Federal Reserve

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In this essay we will see how the Federal Reserve System was created, why the government would want a central bank, and the effects it has had on our nation.

Money

We will begin our discussion with an overview of money. We would define money as "anything which is accepted as a *medium of exchange*". Money can be classified into the following four forms: commodity money, receipt money, fiat money and fractional money. We will describe each of these in turn.

Before money existed, people used barter to get what they wanted from others. Barter can be defined as a system in which one thing is exchanged for something else of like value. A barter exchange is not monetary in nature since each item has value rather than being recognized as a *medium* of exchange to be used later for something else. The items being bartered have intrinsic value. This concept of *intrinsic value* is key to understanding the various forms of money.

Commodity money is the oldest form and has its roots in the barter system. As each ancient society evolved, there were always been a few items that were more commonly used in barter than other commodities. This is because they had certain characteristics which made them attractive to almost everyone. Eventually, these items were traded in large measure because they represented a storehouse of value which could be exchanged at a later time for something else. At this point, they ceased being barter and became money. They had become a *medium of exchange*. Since the *medium of exchange* was a commodity with *intrinsic value*, it is called *commodity money*. Common examples of commodity money include ornaments, colored sea shells, unusual stones, cattle, sheep, corn, wheat or other foods.

Eventually, when man learned how to refine metals and craft them into tools, the metals themselves became valuable. Initially these metals were traded as commodity money due to their intrinsic value. But they had some additional characteristic that made them very desirable as money: it as not perishable, it was portable, it could be precisely measured. Money, in its fundamental form and function, needs to be a storehouse and *measure* of value. In this way, it is the measure by which all other things of value can be compared. The ability to precisely assay metals in purity and weight makes them ideally suited for this function. Men on every continent and throughout history have chosen metals for the ideal storehouse and measure of value.

Gold is the one metal that has been selected by centuries of trial and error to represent this storehouse and measure of value. Silver has run a close second to gold throughout history. There seems to be enough gold in the world to keep its value high enough for useful coinage. Gold is less abundant than silver but more abundant than platinum. It is a commodity in great demand for purposes other than money. It is sought for both industry and ornamental purposes which assures it's intrinsic value. The purity and weight of gold can be precisely measured. So, gold meets each of the equipments for money.

Some might argue that gold is inappropriate as money because there is too little of it in the world to satisfy all the needs of modern commerce. We would suggest that this is not the case. It is estimated that approximately 45% of all the gold mined since the discovery of America is in government and bank vaults [*Money and Man: A Survey of Monetary Experience*, Elgin Groseclose, p. 259] It would be reasonable to estimate that 30% can be found in jewelry, ornaments and private hoards. So it would be hard to argue that if 75% of the gold found since Columbus is available that is too rare to serve as money. We would also suggest that the mount of gold in the world does not affect its ability to serve as money, it only affects the quantity used to measure any given transaction. Governments could easily mint gold coins in almost any size to create smaller value.

Using gold (or any other metal) to serve as money virtually guarantees the stability of a commodity money system. This is true because there is a fixed amount of it in existence. When the quantity of money expands without a corresponding increase in goods, the effect is a reduction in the purchasing power of each monetary unit. In other words, the quoted price and the price as expressed in terms of monetary units of good increase. The real price, in terms of its relationship to all other goods, remains the same. This is what we call *inflation*. The price of goods do not go up but rather the value of the money goes down.

To illustrate this point, let's look at some price and wage statistics. In 1913, the year the Federal Reserve Act was passed, the average annual wage in America was $633. The average exchange value for gold that year was $20.67 per ounce. This meant the average worker earned the equivalent of 30.6 ounces of gold per year. In 1990, the average annual wage was $20,468. But the average exchange rate for gold had gone up to $386.90 per ounce. The average worker therefore earned the equivalent of 50.9 ounces of gold per year. That is an increase in wages as measured in gold of only 73% while the increase in dollars was 3,233%. The 73% increase represents less than 1% per year over the period. While this has happened there has also been a steady increase in purchasing power (about

1% per year) that was resulted in gradual improvements due to technology. This improvement is technology is the real reason for the improvement in the standard of living over the last 100 years.

The development of *receipt* (paper) *money* came as a result of necessity. When a man accumulated more coins than he required for daily purchases, he needed a safe place to store them. Goldsmiths filled this need since they usually had vaults to store the gold in. When customers stored their gold coins, they were given a receipt that entitled the owner to withdraw their gold at any time. Eventually, it became common for owners to endorse his receipt to a third party who, upon presenting the receipt, could withdraw the gold. These endorsed receipts where the forerunners to our modern checks. The final development stage occurred when several smaller receipts were issued rather than one large one with each imprinted "pay to bearer upon demand." It became increasingly common for these paper receipts to be used as money. So you see that *receipt money* was fully backed up by a commodity (gold coins) which had intrinsic value.

Fiat money is money which is declared legal tend but is not backed up by anything such as gold or silver. Its two characteristics are that it is not backed up by anything of intrinsic value and it is decreed legal tender. Legal tender means that the government issues a law requiring everyone to accept the currency in commerce. Since the money really is worthless, the only way the government can get it accepted is by forcing the people to do so, often under criminal penalties. Our own Federal Reserve Notes are fiat money. If you read the "U.S. Bankruptcy" article you will see how we got to this condition in America.

Interestingly enough, the Massachusetts colony was only the second government in the history of the world to issue fiat money (China being the first). Shortly after the currently was released, the state experienced 1000% inflation. Other colonies quickly followed the Massachusetts example with similar results. Connecticut had inflation of 800% and the Carolinas had 900% inflation. At the beginning of the Revolutionary War the total (fiat) money supply was $12 million. In 5 years time, an additional $425 million had been printed. This means the money supply had expanded by 3500% and the original Continental dollar was trading at less than a penny's worth of its original value.

There is a typical pattern which emerges when fiat money is used. The government artificially expands the money supply through the issuance of more fiat currency. This is followed with legal tender laws to force the acceptance of the money. Next, all the gold and silver disappears into private hordes or it is paid to foreign traders who insist on real money for their wares. Often when the inflation is high, the government will have to issue new bills valued at multiples of the old bills. This usually leads to discontent and civil disobedience (through barter). The last stage of each cycle is rampant inflation and economic chaos.

Fiat money is used by governments to obtain instant purchases power for themselves without increasing taxes. But it is not without cost. Some complain that we should not burden our children with our future public debt. It is true that our children will have the burden of the interest payments on the debt. But there is also a very real initial cost which

we pay. The cost is paid by all of us in the present through a decline in our purchasing power. It is exactly the same as a tax, but one that is hidden from our view.

The fourth kind of money, *fractional money*, also came as a result of people storing their gold coins with goldsmiths. The goldsmiths observed that very few of their depositors ever wanted to remove their coins at the same time. Withdrawals seldom exceeded 10 to 15% of their stockpiles. They hated to see all that gold just sitting there, and not being used. So, they began to lend some of the gold out by issuing more receipts. It seemed perfectly safe to lend between 80 or 85% out which meant they would still have reserves to pay any demand for withdrawal. In the beginning, the gold's owner was not even aware that their gold had been loaded. As the owners became aware of the practice, the goldsmiths began to offer to share the interest they earned on the loans with the gold's owner. But the entire practice didn't make such sense. The gold was not really available to be loaned. The gold was providing the value behind the receipts. One might say that the receipt was a proxy for the gold. Since the gold owner and the one who borrowed the gold, both had receipts, they both had proxies for the gold. If you give someone your proxy vote at a stock holders meeting, you can't also show up and vote. The same principle applies to the receipts (proxies) for the gold coins.

So here is how fractional-reserves work. You deposits your gold and gets a receipt which you uses as money. The goldsmith (banker) issues loans in the amount of 85% of the amount you deposit. The borrower is also given receipts for the amount he borrowed. That means there are 85% more receipts than there is gold to back it up. Thus, the goldsmith (bank) created 85% more money and placed it into circulation through the borrowers. They issued phony receipts and artificially expanded the money supply. So, at this point the certificates are no longer 100% backed by gold. So, they only represent a fraction of their face value. Thus the receipts become what is called *fractional money* and the process that created them is called *fractional-reserve banking*. This same process causes inflation of prices, or said another way, deflation of the value of the money.

One might say that the goldsmiths (banks) created money out of nothing. But this is not quite true. What they really did was created money out of debt. That's a neat trick that I bet you wish you could do. The old says goes that "money doesn't grow on trees." Well, the bankers have done one even better, money grows out of debt. This is money that it cost the banks absolutely nothing to create and they earn all that interest from making the loan.

