

## FEDERAL RESERVE SYSTEM

### INTRODUCTION

- CONSPIRACY OF THE ILLUMINATI?
- CONSPIRACY OF THE ROTHSCHILDS AND JEWISH BANKERS?
- CONSPIRACY OF EASTERN AND WALL STREET MONEY INTERESTS TO CONTROL THE REST OF THE COUNTRY.?

THE FEDERAL RESERVE BANK IS A UNIQUE COMBINATION OF PRIVATE BANKING AND PUBLIC OVERSIGHT THAT CONTROLS THE MONEY SUPPLY AND REGULATES THE BANKING SYSTEM IN THE UNITED STATES.

### FRACTIONAL RESERVE BANKING & FIAT MONEY

FIRST, MONEY SERVES THREE PURPOSES:

1. MEDIUM OF EXCHANGE  
PEOPLE ACCEPT MONEY IN TRADE FOR GOODS AND SERVICES.

2. STANDARD OF VALUE  
THE VALUE OF A GOOD OR SERVICE CAN BE MEASURED WITH MONEY. FOR EXAMPLE, A CAR WITH A PRICE OF \$2,000 IS WORTH TWICE AS MUCH AS A CAR WITH A PRICE OF \$1,000.

3. STORE OF VALUE  
MONEY CAN BE SAVED AND USED IN THE FUTURE.

MONEY STARTED AS ITEMS WERE TRADED (BARTERING). EVENTUALLY THE TRADES EVOLVED TO THE TRADING OF SMALLER ITEMS OF HIGHER VALUE (COINS, GOLD AND OTHER PRECIOUS METALS) THAT HAD ACTUAL VALUE IN THEMSELVES.

EVENTUALLY MONEY EVOLVED TO THE TRADING OF PAPER THAT COULD BE REDEEMED IN ACTUAL COMMODITIES.

“**Representative** money is tokens or pieces of paper that are not intrinsically valuable themselves, but can be exchanged for a specific commodity, such as gold or silver. In 1715 Maryland, North Carolina and Virginia issued a "tobacco note" which could be converted to a certain amount of tobacco. This type of money was easier to make large payments and carry than coin or tobacco leaves. In the late 1800s, the U.S. government issued gold and silver certificates.”

MORE ON THE EVOLUTION OF US CURRENCY AND REPRESENTATIVE MONEY LATER...

“**Fiat** money is similar to representative money except it can't be redeemed for a commodity, such as gold or silver. The Federal Reserve notes we use today are an example of fiat money. In 1967 Congress authorized the US Treasury to stop redeeming silver certificates in silver dollars or bullion beginning the following year. By 1970 silver was removed from the production of coins. The old coins were gradually removed from circulation and replaced with new copper-cored coins that were faced or “clad” with layers of an alloy of 75 percent copper and 25 percent nickel—the same alloy used in nickels.”

“People are willing to accept fiat money in exchange for the goods and services they sell only because they are confident it will be honored when they buy goods and services. The Federal Reserve is responsible for maintaining the integrity of US currency by setting monetary policy —controlling the amount of money in circulation—to keep prices stable. If prices remain stable, people have confidence that the dollar they use to buy goods and services today will buy a similar amount in the future”.

FRACTIONAL BANKING AND FIAT MONEY CAN LIKELY BE TRACED TO THE GOLDSMITHS OF THE MIDDLE AGES IN EUROPE. THE GOLDSMITHS WOULD HOLD THE HOARDS OF GOLD FOR WEALTHY PERSONS AND ISSUE A RECEIPT TO THE OWNER AS PROOF OF HIS MONETARY “DEPOSIT.” EVENTUALLY IT BECAME KNOWN THAT THE RECEIPT ITSELF COULD BE CONSIDERED OF VALUE (BACKED BY THE TOTAL VALUE OF THE GOLD FOR WHICH IS WAS RECEIVED). THIS COULD BE CONSIDERED THE FIRST USE OF “FIAT” MONEY.

THE GOLDSMITHS ALSO CAME TO REALIZE THAT THEY COULD LOAN MONEY TO OTHER PERSONS OUT OF THESE HOARDS OF GOLD (CHARGING INTEREST OF COURSE). SO LONG AS A SITUATION DID NOT ARISE IN WHICH EVERY DEPOSITOR SHOWED UP WITHIN THE SAME PERIOD TO TAKE BACK THEIR GOLD HOARD, THE GOLDSMITH WAS SAFE.

