digit inflation, the crushing burden of public and private debts, harassment of confiscatory taxation, high interest rates, depleted savings, leaping prices, crippling strikes, increasing bankruptcies, and serious social problems of vice, crime and divorce -- all these are closely related in one way or another to the nation's sick money system.

Why Hasn't Something Been Done About It?

The problem in the past has been the fact that too many politicians and economists have been trying to prevent the system from exploding by putting billion-dollar paper patches on the boiler. These billion-dollar patches have been squeezed out of America's abused and exploited citizen-taxpayer. This has aggravated the problem rather than solved it.

It is amazing that the experts haven't been willing to explore the possibility that someone in the past may have found the answer. Always there has been the search for some new, exotic formula, and always the search has centered around bigger spending and more government controls. All these efforts have been counter-productive and ended in failure.

The Founding Fathers' Formula

What is needed today is a more careful study and a far deeper appreciation of a formula which was worked out by the Founding Fathers over 200 years ago but was never used. Not at any time during the two centuries that this nation has been in existence have the people enjoyed the rich and abundant blessings of a sound, honest money system.

At the Constitutional Convention, the Founders "set their faces like flint" and determined that they would make the American dollar completely independent of any power or combinations of powers outside of the American people. They therefore gave the exclusive power to issue and control money to the people's representatives --the Congress-- and forbade anybody, even the States, to meddle with it. Not only was Congress to be held responsible for the issue of money, but it was to see that its purchasing power remained fixed. In other words, the "value" of the money must not only remain steady and reliable in the United States, but also in relation to foreign money.

It is not difficult to imagine how different the monetary history of the United States might have been if this formula had been used.

Why Wasn't the Founders' Formula Followed?

It was extremely unfortunate that the new Constitution was inaugurated during the depths of a devastating depression. In fact, at that particular time the whole American money system was based on a sick, terribly bloated dollar that had developed during the Revolutionary War. George Washington knew that unless some healthy money were immediately introduced into the economic system, the new government would be discredited and find itself doomed to oblivion. It was a time of extreme desperation. Alexander Hamilton came up with a plan to monetize the nation's mammoth war debt by issuing bonds and selling them to private banks. He also urged the President and Congress to allow these bankers to temporarily (for 20 years) establish a private bank in the name of the United States and be responsible for the issuing of money, controlling the amount, fixing its value, and *financing* the United States government. It was this last factor which appealed to President Washington.

There was, of course, no Constitutional authority to have the Federal Government set up such a bank, but Hamilton persuasively argued a theory of "implied powers" which has seriously damaged the whole concept of "limited" government ever since. Although the argument was sufficiently strong to impress Congress, Washington was uncomfortable with it. In fact, he was actually contemplating a veto of the Banking Act when Hamilton drew him aside and filled his mind with such glowing promises of stability and prosperity under this "temporary" expediency that Washington finally overrode his professional instinct as one of America's most successful farmers, and signed the bill.

Jefferson later accused Hamilton of complicating the whole scheme with such elaborate trappings that it had confused the President. It turned out that Washington's original instructive anxieties concerning the dangers of the bill were fully justified. By 1798 even Hamilton admitted that the whole thing had been a serious mistake. He actually wrote a letter to Oliver Wolcott, the Secretary of the Treasury, urging that the United States abandon the plan he had concocted and return to the original idea expressed at the Constitutional Convention. He wrote that the Government should "raise up a (money) circulation of its own" which would require, of course, that the Government no longer allow this important task of issuing money to be assigned to a private banking system. (Letter dated August 22, 1798, quote in *Money Makers*, by Gertrude Coogan, pp. 204-5)

Private Money-Managers Prove Difficult to Dislodge

However, once the vested interests of the powerful and wealthy money-managers had become thoroughly entrenched, it proved far more difficult to remove them than Hamilton had realized. As a result, for nearly 200 years mighty voices have been pleading with Americans to demand that Congress return to its Constitutional money system. But always to no avail. These pleas have been coming from men such as Jefferson, Madison, Jackson, Lincoln, Lindbergh, and McFadden. They have been like voices in the wilderness. And because their voices went unheeded, a highly vulnerable and easily manipulated sick dollar has been employed ever since with all of its attendant evils.