We can look at the fractional money and see that it is a transitional form that exists between receipt money and fiat money. It has some of the characteristics of both. As the fraction becomes smaller, the less it resembles receipt money and the more closely it resembles fiat money. When the fraction reaches zero, the transition is complete. There is no example in history where men, once the had accepted the concept of fractional money, didn't reduce the fraction lower and lower until it eventually became zero. The transition from fractionale money to fiat money cannot occur without the participation of the government through a mechanism which is called a central bank. This happened in our country between 1913, when the Federal Reserve Act was passed, and 1933 when America went off the gold standard.

This fractional-reserve banking system is in part how our Federal Reserve System operates. The Federal Reserve creates money by loaning it to the federal government (fractional money) by purchasing government securities (debt). In so doing, the Federal Reserve becomes the creditor to the federal government. This is important to understand as you read the article on the "US. Bankruptcy". Commercial banks also create money when they loan money to individuals and businesses. There is nothing standing behind the money (fiat money) but the debt instruments. The Federal Reserve Notes say "This note is legal tender for all debts, public and private." Our politicians say the "full faith and credit of the United States" is behind the money. But that is an empty statement. The government has no assets to speak of except the labor of people and the property of the people. So our government has pledged our labor and our property to pay its debt. More details on how and why this happened can be found in our article on the "U.S. Bankruptcy."

The Federal Reserve is very candid in their publications that we have a fiat money system. Some of their own publications tell the story.

> "Currency cannot be redeemed, or exchanged, for Treasury gold or any other asset used as banking. The question of just what assets 'back' Federal Reserve notes has little but bookkeeping significance." [I Bet You Thought, Federal Reserve Bank of New York, p. 11, emphasis added]

> "**Banks are creating money based on a borrower's promise to pay** (the IOU)… Banks create money by 'monetizing' the private debts of business and individuals." [*I Bet You Thought*, Federal Reserve Bank of New York, p.19, emphasis added]

> "**In the United States neither paper currency nor deposits have value as commodities. Intrinsically, a dollar bill is just a piece of paper.** Deposits are merely book entries. Coins do have some intrinsic value as metal, but generally far less than their face amount.

> "**What, then, makes these instrument** – checks, paper money, and coins – **acceptable at face value** in payment of all debts and for other monetary uses? Mainly, it is the confidence people have that they will be able to exchange such money for other financial assets and real goods and service whenever they choose to do so. **This partly is a matter of law; currency has been designated 'legal tender' by the government** – that is, it must be accepted." [*Modern Money Mechanics*, Federal Reserve Bank of Chicago, revised October 1982, p. 3, emphasis added]

> "Modern monetary systems have a fiat base – literally money by decrees – with depository institutions, acting as fiduciaries, creating obligation against themselves with the fiat base acting in part as reserves. **The decree appears on the currency notes: 'This note is legal tender for all debts, public and private.'** While no individual could refuse to accept such money for debt repayment, exchange contracts could easily be composed to thwart its use in everyday commerce. However, a forceful explanation as to why money is accepted is that **the federal**

> **government requires it as payment for tax liabilities. Anticipation of the need to clear this debt creates a demand for the pure dollar.**" [Money, Credit and Velocity," Review, May, 1982, Vol. 64, No. 5, Federal Reserve Bank of St. Louis, P.25, emphasis added]

The last two sentences from the above quote alludes to the federal debt and the fact that all U.S. citizens are responsible to pay that debt. For further explanation on this topic see our papers on "U.S. Bankruptcy" and "Income Tax is Voluntary".

If one thinks about the debt based money system, you will come to realize that their total money supply is backed by nothing but debt. This is hard enough to fathom but it's even hard to grasp that if everyone paid off their debt, *there would be no money left in existence*. Something else to consider is that the trillions of dollars in circulation appear to represents a tremendous amount of assets. But every bit of this money is owed by someone.

> "**If all the bank loans were paid, no one could have a bank deposit, and there would not be a dollar of coin or currency in circulation. This is a staggering thought.** We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash, or credit. If the banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless situation is almost incredible – but there it is." [*100% Money*, Irving Fisher, p. xxii. This quote appears in the forward to the book. The author is quoting Robert Hemphill who was the Credit Manager of the Federal Reserve Bank in Atlanta. Emphasis added]

Given this system, it's not hard to imagine that the Federal Reserve Bank is not interested in all these loans being paid off as the following quotes show.

> "A large and growing number of analysts, on the other hand, now regard the national debt as something useful, if not an actual blessing… [They believe] the national debt need not be reduced at all." [*The National Debt*, Federal Reserve Bank of Philadelphia, pp.2, 11]

> "Debts – public and private – is here to say. It plays an essential role in economic processes… What is required in not the abolition of debt, but its prudent use and intelligent management." [*Two Faces of Debt*, Federal Reserve Bank of Chicago, p. 33]

The reason the Federal Reserve is not interested in paying off the debt is because they make huge profits from the interest payment. But let's consider the morality of earning interest on these loans. If you were to rent an asset from someone, you would see the logic of paying them a rental fee. The rental fee reimburses them for the potential income they could have made through other opportunities they missed while you were using the asset. Interest payments on a loan are nothing more than fees for renting the money. But in the case of a debt based money system, the money was created when the loan was

approved and it was credited to your account. In this situation, you are not using the lender's asset. He created the asset with the stroke of a pen or an entry on a computer. Why should anyone collect a rental fee (interest) on that? While this system may be legal (because the government has granted them the authority to create money on whim) it is certainly not moral.

This leads to the next questions which is where does the money come from to pay the interest on the debt that created the money? One might think that the money would have to be borrowed since it would appear that all money is created by debt. But this position does not take into consideration the exchange of value (borrowed money) for labor. If you took out a loan of $10,000 with payments of $900 per month, about $80 of each payment is interest. You earn the money to pay the interest with your labor. That's why we say that about the only thing the government has to offer in exchange for the pubic debt is our labor. They collect the benefit of our labor in the form of income taxes.

Bank of England

To adequately understand our Federal Reserve, we must look at the Bank of England which was founded in 1694. The bank was the brainchild of a Scotsman named William Paterson. His idea was to charter an artificial person (a corporation) which would loan the government money but instead of being repaid at a fixed future date, it would receive perpetual (never ending, as in the loan is never paid off) interest. The plan for the Bank of England contained the following 7 points.

- The government would grant a charter to form a bank;
- The bank would be given a monopoly to issue bank notes which would circulate as England's paper currency;
- The bank would create money out of nothing with only a fraction of its total currency backed by gold coins (fractional money);
- The bank would then loan the government all the money it needed;
- The money created for government loans would be backed by government IOUs;
- Although the money would be created out of nothing, and would cost nothing to create, the government would pay "interest" on the money;
- Government IOUs would also be considered as "reserves" for creating additional loan money for private commerce. These loans also would earn interest. So the bankers would earn double interest on the same nothing.

The government IOUs were called annuities. These annuities along with the notes and bills of the bank were expressly exempted from all common-law restrictions upon the exchange of personal property. These annuities, notes and bills represented public debt.

The initial holdings of the bank consisted of £1,200,000 in annuities. By 1714, the total debt held by the bank had grown to £36 million. By 1719, the public debt had grown to £50 million. That meant a perpetual tax burden of interest payments on the backs of the citizens. But it also mean £50 million of absolutely liquid property had been created. Prior to these events, all property had been tangible real property which was not liquid.

[*Novus Ordo Seclorum: The Intellectual Origins of the Constitution*, Forrest McDonald, p.117-118]

The model of the Bank of England influenced the founders of this nation. Alexander Hamilton in particular believed that public debts should be funded in a manner similar to the Bank of England. The system Hamilton envisioned departed from the British system in only two significant ways. One was designed to overcome what many saw as a fatal flaw in the British system, namely the inherent tendency to expand the debt endlessly. The last several; decades have proven that we have failed miserably in this respect. The second was designed to use financial means for achieving political, economic and social ends. [McDonald, p.139] This second change seems to be one of the guiding principles behind what our government does today. If you look at most of the monetary policy of United States you can see this principle evident.