EXAMPLE OF FRACTIONAL RESERVE- A BANK HAS ACCOUNTS WHICH SHOW FIVE MILLION DOLLARS IN DEPOSITS FROM INDIVIDUALS. THE BANK LOANS OUT THREE MILLION DOLLARS TO OTHER PERSONS, KEEPING ONLY TWO MILLION DOLLARS ON HAND AT ANY GIVEN TIME. THE BANK ONLY KEEPS A FRACTION OF ITS TOTAL DEPOSITS ON HAND, USING THE REST TO MAKE MORE MONEY.

The six kinds of currency in 1929, colored coded with the colors of their seals and serial numbers, and with the denominations they were issued in series 1928 and 1929 (though not always in those years themselves), were:

- United States Notes (Series 1928: \$1 \$2 \$5) Go!
- Gold Certificates (Series 1928: \$10 \$20 \$50 \$100 \$500 \$1000 \$5000 \$10,000) Go!
- National Bank Notes (Series 1929: \$5 \$10 \$20 \$50 \$100) Go!
- Silver Certificates (Series 1928: \$1) Go!
- Federal Reserve Bank Notes (Series 1929: \$5 \$10 \$20 \$50 \$100) Go!
- Federal Reserve Notes (Series 1928: \$5 \$10 \$20 \$50 \$100 \$500 \$1000 \$5000 \$10,000) Go!

The three kinds of currency that remained after the Depression were:

- United States Notes (Series 1953: \$2 \$5) Go!
- Silver Certificates (Series 1953: \$5 \$10 -- Series 1957: \$1) Go!
- Federal Reserve Notes (Series 1950: \$5 \$10 \$20 \$50 \$100) Go!

And all that remained by 1970 were:

- Federal Reserve Notes (Series 1969: \$1 \$5 \$10 \$20 \$50 \$100 -- Series 1976: \$2) Go!

The origin and nature of these kinds of currency will be considered below. Although the color of the seals and serial numbers on Gold Certificates was yellow, here orange is used for greater contrast. The reverse of large note Gold Certificates had actually *been* orange, "goldbacks" as opposed to "greenbacks"; but small note Gold Certificates were made "greenbacks" also. (That was reversed with series 1934 Gold Certificates, which again had orange reverses, but those notes never circulated to the public).

#### CENTRAL BANKING IN THE UNITED STATES

##### **FIRST AND SECOND BANK OF THE UNITED STATES**

"The Bank of the United States received its charter in 1791 from the U.S. Congress and was signed by President Washington. The Bank's charter was designed by Secretary of the Treasury Alexander Hamilton, modeling it after the Bank of England, the British central bank."

THIS FIRST CENTRAL BANK FULFILLED THREE FUNCTIONS: FIRST, IT SERVED AS A BANK FOR THE GOVERNMENT IN WHICH THE UNITED STATES COULD KEEP ITS NATIONAL MONEY. SECOND, IT ACTED AS A REGULATORY AGENT FOR THE GOVERNMENT TO MONITOR THE MONEY SUPPLY, AND THIRD, IT ACTED AS A REGULAR PRIVATE BANK.

AN ALLIANCE OF STATE BANKS, LIBERAL (JEFFERSONIAN DEMOCRATS) AND FARMERS SUCCEEDED IN ELIMINATING THE BANK. STATE BANKS DID NOT WANT TO COMPETE AGAINST A NATIONAL BANK FOR CUSTOMERS WHEN THE NATIONAL BANK SET THE RULES. AGRARIAN INTERESTS WERE OPPOSED TO EAST COAST MONEY INTERESTS WHICH WOULD STIFLE WESTWARD GROWTH. THE DEMOCRATS BELIEVED THE BANK WAS SIMPLY UNCONSTITUTIONAL.

"Thomas Jefferson believed the Bank was unconstitutional because it was an unauthorized extension of federal power. Congress, Jefferson argued, possessed only delegated powers which were specifically enumerated in the constitution. The only possible source of authority to charter the Bank, Jefferson believed, was in the *necessary and proper* clause (Art. I, Sec. 8, Cl. 18). However, he cautioned that if the clause could be interpreted so broadly in this case, then there was no real limit to what Congress could do."

