What Happened to Our Money?

If you think it's not worth what it used to be, you're right. And if you think you've been robbed by inflation created by the Fed, you're right again.

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Hard money: In the 1860s, the U.S. government began to issue silver certificates, paper money redeemable for an equal value of silver coinage. Silver prices were set at $1.29 an ounce and a silver dollar contained exactly a dollar's worth of silver. August 16, 1968 was the last day that the federal government accepted silver certificates for silver coinage.

by John F. McManus

The year 1968 should be remembered as the year when the term "Federal Reserve Note" became the exclusive heading on all U.S. paper currency. From the creation of the Fed in 1913 until that fateful year, Federal Reserve Notes (FRNs) circulated side by side with U.S. Treasury Notes. The Federal Reserve began issuing its own currency long before 1968, but it didn't gain exclusivity until 1968.

During several decades prior to 1968, FRNs were interchangeable with U.S. Treasury Gold Certificates and U.S. Treasury Silver Certificates. As a way to make them accepted, early FRNs actually stated "Redeemable in gold on demand," and gold could be obtained when exchanging them. The American people were thereby conditioned to accept either a U.S. Treasury Note or a Federal Reserve Note as if there were no differences. But only FRNs are in use today, and there is no tie whatsoever between FRNs and gold or any other precious medal. In fact, the Fed can print as much of this unbacked "fiat" currency as is needed to finance a long list of unconstitutional programs. This inflates the money supply, lowers the value of all dollars, and forces inevitable boosts in prices.

How this happened and what it has meant and continues to mean for Americans — and others who use U.S. currency — is outlined in what follows.

The Fed's Vast Power

A mere three days before Christmas 1913, Congress passed the Federal Reserve Act. With a sizeable number of its members already away from Washington for the holiday season, the House vote was 290 to 60, and the Senate approved the measure by 45 to 2. Woodrow Wilson, guided by his omnipresent adviser Edward Mandell House, signed the measure into law.

Among the act's opponents, Massachusetts Senator Henry Cabot Lodge, Sr. predicted, "The bill as it stands seems to me to open the way to a vast inflation of the currency.... I do not like to think that any law can be passed which will make it possible to submerge the gold standard in a flood of irredeemable paper currency." This shows that there was real understanding about what the Fed would do with its ill-gotten powers.

Another strong naysayer was Minnesota Congressman Charles Lindbergh (the father of the soon-to-be-famous aviator), who vehemently insisted: "The new law will create inflation whenever the trusts want inflation.... From now on depressions will be scientifically created." But his and other warnings were ignored by the con-

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gressional majority and the Fed was given authority to establish its grip on our nation's economic life.

Could the Fed actually create a depression, as Congressman Lindbergh contended? In 1932, three years after the Great Depression began ravaging our nation, Congressman Louis McFadden, the chairman of the House Banking and Currency Committee, declared of the Depression: "It [the depression] was not accidental. It was a carefully contrived occurrence.... The international bankers sought to bring about a condition of despair here so that they might emerge as the rulers of us all."

Do the international bankers sitting atop the Federal Reserve actually have such power? Yes they do. They can flood the nation with new currency to create a temporary boom, and they can retract the amount of currency and bring on a recession, even a depression. This is exactly what happened during the period leading up to the Great Depression of 1929.

Throughout the decade known as "The Roaring Twenties," interest rates remained low as a result of the Fed's "easy money" policy, and the entire nation enjoyed a boom. But in 1929, the Fed put the brakes on money creation and used its power to raise interest rates. European investors, unwilling to borrow at those higher rates, began deserting the American stock market. The stage was now set for the end of the boom. Other factors, such as the precipitous insistence by New York bankers for payment of broker call loans, contributed to the collapse. Brokers dumped stocks in order to pay for the loans and this depressed the market. Many were heavily exposed with those broker loans, and they used up their assets to meet the sudden demand to retire them. Troubled small banking institutions expected the Fed to come to their aid, but no such assistance arose and thousands of these institutions closed their doors. The nation was suddenly in a depression.