Hamilton's plan called for the creation of a national bank. Most of the capital of this bank would be in the form of certificates of public debt (today we have many forms of public debt). He felt that it would be safe to base most of the capital on government debt since the bank was expected to be immensely profitable and therefore the government paper would be "good as gold." He felt the national bank was important for two reasons. First, it would be a ready source of short-term loads to the government. This is the primary attraction for a nation bank in our modern world. Second, money and liquid capital were in short supply in the "colonies" and it would take to long to accumulate an adequate supply by being frugal. The essences of this second benefits is that money is created in the present, not based upon past savings but out of the expectation of future earnings to pay the debt. Another part of Hamilton's plan was that the national bank would be privately owned. He saw this as a restraining measure since the stockholders would act cautiously in order to protect their own interests. [McDonald, p.140] Our current Federal Reserve Bank is privately owned but it does not provide any such constraint. There is some evidence to indicate that Hamilton's plan was back by James Rothschild [*The Secrets of the Federal Reserve*, Eustace Mullins, p.5].

In 1791, Thomas Jefferson came out against Hamilton's plan for a central bank. He objected on the following grounds: the subscribers would form a corporation whose stock could be held by aliens; that this stock would be transmitted to a certain line of successor; that it would be placed beyond forfeiture and escheart; that they would receive a monopoly on banking, which was against the laws of monopoly; and that they would have the power to make laws, paramount to the laws of the government. We shall see that Jefferson's fears were well founded because this is exactly what happened.

Taxes Are Obsolete

Most of the money that the federal government spends comes from fiat money created by the Federal Reserve, monetized debt. This being the case, one might well ask why do we still have taxes? That's an excellent question. There are several reasons that come to mind. First, if the government stopped taxing us, people would begin to wonder where the money came from, realized it was just created from nothing and then realize that inflation was really a form of taxation. Second, taxes are a tool used by the elitist social

planners to control many aspects of our lives. This is evident by the complexity introduced into the tax code as a means to carry out social engineering by the government.

To confirm these assertion, we can turn to an article written by Beardsley Ruml, the Chairman of the Federal Reserve Bank of New York. The article appeared in the January 1946 issue of *American Affairs* magazine. Ruml suggested that taxes were obsolete. At the beginning of the article, the magazine editor summarized his position.

> "His thesis is that, given control of a central banking system and an inconvertible currency [a currency not backed by gold], a sovereign national government is finally free of money worries and need no longer levy taxes for purposed of providing itself with revenue. All taxation, therefore, should be regarded from the point of view of social and economic consequences." ["Taxes for revenue Are Obsolete," by Beardsley Ruml, *American Affairs*, January, 1946, p. 35]

Ruml's article suggests that there are only two reasons to have taxes. First, it combats a rise in the general level of prices. He suggests that if the money is left in the hands of the people, they will spend it and cause a rise in prices. Taxation removes the money from the hands of the people so that this does not occur. He says it this way:

> "The dollars the government spends become purchasing power in the hands of the people who have received them. The dollars the government takes by taxes cannot be spent by the people, and therefore, these dollars can no longer be used to acquire the things which are available for sale. Taxation is, therefore, an instrument of the first importance in the administration of any fiscal and monetary policy." [Ibid., p. 36]

The other purpose for taxation, according to Ruml, is to redistribute wealth from one class of people to another. This may be done in the name of social justice or equality, but this puts the government in the position of trying to control the economy as master planners.

> "The second principle purpose of federal taxes is to attain more equality of wealth and of income than would result from economic forces working alone. The taxes which are effective for this purpose are the progressive individual income tax, the progressive estate tax, and the gift tax. What these taxes should be depends on public policy with respect to the distribution of wealth and of income. These taxes should be defended and attacked in terms of their effect on the character of American life, not as revenue measures."

There is an additional reason for income taxes that was not mentioned by Ruml. The income tax paid by U.S. citizen is deposited directly into Federal Reserve Bank. For more on this topic see our article on the "Income Tax is Voluntary." If you thought you money was used to fund the operation of the government, you were wrong. Most Americans feel an obligation to pay their "fair share." But the IRS is nothing more than the collection agency for the Federal Reserve. Your taxes go directly to help pay the interest on the

national debt and directly enrich the shareholders of the Federal Reserve. Your labor is converted into money for their benefit. Remember that interest is being charged on money that is being created out of thin air which cost them absolutely nothing to create.

How It Was Created

Now let's turn our attention to how the Federal Reserve came into being. In 1907, an event occurred which became known as the Money Panic of 1907. The panic was caused because there was not enough money in circulation for everyone to pay their bills and employers to pay wages. It resulted in large scale lay-offs because there was not enough money to pay the employees. A study of the panics of 1873, 1893, and 1907 found that these panics were the result of the international bankers. The panic resulted in a public outcry for the nations monetary system to be stabilized. President Theodore Roosevelt signed a bill in 1908 which created the National Monetary Commission. Senator Nelson Aldrich was appointed to head the Commission which was charged with finding a solution to the problem [Mullins, p.1]. By 1910, Aldrich had not released a report to the government.

On November 22, 1910, a group of men met at the Hoboken, New Jersey train station. These men boarded a private car which was bound for Brunswick, Georgia. Their eventual destination was a private hunting lodge on Jekyll Island off the coast of Georgia. Eight men were in this group. They included Senator Aldrich and his private secretary, Shelton; Abraham Piatt Andrew; Frank Vanderlip, Henry P. Davison, Charles D. Norton, Benjamin Strong, and Paul M. Warburg [Mullins, p.1]. Abraham Andrew as the Assistant Secretary of the Treasury, and Special Assistant to the National Monetary Commission. Frank Vanderlip was president of the National City Bank of New York, the most powerful bank at that time, and he represented William Rockefeller and the international banking house of Kuhn, Loeb and Company. Henry P. Davison was a senior partner of J.P. Morgan Company. Charles D. Norton was the president of the First National Bank of New York which was owned by J.P. Morgan. Benjamin Strong was head of J.P. Morgan Bankers Trust Company. Paul Warburg was a partner in Kuhn, Loeb and Company of New York and was representing the Rothschild banking dynasty. These men represented what was know as the "money trust." The group also represented the two most powerful banking cartels in America: the Morgan Group and the Rockefeller group And they also represented the two most powerful banking cartels in Europe: the Rothschild group and the Warberg group. When all of these are combined, they represented as estimated one-fourth of the world's wealth [*The Creature from Jekyll Island*, G. Edward Griffin, p. 6]

The group had journey over a thousand miles cloaked in secrecy to draft banking and currency legislation which the National Monetary Commission had been ordered to prepare in public. Why the secrecy? Because the public would have been outraged to think that the "money trust" was drafting the very legislation which was suppose to protect the public from the "money trust."

What were the main points of the plan which the group created on Jekyll Island?

- The plan would create a central bank which would fulfill the typical functions of a central bank, among them creating fractional and fiat money.

- The Federal Reserve Bank would consist of a system of 12 banks. The creation of 12 regional banks would disguised the fact that the Federal Reserve System is a central bank.
- Private individuals who would profit from the ownership of shares would own the central bank.
- The bank would be "controlled by Congress" and would be answerable to the government, but the majority of the directors were to be chosen, "directly or indirectly" by the banks in the association.
- The Governors of the Federal Reserve Board would be appointed by the President of the United States. But the real work would be done by a Federal Advisory Council, meeting with the Governors. The Council would be chosen by the directors of the twelve Federal Reserve Banks.
- The administrators of the of all the regional banks would be appointed by the President using his executive powers. This removed them from Congressional control.
- Though it would be concealed from the public, the New York bankers, the "money trust", would dominate the Federal Reserve System.
- The administrators of the Federal Reserve System would control the nation's money and credit.

At the time of the retreat, members of the media found out about the meeting. There were a few stories run about the meeting but it was largely covered up. When those who were involved were asked about it, they would denied that it had taken place or they would say it was a duck hunting trip. Much later, after the Federal Reserve Act was passed, some of the members were a little more forth coming with information but for the most part they were still fairly quiet. The reason for the cover-up was that they knew if the public found out who drafted the legislations that it would never become law.

After the plan was drafted on Jekyll Island, an all out effort was put forth to get the proposed legislation passed in Congress. A group of banks contributed $5 million to fund a favorable public relations campaign to sell Americans on the plan. President Woodrow Wilson was also enlisted to support the plan. Three of the top universities, Princeton, Harvard, and the University of Chicago, came out in support of the plan. Two of the leading campaigners for the plan were professor from the University of Chicago. This university had been endowed by John D. Rockefeller (one of the forces behind the plan) with nearly $50 million. [Mullins, p.10-11].