The ultimate mistake, as we saw in our last discussion ("How the Federal Reserve System Works") was setting up a privately controlled central bank in 1913 under the pretense that it was a government controlled monetary service agency. What it actually did was to give to a consortium of private money-managers the power to issue money, control the money supply, regulate the interest rate (which controls the "value" of money) and indulge in the wildest kind of "fractional" banking wherein these money-managers were allowed to loan "at interest" billions of dollars they didn't even own.

What Are the Characteristics of a Sound Money System?

Here are some of the most important characteristics of a sound and honest money system which the Founders had in mind when they wrote the Constitution.

1. Money should be recognized as nothing more than a unit of value designed to facilitate the exchange of goods and services. The right to *create* such a symbol therefore, belongs to those who create the goods and services, meaning the people themselves. It is an inherent and inalienable right which they alone can delegate. In the Constitution the right to create the people's money was delegated to Congress.

2. Once the right to create money is delegated to the people's representatives --the Congress-- it is completely unlawful for the Congress to give that right to a group of private bankers or "money-managers."

3. It is the responsibility of the Congress to create a healthy dollar or unit of value which will maintain the same relative value from generation to generation.

4. It is also the responsibility of the Congress to set up appropriate machinery to monitor the money supply so that it will remain in balance with the amount of goods and services being produced by the people. As productivity increases, the money supply should be increased, but only to the same extent. Congress has never provided the machinery needed to fix and maintain the value of money by regulating the supply in relation to goods and services.

5. Machinery should also have been provided so that no powerful group of private money manipulators could suddenly drain off large portions of the money supply so as to cause a depression; or suddenly add to the money supply and thereby create sky-rocketing inflation. Either of these developments violates the responsibility of Congress to "fix" and maintain the "value" of the dollar as provided in the Constitution.

6. It was also the intention of the founders that the issue of the dollar be locked into a designated amount of gold or silver. Throughout the history of modern man, precious metal has always been the "money of last resort." Of course, people will ordinarily prefer to use paper money because it is so much more convenient to handle, but as Jefferson and others pointed out, it should be redeemable in gold or silver. And experience has taught us that U.S. notes should be redeemable in gold and silver at the prevailing market price rather than some arbitrary price fixed by statute. A statutory price allowed speculators to play havoc with our currency.

7. To safeguard the value of money against the manipulation of speculators, it is essential that the nation have such a large supply of precious metal in storage that no group of private speculators, either at home or abroad, can get a corner on the market and seriously alter the stability of the paper money which has been issued.

8. When a certain unit of value (the dollar) has been declared the official legal tender, no bank or individual should be allowed to make loans except in terms of monetary assets which are in actual possession or readily available. Fractional banking or loaning or "credit" backed by merely a fraction of the loan is inherently fraudulent and should be outlawed.

The Inherent Deficiencies of the Federal Reserve System

No one should have difficulty immediately recognizing why the present American money system has produced such a sick dollar. From our earliest history the Congress has never fulfilled its responsibility to issue our money Constitutionally and "fix the value thereof." The creation of the Federal Reserve System was the most serious mistake of all. During its operation for nearly three-quarters of a century, here is what it has done to the American people:

1. It has allowed a group private central bankers to issue the people's money and make fabulous profits loaning it back to the government at a substantial rate of interest.

2. It has manipulated the dollar until it has lost 90% of its buying power since 1913.

3. It has practiced fractional banking on the people wherein it was able to use a small "reserve" to loan out many more times as much money on its "credit" so as to artificially expand the money supply and bloat the economy. Then it would withdraw this make-believe money supply or credit so as to contract the economy and provide an excuse to foreclose on farms, homes, factories and savings accounts. By this means the fractional bankers were able to replace their make-believe wealth or "credit" with tangible wealth which would be later sold at a substantial profit.

4. It is now known that the money-managers back of the Federal Reserve System lobbied legislation through Congress which forced the American people off the gold standard in 1934 and off the silver standard by 1964. They further succeeded in having the people's gold confiscated in quantities which would now be worth several hundred billions of dollars.

5. Studies show that the stock of the Federal Reserve System is known to have been controlled to a large extent by the private bankers who operate the central banks of Europe, and they have continually manipulated the American economy and its Federal Reserve System to their own selfish advantage. By alternately using war and depressions, they have drained off so many billions of dollars from the American people that it is now difficult to mentally comprehend the extent of it. Although a few members of Congress tried to expose these frequent manipulations, the intricacies of the Federal Reserve System have been too complex and most Congressmen have failed to realize what was actually happening.

