Newsletter 37:
'Who Controls Money Controls the World': A True History of the Federal Reserve

Hello Again Dear Readers,
For this installment of my complimentary geopolitical newsletter I want to share with you a portion of my book, **Gods of Money: Wall Street and the Death of the American Century.** There are few subjects that have been more deliberately obfuscated and distorted to prevent their being understood by most citizens than the mechanisms of control of money and who controls its creation as well as its destruction. It is no exaggeration to say that every financial crisis or speculation bubble originating over the past century or more in the United States and beyond, from the Wall Street euphoria of the Roaring '20s stock market to the ensuing 1929 stock market crash and Great Depression of the 1930s, can be traced directly to deliberate policies of the private US Federal Reserve. This has the case right up to the severe real-estate-centered bubble of the first decade of this century through to the deliberate crashing of that bubble in 2007-2008 by the same Federal Reserve. How that developed to the present is the theme of the book.

What few understand is that the Federal Reserve is not a government institution controlled by an elected Congress that is subject to voter pressure to do what is good for the country or the people. It is a private stockholder corporation in effect controlled by the most powerful financial banks of Wall Street, the so-called Gods of Money. To disguise their role in steering economic events, the directors of the Fed and the academic economists around them offer various nonsense explanations generally called "theories of business cycles," as if creation and destruction of money by the central bank were regulated by some mysterious mechanism akin to the laws governing rotation of the planets or the cycles of the moon. There is even a Meteorological or Sunspot Theory of economic cycles of boom and bust, prosperity and depression. Few look to the origins of financial crises in the control of money, its creation and its destruction. I offer here an excerpt from my book, Gods of Money.

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If you haven't yet, I would like to ask you to consider making a support contribution at my website, www.williamengdahl.com, at the top of the page with the Support button, so that I am able to continue offering my content for free. Legislation is being debated today in the European Union and in Washington that very soon could eliminate the most important platform of open, free discourse, the unregulated Internet. The rate at which the powerful social media giants such as Twitter or Facebook or Google or Amazon are censoring free speech today using faceless automatic algorithms under the rubric of "fake news," makes it more important than ever to encourage alternative, honest public viewpoints on critical issues.

Thank you again for your interest,
Warm regards,
F. William Engdahl
Frankfurt, Germany

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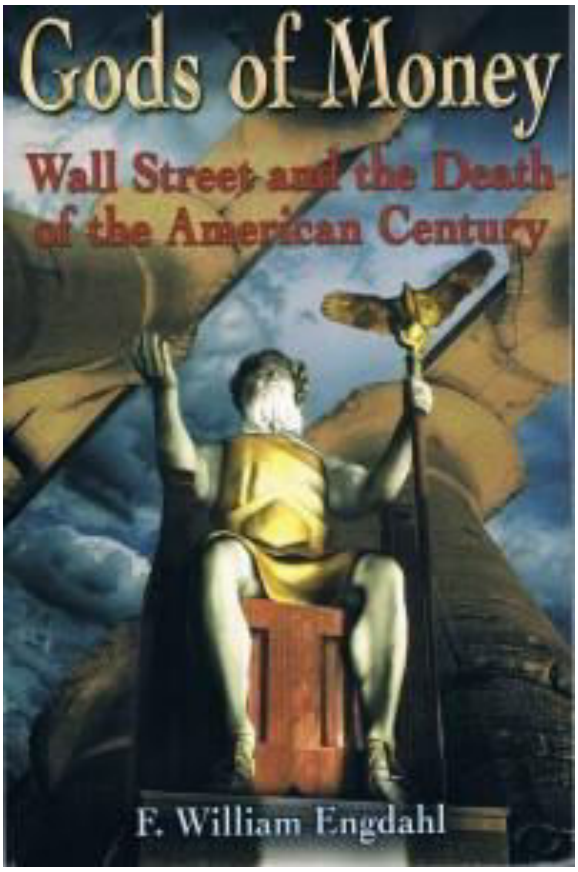

Chapter Three:

A Bankers' Coup D'état creates a Federal Reserve

"The market prices of commodities vary from day to day and often several times a day. This occurs when there is no radical difference in the proportion of the supply and the natural demand. This fact is conclusive proof that our system is controlled by manipulators and fundamentally wrong. I have… suggested a plan which, if adopted, would make the people the master of the world, instead of the present master—THE MONEY TRUST."

-- Congressman Charles A. Lindbergh, 1913[1]

Morgan Emerges as King

J. Pierpont Morgan, as a result of his machinations with Belmont in the crisis of 1893, had emerged by the end of the 1890's as one of the most powerful bankers in the world. He had begun his business career at the age of 24, fraudulently selling back to the US Government its own Army surplus rifles for the Civil War – obsolete rifles which he had initially purchased from the US Army Arsenal in New York City through dummy representatives...[2]

At the time Pierpont Morgan was busy swindling the US Government on rifles for the Civil War, his father Junius S. Morgan, a partner in the bank Morgan, Peabody & Co. had moved to London to join American banker George Peabody as Financial Representative of the United States Government in England during Lincoln's struggle to win the Union cause against the southern Confederate states. Despite ostensibly representing the Lincoln Administration, however, the two men were widely regarded in England and even in the US as pro-Confederate…. Under the Constitution of the United States, the London financial manipulations of Peabody and Morgan in time of war constituted palpable treason. [3]

Just like his father, J. Pierpont Morgan would go on to build a colossal banking and industrial empire in America on fraud, treason and deception, all the while taking care that his press coverage portrayed him as a man of philanthropy and Christian rectitude.

J.P. Morgan, whose bank emerged at the beginning of the 20th Century as the most powerful financial institution in America, was behind the creation of the Federal Reserve in 1913, as well as the creation of the New York Council on Foreign Relations, the private think-tank that shaped American foreign policy throughout the 20th Century…

The role of J. P. Morgan in the Panic of 1907 was absolutely decisive for all that followed – from the emergence of an American oligarchy, through two world wars to defeat a German challenge and to build, on the ashes of war, the new American Imperium, as the successor to a bankrupt British Empire.