When the plan had been introduced to Congress, Congressman Charles Lindbergh (father of the famous aviator) had this to say in testimony before the Committee on Rules on December 15, 1911:

> "Our financial system is a false one and a huge burden on the people… I have alleged that there is a Money Trust. The Aldrich plan is a scheme plainly in the interest of the Trust… Why does the Money Trust press so hard for the Aldrich Plan now, before the people know what the money trust has been doing?" [Mullins, p.11]

That same year, the American Bankers Association (ABA) came out in favor of the Aldrich Plan. But what came out in congressional hearings was the fact that the leaders of the ABA rammed it through the annual meeting and gave no opportunity for opposition to be expressed. Congressman Carter Glass was the chairman of the House Banking and Currency Committee. Congressman Glass was a Democrat who was opposed to the Aldrich plan. Aldrich was a Republican. The committee heard testimony about the Aldrich Plan. Andrew Frame, who was present at the ABA meeting, had this to say in testimony before committee:

> "When that monetary bill was given to the country, it was but a few days previous to the meeting of the American Banker Association in New Orleans in 1911. There was not one bank in a hundred who had read that bill. We had twelve addresses in favor of it. General Hamby of Austin. Texas, wrote a letter to President Watts asking for a hearing against the bill. He did not get a very courteous answer. I refused to vote on it, and a great many other bankers did likewise… They throttled all argument… They would not allow anyone on the program who was not in favor of the bill." [Mullins, p.13]

Mr. Frame went on to testify that in the next annual meeting of the ABA, the Aldrich Plan was not endorsed again. He said that a lot of opposition had developed in the ABA to the plan by this point and that the supporters of the plan never asked for another endorsement.

Congressman Glass summarized the reasons for opposing the Aldrich Plan.

- The plan lacked adequate government or public control of the banking mechanisms it would set up.
- The plan gave most of the voting control to the large banks in the system. These were the banks that were controlled by the "money trust."
- The plan had an extreme inherent danger of causing inflation of the currency.
- The bond-funding portion of the plan gave the false impression that the system would cost the government nothing.
- The plan contained great danger of a banking monopoly.
- The plan would in fact set up a central bank which would fulfill all the typical functions of a central bank It would control the nations money and credit. The private stockholder would use the credit of the government for their own profits.

With these points made clear, opposition to the plan developed and it was defeated. In fact, the Aldrich Plan never came to a vote in Congress because Republicans lost control of the House in 1910 and subsequently lost the Senate and the Presidency in 1912.

The Presidential campaign of 1912 was one of the most interesting political upsets in American history. The incumbent, William Taft, was popular and the Republicans, were firmly in control of the Senate due to a period of general prosperity. The Democrat challenger was Woodrow Wilson, Governor of New Jersey, and had no national recognition. Both parties included a monetary reform bill in their platform. The Republicans had the Aldrich Plan which had been denounced as a Wall Street plan. The Democrats had the Federal Reserve Act. Neither party told the public that the plans were

almost identical. Taft seemed a shoe in for re-election. But then Theodore Roosevelt threw his hat in the ring under the Bull Moose party. Roosevelt was well financed and had enormous press coverage, more than the other two candidates combined. As a former Republican president, it was obvious that Roosevelt would cut into votes that would have gone to Taft. The bankers were financing all three candidates, so they would win no matter who was elected. Later Congressional testimony showed that Kuhn, Loeb Company; Felix Warburg (not a U.S. resident but Paul Warburg's brother) supported Taft; Paul Warburg and Jacob Schiff supported Wilson; and Otto Kahn supported Roosevelt [Mullins, p.19]. It seems likely that the identification of the Aldrich Plan as a Wall Street plan would make it difficult to pass in Democratically controlled Congress whereas a successful Democrat candidate, supported by a Democrat Congress, would be able to pass a central banking plan. Roosevelt was used to split the Taft vote because the bankers doubted Taft could get the Aldrich plan passed. The final electoral vote in the 1912 race was Wilson 409, Roosevelt 167 and Taft 15.

In 1912, after the Democrats had taken control, held their own hearing on banking reform. They were held under the House Banking and Currency Committee again which was now chaired by Arsene Pujo of Louisiana. The hearings were conducted by a special council, Samuel Untermyer, appointed by Chairman Pujo. The hearings drug on for five months and produced over 6000 pages of testimony. Mr. Untermyer refused to allow either Senator LaFollette or Congressman Lindbergh to testify even tough it was the pressure that they had exerted which caused the hearings to be held. Both men strongly opposed a central bank. Untermyer was a specialist in banking issues but he refused to ask any of the bankers who testified any tough questions. He didn't ask about the system of interlocking directorates through which the banking industry was already controlled. He didn't ask about international gold movements where were known to be a major factor in the money panics of 1873, 1893, and 1907. He also didn't ask about relationships between American bankers and those who controlled the central banks of Europe. Mr. Untermyer did not seem concerned that many major international banking houses had branches on Wall Street and already controlled substantial portions of Wall Street activity even though this fact was well know on Wall Street. The sham hearing ended without a single well know opponent to a central banking plan testifying.

The two most influential men involved in the passage of the Federal Reserve Act were Paul Warburg and Colonel Edward Mandel House. Warburg was the chief architect of the plan that was developed at the Jekyll Island retreat. Here is a quotes from Warburg when he testified before the House Banking and Currency Committee in 1913:

> "I am member of the banking house of Kuhn, Loeb Company. I came over to this country in 1902, having been born and educated in the banking business in Hamburg, Germany, and studied banking in London and Paris, and have gone all over the world. In the Panic of 1907, the first suggestion I made was 'Let us get a national clearing house.' The Aldrich Plan contains some things which are simply fundamental rules of banking. Your aim in this plan [the Federal Reserve Act] must be the same – centralizing of reserves, mobilizing commercial credit, and getting an elastic note issue." [Mullins, p.21]

Col. House was in agreement with Warburg on plans for a central bank including provisions that would severely limit control by the government. Here a quote from him illustrating this point:

> "I am also suggesting that the Central Board be increased from four members to five and their terms lengthened from eight to tens years. This would give stability and would **take away the power of a President** to change the personnel of the board during a single term of office." [*Roosevelt, Wilson and the Federal Reserve Law*, Col. Elisha Ely Garrison, p. 337, emphasis added]

House's phrase, "take away the power of a President" is significant. Later Presidents would find themselves helpless to change the direction of the government because they did not have the power to change the composition of the Federal Reserve Board by attaining a majority of like minded people during their term of office.

Col. Garrison's book also revealed the role that Paul Warburg and the international banking family of Rothschild played in the central banking plan.

> "Paul Warburg is the man who got the Federal Reserve Act together after the Aldrich Plan aroused such nationwide resentment and opposition. The mastermind of both plans was Baron Alfred Rothschild of London."

To further understand House's view, one must look no further than a book he authored in 1911, *Philip Dru, Adminstrator*. The book was published Anonymously by B. W. Huebsch of New York. It is suppose to be a fictional work but is was actually a detailed plan of the future government of the United States. It "predicted" the passage of graduated income tax, excess profits tax, unemployment insurance, social security and a flexible currency system. In short, it outlines the plans which were followed by the Woodrow Wilson and Franklin D. Roosevelt administrations.

In 1955, Westbook Pegler, a columnist for the Hearst publications, wrote an article about House and his book.

> "One of the institutions outlined in Philip Dru is the Federal Reserve System. The Schiffs, the Warburgs, the Kuhns, the Rockefellers and Morgans [international bankers all] put their faith in House. The Schiff, Warburg, Rockefeller and Morgan interests were personally represented in the mysterious conference at Jekyll Island." [comment added]

Col. House was a close friend and personal advisor to President Wilson. He was able to get many of the socialist ideas outlined in his book implemented into law. Among them were an old age pension, laborers insurance compensation, cooperative markets, a federal reserve system, cooperative loans, and national employment bureaus. The relationship between Col. House and President Wilson was chronicled in book entitle *The Strangest Friendship in History, Woodrow Wilson and Col. House* by George Sylvester Viereck. The author asked House about the purpose of Wilson and House. House responded "To translate into legislation certain liberal and progress ideas."

From these quote, it should be evident that Warburg an agent of the international bankers as Kuhn, Loeb Company is one of the most influential of this group. It is obvious from this quote that there is little difference between the Aldrich Plan and the Federal Reserve Act. It is also obvious that Warburg is lobbying for a central bank that has the power to issue currency, "elastic notes." Warburg did a lot of work behind the scenes to get the plan passed.