6. Most importantly, the managers back of the Federal Reserve System have accumulated such fabulous quantities of wealth that they have been able to buy up the major news media and make such extensive grants to the foundations and universities that it has been virtually impossible for alarmed Congressmen and economists to project their warning through the educational and communications systems of the nation. This has kept the public in almost total ignorance of what has been taking place. It has also prevented the mobilizing of the political forces needed to recapture the monetary system from this gigantic establishment of monopolized power which has a vested interest in hundreds of billions in the Federal Reserve System.

How Can Americans Liberate Themselves and Set Up a Constitutional Money System?

It has been known for many years that there is an escape from the present dilemma if a sufficient number of Congressmen can be induced to consider the source of the problem and the requirements for a solution.

The key to solving the problem is Section 30 of the Federal Reserve Act which provides that the government can buy back the stock from the Federal Reserve banks at any time, thereby acquiring all of the assets which have been accumulating in the Federal Reserve

System during close to three-quarters of a century. At least two advantages would immediately result from this action.

First of all, the stock of the Federal Reserve banks would cost the Government less than a billion dollars whereas the assets of the Federal Reserve System are now nearly 200 billion. Most of these assets are in U.S. government bonds. There is also another 100 billion being held in "reserve" for the member banks and practically all of these assets are in U.S. government bonds.

Secondly, the Federal Reserve system has obtained these billions in bonds without paying anything for them and therefore they can be taken back as part of the assets of the System without any obligation to compensate the stockholders for them. In order to understand how the Federal Reserve has been "buying" U.S. bonds without paying anything for them it is only necessary to follow the procedure in one of its purchases for example:

Let us say the Federal Reserve applies to the U.S. Treasury for 500 million dollars worth of bonds. The Treasury promptly prints up the bonds (Government IOU's) which require the American taxpayers to eventually redeem them at their face value plus a regular payment in interest. Now comes the surprise. The Federal Reserve puts the bonds in its "reserve" fund and immediately treats these bonds as an asset. It then writes out a check to the Government based on the credit created by these bonds! In other words, nothing of value is surrendered to the Treasury for these bonds. It is simply a question of writing a check on the "credit" which the bonds themselves created.

When the member banks buy U.S. bonds, they follow the same procedure.

How to Wipe out Nearly Half of the Federal Debt

The important point to recognize here is that if the United States bought back the stock of the Federal Reserve System, the Government would also be entitled to all of the assets and "reserves" of the System including these bonds for which the Federal Reserve and its member banks paid nothing. These bonds could then be immediately canceled since the Government would own them. They would not have to be redeemed nor would any further interest be due on them. It would be similar to a man who buys a company and finds that the assets include his own notes or IOU's. Through his purchase of the company he gets back these IOU's and can tear them up because he owes them to himself.

This procedure would wipe out approximately 200 billion dollars worth of bonds belonging to the Federal Reserve System and another 100 billion dollars worth of bonds in the "reserves" of the member banks.

There is another huge supply of U.S. bonds in the trust funds of various Federal agencies. These trust funds were originally set up to maintain a ready supply of emergency cash, but over the years these trust funds have been spent and replaced with U.S. bonds or IOU's. All of these bonds belong to the United States and should therefore be canceled since they belong to the Government and should be considered redeemed, with no further interest due. This would account for another 100 billion dollars or more which could be wiped off of the Federal debt, thereby bringing the total to approximately 400 billion dollars in canceled U.S. bonds which would practically cut the Federal debt in half. It would also cut the Government's annual interest payments in half.

All other outstanding U.S. bonds should also be redeemed and canceled out as rapidly as the economy would permit. The United States would then be completely out of debt and by adopting the Founding Fathers' monetary formula the nation could stay out of debt forever.

Legislative Steps Needed to Stabilize the U.S. Monetary System

Just as soon as the Government has acquired the stock in the Federal Reserve System, the Congress could proceed to take the steps which economists have been working out in progressive detail ever since the days of Jefferson, Jackson, and Lincoln. The basic requirements for the new monetary system should be carefully codified in an amendment to the Constitution. This amendment plus statutory implementation by Congress would need to provide for the following:

1. Freezing the money supply at its present level to prevent any further deterioration by inflation.
2. Setting up the necessary monitoring machinery to keep the supply of money within 3% of the Gross National Product (goods and services) and use the price-index to provide a month-by-month correction so as to keep the ratio between the money supply and the GNP as exact as possible.