Morgan and Rockefeller Engineer the 'Panic Of 1907'

The panic of 1893 was caused by a run on gold engineered by the bankers themselves. The powerful winners that emerged from that panic were Morgan, along with James Stillman, then head of National City Bank in New York—the bank of Rockefeller's Standard Oil Trust—and a handful of brokerage houses led by Belmont and Kuhn Loeb & Co.

J. Pierpont Morgan had used the crisis to gain control of the most strategic steel and railroad industries of the United States. In 1901 he gained control of US Steel, which he created out of mergers of Carnegie Steel and others to form the world's largest steelmaker. In creating US Steel, Morgan floated "watered" stock in nominal value of a staggering $1,402,000,000 for his new steel trust, the world's first corporation to be valued at more than a billion dollars. The inflated stock price was based, in effect, on capitalized future profit, much as notorious companies like Enron or Worldcom were to do during the stock market mania of the late 1990's. In addition Morgan created the vast General Electric Company, International Harvester Co. and countless other major industrial groups on top of which sat the all-powerful bank, J.P. Morgan & Co.

Meanwhile, Stillman's National City Bank (Citigroup), the bank of John D. Rockefeller's Standard Oil Trust, had emerged as the largest commercial bank in the United States…

Thanks to the Panic of 1893, the bi-metallic silver faction had been destroyed and the way was clear for Morgan and a tight circle of New York and allied London banks to take over the finances of the United States.

By 1907, the Morgan and Rockefeller financial groups were ready to launch their next financial attack on the country's economy -- what came to be called the Panic of 1907. This was to be the needed final push to their greatest coup of all—passage in 1913 of the Federal Reserve Act in which a largely unwitting US Congress turned control of its power to print money over to a consortium of private bankers.

The background to 1907 events originated with a New York bank called the Knickerbocker Trust Co., a medium-sized bank for those days, headed by an aggressive wheeler-dealer named Charles T. Barney. Barney and his business partner, Frederick A. Heinze, set out to corner the market in copper by buying up the stock of United Copper Company, a major supplier of copper, a metal in extraordinarily strong demand. In doing so they ran up against the powerful Rockefeller group that controlled the huge Amalgamated Copper Company and had little interest in an upstart outsider rival like the Montana-born Heinze.

Heinze had created his own bank in New York, the Mercantile National Bank. He had used its assets to challenge the Rockefeller-dominated copper market. On October 14, 1907, the stock of United Copper Company soared past $62 a share. Two days later it closed at $15, and F. Augustus Heinze was on his way to financial ruin. Rockefeller had unloaded millions of pounds of copper onto the market, precipitating a collapse of copper prices and with it, the price of Heinze's United Copper stock.

Heinze, in addition to his own Mercantile National Bank, was also linked to six other medium-sized New York banks. The news of Heinze's ruin and his bank links was leaked to the New York press, causing panic withdrawals from all six banks, as well as from the Mercantile National.

The full-blown panic, however, was triggered by news that the President of the third largest savings bank in New York, the Knickerbocker Trust Company, had business links to Heinze's Mercantile National Bank. That news triggered an immediate panic run on the large Knickerbocker Trust as well.[4]

The impact on Knickerbocker Trust was immediate. The bank was forced to beg for a bailout from the private banks' Clearing House Association. The head of the Clearing House Association was J. Pierpont Morgan.

J.P. Morgan demanded an audit of Knickerbocker's books before agreeing to any bailout or rescue. The audit was headed by Morgan crony and employee, Benjamin Strong, the man who later became the powerful first Governor of the Federal Reserve. The result of the audit was that Morgan refused to extend emergency credit to Knickerbocker to stop the depositors' panic, and rumours of its insolvency spread. A wave of panic withdrawals spread to other trust banks. It was deliberate on the side of J.P. Morgan, business as usual.

The ensuing panic, according to a 1911 Congressional investigation, had been carefully fed by false rumours deliberately planted by Morgan cronies in newspapers they controlled, including the New York *Evening Sun* and *The New York Times*. The press reported alleged runs on select trust banks such as the Trust Company of America, which Morgan and Rockefeller wanted out of the way.

There had been no run on the Trust Company of America until the press reports appeared. The bank in fact was solvent, but it coincidentally also held a large bloc of stock in the Tennessee Coal and Iron Company with rich ore deposits (one of the largest known iron reserves in the US) coveted by Morgan's newly formed US Steel Corporation. Morgan made sure that the Trust Company of America got the liquidity it needed from the Morgan bankers' syndicate only in return for agreeing to release as collateral all its shares in Tennessee Coal and Iron.

To seal the deal, Morgan sent two of his lieutenants, Henry Clay Frick and Elbert Gary of US Steel, to meet President Theodore Roosevelt in order to secure Roosevelt's agreement to suspend US anti-trust law. The public story was that this was done to "save the country." In point of fact it was really to allow US Steel to swallow Tennessee Coal and Iron in contravention of the Sherman Anti-Trust Act.

Roosevelt, who had campaigned on the nickname "trust-buster," in actual fact was deeply entrenched with the Money Trust, especially to the Morgan interests.[5]

As President, the Republican Roosevelt made it a practice to run his major public policy pronouncements past key representatives of either the Rockefeller or Morgan group, or both. He submitted the draft of his Third State of the Union address to Rockefeller's personal banker, James Stillman of National City Bank, promising to alter the section on the currency question to suit Stillman, if needed. In October 1903 Roosevelt had invited J.P. Morgan to the White House for a private discussion, and secretly corresponded with railroad mogul E. H. Harriman over political appointments and campaign contributions. [6]

Psychologically devastated by the collapse of his Knickerbocker Trust Co., Charles Barney committed suicide a month later. The New York stock market crashed as cash-desperate trust banks sold stocks to raise capital. The country was plunged into yet another severe economic depression, this one lasting thirteen months.