We have already seen evidence that the international bankers will go to extraordinary measures to get what they want. There is some evidence to indicate that the powerful international bankers who gave us the Federal Reserve System will stop at nothing to have the power of a central bank in their hands. Three American Presidents have expressed concern over central banks issuing currency. Each of these Presidents have been assassinated. President Lincoln planned to issue non-interest bearing notes he called Greenbacks. President Garfield made a pronouncement on currency problems just before he was killed. And President Kennedy planned to issue Federal Notes without using the Federal Reserve or involving interest just before he was killed. It would be difficult to prove that the international bankers were involved in these assassinations but it is a very strange coincidence just the same.

On September 18, 1913 the House version of the Federal Reserve Act passed by a vote of 287 to 85. On December 19, 1913, the Senate version of the bill passed by a vote of 54-34. But there were over 40 differences between the bills. The opponents to the bill in both houses were lead to believe that there would be no further action until after the Christmas break. So they did not organized. As the Congressmen prepared to leave Washington, supporters of the bill quickly took advantage of the situation. In a single day, all of the disputes about the bill were ironed out in conference committee and the bill was brought to a vote. The bill was passed on December 22, 1913 in the House by 282-60 and the Senate 43-23. Some of the bills most vocal critics had already left Washington. It was a longstanding political courtesy that important legislation would not be acted upon during the week before Christmas. President Wilson signed the measure into law the very next day, December 23, 1913.

When the Federal Reserve Act was passed, the members of the Board had 10 year terms. But the Banking Act of 1935 lengthened the term to 14 years. This meant that the directors of the nation's finances, although not elected by the people, hold office longer than three presidential terms.

Col. House remained active behind the scenes in the both the Wilson and FDR administrations. Shortly before Col. House died, in 1938, he confided in his biographer Charles Seymour his continued role in the Roosevelt administration.

> "During the past fifteen year I have been close to the center of things, although few people suspect it. No important foreigner has come to the United State without talking to me. I was close to the movement that nominated Roosevelt. He has given me a free hand in advising him. All the Ambassadors have reported to me frequently."

The organizing activity of the Federal Reserve began in early 1914 with the appointment of an Organization Committee by President Wilson. The President appoint Secretary of the Treasury William McAdoo (the President's son-in-law), Secretary of Agriculture Houston and the Comptroller of the Currency John Williams. The committee selected the locations of the "decentralized" reserve banks. The selection of New York was a forgone conclusion since it was the center of finance in the U.S. Richmond, Virginia was also selected, evidently as a payoff to Congressman Carter Glass for his role in the passage of the bill. The other selections included Boston, Philadelphia, Cleveland, Chicago, St. Louis, Atlanta, Dallas, Minneapolis, Kansas City and San Francisco.

In 1937, Ferdinand Lundberg wrote *America's Sixty Families* which revealed that New York was really the seat of power.

> "In practice, the **Federal Reserve Bank of New York became the fountainhead of the system of twelve regional banks**, for New York was the money market of the nation. The other eleven banks were so many expensive mausoleums erected to salve the local prife and quell the Jacksonian fears of the hinterland. Benjamin Strong president of the Bankers Trust (J. P. Morgan) was selected as the first Governor of the New York Federal Reserve Bank. Adept in high finance, **Strong for many years manipulated the country's monetary system at the discretion of directors representing the leading New York banks. Under Strong, the Reserve System was brought into interlocking relations with the Bank of England and the Bank of France**. Benjamin Strong held his position as Governor of the Federal Reserve Bank of New Your until his death in 1928, during a **Congressional investigation of the secret meeting between Reserve Governors and heads of European central banks which brought on the Great Depression of 1929-1931**." [emphasis added]

Soon after the Federal Reserve Act was passed, many who supported it, began to be disillusioned. W.H. Allen expressed the views of this group in Moody's Magazine in 1916.

> "The purpose of the Federal Reserve Act was to prevent concentration of money in the New York banks by making it profitable for country bankers to use their funds at home, but the movement of currency shows that the New York banks gained from the interior in every month except December, 1915, since the Act went into effect. **The stabilization of rates has taken place in New York alone**. In other parts, high rates continue. **The Act, which was to deprive Wall Street of its fund from speculation, has really given the bulls and the bears such a supply as they have never had before**. The truth is that far from having clogged the channels of Wall Street, as Mr. Glass so confidently boasts, it actually widened the old channels and opened up two new ones. The first of these leads directly to Washington and gives Wall Street a string on all the surplus cash in the United States Treasury. Besides, **in the power to issue bank-note currency, it furnishes an inexhaustible supply of credit money; the second channel lead to the great central banks of Europe, whereby, through the sale of acceptances, virtually guaranteed by the United States Government, Wall Street is granted immunity from those**

> **foreign demands for gold which have precipitated every great crisis in our history**." [emphasis added]

For many years there has been quite a bit of mystery over who actually owned the Federal Reserve Banks. The stock in the original twelve regional Federal Reserve Banks was purchased by banks in each of the twelve regions. The ownership of the original shares was discovered on the original organizing certificates.

> "The Federal Reserve Bank of New York issued 203,053 shares, and, as filed with the Comptroller of the Currency May 19, 1914, the large New York City banks took more than half of the outstanding shares. The **Rockefeller Kuhn, Loeb-controlled National City Bank took the larges number of shares of any bank, 30,000 shares. J.P. Morgan's First National Bank took 15,000 shares. When these two banks merged in 1955, they owned in one block almost one forth of the share in the Federal Reserve Bank of New York, which controlled the entire system**... **Chase National Bank took 6,000 shares**. The Marine National Bank of Buffalo, later known as Marine Midland, took 6,000 shares. This bank was owned by the Schoellkopf family, which controlled Niagara Power Company and other large interests. **National Bank of Commerce of New York City took 21,000 shares**. **The shareholders of these banks which own the stock of the Federal Reserve Bank of New York are the people who have controlled our political and economic destinies since 1914. They are the Rothschilds of Europe, Lazard Freres (Eugene Meyer), Kuhn Loeb Company, Warburg Company, Lehman Brothers, Goldman Sachs, the Rockefeller family, and the J.P. Morgan interests**. These interests have merged and consolidate in recent years. So that the control is much more concentrated. National Bank of Commerce is now Morgan Guaranty Trust Company. Lehman Brothers merged with Kuhn, Loeb Company, First National Bank has merged with National City Bank, and in the other eleven Federal Reserve Districts, these same shareholders indirectly own or control shares in those banks, with the other shares owned by the leading families in those areas who own or control the principal industries in these regions. **The 'local' families set up regional councils, on orders from New York, of such groups as the Council on Foreign Relations, the Trilateral Commission**, and other instruments of control devised by their masters." [Mullins, p.34-35, emphasis added]

The Morgan and Kuhn, Loeb alliance purchased the dominant control of stock in the Federal Reserve Bank of New York. The well know people in the Morgan group were J.P. Morgan, James J. Hill and George F. Baker. The well know people in the Kuhn, Loeb group included: John D. and William Rockefeller, James Stillman and Jacob H. Schiff. These seven individuals were the most powerful bankers in America ["The Seven Men", John Moody, McClure's Magazine, August, 1911, p.418]. This group controlled five of the New York banks (First National Bank, National City Bank, National Bank of Commerce, Chase National Bank and Hanover National Bank) which in turn controlled almost half the share in the Federal Reserve Bank of New York. The group also convinced President Wilson to appoint Paul Warburg, the chief author of the central banking plan, to the Federal Reserve Board of Governors.

The Federal Reserve Act provided for the creation of a Federal Advisor Council. This council would meet with the Federal reserve Board of Governors four times each year to "advise" the Board on monetary policy. Each bank in the Federal Reserve System appointed one member to the Federal Advisor Council. The Federal Reserve Bank of New York appointed J.P. Morgan as their representative to the Council. He was also named the first chairman of the Executive Committee. Thus in the joint meetings, J.P. Morgan and Paul Warburg (representing the Morgan and Kuhn, Loeb alliance) dominated. The "advisors" were to represent the economic interest of their area. But the hard reality was that a banker from a relatively small bank in Minneapolis, or Kansas City could hardly be expected to contradict two of the most powerful international financiers in the world. The smaller banks in the other eleven Federal Reserve districts existed only as satellites of the big New York financial interest and were completely at their mercy. In fact, the Federal Advisor Council was packed with members from banks who worked most closely with the "big five" banks of New York and who were their principal correspondent banks. So the appearance of the Federal Advisory Council representing the interests of their area was a sham.