The only exception to the 3% restriction would be in time of war or an extreme emergency declared by Congress. The law should require that the excess money supply which had been pumped into the monetary system to meet the needs of the emergency, must be drained off through taxes or other means within five years so as to bring prices and the supply of money back into their original ratio. Only by this means will the savings of the people retain their buying power or "value" from generation to generation.

3. Appointing the trustees in charge of the Federal Monetary System to permanent positions until they reach the age of 70. Their compensation should be substantial and not subject to being diminished during their term of service. The law should also provide for severe punitive action in addition to impeachment for any dereliction of duty on the part of these trustees or their supervisory officers.

There would also be a provision that no person could qualify as a trustee if the candidate or any members of his immediate family held stock or worked for any bank, loan association, or company which would benefit from the trustees' decisions and thereby represent a conflict of interest.

4. New United States notes would be issued to replace the Federal Reserve notes and would be redeemable at the option of the government in either gold or silver. Congress would designate the gold and silver reserves required for domestic currency as well as for transactions in foreign exchange.

5. The Open Market Committee of the Federal Reserve System would be abolished.

6. No quantities of capital in excess of \$5,000 could be taken from the country without the consent of the Trustees of the Federal Monetary System.

7. All fractional banking by banks, loan associations and individuals would be strictly forbidden.

8. Commercial banks and the public bodies of the individual States would be allowed to borrow funds from the United States Monetary System at 3% interest, these funds being allocated to each State according to its population unless Congress should deem otherwise. In the absence of a war or emergency, no such loans would be available unless they could be made within the ratio of balance required between the money supply and the GNP.

9. Commercial banks and loan associations would not be allowed to loan any funds at interest in excess of 10%. Loans only could be made to the extent of funds borrowed from the Monetary System or its tangible assets or the savings of its customers. Each bank would be required to maintain a dollar for dollar balance on all demand deposits (check book accounts) and would charge *for services* rendered in handling checks, notes or trusts for its customers. The present Federal Reserve branches would be taken over by the Federal Monetary System and would provide clearing house services as at present.

10. Borrowing by the Government would be forbidden. The right to create additional money for the people would be achieved by printing United States notes without interest and

subject only to the limits of keeping the money supply in balance with the GNP. Issuing the people's money without paying interest and without borrowing would finally fulfill the formula of the Founders.

11. All commercial banks would be incorporated as entities of the individual States or territorial possessions. There would be no Federal banks or national banks. Nevertheless, the Federal Monetary System would have supervisory responsibilities over all banks and loan associations to verify their liquidity and promptly detect any fractional banking practices or other violations.

Why European Bankers Have Fought the American Founders' Monetary Formula

Europe's fractional bankers have known for years that if Americans ever made up their minds to adopt the founding Fathers' original monetary *plan*, *it would* force the rest of the world to abandon fractional banking and pursue a similar monetary system of sound, honest money.

Right after the Civil War there was considerable talk about reviving Lincoln's brief experiment with the Constitutional monetary system. Had not the European money-trust intervened, it would have no doubt become an established institution. As Europeans observed renewed interest and growing support for Lincoln's ideas, the *London Times* editorialized as follows:

"If that mischievous financial policy, which had its origin in the North American Republic during the late war in that country, should become down to a fixture, then that Government will furnish its own money *without cost*. *It will* pay off its debts and be without a debt. It will have all the money necessary to carry on its commerce. It will become prosperous beyond precedent in the history of the civilized governments of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe." (emphasis added, quoted by Gertrude Coogan, *Money Creators*, p. 217)

Several European leaders recognized Abraham Lincoln as the major obstacle to the European central banks which wanted to exploit the resources and wealth of the American people. When Bismarck, the Chancellor of Germany, learned of the death of Lincoln, he said:

"*The* death of Lincoln was a disaster for Christendom. There was no man in the United States great enough to wear his boots. ... I fear that foreign bankers with their craftiness and tortuous tricks will entirely control the exuberant riches of America, and use it to systematically corrupt modern civilization. They will not hesitate to plunge the whole of Christendom into wars and chaos in order that the earth should become their inheritance." (Gertrude Coogan, *op. cit.*, p. 216)

From then until now, the little-known history of American finances demonstrates the tragic accuracy of that prediction.