Across the country regional banks refused to redeem deposits for gold as required by law, fearing loss of 'hard money.'

The 1907 panic subsided almost miraculously when Roosevelt announced his suspension of US anti-trust laws. John D. Rockefeller and his banker, James Stillman, eliminated the copper competition from Heinze. As soon as Morgan got his hands on the much-desired Tennessee Coal and Iron ore resources from Trust Company of America, press rumours stopped and the bank returned to normal business.

A gullible public was told of a "heroic and courageous rescue" of the nations' banking system by the selfless J. Pierpont Morgan. One of the few men who was not convinced of the altruistic motives of Morgan, Rockefeller and their Wall Street cronies was the pro-silver Democrat William Jennings Bryan. Bryan declared, "Blame the unscrupulous financiers who have piled up predatory wealth and who exploit a whole nation as high finance." [7]

An unwelcome Treasury proposal

Rarely mentioned in the debate about the recurring bank panics was the fact that the Government of the United States of America, through its Secretary of the Treasury, already had the power to step in and lend to the credit-starved banks. The Treasury could easily have played the role of lender of last resort and kept the nation's credit process under federal guidance and public control, as was explicitly mandated in Article 1 of the United States Constitution. It would only have required that the Congress fund an emergency reserve that would be at the Treasury Secretary's discretionary disposal.

In a US Treasury Report in 1906, a year before the 1907 Panic, US Treasury Secretary Leslie M. Shaw, a strong advocate of greater use of the US Government's powers to control crises in the money market, wrote:

> *If the Secretary of the Treasury were given $100,000,000 to be deposited with the banks or withdrawn as he might deem expedient, and if in addition he were clothed with authority over the reserve of the several banks, with power to contract the national bank circulation at pleasure, in my judgment no panic as distinguished from industrial stagnation could threaten the United States or Europe that he could not avert. No central or government bank in the world can so readily influence financial conditions throughout the world as can the Secretary under the authority with which he is now clothed.* [8]

The US Treasury Secretary's proposal for making the Government's Treasury Department the banking 'lender of last resort' in times of liquidity crises was no far-fetched fantasy. By

1899 just before the turn of the century, the US Treasury held gold reserves larger than any central bank in the world including the Bank of England and the Bank of France. The US dollar was one of the world's strongest currencies and the management of its gold standard was under the direct control of the US Treasury, not private banks as was the case in Europe and England.

Morgan, Rockefeller and the elite interests behind the Money Trust of that day, however, had no interest in a public or government solution which they might not be able to direct to their advantage. They were determined to use the panic and the crisis atmosphere to move forward their most audacious plan yet—capturing from the Federal Government of the United States its power to coin, print and control the supply of money. Their plan was to create a national bank that would be entirely in the private hands of bankers J.P. Morgan, Rockefeller and friends.

Treasury Secretary Shaw retired in March 1907, several months before Morgan and Rockefeller precipitated the Panic. Shaw's post was filled by George B. Cortelyou, a close Morgan crony. With Cortelyou in place, Morgan and his friends on Wall Street had little to fear.

J.P. Morgan emerged from the crisis a hero. He was proclaimed by the friendly financial press as the 'saviour of the day' when, at the opportune moment that prices had become extremely attractive, he publicly announced his 'confidence' in the markets by buying shares of major corporations to add to his vast industrial empire.

Morgan had already emerged as the dominant power controlling America's private railways. He had done this in 1889 by secretly calling together the heads of all major rail lines to forge an illegal price-fixing cartel to drastically increase freight rates. According to leaked minutes of the meeting, Morgan secured the price-fixing cartel by threatening to freeze new loans to uncooperative railroads. He was foreshadowing the methods employed decades later during the debt crises of the 1980s and 1990's by New York bankers acting through the Washington-based International Monetary Fund and World Bank: "Play by our rules or perish…"[9]

The bank panic of 1907 had led many banks to call in their loans to real estate ventures and to business companies. The large Westinghouse Electric Co. sought bankruptcy protection. In 1908 progressive populist Wisconsin Senator Robert La Follette charged that, "a group of financiers who withhold and dispense prosperity, deliberately brought on the late panic" for their profit. Morgan was silent.

Morgan had help in managing the 1907 crisis. US Treasury Secretary George Cortelyou, after a late-night meeting with Morgan's partner, George Perkins, announced formal support for the house of Morgan during the crisis, offering the extraordinary sum of $25 million dollars in additional liquidity. "Not only has the stability of the business institutions impressed me deeply," Cortelyou said, "but also the highest courage and the splendid devotion to the public interest of many men prominent in the business life of this city." On leaving the Treasury, Cortelyou was rewarded for his loyal service by being named president of the Morgan-Rockefeller Consolidated Gas Company of New York. [10]

Morgan successfully led the Wall Street banks' attempt to avert a general financial collapse following the stock market panic of 1907, a collapse he had deliberately engineered. He headed the group of bankers who took in large government deposits and he decided how the money was to be used for financial relief. Morgan then proceeded to reward friends and punish enemies.[11]

In 1911 a US Congressional Committee undertook an investigation into the control of the nation's commerce by what they called the Money Trust. Their investigations found that members of the firm J.P. Morgan & Co. controlled no fewer than 72 directorships in 47 major US corporations worth a combined $2,104,000,000, a staggering sum in its day.[12]

Morgan-Rockefeller 'National Monetary Commission'

The outcome of the 1907-08 crisis, in addition to monumentally expanding the financial and political influence of J.P. Morgan, was the formation of a National Monetary Commission to study the banking crisis and make recommendations to Congress to prevent such panics in the future. President Theodore Roosevelt signed into law the Aldrich Vreeland Act, creating the commission in 1908. Its mandate was to come up with a plan to end money panics in the financial markets.