THE FIRST BANK WAS A SUCCESS. IT MADE MONEY, IT ESSENTIALLY CREATED A NATIONAL CURRENCY IN CIRCULATION AT A TIME WHEN BANKS AND STATES ESSENTIALLY CREATED THEIR OWN CURRENCIES. BUT CONCERNS OVER CONSTITUTIONALITY AND LARGE FOREIGN OWNERSHIP OF SHARES IN THE BANK DOOMED ITS CHARTER RENEWAL.

AFTER THE BANK'S DEMISE, INDIVIDUAL STATE BANKS, EVEN BARBERS AND BLACKSMITHS BEGAN 'CREATING' THEIR OWN BANK-NOTES. INFLATION WAS RAMPANT THROUGH THE EARLY 1800'S.

AFTER THE INFLATION AND PROBLEMS WITH LOCAL CURRENCIES, ATTITUDES TOWARD A CENTRAL BANK CHANGED AND A SECOND BANK OF THE UNITED STATES WAS CHARTERED IN 1816. HOWEVER, A SERIES OF MISMANAGEMENT TACTICS (RESERVES FLUCTUATING BETWEEN 12-65%, SUDDEN BANK NOTE RECALLS) IRRITATED ENOUGH OPPONENTS THAT THE ISSUE OF THE BANK FINALLY ARRIVED AT THE SUPREME COURT.

"*McCulloch v. Maryland* (1819) the Supreme Court voted 9-0 to uphold the Second Bank as constitutional. Chief Justice Marshall wrote "After the most deliberate consideration, it is the unanimous and decided opinion of this court that the act to incorporate the Bank of the United States is a law made in pursuance of the Constitution, and is part of the supreme law of the land"

##### **ANDREW JACKSON AND THE BANK OF AMERICA**

MANAGEMENT OF THE BANK (BY NICHOLAS BIDDLE) PUT THE BANK ON THE RIGHT TRACK, BUT IN 1828 ANTI-BANK ANDREW JACKSON WAS ELECTED PRESIDENT. JACKSON VETOED THE RENEWAL CHARTER AND CENTRAL BANKING IN THE U.S. WAS ELIMINATED FOR DECADES.

##### **INTERESTING LOCAL NOTE**

In the early and mid nineteenth century the supply of gold and silver coins was insufficient to serve as the only form on money as is prescribed by a literal interpretation of the Constitution. For this reason and despite its inherent risks, state banking thrived as a means of augmenting the money supply. To further facilitate the growth of banking, the 1837 Michigan Act was adopted as the first of the nation's free banking laws. Literally, a free banking system is one without any form of government restriction on banking activities, save the enforcement of legal contracts and prohibitions against fraud. The Michigan Act did not achieve this pure definition, but it and the other free banking laws enacted in subsequent years constitute the closest the U.S. has come to literal free banking.

The Michigan Act granted a banking charter to any person or group that satisfied established criteria, rather than requiring an act of the Michigan legislature each time a new group petitioned to open a new bank. Specifically, the bank's owners had to purchase at market value state bonds and then deposit those bonds with the state auditor as collateral. However, the bank could issue banknotes up to the *market* value of the bonds, so the performance of the bond market directly affected the system's ability to issue notes. Banks were also required to redeem their notes on demand in gold or silver coin. Failure to do so resulted in the bank being closed by the state, and the bank's assets being liquidated. The state's bank examiners were in charge of enforcing this specie reserve requirement, but the banks were always one step ahead.

FREE BANKING WAS ESSENTIALLY A FAILURE FRAUGHT WITH FRAUD AND BANK FAILURES. ONE FIFTH OF ALL BANKS CLOSED WITHIN ONE YEAR AND THE AVERAGE LIFE OF A BANK WAS FIVE YEARS. BANKS BECAME INSOLVENT BECAUSE THEY COULD NOT REDEEM THEIR NOTES IN SPECIE (GOLD OR SILVER) WHEN CALL UPON. STATE REGULATORS WERE TO INSPECT THE DEPOSITS, BUT MANY BANKS INFLATED DEPOSITS BY PUTTING SPACING UNDER STACKS OF GOLD COINS IN THE VAULTS.

##### **BANKING ACT OF 1863**

"The National Banking Acts of 1863 and 1864 were attempts to assert some degree of federal control over the banking system without the formation of another central bank. The Act had three primary purposes: (1) create a system of national banks, (2) to create a uniform national currency, and (3) to create an active secondary market for Treasury securities to help finance the Civil War (for the Union's side)."