Tremendous Advantages of a Constitutional Monetary System

Because the Founders' original formula for monetary reform has never been made fully operational, a brief period of adjustment and fine-tuning would be necessary to bring it up to top efficiency. However, once it began operating up to speed, it would no doubt achieve everything which the European bankers and the *London Times* feared it might. Here is what it could accomplish within a short time:

1. Put the authority to issue the people's money back in the hands of Congress as required by the Constitution.
2. Allow money to be created as needed without borrowing or paying interest for it.
3. Get the United States completely out of debt.
4. Keep the money supply in balance with the productive quantity of goods and services so that the buying power of "value" of the U.S. dollar would remain approximately the same from generation to generation.
5. Stabilizing the dollar would take the major risk out of putting savings in the bank, making industrial investments, buying a home, modernizing America's industry, investing in research and technology, stabilizing the stock market, and providing a realistic security for those retiring on a fixed income.
6. It would prevent inflation. The money supply could not increase above 3% and the monitors would have the power to pull it back even from this minor amount of dislocation.
7. It would also prevent depressions. Since the money supply would not be allowed to drop below 3% of the GNP at any time the trustees would closely monitor the price-index and if it revealed any tendency toward a slump, a new supply of money and credit could be immediately released to make up the difference.
8. There also would be a tremendous reduction in Federal taxes. The 3% interest paid by commercial banks, public institutions, and loan associations would go directly into the United States Treasury. The States could then retain the needed tax resources to properly fulfill their Constitutional responsibilities.
9. There would be practically no bankruptcy or collapse of banking institutions. State-incorporated commercial banks and loan agencies would no longer be subject to the boom-and-bust cycle. Nor would they be subject to the whims of the New York and European money trusts which have forced tens of thousands of American banks and loan associations out of existence during the past 200 years.
10. Commercial banks and loan associations could borrow money from the Federal Monetary System at 3% and loan it out competitively to the public at a higher interest rate providing it did not exceed 10%. They would charge a reasonable fee for servicing check accounts and maintain a dollar-for-dollar balance for all demand (check book) deposits so there would never need to be a "run on the bank" to recover these deposits. Savings, or time deposits, would also be the basis for loans at interest rates not exceeding 10% and the Federal Monetary System would monitor the accounts to make certain that every loan had been realistically underwritten by substantial collateral. The banks and loan associations would therefore operate like any other business and make their profits from services rendered rather than gambling on fractional reserves and being required to participate in boom-and-bust economics which in thousands of cases Wave destroyed the reputation of banks and forced them out of existence.
11. The stabilizing of the money supply would go a long way toward stabilizing over-all prices. No longer would the farmer find himself paying rapidly inflated prices for equipment, fertilizer and fuel while his crop prices remained stagnant. No longer would manufacturers find

themselves being forced to pay highly inflated prices for raw materials and labor thereby pricing themselves out of the world market.

12. For similar reasons the new monetary system would also greatly reduce the likelihood of strikes and tempestuous labor disputes.

13. A stable economy would greatly accelerate the velocity of business. However, studies show that the rapid turnover of money does not need to result in an inflationary cycle as many had supposed. It does produce a remarkable increase in goods and services but as this occurred (sic) the monitors of the Federal Monetary System would simply create additional money to keep the monetary supply in balance with the rising GNP.

14. *The London Times* was undoubtedly correct when it predicted that the adoption of such a monetary system by the United States would rapidly force every nation in the world to follow suit. This system would proliferate prosperity all over the world and would help to eliminate abject poverty, one of the most pernicious causes of war.

Suggestions for A Monetary Reform Amendment to the Constitution

An amendment to the Constitution would be necessary to permanently galvanize the Founders' monetary formula (with a modern adaptation) into the nation's fundamental charter. A suggested text for such an amendment might be somewhat as follows:

"The President shall appoint, with the advice and consent of two-thirds of the House and Senate, five trustees, including a chairman, to govern the Federal Monetary Fund. These trustees shall serve until they reach the age of seventy and shall be compensated in the same amount and subject to the same safeguards as the Justices of the Supreme Court.