The Commission was rigged from the outset. It was headed by US Senator Nelson Aldrich, chairman of the influential Senate Finance Committee, father-in-law of John D. Rockefeller, Jr. and namesake of Governor Nelson Aldrich Rockefeller. Senator Nelson Aldrich was known to insiders as "Morgan's floor broker in the Senate." [13]

Senator Aldrich was also no stranger to corruption. In a 1905 article, *McClure's* magazine revealed that Aldrich dominated the corrupt Rhode Island political machine, and that the majority of the state's senators had been bought by Aldrich's machine. In 1881 Aldrich gave up a family grocery business to run for US Senate with a declared net worth of $50,000. When Senator Aldrich died after thirty years in politics, mostly in the US Senate, he was worth an impressive $12,000,000, a fortune that was not the result of frugal savings of his paltry Senate salary.[14]

Aldrich would be responsible for steering the passage of the most fateful political *coup d'état* in American history: the Federal Reserve Act of 1913. Who backed him and how they orchestrated the coup, few were to know.

The Bankers' Coup D'état

In 1908, a year after the creation of Aldrich's National Monetary Commission, the most powerful bankers in America met in highest secrecy to draw up plans for the greatest financial and political coup d'état in the history of the United States. The plan was to rob from the US Congress its constitutionally mandated powers to create and control money. The coup was to usurp those Constitutional powers in order to serve private special interests, even at the expense of the general welfare of the population of the United States.

The men who drew up the plans to take control of the nation's money were no ordinary bankers. They were a breed apart within the American banking world.

They were primarily international bankers who patterned themselves on their London cohorts. The bankers who orchestrated "the money coup" included J. Pierpont Morgan; German émigré Paul Warburg of the New York private bank Kuhn Loeb & Co.; August Belmont & Co.; J.& W. Seligman & Co.; Lee, Higginson & Co., and others. In London these international bankers called themselves "merchant bankers." In New York they preferred the title "investment bankers." …

They operated in absolute secrecy, lest the general public understand how the banks' money manipulated political decisions behind the scenes, including decisions to go to war or to keep the peace. The traditional preference of international bankers for utmost secrecy became a hallmark of their practice and allowed intrigue, political manipulations, buying of politicians and judges, financing of coups to eliminate an uncooperative sovereign here, a head of state there, all to make way for governments more amenable to the bankers' dictates.

During the Civil War in 1863 Congress had passed a National Banking Act followed by the National Currency Act. The bill was largely drafted by Treasury Secretary Salmon P. Chase. A consequence of the new law was that certain banking centers across the country were designated as "Reserve Cities" – such as Chicago, St. Louis or Boston. Regional banks could hold a part of their required minimum reserves of 25% in the form of deposits and bank notes in "National Banks" in their regional Reserve City.

The so-designated National Banks in New York City, however, held a special status and were required to hold 25% of their reserves of legal tender in the form of gold or silver coins or bars. Under the law, New York City was designated uniquely as the "Central Reserve City" under the new banking act, amounting to recognition that it had already become the nation's money center, and a harbinger of its future role under the Federal Reserve Act of 1913.[15]

Because local and regional banks could earn interest by placing their funds in New York banks, capital flowed from the regional banks into New York banks, up to the beginning of the 20th Century. New York National Banks grew disproportionately as a result.

The creation of the Federal Reserve System was designed to establish control over the United States money system by Morgan and a small circle of private, allied, international bankers in New York. It was done with extreme care and preparation. As far back as the ratification of the United States Constitution -- which placed the power to coin money explicitly in the hands of the US Congress -- private banking interests had been battling unsuccessfully to gain popular acceptance for a national bank. Early in the 20th Century, things changed.

A Georgia island 'duck hunt'

The group of international bankers who drafted the Federal Reserve Act of 1913 acted with utmost secrecy and deception, lest their role in crafting the new central bank be discovered as a "bankers' plot."

President Theodore Roosevelt had named Republic Senator Nelson Aldrich to head a National Monetary Commission in 1908 following Morgan's and Rockefeller's manipulated Panic of 1907. Two years later, in November 1910, the same Senator Aldrich traveled by private train with a group of the nation's leading financiers to a private resort owned by Morgan at Jekyll Island off the Georgia coast.[16]

This group of the country's most powerful bankers and their trusted official cronies had agreed that, if discovered, they would use as the excuse for their gathering that they were going duck hunting. They neglected to say what kind of ducks.

The secret cabal of Wall Street "duck hunters" who joined Aldrich included Frank Vanderlip, President of Rockefeller's National City Bank of New York; Henry P. Davidson, senior partner of J.P. Morgan & Co.; Charles D. Norton, President of Morgan-controlled First National Bank of New York; Benjamin Strong, Vice President of Morgan-controlled Bankers Trust; Paul Warburg, a German immigrant and senior partner of Kuhn Loeb & Co.; and A. Piatt Andrew, Assistant Secretary of the Treasury of the United States.

The powerful Rockefeller faction had two influential representatives at Jekyll Island at that November meeting. One was Paul Warburg of Kuhn Loeb & Co., the second most powerful private investment bank after J.P. Morgan & Co. and, at the time, the leading investment house for John D. Rockefeller, as well as being the house bank of Rockefeller ally, E.H. Harriman of the Union Pacific Railroad.[17] The second representative of the Rockefeller faction at Jekyll Island was National City Bank President, Frank Vanderlip.

Years after creation of the Federal Reserve, Vanderlip described his view of the secret meeting. "I was secretive indeed, as furtive as any conspirator…Discover, we knew, simply must not happen, or else all our time and effort would be wasted. If it were to be exposed that our particular group had got together and written a banking bill, that bill would have no chance whatsoever of passage by Congress."