We've already mentioned the seven most powerful bankers in America. We have also alluded to the fact that the mover behind the scenes was Baron Alfred Rothschild who was the head of the powerful London Branch of the House of Rothschild. The Rothschild's represent the "London connection."

The largest bank holding companies in the U.S. are controlled by certain banking houses, all of which have branches in London. They include J.P. Morgan Company, Brown Brothers Harriman, Warburg, Kuhn, Loeb and J. Henry Schroder. Each of these maintain close relationships with the House of Rothschild, principally through the Rothschild control of international money markets through its manipulation of the price of gold. The world price of gold is set each day in the London office of N.M. Rothschild and Company.

Funded World War I

In this section we shall see that the Federal Reserve was very actively involved in funding World War I. This was necessary because central banks had controlled the monetary systems in European for many decades. In fact, one might go so far as to say that it was the existence of these central banks that made the wars possible. [Mullins, p.21]

The various branches of the central banks controlled by the Rothschild family had already armed the European nations during the nineteenth century. By the early twentieth century, these nations had modernized their armies and they had supported large standing armies for almost 50 years. But the economies of these nations could not stand to support another war. The Federal Reserve began operating in 1914 and stepped in to fill the gap. The Federal Reserve loaned the Allies $25 billion dollars to wage the war. These loans were not repaid, although considerable interest was paid to the Federal Reserve. The American people were convinced that it was necessary to make war on German even

though we had no conceivable political or economic reason for a war with them. In fact, almost half the population of America was of German descent. [Mullins, p.82-83]

At the outset of the war, England and France selected J.P. Morgan to act as their agent in America to raise money by selling bonds and acquire war materials. A commission was paid to Morgan on both types of transactions: when the money was borrowed and again when it was spent. Furthermore, many of the companies that received orders for material were owned by one of Morgan's holding companies or were securely within his orbit of bank control [*The Masters of Capital*, John Moody, p 1640165].

Total purchases eventually climbed a total of $3 billion. A commission of 1% was paid on these orders for a total commission of $30 million [*The Profits of War through the Ages*, Richard Lewinsohn, pp 103-3, 222-24]. While Morgan claimed to be a pacifist, it's hard to imagine that he would be anxious for this huge income to stop. In fact, these huge profits found it war may be the primary reason for so many wars in Europe over the past 200 years.

Prior to America's involvement in World War I, the Allies were about to loose. This was primarily due to the effectiveness of the German submarines. Between 1914 and 1918, the submarines had sunk over 5,700 surface ships. On April 27, 1917, Walter H. Page, U.S. Ambassador to England, told President Wilson that the England only had six weeks to two months food supply remaining [*Crowded Years*, William G. McAdoo, p. 392]. The submarines were about to starve England out of the war.

Under these circumstances, it was impossible for Morgan to find new buyers for the Allied war bonds, either for new war bonds or to refinance some of the initial bonds which were then coming due. By this point, Morgan and his group had floated $1.5 billion in loans to England and France. With the fortunes of the war turning against the Allies, the investors were facing the possibility of a total loss. To prevent this, the bankers would have to get America involved in the war and they would have to get the government to directly fund the war effort via the Federal Reserve.

Getting America involved in the war a little tricky since President Wilson was running for re-election in 1916. Wilson's campaign slogan was "he kept us out of the war." Wilson was an avowed pacifist but he was also an internationalist. You will recall that after the war, Wilson tried to get America to join the League of Nations in keeping with his internationalist predilection. In the face of this moral dilemma, some have suggested that Wilson thought a long and bloody war was probably the only event that could condition the American people to accept the loss of their national sovereignty , especially if it were packaged with the promise of ending all wars in the future. It turns out that Wilson miscalculated in this regard since the American people soundly rejected the League of Nations proposal.

On March 9, 1916, ten months before his re-election, Wilson sanctioned secret negotiations between the U.S., England and France. Col. House, Wilson's close advisor served as the negotiator for America. The negotiations resulted in a secret agreement pledging the U.S. to intervene on behalf of the Allies [*The Strangest Friendship in*

History: Woodrow Wilson and Colonel House, George Sylvester Viereck, p.106-108]. The details of the negotiation did not begin to come out until after the war when Ambassador Page and Col. House told some of what they knew. C. Hartley Grattan also discussed it at length in his book, *Why We Fought*.

The terms of the agreement were that the U.S. would offer to negotiate a peaceful settlement between the Allies and the Germans. The U.S. would propose a minimum set of terms for peace. If either side refused to accept the proposal, then the U.S. would come into the war as an ally of the other side. The catch was that the terms of the agreement were such that Germany was not expected to accept them. So, it would look to the world like Germany was at fault and that the U.S. was being humanitarian in its attempt to end the war [Viereck, p.112-113].

In order to get America involved in the war, the bankers knew that they would have to sell the idea to the American people. This would be a tough assignment because sentiment was running heavily against U.S. involvement. The bankers had a plan to sell the war through the media.

> "In March, 1915, the J.P. Morgan interest, the steel, shipbuilding, and power interests, and the subsidiary organization, got together 12 men high up in the newspaper world and employed them to select the most influential newspapers in the United States and sufficient number of them to control generally the policy of the daily press… They found it was only necessary to purchase the control of 25 of the greatest papers… An agreement was reached; the policy of the papers was bought, to be paid for by the month; an editor was furnished for each paper to properly supervise and edit information regarding the questions of preparedness, militarism, financial policies, and other things of national and international nature considered vital to the interests of the purchasers." [*Congressional Record*, Vol. 54, Feb. 9, 1917, p. 2947]

Besides outright ownership of the papers, advertising budgets were also used as a mechanism to control the editorial policy of papers.

> "So far as can be learned, the Rockefellers have given up the their old policy of owning newspapers and magazines outright, relying now upon the publications of all camps to serve their best interest in return for the vast volume of petroleum and allied advertising under Rockefeller control. After the J.P. Morgan bloc, the Rockefellers have the most advertising of any group to dispose of. And when advertising alone is not sufficient to insure the fealty of a newspaper, the Rockefeller companies have been know to make direct payments in return for a friendly editorial attitude." [*Banking and Currency and the Money Trust,* Charles A. Lundberg Sr., p. 252]

It is not surprising, therefore, that a large part of the nation's press began to denounce Germany in the editorial pages. This trend was especially noticeable in the East where the influence of the bankers was more pronounced. But the change in editorial policy was not enough. Opinion polls were still running 10 to 1 against involvement in the war. What

was needed was something more dramatic, such as the loose of innocent Americans at the hands of Germany. A plot developed that resulted in the sinking of the Lusitanian along with a 195 Americans lives.

The *Lusitania* might have been selected for several reasons. First, it was not owned by J.P. Morgan who owned a large international shipping interest which included two German and one English shipping line. The second major shipping line in England, the Cunard Line, was not owned by Morgan and it is this line that owned the *Lusitania*. Second, the *Lusitania* regularly ran passenger (including Americans) and war material from the U.S. to England.

At this point, England was setting a trap for Germany. Under the Cruiser Rules, warships of both England and Germany gave the crew of unarmed enemy merchant ships a chance to take the life boats before sinking them. But in October 1914, Winston Churchill, First Lord of the Admiralty at the time, issued orders that British merchant ships must no longer obey an order from a German submarine to halt and be searched. If they had armament, they were to engage the enemy. Otherwise, they were to attempt to ram the sub. This forced a change is German submarine tactic in which they either remained submerged for protection or to simply sink the enemy ship without warning.

To further increase the likelihood of accidentally sinking a ship from a neutral country (like the U.S.), Churchill ordered British ships to remove their names from their hulls, and when in port, to fly the flag of a neutral country, preferably the U.S. To put still further pressure on the Germans, Churchill ordered prisoners from German submarines should be treated was felons rather than as war prisoners. They “should be taken prisoner or shot – whichever was most convenient” [*The Lusitania*, Collin Simpson, p. 37] He also ordered that white flags of truce should be fired upon [Simpson, p. 37]. By these actions, the German navy was goaded into a position of shoot-first and ask questions later. Under such conditions, it was inevitable that American lives would be lost.

The Germans Embassy in Washington knew that the *Lusitania* was carrying war material and American passengers. They lodged a formal complaint with the U.S. government because these actions were a direct violation of international neutrality treaties. The government did not respond. The Germans took one last attempt to avoid U.S. involvement. They placed an ad in fifty East Coast newspapers, warning Americans not to take the *Lusitania*. The U.S. State Department threatened the newspapers with libel suites and the papers did not run the ad. Only one of the fifty papers ran the ad on the requested date.