THE FEDERAL GOVERNMENT DID NOT ATTEMPT TO REGULATE THE STATE BANKS, BUT BY ISSUING A "NATIONAL" BANK NOTE WHICH WAS ACCEPTED AT ALL NATIONALLY CHARTERED BANKS AT FACE VALUE, THE

FEDERAL GOVERNMENT HOPED TO USE SIZE AND SATURATION TO ACHIEVE A DEFACTO CENTRAL CONTROL TO STANDARDIZE CURRENCY AND MONETARY FLOW.

THE NATIONAL BANKS WERE REQUIRED TO KEEP CERTAIN LEVELS OF TREASURY NOTES ON HAND (TO HELP FINANCE THE CIVIL WAR). ALSO, THE FEDERAL GOVERNMENT TAXED AT 10% ALL STATE BANK NOTES, WHICH CAUSED MANY STATE BANKS TO CONVERT TO NATIONAL CHARTERS.

STATE BANKS EVENTUALLY ABANDONED CREATING THEIR OWN BANK NOTES, BUT SURVIVED AS STATE BANKS BY UTILIZING CHECKING ACCOUNTS!

BANKING WAS STILL FAIRLY ROUGH AND TUMBLE WITH MONEY FLOWING SEASONALLY IN AND OUT OF THE SYSTEM. THE NATIONAL BANKS WERE REQUIRED TO KEEP CERTAIN RESERVE LEVELS. THERE WERE SEVERAL "PANICS" IN WHICH LIQUIDITY WAS A PROBLEM AND BANKS COULD NOT MEET DEPOSITORS DEMANDS. THE PANIC OF 1907 WAS THE WORST (IN WHICH JP MORGAN PERSONALLY LOANED MILLIONS OF DOLLARS TO BANKS TO KEEP THEM FROM FAILING). THE PANIC EVENTUALLY LED TO THE FEDERAL RESERVE ACT OF 1913.

### FEDERAL RESERVE ACT OF 1913

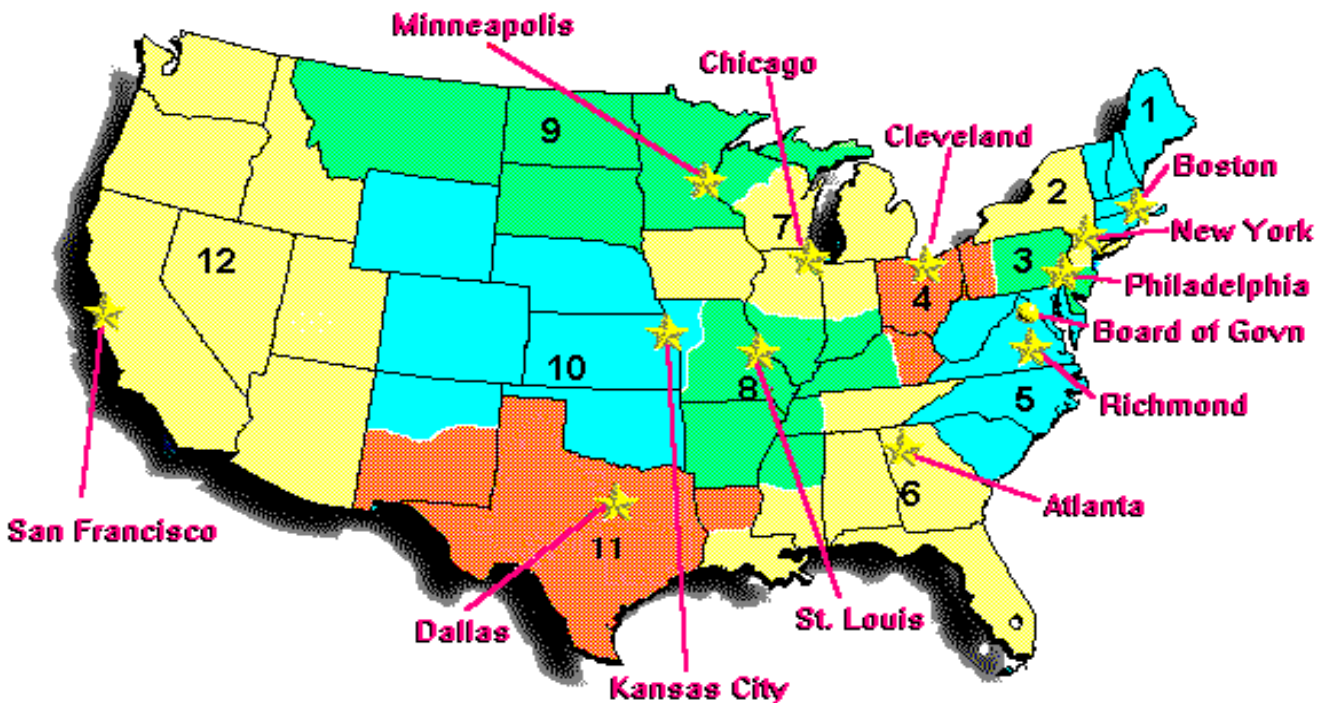
"In 1910, Senator Nelson Aldrich, Frank Vanderlip of National City (Citibank), Henry Davison of Morgan Bank, and Paul Warburg of the Kuhn, Loeb Investment House met secretly at Jekyll Island, a resort island off the coast of Georgia, to discuss and formulate banking reform, including plans for a form of central banking. The meeting was held in secret because the participants knew that any plan they generated would be rejected automatically in the House of Representatives if it were associated with Wall Street. Because it was secret and because it involved Wall Street, the Jekyll Island affair has always been a source of conspiracy theories. But the conspiracy theorists overestimate the significance of the meeting. Everyone knew Wall Street wanted reform, and the Aldrich Plan which the meeting produced was, in fact, rejected by the House."