"Except in time of war or other emergency declared by Congress, the Five Trustees shall be required, under penalties prescribed by Congress, to maintain the money supply within 3% of the Gross National Product based on a monthly calculation. Should war or other emergency require a more extensive increase in the money supply, the five Trustees shall be allowed five years after the emergency has passed to absorb the excess funds by taxes or other means prescribed by Congress.

"The five trustees are authorized to issue currency or gold or silver coins or withdraw the same from circulation in order to maintain the required balance between the money supply and the GNP (Gross National Product). All coins shall be issued in terms of their weight rather than a prescribed dollar value or fraction thereof.

"The five trustees are authorized to loan funds at 3% interest to state-incorporated banks or loan associations or grant loans for specific projects to the states, counties, communities of the United States or its territorial possessions. Loans shall be allocated to states and territories on the basis of population unless Congress shall provide otherwise.

"There shall be no Federal banks or national banks.

"Borrowing by the United States Government shall be forbidden.

"All state-incorporated banks or other loaning agencies may make loans based on savings, fixed assets, or money procured from the Federal Monetary Fund, but no loans shall be made at interest rates in excess of 10%.

"The five trustees shall be required, under penalties prescribed by Congress, to prevent any bank, loan association or other loaning agency, from engaging in fractional or reserve banking practices.

"The five trustees shall be required to see that all banks or other loaning agencies have in their possession a dollar-for-dollar backing for all demand-payment accounts (checkbook accounts). Although a bank or loan association may charge a fee for the servicing of demand-

payment accounts, these funds may not be loaned or treated as a fixed asset on which loans are made.

"For a reasonable fee, the Federal Monetary Fund will maintain clearing house services for all bank or loan associations handling demand-payment accounts. It shall also monitor all banks and loan associations to verify their liquidity and promptly detect any fractionalized banking or other violations of monetary regulations.

"The United States Treasury shall be the national depository for the storage and distribution of all Government funds.

"No gold, silver or currency in excess of \$5,000 per annum shall be removed from the United States or her possessions without the consent of the trustees of the Federal Monetary Fund.

Monetary Reform Is a Practical Solution to Current Fiscal Problems

A careful review of the provisions outlined above will demonstrate the realistic possibility of an early solution to the many fiscal problems presently plaguing the nation. For 200 years Americans have been wandering away from a Constitutional monetary policy and have repeatedly paid the penalty for a variety of experiments in fiscal futility. These experiments have seriously eroded the dollar, subjected the people to exploitation and abuse, and continually threatened the stability of local banking establishments. It is time for Americans to reconsider the prophetic warning of Jefferson when he wrote:

"If the American people ever allow private banks to control the issue of currency, first by inflation, then by deflation, the banks and corporations that will group up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers conquered." (K. S. Kennan, *The Federal Reserve Bank*, 1967, p. 234)

Tragically, this is the monetary trap in which the American people enmeshed themselves, and historically we would have to say that this was primarily because Alexander Hamilton thought this was a better way to go. Hamilton's eloquent and persuasive arguments were grounded on a completely different set of principles than Jefferson. Dr. Martin S. Larson, author of *The Federal Reserve System*, has presented the philosophical juxtaposition of these two famous men:

Jefferson wanted a *limited general government*, confined strictly to those activities, powers, and expenditures specifically *enumerated in the Constitution; under the general welfare clause. Hamilton intended to expand those powers to a point at which the states would be reduced to political non-entities and the people to endless debt and tax servitude. Jefferson wanted to pay every penny of the real national debt in hard currency and liquidate it as soon as possible; Hamilton wanted to fund the Revolutionary debt at several times its true value and then to increase it progressively thereafter. Jefferson wanted a frugal and simple central government; Hamilton wanted one that would grow, and tax, and spend to the utmost limits of human endurance. Jefferson advocated the most rigid fiscal responsibility; Hamilton wanted a federal government and a United States bank similar to our present colossus on the Potomac and the Federal Reserve System which is headquartered there. Jefferson considered private banks with the power to issue money, control credit, and determine interest rates more dangerous than standing armies; Hamilton's great objective was to establish and perpetuate just such a financial and monetary system.*

So, for two centuries Hamilton's view largely prevailed and as a result, the American people now find themselves in the eye of a monetary hurricane which we are reaping a fiscal whirlwind of debt, inflation and smothering taxes.