George Viereck, the owner of a German-owned newspaper that was trying to run the ad, spent April 26 trying to get the State Department to clear the ad. Viereck spoke with William Jennings Bryan, the Secretary of State, about the issue. Bryan promised he would try to persuade President Wilson to publicly warn Americans not to travel. There is not doubt that President Wilson had been told of the cargo on the *Lusitania* but he did nothing to issue a warning. On the day Wilson was told of the sinking of the *Lusitania*, he admitted that his foreknowledge had given him many sleepless hours [Simpson, p. 97].

The *Lusitania* left New York on her final voyage on May 1. Among her cargo was 600 tons of pyroxyline (explodes with three-times the force of gunpowder), six-million rounds of ammunition, 1,248 cases of shrapnel shells and other munitions. Her orders were to rendezvous with the British destroyer, *Juno*, just off the coast of Ireland so she would have naval protection as she entered hostile waters. When the *Lusitania* reached the rendezvous point, the *Juno* was not present because it had been called back to port at the last minute. The *Lusitania* had also been ordered to run at 75% power, not because there was a coal shortage but because it would be less expensive. A slower target is much easier it hit.

Commander Joseph Kenworthy had been asked by Churchill to write a paper on the political result of an ocean liner being sunk with American passengers aboard. Commander Kenworthy wrote in his 1928 book, *The Freedom of the Seas*, "The *Lusitania* was sent at considerably reduced speed into an area where a U-boat was known to be waiting and with her escorts withdrawn."

Col. House was in London May 7, 1915, the day the *Lusitania* was sunk. He was scheduled to have an appointment with King George four hours before the *Lusitania* was sunk. Lord Edward Gray came to take Col. House to appointment with King George. While traveling, Lord Gray asked, "What will America do if the Germans sink an ocean liner with American passengers on board?" Col. House answered, "I told him if this were done, a flame of indignation would sweep America, which would in itself probably carry us into the war. [*The intimate Papers of Colonel House*, Charles Seymour, Vol. I, p. 432]

After the *Lusitania* was sunk, Col. House sent a telegram to President Wilson. The telegram became the genesis for thousands of editorials throughout America. In the telegram, Col. House said:

> "America has come to the parting of the ways, when she must determine whether we stand for civilized or uncivilized warfare. We can no longer remain neutral spectators. Our action in this crisis will determine the part we will play when peace is made, and how far we may influence a settlement for the lasting good of humanity. We are being weighed in the balance, and our position amongst nations is being assessed by mankind." [Seymour, p. 434]

Just prior to the sinking of the *Lusitania*, England was very near defeat. Ambassador Page sent a confidential letter to President Wilson on March 5, 1917. In it, he said:

> "I think that the pressure of this approaching crisis has gone beyond the ability of the Morgan Financial Agency for the British and French Governments… The greatest help we could give the Allies would be a credit. Unless we go to war with Germany, our Government, of course, cannot make such a direct grant of credit." [Mullins, p.83-84]

The press all over the nation took up the cry for war after the *Lusitania* was sunk. Congress could not resist the combined pressure of the press and the President. On April 16, 1917, the U.S. officially declared war. Eight days later, Congress passed the War

Loan Act which extended $1 billion in credit to the Allies. The first advance of $200 million was sent to England the next day and it was immediately applied to the debt owed to J.P. Morgan. A few days later, $100 million was sent to France and it too was applied to the Morgan debt. Within three months, England had run up an overdraft with Morgan for $400 million. The Federal Reserve simply created the money needed by the U.S. Treasury. In 1917 and 1918, the Treasury quietly paid Morgan for the entire overdraft amount [*Woodrow Wilson and World War I*, Robert H. Ferrell, p. 89-90]. By the time the war was over, the Treasury had loaned a total of $9,466,000,000.

The bankers had achieved their goal to get the federal government, via the Federal Reserve, to foot the bill for the war. The Federal Reserve was able to create the money to give to England and France who in turn could pay back Morgan and the other American lenders. But this creation of money caused a hidden tax on the America people, inflation. Between 1915 and 1920, the money supply increased from $20.6 billion to $29.8 billion ["Deposits and Currency – Adjusted Deposits of All Banks and Currency Outside Banks, 1892-1941," *Banking and Monetary Statistic*, 1914-1942, p.34] Conversely, during the same period, the purchasing power of the currency fell by almost 50%. Americans unknowingly paid the government approximately half of every dollar that existed in addition to other taxes.

Caused the Great Depression

We have already seen that printing fiat money inescapably causes inflation, a hidden tax. In this section, we will present evidence that the stock market crash of 1929 and the Great Depression were also caused by the policies of the Federal Reserve. We will also offer plausible reasons why the Federal Reserve would cause such an economic disaster.

Benjamin Strong became Governor of the Federal Reserve Bank of New York in 1914. His appointment was supported by J.P. Morgan and Kuhn, Loeb and Company [*Tragedy and Hope*, Carroll Quigley, p.326]. It was the "easy money" policies of the Federal Reserve that directly lead to the stock market crash.

> "Strong's easy money policies of the New York money market for 1925-28 were fulfillment of his agreement with Norman to keep New York interest rates below those of London. For the sake of international cooperation, Strong withheld the steadying hand of high interest rates from New York until it was too late. Easy money in New York had encouraged the surging American boom of the late 1920s, with its fantastic heights of speculation." [*The Politics of Money*, Brian Johnson, p. 63]

The Norman referred to in this quote is Lord Montague Norman. Lord Norman was the Governor of the Bank of England from 1916 to 1944. Brian Johnson said, "Strong and Norman, intimate friends, spent their holidays together at Bar Harbour and in the South of France." He goes on to say, "Norman therefore became Strong's alter ego…"

When Benjamin Strong died in 1928, the New York Times published his obituary on October 17, 1928. The obituary refers to secret meeting between the heads of three top central banks.

> "Mr. Norman, Bank of England, Strong of the New York Federal Reserve Bank, and Dr. Hjalmar Schacht of the Reichsbank, their meeting referred to at that time as a meeting of the 'the world's most exclusive club'. No public records were ever made of the foreign conferences, which were wholly informal, but which covered many important questions of gold movements, the stability of world trade, and world economy."

The House Stabilization Hearings of 1928 proved that these meetings occurred and their purpose was to move gold out of the U.S. and into Europe. We will quote some excerpts from the testimony, which are not necessarily contiguous for brevity sake.

> "Representative Strong [not related to Benjamin Strong]: Has the Federal Reserve Board the power to attract gold to this country?
>
> "E.A. Goldenweiser [research director of the Board]: The Federal Reserve Board could attract gold to this country by making money rates higher.
>
> "Governor Adolph Miller: … The Federal Reserve Board last summer, 1927, set out by a policy of open market purchases, followed in course by reduction on the discount rate at the Reserve Banks, to ease the credit situation and to cheapen the cost of money. The official reasons for that departure in credit policy were that it would help to stabilize international exchange and **stimulate the exportation of gold**.
>
> "Chairman McFadden: Perhaps I can clarify it – **where did the suggestions come from that caused this decision of the change of rates last summer?**
>
> "Governor Miller: The three largest central banks in Europe had sent representative to this country. There were the Governor of the Bank of England, Mr. Montagu **Norman**, the President of the German Reichsbank, Mr. Hjalmar **Schacht**, and Professor **Rist**, Deputy Governor of the Bank of France…

"Mr. King: What did they want?

> "Governor Miller: … These gentlemen were all pretty concerned with the way the gold standard was working. **They were therefore desirous of seeing an easy money market in New York and lower rates**, which would deter gold from moving from Europe to this country. That would be very much in the interest of the international money situation which then existed.
>
> "Mr. Beedy: Was some understanding arrived at between the representatives of these foreign banks and the Federal Reserve Board or the New York Federal Reserve Bank?

"Governor Miller: Yes.

"Mr. Beedy: It was not reported formally?

"Governor Miller: No… My recollection is that about eighty million dollars worth of securities were purchased in August consistent with this plan.

"Chairman McFadden: A change of policy on the part of our whole financial system which has resulted in one of the most unusual situations that has ever confronted this country financially [the stock market speculation boom of 1927-29]. **It seems to me that a matter of that importance should have been made a matter of record in Washington**.

"Governor Miller: **I agree** with you.