"The Federal Reserve Act called for a system of eight to twelve mostly autonomous regional Reserve Banks that would be owned by commercial banks and whose actions would be coordinated by a committee appointed by the President. The Federal Reserve System would then become a privately owned banking system that was operated in the public interest. Bankers would run the twelve Banks, but those Banks would be supervised and by the Federal Reserve Board whose members included the Secretary of the Treasury, the Comptroller of the Currency, and other officials appointed by the President to represent public interests. The House of Representatives passed the Federal Reserve Act by a vote of 298 to 60. The Senate also passed the measure 43 to 25. In both chambers of Congress, it was the anti-banker *Democrats that overwhelmingly supported the Act*, while for the most part the pro-banker Republicans opposed it. President Wilson signed the bill on December 23, 1913 and the Federal Reserve System was born. *Bankers [and Republicans] largely opposed the Act* because of the presence of the Federal Reserve Board in the legislation and because only one of its seven members could represent the banking community."

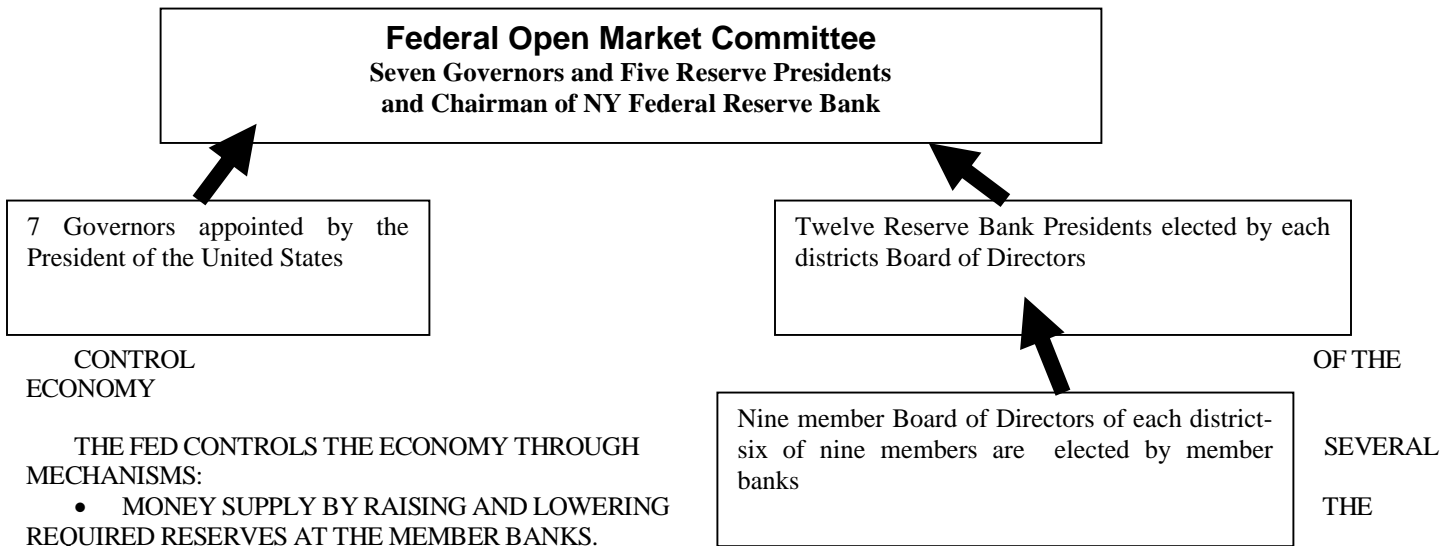
### FEDERAL RESERVE GEOGRAPHICAL ALIGNMENT