The Secret of Jekyll Island

In 1916, after the Federal Reserve had become a reality, B.C. Forbes, founder of the financial magazine by the same name, wrote about the secret Jekyll Island gathering, using only the first names of the men who participated:

> *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.*
>
> *Nelson* [Aldrich-w.e.] *had confided to Henry, Frank, Paul and Piatt 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…Warburg is the link that binds the Aldrich system and the present* [Federal Reserve-w.e.] *system together. He, more than any other one man, has made the system possible as a working reality.*[18]

Paul Warburg, the man who played such a decisive role in formulating the model of the Federal Reserve, was German born. Warburg would later be appointed to the first Board of Directors of the new Federal Reserve in 1914, and then be made its Vice Chairman, sitting until 1918. The irony lay not in the fact that Paul Warburg was a German, but rather in the fact that his Federal Reserve became the financing instrument that enabled the ultimate defeat of Kaiser Germany in 1918. At the same time, his brother Max M. Warburg was adviser to Kaiser Wilhelm.

At the secret Jekyll Island gathering in 1910, Kuhn Loeb's Paul Warburg had proposed a deception to get the new national bank act passed by Congress. It was deliberately not to be called a "national" or "central" bank, he insisted, but a more harmless sounding "federal reserve bank association." The argument would be advanced that, unlike the Bank of England or other European central banks, the United States model would be decentralized and insure maximum regional banking and monetary control. The ruse also would disguise the private ownership of the member banks of the Federal Reserve System.

The dominant influence of New York, the nation's largest banking and money center, would be concealed by creating twelve "independent," regional banks – in San Francisco, Kansas City, Minneapolis, Atlanta, Boston, etc. Each of the regional banks would be privately owned by the most powerful banks or corporations in their region. As Philadelphia banker Leslie Shaw told a Congressional hearing on the Aldrich Plan in 1913:

> *When you have a local organization, the centered control is assured...When you have hooked the banks together, they can have the biggest influence of anything in this country, with the exception of the newspapers.* [19]

In its January 11, 1911 issue, *The Nation* magazine noted of the Aldrich-Warburg central bank plan developed at Jekyll Island:

> *The name of Central Bank is carefully avoided, but the 'Federal Reserve Association', the name given to the proposed central organization, is endowed with the usual powers and responsibilities of a European Central Bank*. [20]

Warburg's plan proposed that the stock of the twelve member banks of the Federal Reserve Association, as he called it, would be owned by private stockholders. The private stockholders in turn could use the credit of the US Government for their own private profit. The Federal Reserve Association would control the nation's money and credit; it would be a bank of issue, meaning it could create currency or money at will, and it would finance the Government by mobilizing credit in times of war. Senator Aldrich later admitted in a magazine article,

> *Before passage of this Act, the New York Bankers could only dominate the reserves of New York. Now we are able to dominate bank reserves of the entire country.* [21]

Warburg, the only one present at Jekyll Island who had had direct experience with the functions of various European central banks, modeled his reserve bank on the private Bank of England. In its 1943 entry for the Bank of England, the *Encyclopedia Americana* described it this way:

> *Its weakness is the weakness inherent in a system which has developed with the smallest amount of legislative control…its capital is held privately, and its management is not in any way directly or indirectly controlled by the state.*

"Fractional reserve banking" – another mechanism embedded in the Federal Reserve system—was created on the model of the Bank of Amsterdam almost a century before founding of the Bank of England, along with the radical monetary concept of a "monopoly" bank which would create money for loans that would in effect never be repaid.[22]

The dirty secret of 'Fractional Reserve Banking'

Fractional reserve banking was first introduced at the Bank of Amsterdam in the middle of the Seventeenth Century. It was done in strict secrecy, lest a depositors' panic ensue, which it ultimately did. But the deception succeeded for more than a century and a half.

The Bank of Amsterdam was founded in 1609 under protection of the City of Amsterdam for a very specific purpose. As gold and silver coins were bulky to carry and risked robbery, merchants created the bank to accept both foreign and local coinage at their real, intrinsic value. The bank deducted a small coinage and management fee, and credited clients in its book for the remainder. This credit was known as "bank money."

Always in compliance with mint standards, and always of the same value, bank money was worth more than real coinage, which deteriorated with age, losing some of its gold or silver specie content. At the same time a regulation was introduced, according to which all bills drawn at Amsterdam worth more than a set amount must be paid in bank money. This regulation removed all uncertainty from the bank bills and compelled all merchants to keep an account with the bank. That in turn created a demand for bank money of the Bank of Amsterdam.

Soon the bankers of Amsterdam realized that at any one time only a small portion of their deposits were withdrawn. They secretly set out to determine the minimum deposits needed to meet that demand on average, and to lend out the rest in order to make money on their borrowed deposits. Initially, being naturally cautious lest they be discovered, they lent a small fraction of all deposits. Then, as that seemed to work, they increased it to more than fifty percent. Were the general public to learn that only 50% of their gold was in safe deposit with the Bank, a panic would ensue -- which it did in 1791, ending the Bank.

The abuse of its depositors' trust had been possible because the Bank of Amsterdam had not been required to make any public disclosure. It was the beginning of the principle of modern banking that, under a system of fractional reserve lending, the value of a bank or an entire banking system rests on one ethereal value—depositors' confidence. The essence of fractional reserve banking drives banks to lend to the maximum to maximize earnings until credit excess leads to a market collapse. Because the bank lends funds it does not own, the credit mechanism leads to creation of money *ex nihilo*—out of nothing—through simple bookkeeping entries.

Such was the history of the repeatedly engineered bank panics during the century prior to the creation of the US Federal Reserve. Morgan and the elite bankers in his circle wanted a central bank that their own chosen people would permanently control, an institution to act as the overseeing governor of the credit system, the central cop to keep individual banks in line with the interests of the banking system as a whole.

To control this system, to raise or lower credit, required changing levels of bank reserves for their fractional lending. The power that the Federal Reserve gave to the New York Money Trust banks was a quasi monopoly over the nation's credit. This power was to prove awesome.

The group at Jekyll Island reached a consensus behind what was called the Warburg Plan, which for political reasons was dubbed the Aldrich Plan to give the appearance it was the brainchild of the Republican Senator.

