NATIONAL CENTER FOR CONSTITUTIONAL STUDIES

Monetary Reform

- Main Page
- Part 1
- Part 2
- Part 3

PART 1:

DEVELOPMENT OF THE UNITED STATES MONETARY SYSTEM

Contents:

The American Founding Fathers originally intended a monetary system quite different from the one we have now. In fact, they had hoped to prevent many of the fiscal and economic problems with which our present monetary system is afflicted.

Historically, the principal mistakes grew out of two rather amazing monetary institutions which crept into our system. The first institution which poisoned the monetary well was the development of a privately owned central bank copied after the Bank of England. The second institution which brought on us a cycle of "boom and bust" economics was the adoption of a procedure for the creation of "money out of nothing" through a system of fractional banking.

Here is the interesting story of these two institutions.

The Story of the Bank of England

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

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

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

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

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

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

The Origin of "Fractional Banking"
-Making Money Out of Nothing

But how can a bank "make money out of nothing?" We call this magic formula "fractional banking" or "reserve banking." Here is how it all began and how it works.

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

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

In very short order it became entirely apparent to the goldsmiths that since only a small percentage of the depositors came back for their gold, the goldsmiths only had to keep enough on hand as a "reserve" to satisfy those who did come back. Realizing this, the goldsmiths decided they could safely issue considerably more gold certificates than the amount of gold "on deposit." By this set of fortuitous circumstances they had discovered how a shrewd goldsmith could issue certificates on gold he didn't have and thus become super rich by "making money out of nothing." Furthermore, these spurious certificates could be used to buy up all kinds of tangible property or they could be loaned out on interest. Here indeed was the royal road to wealth.

The Problem of a "Run on the Bank"

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

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

Can You Sell the Same Horse to Four Different Buyers?

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

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

This is similar to a "run" on the bank!

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

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

Fractional Bankers Do Something Ordinary People Cannot Do

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

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

The answer is rather amazing.

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

The trick was to create a privately owned bank for the whole country. By cutting the government in on the benefits, it became feasible to call the bank by a name which implied that it was an official branch of the government. This is precisely what William Paterson did when he set up the Bank of England. Similar banks soon appeared in every nation in Europe.

Each of these central banks became the most powerful influence in its particular country, both economically and politically. It became the manager of money and credit for the nation. It handled major investments in agriculture, industry, homes, and factories. Best of all, it loaned money to the government, especially in times of an emergency such as a war.

The governors of these banks soon found themselves in the position of managing the affairs of government as well as the economy.

Central Banks Suffer from Two Temptations

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

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

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

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

How the American Colonists Originally Developed a System of "Sound" Money

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

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

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

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

Notice that these bills of currency were physically loaned out as though they were gold or silver. Furthermore, the treasurer of the colony loaned out currency at a modest interest rate, and the proceeds from this interest were paid into the treasury of the colony. This provided public revenue to the colony and greatly reduced taxes! Meanwhile, the colony paid no interest to anyone.

Other colonies began following this same sound procedure, and it soon resulted in a period of unrivaled prosperity for colonial America.

The Bank of England Invades America

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

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

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

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

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

Alexander Hamilton Makes a New Proposal

The first of Jefferson's hopes was realized when the gold and silver standard was explicitly written into the Constitution (Article 1, section 10). However, his second hope was shattered when Alexander Hamilton was appointed Secretary of the Treasury and came up with a plan to monetize the nation's mammoth war debt by issuing bonds and selling them to private banks. He also urged the President and Congress to allow these bankers to temporarily (for twenty years) establish a private bank in the name of the United States and be responsible for issuing money, controlling the amount, fixing its value, and financing the United States government. It was this last factor which appealed to President Washington.

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

Hamilton Repudiates His Original Banking Project

Jefferson later accused Hamilton of complicating the whole scheme with such elaborate trappings that it had confused the President. It turned out that Washington's original instinctive anxieties concerning the dangers of the bill were fully justified.

By 1798, even Hamilton admitted that the whole thing had been a serious mistake. He actually wrote a letter to Oliver Wolcott, the Secretary of the Treasury, urging that the United States abandon the plan he had concocted and return to the original idea expressed at the Constitutional Convention. He wrote that the government should "raise up a [money] circulation of its own" which would require, of course, that the government no longer allow this important task of issuing money to be assigned to a private banking system. (Letter to Oliver Wolcott dated August 22, 1798; Henry Cabot Lodge, ed., The Works of Alexander Hamilton, 12 vols. [New York: G.P. Putnam's Sons, 19041, 10:317.)

