

Honest Money – Chapter 10

The Federal Reserve

"Bankers own the earth. Take it away from them, but leave them the power to create money and control credit, and with a flick of a pen they will create enough to buy it back." [1]

The Battle

Nelson Aldrich was well off when he left the wholesale grocery business. He immediately entered the political arena. Election to the United States Senate quickly followed. Within a few short years, Aldrich became a multi-millionaire of power and influence. He was the father-in-law of John D. Rockefeller, and his grandson, Nelson Aldrich Rockefeller, later became Vice President of the United States. He traveled in elite circles.

Plans for a central bank had been on the drawing board long before 1900. A complex task of such intricate detail required vast amounts of time and effort to construct. The majority of the work was performed behind the scenes, out of the public's view, waiting for the perfect moment to be unveiled. The sensitive nature of public opinion demanded that the subject be revealed in the most convincing and acceptable manner possible, avoiding any suspicion or doubt.

Charles A. Conant performed the initial groundwork for both a central bank and a gold exchange system. From 1902 to 1906, Conant was the treasurer of the Morgan controlled Morton Trust Company of New York. He also worked for the Federal government as one of the three members of Roosevelt's Commission on International Exchange; and he was also employed by Brown Brothers Harriman. Conant was the guiding hand behind Mexico's, Panama's, and the Philippine's change from a silver standard to a gold exchange system. China and Cuba were his only failures to convert to a gold standard.

In 1900, the United States, Britain, and Japan intervened in the Boxer Rebellion in China. After hostilities ended, China was ordered to pay war reparations of \$300 million. The United States demanded payment in gold. At the time, China was on a depreciated silver standard and wanted to pay in silver. Fortunately, the Chinese had centuries of experience in monetary affairs, and had learned their lessons well. They knew a ruse when they saw one, refusing to pay in gold. Silver was finally accepted.

Gresham's Law

Why did the elite money powers push Roosevelt, as well as the rest of the world, away from a silver standard and towards a gold standard? Might it be for the same reasons we have seen our own monetary system flip back and forth from silver to gold – but on a national level, as opposed to an international level, one where more profits are at stake?

Our history provides incontrovertible evidence that first one metal was over-valued, and then the other, creating imbalances in the price structure that could be manipulated in the domestic market, and then sold abroad in a foreign market where the rate of exchange was different. Gold and silver coins were driven out of circulation several times by the money powers employing these tactics, commonly referred to as the workings of Gresham's Law: bad money driving good money out of circulation.

This is the coveted territory of the moneychangers, as opposed to the moneylenders. The two can and often do perform both functions, which are different, yet related.

Such adjustments in foreign exchange are one of the international banker's favorite mechanisms to redistribute wealth. Perhaps this explains the oversight in our bimetallic exchange system, where the price of silver had been fixed as the standard, while the price of gold was allowed to float, providing the means for manipulation and redistribution.

And this was only the beginning. More cards remained hidden, waiting to be played: the Federal Reserve Act of 1913; the 1922 Genoa Gold Exchange Accord; Roosevelt's infamous Gold Reserve Act of 1934; the 1944 Bretton Woods Agreement that declared the U.S. dollar to be the reserve currency of the world; the creation of the International Monetary Fund (IMF) in 1944; the General Agreement on Tariff and Trade (GATT); the World Bank (WB); and Nixon's infamous closing of the Gold Window in 1971, which basically amounted to a national declaration of bankruptcy by the United States government – all to promote a new socialistic world order, by methodically eliminating gold from world finance, allowing paper fiat debt-money to circulate as currency.

In 1911, the following excerpt appeared in McClure's Magazine:

"Seven men in Wall Street now control a great share of the fundamental industry and resources of the United States. Three of the seven men, J.P. Morgan, James J. Hill, and George F. Baker, head of the First National Bank of New York belong to the so-called Morgan group; four of them, John D. and William Rockefeller, James Stillman, head of the National City Bank, and Jacob H. Schiff of the private banking firm of Kuhn, Loeb Company, to the so-called Standard Oil City Bank group... the central machine of capital extends its control over the United States... The process is not only economically logical; it is now practically automatic." [2]

Pressure for a Central Bank

In 1906, Jacob H. Schiff, who was the head of the prestigious banking firm of Kuhn, Loeb and Company, gave a speech to the New York Chamber of Commerce. His goal was to stress the urgent need of an elastic currency, issued by a national bank system.