Of course, those who were aware that such events were about to occur took advantage of the coming downturn and sold their stocks for a high price. When the market collapsed, these "insiders" reentered the market and bought large quantities of stock at bargain-basement prices. Among those who profited handsomely were Bernard Baruch, Henry Morgenthau, Douglas Dillon, and Joseph P. Kennedy.

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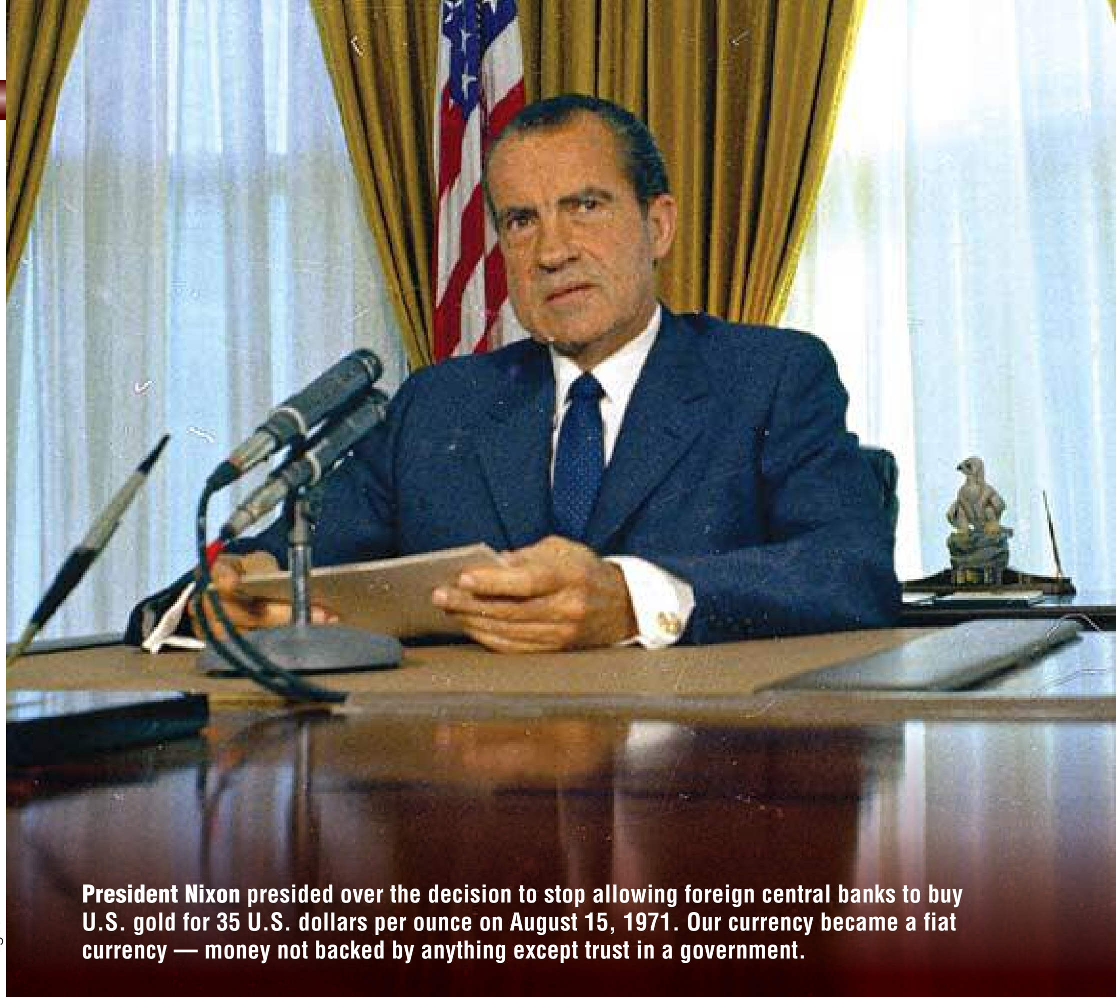
Fort Knox holds 147.3 million troy ounces of the United States' approximately 276 million ounces of gold. Even at present gold values of $890 an ounce, these holdings are worth only $131.1 billion. In comparison, the U.S. national debt exceeds $9 trillion.