Listed by District

- |                        |  |
|------------------------|--|
| 4. <u>Boston</u>       | 12. <u>Minneapolis</u>                           |
| 5. <u>New York</u>     | 13. <u>Kansas City</u>                           |
| 6. <u>Philadelphia</u> | 14. <u>Dallas</u>                                |
| 7. <u>Cleveland</u>    | 15. <u>San Francisco</u>                         |
| 8. <u>Richmond</u>     | 16. <u>Board</u> _____ of _____ <u>Governors</u> |
| 9. <u>Atlanta</u>      |  |
| 10. <u>Chicago</u>     |  |
| 11. <u>St. Louis</u>   |  |



ORGANIZATIONAL ALIGNMENT



CONTROL ECONOMY

THE FED CONTROLS THE ECONOMY THROUGH MECHANISMS:

- MONEY SUPPLY BY RAISING AND LOWERING REQUIRED RESERVES AT THE MEMBER BANKS.
- RAISING AND LOWERING INTEREST RATES (DISCOUNT RATE)
- BUYING AND SELLING TREASURY BONDS

ALL THREE MECHANISMS HAVE THE EFFECTS OF EITHER ADDING MORE MONEY INTO THE COLLECTIVE POOL OR REMOVING MONEY FROM THE SYSTEM.

BY CONTRAST, THE FEDERAL GOVERNMENT CAN AFFECT THE MONEY POOL ONLY BY RAISING OR LOWERING TAXES OR BY DEFICIT SPENDING.

MODERN MONETARY CONSIDERATIONS  
MONETARY POLICY

MOST OF THE DECISION MAKERS IN CONTROL AT THE FED ARE MONETARISTS- A PHILOSOPHY OF USING A STABLE MONEY SUPPLY TO CONTROL THE ECONOMY.

CENTRAL BANK PHILOSOPHIES: THE UNITED STATES AND GERMANY ARE THE ONLY TWO NATIONS WITH INDEPENDENT CENTRAL BANKS. ALL OTHER NATION'S CENTRAL BANKS ARE MODELED ON THE BRITISH CONCEPT WHERE THE CENTRAL BANK IS DIRECTLY CONTROLLED BY THE GOVERNMENT POLITICIANS IN POWER AT THE TIME.

M1, M2, ETC.

M1: CASH AND CHECKING ACCOUNTS (VERY LIQUID).

M2: MONEY IN SAVINGS, MUTUAL FUNDS, ETC (LESS LIQUID).

M3: CD's OF THREE MONTHS OR MORE (EVEN LESS LIQUID).

M2-AGGREGATE: COMBINED M1 AND M2

M3-AGGREGATE: COMBINED M1, M23, AND M3

INTERESTING SIDE NOTE:

WILLIAM GREIDER CONTENDS, IN "SECRETS OF THE TEMPLE," THAT AT THE TURN OF THE CENTURY, DURING THE TUMULT OVER FREE SILVER, GOLD STANDARD, AND POPULIST AGITATION., EVEN THE MOST UNEDUCATED RURAL PERSONS COULD READILY DISCUSS MONETARY POLICY AND ADVANCED ECONOMICS. TODAY, ONE WOULD BE HARD PUT TO FIND EVENTEN PERCENT OF THE POPULATION THAT UNDERSTANDS ECONOMICS TO SUCH A DEGREE. MONETARY POLICY HAS BECOME A MYSTICAL AFFAIR, GUIDED BY "PRIESTS" WORKING IN AN IVORY TOWER DISCLOSING ONLY TIDBITS OF INFORMATION.

REFERENCES

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