The First Bank of the United States

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

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

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

1. There was no Constitutional authority to issue the bank a charter. In other words, the bank was unconstitutional.
2. The bank was authorized to issue bank notes or paper money, which was an unauthorized delegation of Constitutional authority.
3. The charter allowed this private central bank to loan out its bank notes for interest.
4. This private central bank was made exempt from paying any taxes.
5. It was unconstitutionally designed to collect taxes and serve as the depository of government funds instead of the U.S. Treasury.
6. The banking act also held the U.S. government responsible or liable for the fiscal transactions of the bank.
7. Only one-fifth of the stock was owned by the government, so policies and decision making would always be in the hands of the private banks.

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

> If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. (Quoted in Olive Cushing Dwinell, The Story of Our Money, 2nd ed. [Boston: Forum Publishing Company, 19461, p. 84.)

The Struggle for Power

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

Probably one of the most shocking aspects of the nation's financial history during this period was the savage and unrelenting malevolence with which the top money managers treated each other. In Western vernacular, it was the jungle law of "dog eat dog." Furthermore, the record shows that when it came to abusing, deceiving, and exploiting the small fry-the common people-the same jungle code applied, except that the common people were far more helpless because they didn't really understand what was happening to them.

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

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

Wall Street Goes for a Bust in 1907 and 1908

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

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

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

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

How J.P. Morgan Became Attracted to Woodrow Wilson

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

In the early 1900s Woodrow Wilson had gained a tremendous reputation as a writer and educator. People listened to him. He had practically "founded" the Department of Political Science at Princeton. In fact, his philosophy of political science permeated universities all across the nation, and to a large extent still represents the prevalent view today. Wilson reflected a strong criticism of what some called the "archaic nature" of the American system of government and the necessity of getting stronger administrative control over the affairs of the people. In many areas Wilson was very critical of the Founders' Constitutional concepts. Wilson wrote: "All this trouble [the 1907 depression] could be averted if we appointed a committee of six or seven public-spirited men like J. P. Morgan to handle the affairs of our country." (Quoted in H.S. Kenan, The Federal Reserve Bank [Los Angeles: The Noontide Press, 19681, p. 105.) Although reputed to be a great spokesman for "democracy," Woodrow Wilson actually had a powerful instinct to further strengthen centralized power in Washington, D.C. Morgan liked what Wilson was saying.

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

The Popular Demand for Monetary Reform

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

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

This report was barely published when Paul Moritz Warburg, whose brother

Max Warburg was in charge of the Reichsbank (the privately owned central bank of Germany), arrived on the scene. Paul Warburg came well financed by the Rothschild family, and they bought him a partnership in the Rothschild-dominated firm of Kuhn, Loeb and Company. Paul Warburg immediately associated himself with other Wall Street financial leaders, as well as Senator Nelson Aldrich. Then he began circulating all over the country, lecturing to universities and business organizations. He emphasized the absolute necessity of setting up a new national banking system which would prevent Wall Street from putting the nation through those devastating "boom and bust" cycles, as it had in the past. He promised that the new system he had in mind would really "clip the wings" of the big bankers.

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

The Meeting at Jekyll Island

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

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

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

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

The Election of President Wilson

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

and Adolph S. Ochs, publisher of the New York Times.

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

The Wilson Administration Begins Reshaping America

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

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

In his autobiography, William G. McAdoo, Wilson's Secretary of the Treasury, and later his son-in-law, wrote that he was very impressed by the way the "bankers fought the Federal Reserve legislation-and every provision of the Federal Reserve Act-with the tireless energy of men fighting a forest fire. They said it was populistic, socialistic, half-baked, destructive, infantile, badly conceived and unworkable." (McAdoo, Crowded Years: The Reminiscences of William G. McAdoo [Cambridge, Mass.: The Riverside Press, 19311, p. 213.)

But McAdoo (D-N.Y., and later U.S. Senator from California) found that when he engaged these bankers in private conversation, he realized their opposition was merely a smoke screen to hide their true feelings. He wrote:

> These interviews with bankers led me to an interesting conclusion. I perceived gradually, through all the haze and smoke of controversy, that the banking world was not really as much opposed to the bill as it pretended to be. (ibid., pp. 225-26.)

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

On December 22, 1913, with the Christmas holiday pressuring the Congress into final action before the session closed, the House voted 298 to 60 in favor of the new Federal Reserve System. The Senate passed it 43 to 25 on December 23, and President Wilson signed the act into law the same day.

Had Thomas Jefferson been around, no doubt he would have exploded with indignation.

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

All of this would have to be demonstrated as the future unfolded, chapter by chapter, during the twentieth century.

Return to Main Page Continue to Part 2