More Power Flows to the Fed

Though the Fed was able to exercise powers greatly harming the economy back in the 1920s, it is an even more powerful institution today. This growth in Fed power was intended from the beginning. After being advised that the act creating the Federal Reserve had been approved, German-born financier Paul Warburg, who more than anyone was the Fed's actual architect, remarked to E.M. House, "Well, it hasn't got quite everything we want, but the lack can be adjusted later by administrative process." Here we had a classic example of getting something on the books that could later be made quietly more powerful.

During the early years of the Fed, the nation was still on the gold standard. That changed when President Franklin D. Roosevelt used the dark days of the Depression to convince Congress to cancel the gold standard in 1933. No longer could paper money of any variety be exchanged for gold, and the American people were actually forbidden by law to own gold. But U.S. Treasury Silver Certificates were still circulating and holders of either these or FRNs could exchange their paper for silver. That all changed in 1968, when Congress and President Nixon arranged to cancel the last remaining pledge to provide precious metal for our nation's currency, the promise printed on a Silver Certificate that it could be redeemed for silver. Simultaneously, silver coinage was replaced by today's copper-nickel "sandwich" coins. For the past four decades, U.S. currency has been backed by nothing, and the amount circulating has constantly been increased.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President Nixon presided over the decision to stop allowing foreign central banks to buy U.S. gold for 35 U.S. dollars per ounce on August 15, 1971. Our currency became a fiat currency — money not backed by anything except trust in a government.

During the years when these transformations were being made, the once-mighty dollar lost 95 percent of its value. What a nickel could purchase in the 1930s now requires the expenditure of a dollar. Skeptics of bank trustworthiness who stored their dollars in a vault (or in a mattress!) during the past 70 years have seen their value dramatically eroded. In addition to savings, retirement funds, insurance policies, and anything relying on the value of the dollar have also been undermined. Where did all this value go? It was stolen by the Federal Reserve and the U.S. government through a process known as inflation. The increasing of the amount of currency — the definition of inflation — can have devastating effects, as was explained in 1920 by British economist John Maynard Keynes. Though Keynes was a socialist, he acknowledged:

> By a continuous process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily; and while the process impoverishes many, it actually enriches some.... The process engages all of the hidden forces of economic law on the side of destruction, and does it in a manner that not one man in a million can diagnose.

Not only does inflation confiscate the people's wealth, as Keynes correctly noted, it can destroy a nation. In his timeless and extremely valuable 1946 treatise *Economics in One Lesson*, free-market economist Henry Hazlitt noted that "inflation tears apart the whole fabric of stable economic relationships. Its inexcusable injustices drive men toward desperate remedies. It plants the seeds of fascism and communism. It leads men to demand totalitarian controls. It ends invariably in bitter delusion and collapse."

But how long can this process continue? The answer is, "Not forever." It must either cease and be followed by reverting to sound money, or the nation will suffer repudiation of the currency and economic collapse. This is true regardless of what the Fed might do to "stimulate" the economy through money creation or artificially low interest rates. The Fed may be able to postpone the day of reckoning through its actions, but it cannot do so indefinitely.

Like Hazlitt, Keynes had earlier pointed to inflation's destructiveness. In addition to the passage cited above, the British socialist pointed to Soviet dictator Vladimir Lenin's claim that "the best way to destroy the Capitalist System was to debauch the currency." Keynes wrote: "Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency."

Had our nation retained the system whereby currency had the backing of precious metal, the dollar's value could not have been eroded. Also, the threat that foreign banks and countries will begin repudiating U.S. currency — by dumping the dollars they now hold and by refusing to accept the dollar in the future — would not loom so ominously. Obviously, our nation's leaders should reverse course and reinstitute a system of honest, non-inflatable currency. But to do so, the Federal Reserve, whose power extends far beyond its ability to inflate the currency, will have to be abolished. Very few are willing to address this need.

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It just lies there: Because gold is no longer used as a principal medium of payment in the United States, the gold stored in Fort Knox and other U.S. depositories is now akin to a collection of library artifacts: it just sits there to be looked at once in a while by a select few.