Before they could advance their plan to take control of the nation's money, however, they faced a new challenge in the form of a growing popular revolt against the concentration of the Wall Street money power.

Democrats investigate the 'Money Trust'

In 1912, some months after the secret meeting at Jekyll Island, Minnesota Congressman Charles Lindbergh, Sr. introduced a resolution into the US House of Representatives calling for an investigation of Wall Street power. Lindbergh, a fiery and very accurate critic of the workings of that Money Trust, as he called it, was blocked by the bankers and their Congressional friends in his call for an independent inquiry.

Instead, as Lindbergh documented in a personal account written in 1913, the influential bankers of the Money Trust, using their friends in Congress, diverted the call and sent it to a banker-friendly Louisiana Congressman, Arsene Pujo, who named a Wall Street lawyer, Samuel Untermyer, to do a harmless pseudo-investigation. The cynical result of the hearings was so orchestrated as to lead to the creation of the very goal the Money Trust had in mind with the Aldrich Plan, namely a private central bank whose power would lie firmly in the hands of that New York Money Trust.[23]

The House Committee on Banking and Currency convened hearings beginning May 1912. The Pujo Committee's mandate was ostensibly to investigate banking and currency conditions in the nation.

The Committee issued subpoenas to J.P. Morgan, James J. Hill, and the two co-founders of First National City Bank -- George F. Baker and William Rockefeller, brother of Standard Oil's John D. To avoid testifying, William Rockefeller actually went into hiding on his New York estate and then claimed he could not testify as he had "throat problems." Morgan and the others in the Money Trust appeared, but refused to disclose anything of substance.

The Pujo Committee report concluded with a harmless statement to the effect that a cabal of financial leaders was abusing the public trust in order to consolidate control over many industries. They confirmed that there indeed had been an increased concentration of control of money and credit in the country, both through the consolidation of bank ownership in a few hands and by the banks putting hand-picked allies on the boards of directors of industrial trusts or groups it had financed and in which it held large stock shares.

The Pujo Committee documented that the Money Trust as had come to be called, had six major financial houses at the top. Those six controlled the largest steel, railroads, public utilities, oil and refining companies, as well as other major industrial groups. The concentration of wealth and ownership was completed by the Money Trust's control of America's major media, enabling them to disseminate propaganda favorable to their special interests. It was a system of interlocking directorates, the Committee said, and it was controlled by six private banking houses:

- J.P. Morgan & Co.
- First National Bank of New York
- National City Bank of New York
- Kuhn Loeb & Co.
- Kidder Peabody & Co. of New York
- Lee Higginson & Co. of Boston

The Committee's report revealed that at the very top of this vast pyramid of economic, political and financial power over the United States in 1913 stood the private investment bank, J.P. Morgan & Co. Pujo's report documented that Morgan, through shareholdings and seats on the boards of directors, held controlling positions in virtually all of the country's largest corporations, including: US Steel Corporation, American Telephone & Telegraph, Western Union, General Electric Company, International Harvester, Bankers Trust Co., Guaranty Trust Co., National City Bank of New York, the New York Central Railroad, Northern Pacific Railroad, Great Northern and Baltimore & Ohio Railroads. In all, the Pujo Committee documented 112 such companies under the effective control of the J.P. Morgan group in 1913.

The report pointed out that Morgan also had extensive international ties as a partner in the London banking house of his father, J.S. Morgan & Co., later Morgan Grenfell, as well as in the Paris banking house Morgan, Harjes & Co. Morgan was called to testify, but he refused to say anything of substance. He regarded himself as a power above and apart, not subject to the quaint laws or demands of republican government.

Morgan's power within the six financial institutions named above included not only his own bank, but major interests in National City Bank and shared control with Rockefeller of National City Bank. Morgan also controlled the next largest bank, Bankers' Guaranty Trust. These four banks in which Morgan had full or shared control via corporate directorships and stock ownership corporations were worth a staggering sum of $22 billion.

The Pujo revelations, however, as noted, were no sincere or serious attempt to challenge the power of the Money Trust, something well within Congress' Constitutional powers. Instead, it was a calculated ploy backed by the Money Trust itself, to lend populist credibility to the newly elected Democratic Congress, to push the Democrats' version of a national bank act-- the Owen-Glass Federal Reserve Act of 1913.

Contrary to Lindbergh's intention, the Pujo investigation was a ruse by the Money Trust to push their desired banking control bill through a Democratic-controlled Congress, Democrats whose campaigns in many cases had been quietly financed by the same Money Trust.[24] …

Decisively, the hearings and the orchestrated press treatment of them were also used to set up a phony debate that led Congress to pass almost verbatim the private plan hatched by the bankers on Jekyll Island.

Pujo Committee lawyer, Untermyer, whom friendly press had built up as an anti-trust "friend of the little guy," was given the task of drafting the text of the 1913 Federal Reserve Act. The bill was snuck through Congress in the sheep's clothing of a Democratic reply to the Republican bankers plan, the Aldrich bill. The banking wolves of Wall Street had got their prize.

The Republican Aldrich Plan was lambasted in the Morgan-controlled press and the Owen-Glass Federal Reserve Act was praised as a fair democratic alternative, allegedly a way to limit control by the New York Money Trust.[25]

The reality was precisely the opposite.

Republican Bankers buy a Democrat for the Coup

By 1910, J.P. Morgan and the Money Trust had decided it was necessary to have their own version of the confidence game that the privately-owned Bank of Amsterdam had run -- underwritten not by the City of Amsterdam, however, but by the full faith and credit of the Federal Government of the United States of America.