Nonetheless, it was Schiff's partner at Kuhn, Loeb and Company, Paul M. Warburg, who had planted the seed for a central bank. Schiff and Warburg were elite international bankers from Germany and both had years of experience with the Central Bank of Germany – the Reichsbank.

George Sylvester Viereck's book "*The Strangest Friendship in History*" is about the most unusual relationship between Woodrow Wilson and Colonel Mandell House. Although a private citizen, the Colonel often stayed at The White House, privileged with unlimited access to President Wilson, for whom he unofficially functioned as chief advisor. The following quote sums up a very strange friendship indeed:

"The Schiffs, the Warburgs, the Kahns, the Rockefellers, the Morgans put their faith in House. When the Federal Reserve legislation at last assumed its definite shape, Colonel Mandell House was the intermediary between the White House and the financiers." [3]

The banking crisis of 1907 added fuel to the fire for a central bank. During the panic, the banks were once again allowed to suspend redemption of bank notes in specie. There was widespread talk and discussion of the need for a central bank to provide support to the banking system, especially during financial panics as had just occurred.

Congressman Charles Lindbergh, who spent most of his life fighting against the "money trust", had the following to say while testifying before the Committee on Rules, in 1911:

"The Aldrich Plan is the Wall Street Plan. It is a broad challenge to the Government by the champion of the Money Trust. It means another panic, if necessary, to intimidate the people. Aldrich, paid by the Government to represent the people, proposes a plan for the trusts instead. It was by a very clever move that the National Monetary Commission was created. In 1907 nature responded most beautifully and gave this country the most bountiful crop it had ever had. Other industries were busy too, and from a natural standpoint all the conditions were right for a most prosperous year. Instead, a panic entailed enormous losses upon us. Wall Street knew the American people were demanding a remedy against the recurrence of such a ridiculously unnatural condition. Most Senators and Representatives fell into the Wall Street trap and passed the Aldrich Vreeland Emergency Currency Bill. But the real purpose was to get a monetary

commission which would frame a proposition for amendments to our currency and banking laws, which would suit the Money Trust. The interests are now busy everywhere educating the people in favor of the Aldrich Plan. It is reported that a large sum of money has been raised for this purpose. Wall Street speculation brought on the Panic of 1907. The depositors' funds were loaned to gamblers and anybody the Money Trust wanted to favor. Then when the depositors wanted their money, the banks did not have it. That made the panic." [4]

Senator Nelson Aldrich pushed the Aldrich-Vreeland Act through Congress in 1908. The main purpose of the bill was to establish a National Monetary Commission to study the prospects of national banking reform, including a central bank and an elastic money supply.

Jekyll Island

In 1910, Senator Aldrich organized the infamous meeting at Jekyll Island to construct a plan for a central banking system. The system was introduced as the Aldrich Plan to Congress in 1912. Surprisingly, the bill was defeated. Woodrow Wilson was elected as the Democratic President that same year. Bertie Charles Forbes was a financial writer at the time – later he founded Forbes Magazine. He wrote the following article about the Jekyll Island meeting:

"Picture a party of the nation's greatest bankers stealing out of New York on a private railroad car under cover of darkness, stealthily riding hundred of miles South, embarking on a mysterious launch, sneaking onto an island deserted by all but a few servants, living there a full week under such rigid secrecy that the names of not one of them was once mentioned lest the servants learn the identity and disclose to the world this strangest, most secret expedition in the history of American finance. I am not romancing; I am giving to the world, for the first time, the real story of how the famous Aldrich currency report, the foundation of our new currency system, was written . . . The utmost secrecy was enjoined upon all. The public must not glean a hint of what was to be done. Senator Aldrich notified each one to go quietly into a private car of which the railroad had received orders to draw up on an unfrequented platform, off the party set. New York's ubiquitous

reporters had been foiled . . . Nelson (Aldrich) had confided to Henry (P. Davison, senior partner of J.P. Morgan Company), Frank (Vanderlip, president of the National City Bank of New York), Paul (Warburg) and A. Piatt (Andrew, Assistant Secretary of the Treasury, and Special Assistant of the National Monetary Commission) that he was to keep them locked up at Jekyll Island, out of the rest of the world, until they had evolved and compiled a scientific currency system for the United States, the real birth of the present Federal Reserve System, the plan done on Jekyll Island in the conference with Paul, Frank and Henry . . . Warburg is the link that binds the Aldrich system and the present system together. He more than any one man has made the system possible as a working reality.” [5]

Not mentioned by Forbes was Charles D. Norton, president of J.P. Morgan’s First National Bank of New York, and Benjamin Strong, head of J.P. Morgan Trust Company. Frank Vanderlip later wrote in his autobiography, *“From Farmboy to Financier”*:

“Our secret expedition to Jekyll Island was the occasion of the actual conception of what eventually became the Federal Reserve System. The essential points of the Aldrich Plan were all contained in the Federal Reserve Act as it was passed.” [6]

The change from Republican to Democratic control of the White House, affected the Aldrich Plan, as Aldrich was a Republican. Now the plan had to be sold to the Democrats. The elite international bankers called upon Senator Carter Glass to lend his influence and guiding hand. Making few changes in the actual context of the Aldrich Plan, aside from removing Aldrich’s name from the plan, Glass introduced and passed the Federal Reserve Act in December of 1913. The following news clip on Senator Aldrich appeared in Harpers Weekly:

“Finance and the tariff are reserved by Nelson Aldrich as falling within his sole purview and jurisdiction. Mr. Aldrich is endeavoring to devise, through the National Monetary Commission, a banking and currency law. A great many hundred thousand persons are firmly of the opinion that Mr. Aldrich sums up in his personality the greatest and most sinister menace to the popular welfare of the United States. Ernest

Newman recently said, 'What the South visits on the Negro in a political way, Aldrich would mete out to the mudsills of the North, if he could devise a safe and practical way to accomplish it.' [7]

The Act

On December 22 the Federal Reserve Act was passed. President Wilson signed the bill on Christmas Eve, the 24th of December, 1913. The New York Times carried a front-page article that stated "Prosperity to Be Free". Congressman Lindbergh had a somewhat different view:

"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 people may not know it immediately, but the day of reckoning is only a few years removed. The trusts will soon realize that they have gone too far even for their own good. The people must make a declaration of independence to relieve themselves from the Monetary Power. This they will be able to do by taking control of Congress. Wall Streeters could not cheat us if you Senators and Representatives did not make a humbug of Congress. . . If we had a people's Congress, there would be stability. The greatest crime of Congress is its currency system. The worst legislative crime of the ages is perpetrated by this banking bill. The caucus and the party bosses have again operated and prevented the people from getting the benefit of their own government." [8]

It is often asked what the purpose of the Federal Reserve is? The original act states:

The Plan

"To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes." [9]

One is hard pressed to come up with a concise definition of: "other purposes." It leaves one subject to the whimsical interpretation of a

most fertile imagination. Perhaps the article that W.H. Allen wrote in Moody's Magazine, in 1916 had a clearer perspective:

"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 funds for 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 channel to Wall Street, as Mr. Glass so confidently boasted, 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 leads 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 foreign demands for gold which have precipitated every great crisis in our history."^[10]

And how is the Federal Reserve supposed to supply an elastic currency. The Act answers that:

The Federal Reserve Act

SECTION 16—Note Issues

1. Issuance of Federal Reserve Notes; Nature of Obligation; Where Redeemable

"Federal Reserve notes, to be issued at the discretion of the Board of Governors of the Federal Reserve System for the purpose of making advances to Federal Reserve banks through the Federal Reserve agents as hereinafter set forth *and for no other purpose*, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal

Reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve Bank.”^[11]

Federal Notes “*to be issued by the discretion of the Board of Governors,*” sounds an awful like whenever they want, however they want, in whatever amount they so choose?

“*Federal Notes to be issued for the purpose of making advances to Federal Reserve banks and for no other purposes.*” No comment needed, it speaks for itself.

And by what policy is the Federal Reserve to attain its stated purpose? Once again, the Act provides a most clear explanation:

Federal Reserve Act

SECTION 2A—Monetary Policy Objectives

“The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”^[12]

One can search the Federal Reserve Act and the United States Code forever without finding a definition of what is meant by: “the economy's long run potential to increase production”, or “to promote effectively the goals of maximum employment”, or “stable prices”, or “moderate long-term interest rates”; and God only knows what it means to “maintain long run growth of the monetary and credit aggregates commensurate with”; and so far He hasn't chosen to tell us mere mortals.

Life after the Fed

Others have written on the creation of the Federal Reserve and the monetary history that followed. We will forego examining such history in detail and defer to the work of others. Suffice it to say that the Genoa Accord, Roosevelt's Gold Reserve Act, the Bretton Woods Agreement, and Nixon's closing of the gold window, were all less honest and sound than the gold standard(s) that preceded them, which itself is a far cry from the gold and silver coin system of the Constitution – one that prohibited bills of credit (paper money) from being accepted as legal tender.