Fed Power Becomes Evident

Counting on an almost complete lack of understanding of its power, the Fed itself arrogantly confirmed its immense clout more than 40 years ago. The Fed's Board of Governors made numerous admissions against self-interest in its own 1963 booklet, *The Federal Reserve System, Purposes and Functions, Fiftieth Anniversary Edition*. It stated: "The Federal Reserve System is the only instrumentality endowed by law with discretionary power to create (or extinguish) the money that serves as bank reserves or as the public's pocket cash. Thus the ultimate capability for expanding or reducing the economy's supply of money rests with the Federal Reserve."

Early warnings from Congress about the illicit power of the Fed had virtually no effect and the power of the new institution kept increasing. Some did continue to send out alarms. In 1964, the House Banking Committee, led by Texas Congressman Wright Patman, issued a *Primer on Money*. It stated: "Although a creature of Congress, the Federal Reserve is, in practice, independent of that body in its policy making.... The Federal Reserve neither requires nor seeks the approval of any branch of Congress for its policies. The system itself decides at what ends its policies are aimed and then takes whatever actions it sees fit to reach those ends."

Also in 1964, Patman stated, "In the United States today, we have in effect two governments.... We have the duly constituted government.... Then we have an independent, uncontrolled and uncoordinated government in the Federal Reserve System, operating the money powers which are reserved to the Congress by the Constitution."

In 1969, Secretary of the Treasury David Kennedy submitted to an interview conducted by the editors of *U.S. News & World Report*. Asked if he approved of the latest credit-tightening moves of the Federal Reserve Board, Kennedy responded, "It's not my job to approve or disapprove. It is the action of the Federal Reserve."

Assessments such as these should have spurred action to curb Fed power, but they fell largely on deaf ears.

Monetary control assures political influence, and those who run the Fed have certainly never been unwilling to flex their ill-gotten muscles to sway an election. In 1988, an article appearing in *U.S. News & World Report* explained how the Fed could favor or harm a political candidate. Monroe Karmin wrote: "In short the central bank wants to strike a pose of neutrality for the contest between George Bush and Michael Dukakis. The Fed will neither plunge the economy into a recession, as [Fed Chairman] Paul Volcker did in 1980 to sabotage Jimmy Carter's chances for reelection, nor open the money spigots wide, as Arthur Burns did in 1972 to help Richard Nixon win another term."

Is there any American who thinks such awesome power should be possessed by a few largely unknown individuals? Isn't this political clout part of what the Fed's creators sought? The founder of Europe's Rothschild banking dynasty, Meyer Amschel Rothschild, supplied an indication of the importance of power over money when he stated, "Let me control a nation's money, and I care not who writes the laws."

In 1983, behind-the-scenes control in the political arena had been alluded to by *New York Times* columnist William Safire. He wrote about a meeting of top government officials who were discussing monetary affairs. Pointing to the power of the Fed to shape the thinking of the voting public, he wrote: "A Presidential candidate wants a Fed chairman who will swing a little. Comes the spring of '84, if interest rates are climbing upward and hurting housing, the incumbent will want a Fed chairman to start shoveling money like mad — even if it upsets conservatives."

As indicated above, Fed power is enormous, but nothing is done about it. As far back as 1983, the chairman of the privately run U.S. Choice in Currency Commission,

James Blanchard, explained that the Fed has always been so secretive and so seemingly complicated that few take the time to study and understand it. He wrote, "The issue is just complex enough that most people who see economists in disagreement are unwilling themselves to form an opinion either way. The status quo wins by default." And the "status quo" is a continuation of Fed power to create a boom or a bust at will, to inflate the currency, to shape the thinking of a sufficient number of voters to spell victory or defeat of a candidate, and for insiders to make a financial killing with advanced knowledge of which way the Fed will direct the nation's economy.