Given the widespread dislike of the Money Trust among the public and in the Congress, particularly among Democrats such as Charles Lindbergh and progressive Republicans such as Robert La Follette, it required a charade of deception to advance the Warburg central bank scheme by appearing to attack Senator Aldrich's National Monetary Commission and the Aldrich plan as "putting voting control into the large banks."[26]

While denouncing the Aldrich plan as a "central bank plan," Congressman Glass's own Federal Reserve Act fulfilled precisely the functions of such a central bank under private control by the Money Trust. It was exactly what Warburg had outlined at Jekyll Island in 1910. The Warburg Plan and the Aldrich Plan were essentially one and the same. Not surprisingly, Paul Warburg was given the task of drafting the text of the "alternative" bill for Glass and the Woodrow Wilson White House, with the aid of Wall Street lawyer Samuel Untermyer.[27]

The new Federal Reserve Bank's stock would be owned by private stockholders who then could use the "full faith and credit of the Government of the United States" for their private profit. The Federal Reserve proposed by Glass would control the nation's money and credit, in direct contravention of Article One of the United States Constitution which vested such control explicitly in the US Congress, originally conceived as the most representative of the three branches of government.

Moreover, the Federal Reserve, as proposed by Glass, would be a "bank of issue" which meant that it could issue money "out of thin air" and could finance the Government by mobilizing credit "in times of war." Effectively, the Federal Reserve System would give the Congress' right to print money to a legalized cartel of private banks, affiliated with the banks of the City of London, above all N.M. Rothschild & Co., through the agency of the Rockefellers, Kuhn-Loeb, and J.P Morgan. [28]

Carter Glass' bill gave the Morgan-led cabal of private bankers total monopoly control over note issue, over money.

Not surprisingly, the Owen-Glass Federal Reserve Act of 1913 won the warm endorsement of the American Bankers' Association, a fact downplayed in the popular press.

In 1910, Republicans lost control of the US House of Representatives, and in the national elections of 1912 they also lost control of the Senate as well as the White House to the Democrats.

The election of Woodrow Wilson in 1912 was the work of a small group of men who engineered a split in the Republican Party by financing a third party, the Progressive Party, nicknamed the "Bull Moose" party for its Presidential candidate former Republican President Teddy Roosevelt. [29]

It was Morgan and Rockefeller money that put 'reform' Democrat Woodrow Wilson in the White House in 1912. Since 1898 when Wilson was president of Princeton University, he had been promoted into national politics by a powerful group of bankers led by Princeton man Cleveland Dodge of Phelps Dodge copper, and a director of the Morgan-Rockefeller National City Bank. Wilson was on such personal terms with Dodge that he wrote letters addressed simply, "Dear Cleve."[30]

When the Morgan group decided that Wilson would be more likely to pass an essentially Republican national bank act into law than would a Republican President, they orchestrated a national media campaign around Wilson. Through newspapers that the Morgan group controlled, Morgan's group hailed Wilson, then the Governor of New Jersey, as the "liberal reformer" candidate. Wilson's nomination was bought and paid for by National City Bank's Dodge, by Cyrus McCormack of the J.P. Morgan-tied International Harvester Co., and by Jacob Schiff, senior partner of Paul Warburg's investment bank, Kuhn Loeb. [31] In other words, Wilson's election was bought and paid for by the Jekyll Island cabal.

He wouldn't disappoint his patrons.

On December 23, 1913, the day before Christmas Eve, the Federal Reserve Act, also known as the Glass-Owen Bill, was passed by Congress with scarcely a debate. The Republican controlled Senate pushed the bill through when many members of the US Congress were home for the Christmas holiday. Democratic President Woodrow Wilson signed it into law with indecent haste one hour after it was passed by the Congress.

The Federal Reserve System was set up as an independent central bank, whose policies would be free from Washington control. Although the President of the United States appointed the chairman and governors of the Federal Reserve System, and the appointment had to be approved by the United States Senate, the presidents of the 12 private reserve banks controlled the system, and none was more powerful than the President of the New York Federal Reserve Bank, *the primus inter pares* or first among equals of the twelve.

The key provision of the Federal Reserve Act stipulated that decisions of the Federal Reserve were not to be ratified by the President, or anyone else in the Executive branch of the United States Government or the Congress. Instead, buried in the legislation was the granting of total power over the monetary policies of all US banks in effect to the privately-owned New York Federal Reserve Bank and its directors—the most powerful names on Wall Street of the Money Trust.

Stock not held by member banks was not to be entitled to any voting power. This clause guaranteed that no outsider would seek to buy shares in the Federal Reserve. It was strictly an insiders' or "Old Boys'" Club, controlled by the Money Trust. [32]

A few months after the initial passage of the Federal Reserve Act of 1913, the newly named New York Federal Reserve Bank President, Morgan's man Benjamin Strong, along with Federal Reserve director and author of the bill, Paul Warburg, went to the White House and to Congress to successfully argue for passage of an amendment to the original act. The amendment would allow the newly-established central bank to destroy money as well as to create it. With that, the way was now clear for the Federal Reserve and the private bankers controlling its policies to create economic boom periods, mobilize the economy for wars, and to create deflationary recessions and depressions, all of which it proceeded to do with a violence that exceeded anything the individual bankers of the Money Trust had ever succeeded in doing in the century prior to creation of their private Federal Reserve System. The resulting lurches from economic boom to bust were given a pseudo-scientific explanation called the theory of "business cycles" as if these phenomena were somehow inevitable.

Most essential in the new Federal Reserve, however, was that it allowed private banks, most especially the House of Morgan and its allies, to take risks never before imagined. Their ventures – no matter how risky – were now backed by the "full faith and credit" of the Government of the United States of America and its unwitting taxpayers.

The first test of the vast new powers of America's third National Bank since 1787 was not long in coming. England and France were soon to appeal for massive credits from the United States to finance their war in 1914 to destroy the German Reich and Austro-Hungary, a process that became known as The Great War. Had the Federal Reserve not existed it is doubtful what the outcome of that war would have been.

Endnotes:

[1] Charles A. Lindbergh, Sr, Congressman, *Banking and Currency and the Money Trust*, C.A. Lindbergh, Little Falls, Minnesota, 1913.
[2] Ibid, p. 552.
[3] New York Times, October 31, 1966.