"Representative Strong: **Would it not have been a good thing if there had been a direction that those powers given to the Federal Reserve System should be used for the continued stabilization of the purchasing power of the American dollar rather than be influenced by the interest of Europe?**

"Governor Miller: I take exception to that term 'influence'. Besides, there is no such thing as stabilizing the American dollar without stabilizing every other gold currency. They are tied together by the gold standard…

"Mr. Steagall: **The visit of these foreign bankers resulted in money being cheaper in New York?**

"Governor Miller: **Yes**, exactly.

"Mr. Steagall: **Is it true that action stabilizing the European currencies and upset ours?**

"Governor Miller: **Yes**, that was what it was intended to do.

"Mr. Beedy: …**the Federal Reserve System did not want stabilization and the American businessman did not want it. They want these fluctuations in prices, not only in securities but in commodities, in trade generally, because those who are now in control are making their profits out of that very instability**…"

These quotes seem to make several points abundantly clear. The policy of our Federal Reserve Board was directly influenced by the central bankers of other nations. Their purpose was not to stabilize our own currency but rather to benefit other nations by moving gold from the U.S. to Europe.

The hearings that were just quoted came about as a result of a bill proposed by Representative Strong. The bill would have provided the Federal Reserve System with power to act to stabilize the purchasing power of the dollar. The stock and commodity traders did not want the dollar to become stable because they would no longer be able to

make a profit. The financial situation in the U.S. during the 1920s was characterized by an inflation of speculative values only. It was tailor made market for stock and commodity traders.

Now lets examine the exact policies and mechanisms used to cause the speculative environment. Within a few months of the 1927 meeting of the four central banks, the Federal Reserve doubled its holdings of government securities and acceptances. Purchasing these securities pushed interest rates down. This in had two effects. First, it encouraged borrowing from the U.S. by Europe because of the low interest rates. Second, it encouraged U.S. investors to invest in Europe where returns were higher. This policy change resulted in the movement of $500 million in gold from U.S. reserves to Europe. The interest rates on margin call loans on the stock exchange was among those that went down, they became 10 to 12% [Griffin, p. 493].

> "The agreement between the Bank of England and the Washington Federal Reserve authorities many months ago was that we would force the export of 725 million of gold by reducing the bank rates here, thus helping the stabilization of France and Europe and putting France on a gold basis." (April, 20, 1928) [*They Told Barron*, Clarence W. Barron, p. 353]

In these market conditions, those who purchased stocks did not expect their securities to pay dividends. The idea was to hold them for a while and then sell them at a profit, much like the markets in recent years. During this period, the public was actively encouraged to get in on the stock speculation. Even the President of the United States, Calvin Coolidge, acted as a shill for the stock market operators when he recommended that Americans continue buying into the market in 1927.

On February 6, 1929, Lord Norman, Governor of the Bank of England, came to Washington again, this time to meet with Andrew Mellon, Secretary of the Treasury. Immediately after the meeting, the Federal Reserve Board abruptly reversed the policy it had had since 1927. It abandoned the cheap money policy and began to pursue a high discount rate policy.

The Federal Reserve would not allow its close trading partners to be wiped out by this change. The Federal Reserve issued an advisory to its member banks to liquidate their holdings in the stock market. Most of the banks in the south and west were not members of the Federal Reserve System and did not receive this warning. This resulted in thousands of banks being wiped out in the stock market crash that would occur. Paul Warburg gave the same advise in the annual report to the stockholders of his International Acceptance Bank. Both Paul Warburg and J.P. Morgan went on to warn their list of preferred customers of the coming crash [Mullins, p.146]. Almost all of the inner circle was rescued. There is no record of any member of the interlocking directorate between the Federal Reserve, the New York banks and their prime customers having sustained huge losses. [Griffin, p. 496-7].

On April 19, 1929, the Federal Reserve held a secret emergency meeting. The following day a story appeared in *The New York Times* hinting at a change in policy which would eventually lead to the stock market crash.

RESERVE COUNCIL CONFERS IN HASTE
Atmosphere of Mystery Is Thrown
about Its Meeting in Washington

> "An atmosphere of deep mystery was thrown about the proceedings both by the board and the council. No advance announcement had been made that an extraordinary session of the council was contemplated, and the fact that the members were in the city became known only when newspaper correspondents happened to see some of them entering the Treasury Department building. Even after that, evasive replies were given… While the joint meeting was in progress at the Treasury Department, every effort was made to guard the proceedings, and a groups of newspaper correspondents were asked to leave the corridor." ["Reserve Council Confers in Haste," *New York Times*, April 20, 1929, p. 89]

In addition, there was some warning of the coming crash in England. The American newspapers never carried the story. The *London Statist* on May 25, 1929 said:

> "The banking authorities in the United Sates apparently want a business panic to curb speculation."

The Federal Reserve Bank of New York raised its discount rate to six percent on August 9, 1929. The call rate on margin loans jumped to 15 and then to 20% [Griffin, p. 498-9]. Stock trading accounts that are allowed the purchase stocks on margin can take out margin loans which are sometimes referred to as "call loans" because the broker has the right to "call them in" on very short notice. If the broker calls in the loan, then the investor must produce the money to cover the loan almost immediately. Most of the small investors were highly leveraged and did not have the cash reserves to cover the demand for payment. In this situation, the broker will sell the stock to obtain the money. If the stock is sold at a loss it may not cover the loan. To obtain even more leverage sometimes investors will use other stock they own as collateral for a margin loan. So, if they cannot cover a margin call on the newer stock, the older stock will be sold as well to cover the loan. These margin calls resulted in a massive sell-off that drove the price of stocks down, down, and down. The market conditions began which culminated in tremendous sell-off beginning on October 24 where thirteen million shares sold. Then, five days later, on October 29, a huge avalanche of selling occurred where sixteen million shares were dumped. Millions of investors were wiped out in one day. Within a few weeks of further declines, $3 billion of wealth had disappeared. Within twelve months, $40 billion had vanished.

For every seller there was a buyer. The stock prices fell far below their natural levels. This was an unparalleled opportunity for the Wall Street and foreign operators who where in the know to pick up good quality stocks at a fraction of their real value. This eventually resulted in the formation of huge holding companies such as Marine Midland

Corporation, Lehman Corporation, Equity Corporation and Standard Brands (a giant food holding company owned by J.P. Morgan).

After the investors who where not in the inner circle had been bankrupted, the prime rate dropped to 1.5% on May 8, 1931. The money supply decreased by $8 billion from 1929 to 1933, causing 11,630 banks out of a total of 26,401 banks in the U.S. to go bankrupt and close their doors.

Conclusions

Much more could have been written about the tremendous price the citizens of this nation have paid for the symbiotic relationship between the Federal Reserve and the federal government. We could have written about how the Federal Reserve wiped out the farmers in the U.S. in 1920-21, how the international bankers backed the Bolshevik revolution in Russia, and how they funded World War II. But our intent was not to provide a complete list of the harm they have done to us. Our intent was to show how the central bank was created and the power they have over us. These international bankers truly seem to be the power behind our government.

We have seen how the international bankers conspired to create a central bank in the U.S. for their own benefit and profit. In essence, the federal government has given these bankers a monopoly over the money system of the U.S. This system gives them the right to create money out of nothing while earning huge profits. The government benefits from this arrangement because it does not have to raise taxes to pay for massive spending programs. The public is duped because they believe the Federal Reserve is part of the government and they don't know that inflation is a very real form of taxation. The government provides very little oversight to the Federal Reserve and it has never been audited. So we don't really know how much money they make each year nor do we know exactly where the money goes.

With a better understanding of the Federal Reserve, you are in a position to more fully understand how they are able to dictate much of the policy of the federal government. In our article on the "U.S. Bankruptcy," you will see the Great Depression was used to further consolidate their hold on our nation by driving the federal government into bankruptcy and by forcing all banks to be members of the Federal Reserve System. It would be virtually impossible to prove some of these allegations because the insiders aren't talking. But give the evidence present in this essay, it is not hard to imagine their threat to the federal government could be "if you don't play ball with us we will cause another depression like the one in 1929." We have also mentioned the fact that three President's who opened defied the international bankers were assassinated in office. Again, this would be difficult to prove, but given the power we have demonstrated that this group wields, it's not hard to imagine that they could have been involved. Under these circumstances, it is not hard to see why the government would follow their wishes.

Understanding the Federal Reserve also clarifies the moieties for the current income tax system. The money we pay in income tax goes directly to the Federal Reserve. It

becomes part of the hug profits they earn on the national debt. See our article on the "Income Tax is Voluntary" for more details.