Secrecy & Deception From the Outset

Secrecy and deception existed among the Fed's architects even before they created this monster. The 1910 meeting where the Fed was conceived was so secret that it was 25 years before many of its details became known. Conducted at a Jekyll Island, Georgia, resort owned by J.P. Morgan, seven men hammered out the bill that eventually gained passage by Congress three years later. Three of the seven came from the house of J.P. Morgan, two were connected to Rockefeller interests, one just happened to be an assistant secretary of the treasury, and the final of the seven was a representative of Europe's Rothschild banking empire. These men who were representatives of monopoly interests would sell the idea of the Federal Reserve in the name of opposition to monopoly.

In 1935, Jekyll Island participant and Rockefeller banker Frank A. Vanderlip authored the book entitled *From Farm Boy To Financier* in which he admitted being "as secretive — indeed as furtive — as any conspirator" in traveling to Georgia and in attending the meeting. He calmly mentioned that the gathering of the seven men was "the occasion of the actual conception of what eventually became the Federal Reserve System."

The only elected official among the seven was Rhode Island Senator Nelson Aldrich. Future Vice President Nelson Aldrich Rockefeller was named after this Jekyll Island participant. Aldrich's 1909 bill to establish a national bank along the lines of the Fed couldn't gain congressional approval because he was known to be heavily connected to banking interests feared by the American public. After Jekyll Island, the bill that came before Congress in 1913 was renamed the Glass Act after Virginia Congressman Carter Glass. Aldrich feigned opposition to the measure in order to deceive the public and many members of Congress.

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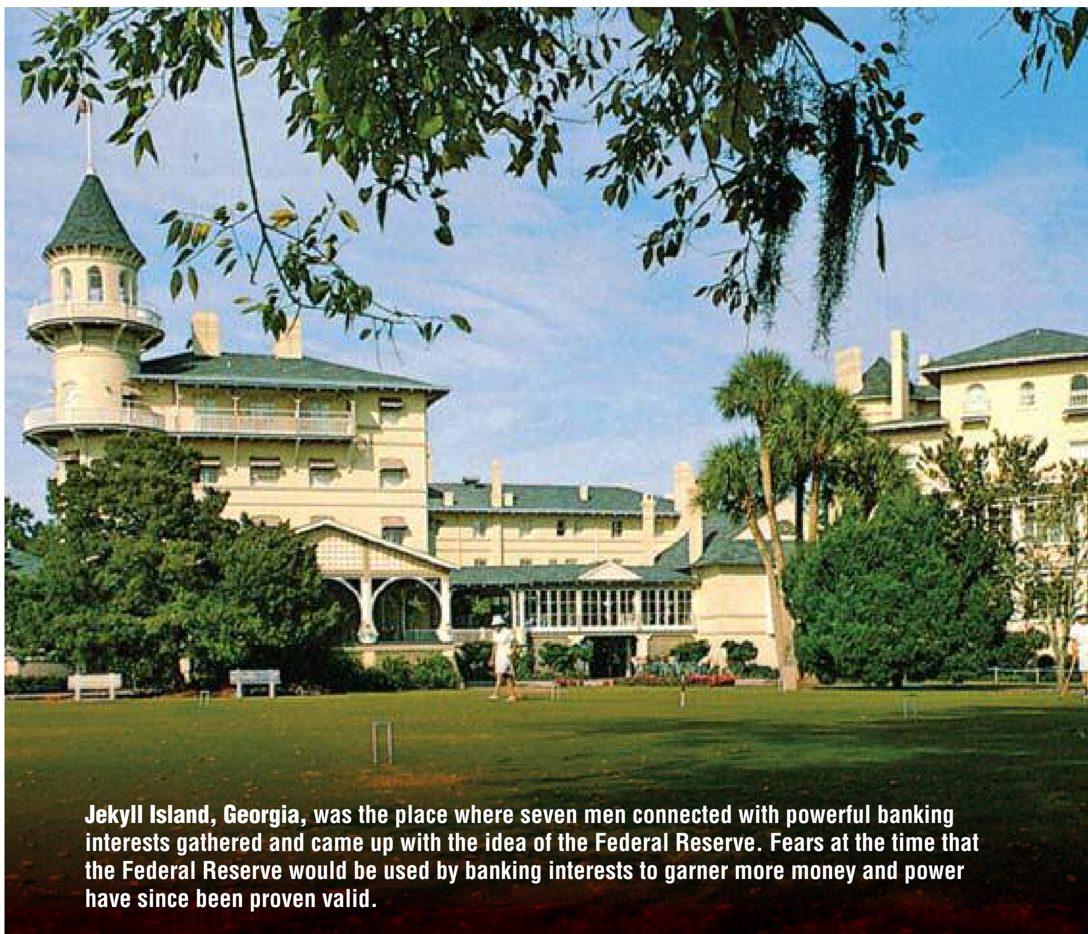
The leading creator of the Federal Reserve was German-born Paul Warburg, an immigrant who came to the United States in 1902. After marrying into the Loeb family, he became a partner at Kuhn, Loeb and Company where he started earning the princely sum of $500,000 per year. So important was the Federal Reserve to Warburg that he gave up his enormous salary at Kuhn Loeb in 1913 to become the first Governor of the Board of Directors of the Federal Reserve at an annual salary of a mere $12,000. Though he was surely kept in comfortable financial circumstances, his willingness to move away from obvious riches demonstrated that the power possessed by the Federal Reserve has always been more important to some than money.