[4] Kevin J. Cahill, *The U.S. Bank Panic of 1907 and the Mexican Depression of 1908-1909*, The Historian, vol.60, 1998.
[5] Ferdinand Lundberg, op. cit., pp. 90-95.
[6] United States Senate Committee on Privileges and Elections, *Hearings of the Sub-committee on Campaign Contributions*, 62nd Congress, 3rd Session, 1913, pp. 453 ff. The background on the Roosevelt contacts with Stillman and Morgan are in, Henry Pringle, *Theodore Roosevelt* (New York: Harcourt, Brace & Co., 1931), p. 350.
[7] Cited in The Federal Reserve Bank of Boston, *The Panic of 1907*, p.8.
[8] US Department of the Treasury, *Annual Report on the Finances*, 1906, Washington D.C., p. 49. The US Treasury's debt management powers then, as Milton Friedman pointed out were "comparable to the Federal Reserve System's ability to conduct open market operations. See Milton Friedman & Anna J. Schwartz, *A Monetary History of the United States 1867-1960* (Princeton: Princeton University Press, 1963), p. 150, footnote 24.
[9] Gustavus Myers, op.cit. p. 586-572.
[10] Ferdinand Lundberg, op. cit., p.92.
[11] Details of the actual workings of the 1907 Panic have been obscured by later Morgan-friendly accounts. Useful in piecing together actual events in that decisive event in the emergence of the Federal Reserve System in 1913 as the pillar of an American Century, in addition to the work by Gustavus Myers cited above, is the book by James Grant, *Money of the Mind: borrowing and lending in America from the Civil War to Michael Milkin*, Farrar Straus Giroux, New York, 1992. As well, Milton Friedman & Anna J. Schwartz, op. cit.
[12] Report of the House Banking and Currency's *Committee to Investigate Concentration of Control of Money and Credit*, Washington D.C., 1913, pp.56-91, cited in Gustavus Myers, op. cit., p.634. This is the so-called Pujo Committee headed by Louisiana Democrat, Arsene Pujo, whose chief counsel, Samuel Untermyer in 1911 coined the term, "Money Trust" to describe the power of the group around Morgan and Rockefeller.
[13] Henry Pringle, op. cit., p.244.
[14] Walter Davenport, *Power & Glory*, Colliers' magazine, February 7, 1931.
[15] Karl Erich Born, *Geld und Banken im 19.und 20.Jahrhundert* (Stuttgart: Alfred Kroener Verlag, 1977), p. 173-5.
[16] Eustace Mullins, *The Secrets of the Federal Reserve,* (Staunton, Virginia: Bankers Research Institute, 1983), p.1.
[17] Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (London: Warner Books, 1998), p. 373, 377.
[18] Bertie Charles Forbes, *Current Opinion*, December 1916, p. 382, cited in Eustace Mullins, op.cit. p. 2.
[19] Cited in Eustace Mullins, op. cit., p. 14.
[20] Ibid., p. 12.
[21] Nelson Aldrich, Senator, after the creation of a private central bank the Federal Reserve 1913
[22] E.C. Knuth, op. cit.
[23] Charles A. Lindbergh, Sr. op cit. Lindbergh describes the successful attempt of the Money Trust and their allies in Congress to defuse the Lindbergh call after it had gained too much popular support to be killed outright: "*Secret meetings were held by the representatives in Congress of the trusts and bosses. The doors of the innermost and least suspected offices were barred to the public, and so guarded that none should enter who were interested on behalf of the public. In these offices plans were laid for the drafting of a new resolution, the purpose of which was to defeat the appointment of a special committee, and to substitute for it the Banking and Currency Committee; which was chiefly composed of bankers, their agents and attorneys, and the interests expected that that committee would faithfully protect the wrongs committed against the public, in so far as it could be done without arousing public suspicion. It could not whitewash the whole of the Money Trust operations, but much could and would be concealed by that means, and was in fact, as was shown by subsequent developments.*

"The next step was to secure the passage of this substituted resolution, which really amounted to the investigation being made by the secret friends of the Money Trust. This committee, as well might be expected, . . . because of the special personal interest of its members, . . . did not select an attorney to aid them from among the many able attorneys who are Members of the House and who would serve without further pay than that to which they are entitled as Members, . . . but they selected a Wall Street attorney, paid him a very high salary, allowed him to manage the whole investigation and practically draft the committee's report." The Wall Street attorney for the Money Trust hearings of House Committee on Banking and Currency chairman, Louisiana Congressman Pujo, was Samuel Untermyer who would later draft the text for the Money Trust of the Federal Reserve Act of 1913.
[24] Ibid.

[25] United States House of Representatives Committee on Banking and Currency, *Report of the House Committee (The Pujo Committee) Appointed to Investigate the Concentration and Control of Money and Credit*, Washington D.C., 1913, p. 64.

[26] Eustace Mullins, op. cit., pp. 14-15.

[27] Ferdinand Lundberg, *America's Sixty Families* (New York: The Vanguard Press, 1937), p. 122.

[28] Eustace Mullins, op. cit., p.15.

[29] The details of the creation of the Bull Moose third party in order to rob Republican Howard Taft of the Presidency in favor of the more amenable Woodrow Wilson is related in detail by Ferdinand Lundberg, America's Sixty Families, "The Politics of Aggrandizement: 1912-1920," pp. 106-120. Following the successful 1912 victory of the bankers' man, Woodrow Wilson, the completely synthetic Progressive Party dissolved and Teddy Roosevelt quietly rejoined the Republican Party.

[30] Ferdinand Lundberg, op. cit., pp. 109-121.

[31] Ibid., p.109.

[32] Wayne N. Krautkramer, *The Federal Reserve - Its Origins, History & Current Strategy*, 15 September 2004, in news.goldseek.com/GoldSeek/1095269452.php.