Latter-day monetary policy is more corrupt than that which came before. History lends credence to the view that our monetary policy has not evolved, it has devolved. It has regressed, not progressed. Federal Reserve Notes have become little more than a revolving tax payment voucher, and even that may be too kind.

According to the U.S. Code, Federal Reserve Notes are *redeemable in lawful money*, which implies that they are not lawful money. If they were lawful money to begin with, there would be no reason to redeem them in lawful money, as they already would be lawful money.

Federal Reserve Notes function as the ultimate wealth transference mechanism. When paper obligations of government debt are allowed to circulate as legal tender, the resulting debasement of the currency and loss of purchasing power siphons wealth away from the people who hold the debt and accept it as money, to the elite few who issue the debt as money – money they create out of thin air; money they do not have in their possession and does not even exist. It comes into existence by the very act of lending or extending credit. It is a vile and pernicious system that bleeds the unwary host.

Even the Federal Reserve admits that the dollar has lost 95% of its purchasing power since 1913, the year the Fed took control – a most infamous distinction for a central banker's resume. Within 20 years of the Fed's creation, our economy experienced the most severe financial crisis in history. Neither event seems to be in keeping with one of its

stated goals: "to establish a more effective supervision of banking in the United States."

Many believe the Federal Reserve banks are government institutions – they are not. They are private credit monopolies that prey upon the people for the benefit of their greedy handlers: the international bankers.

These are the same global money powers that hire lobbyists to garnish votes to control our legislation for their own special interest groups; and who maintain international propaganda machines for the purpose of deceiving us into granting new concessions that permit them to cover up their past misdeeds; and to set again in motion the gigantic wheels of wealth transference and bonded debt – the feudal yoke of bondage and servitude: 21st century-style.

The rulers of the universe would be wise to heed the words of those who yoke and unyoke the horses from the chariots of the gods:

"...a life passed in power and great fortune and authority needs justice to make it divine; by injustice it is made bestial." ^[13]

Notes:

1. Chapter Heading - Sir Josiah Stamp, former President, Bank of England
2. McClure's Magazine – 1911
3. George Sylvester Viereck's: *"The Strangest Friendship in History"*
4. Congressman Charles Lindbergh: –Testimony before the Committee on Rules – 1911
5. Bertie Charles Forbes – 1912 – founder of Forbes Magazine
6. Frank Vanderlip's autobiography, *"From Farmboy to Financier"*
7. Harpers Weekly – 1913
8. Congressman Lindbergh: On the Federal Reserve Act – 1913
9. Federal Reserve Act as dispersed throughout 12 USC; ch. 6, 38 Stat. 251 December 23, 1913
10. W.H. Allen in Moody's Magazine – 1916
11. Federal Reserve Act - SECTION 16: SECTION 16—Note Issues
12. Federal Reserve Act SECTION 2A
13. Plutarch, Aristides 6.4

New Book Now Available - [*Honest Money*](#)



Come Visit Our Website: [*Honest Money Gold & Silver Report*](#)

Douglas V. Gnazzo

[Honest Money Gold & Silver Report](#)

About the author: Douglas V. Gnazzo writes for numerous websites and his work appears both here and abroad. Just recently he was honored by being chosen as a Foundation Scholar for the Foundation for the Advancement of Monetary Education (FAME).

Disclaimer: The contents of this article represent the opinions of Douglas V. Gnazzo. Nothing contained herein is intended as investment advice or recommendations for specific investment decisions, and you should not rely on it as such. Douglas V. Gnazzo is not a registered investment advisor. Information and analysis above are derived from sources and using methods believed to be reliable, but Douglas V. Gnazzo cannot accept responsibility for any trading losses you may incur as a result of your reliance on this analysis and will not be held liable for the consequence of reliance upon any opinion or statement contained herein or any omission. Individuals should consult with their broker and personal financial advisors before engaging in any trading activities. Do your own due diligence regarding personal investment decisions. This article may contain information that is confidential and/or protected by law. The purpose of this article is intended to be used as an educational discussion of the issues involved. Douglas V. Gnazzo is not a lawyer or a legal scholar. Information and analysis derived from the quoted sources are believed to be reliable and are offered in good faith. Only a highly trained and certified and registered legal professional should be regarded as an authority on the issues involved; and all those seeking such an authoritative opinion should do their own due diligence and seek out the advice of a legal professional. Lastly, Douglas V. Gnazzo believes that The United States of America is the greatest country on Earth, but that it can yet become greater. This article is written to help facilitate that greater becoming. God Bless America.

Douglas V. Gnazzo © 2010 All Rights Reserved