A great deal more can be written about



Jekyll Island, Georgia, was the place where seven men connected with powerful banking interests gathered and came up with the idea of the Federal Reserve. Fears at the time that the Federal Reserve would be used by banking interests to garner more money and power have since been proven valid.

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the secrecy and deception surrounding all aspects of the Fed. For instance, it has never been audited and its deliberations are always conducted behind closed doors. But perhaps the most deceitful feature of the Fed is its claim to constitutional legitimacy. The Constitution grants power to Congress — and to Congress alone — "To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." By this, the Founders authorized Congress to create a mint to fashion precious metal into coinage of a fixed size, weight, and purity, and to establish a standard for evaluating foreign coinage. That's all! There was never any authority to create a bank or to have Congress or its creation become the economic ruler of the nation. Receipts for privately owned coinage were certainly expected to be standard practice.

So intensely were the Founders at the 1787 convention determined to disallow the possibility of government-issued inflatable paper currency — such as the worthless currency issued by the Continental Congress — that delegate John Langdon of New Hampshire spoke for many when he said that he would rather reject the whole Constitution than allow the federal government power to issue paper money. The Constitution even forbade the states to "coin money; emit bills of credit; make anything but gold and silver a tender in payment of debts." The term "bills of credit" referred to what we know today as paper money.

There was nothing in the Constitution to allow for creation of a national bank, and certainly no authorization for Congress to create a monster such as the Federal Reserve. But when asked to explain where in the Constitution any authorization for the Federal Reserve appears, Fed Chairman Alan Greenspan pointed to the very portions of the Constitution cited above in a 1993 letter answering a concerned citizen. He wrote: "While no state government may 'emit bills of credit' or make anything other than gold or silver coin a legal tender in payment of debts, the federal government is not limited in what it may designate as legal tender."

In other words according to Greenspan, if Congress isn't specifically prohibited from creating a Federal Reserve with power to inflate, create booms and busts, set interest rates, shape voter thinking, etc., then it may do so. The Constitution is thereby deftly and deceitfully turned on its head. The belief holding that anything not specifically prohibited is permitted is absolutely false, and it amounts to as grand an indication of deception as could be imagined.

Certainly, a great deal more can be said about the Fed and its history. But all Americans should be outraged at what a few power-hungry individuals have done to our nation and to themselves. The Fed must be abolished, but knowing how we got into its grasp and what it does to every citizen and to the nation at large must come first.

If a privately run monetary system issuing gold or silver coinage were allowed to come into existence, all of the Fed's deficiencies would become obvious, including its outright thievery and inherent power to steer the nation into totalitarian control. And, once these deficiencies became demonstrated, the Fed would simply go out of business, a casualty of the competitive free-market system. ■

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Alan Greenspan, who was the Federal Reserve Board chairman from 1987 to 2006, played a large part in creating the current subprime mortgage debacle. He ratcheted down interest rates to encourage speculation, and he actually encouraged home buyers to use high-risk adjustable rate mortgages at a time when low fixed interest rates were available.