

(THIS IS AN OPTICAL SCAN, SOME
ERRORS MIGHT EXIST)

(Copywrite, 1982, by Martin A. Larson)

HOW I FOUND OUT ABOUT THE FEDERAL RESERVE

by Dr. Martin A. Larson

*An Address Given at the Freemen Institute Century
Club Banquet
on April 28, 1982*

Dr. Skousen: It becomes my great pleasure to introduce to you our speaker for the evening.

For a long time, I have watched Dr. Martin Larson. He writes in newspapers, magazines, and so forth—*Pageant, Reader's Digest, Fortune*—but his great contribution has been in the life and writings of Thomas Jefferson, and in his analysis of the Federal Reserve System, on which I consider him to be one of America's foremost experts.

I was just born the year that the Federal Reserve System was adopted. As a matter of fact, all kinds of tragic things happened in 1913. The Titanic sank the year before, but everything else disastrous happened in 1913. That's the year we got federal income taxes. The states lost their right to appoint Senators and had to have them popularly elected instead, which unbalanced the whole federal system back there in Washington, D.C. And that's the year that we got the Federal Reserve. On top of all that, I was born.

Dr. Martin Larson has had an illustrious background and career. He obtained his masters and Ph.D. degrees from the University of Michigan. After teaching a few years, he established his own business in Detroit in 1935. Having achieved economic independency, he retired in 1950 to devote the remainder of his life to research, writing, and lecturing. He has appeared on countless radio and TV programs. I have listened to him lecture on many occasions. We spent the afternoon with him, and I'll tell you it was a real treat to be able to ask him any question that came to mind.

And so tonight you are going to hear one of America's foremost authorities on the Federal Reserve System, and what we can do about it. I wish you would give a hearty Freemen welcome to Dr. Martin Larson—age eighty-six at his next birthday.

Dr. Larson: Well, friends, this is somewhat overwhelming, but I thank you from the bottom of my heart.

I want to say that I consider it an extreme pleasure and an honor to appear before so distinguished an audience to discuss what I consider to be the most important single issue that now faces the American people. I also want to mention the extraordinary amount of ignorance that exists throughout most of the population in regard to the Federal Reserve.

I'll just take a moment to mention something that happened yesterday. I met a professional, and very successful medical doctor in Phoenix, who probably makes \$150,000 a year. I happened to mention that I would be going to Salt Lake City to give a talk on the Federal Reserve System.

"What is the Federal Reserve System?" he said.

I asked him, "Have you the slightest understanding of what we mean when we use the term 'fractional reserve banking'?"

"Fractional reserve banking?" he said. "Well, all I know about money is the difference between a one and a five dollar bill."

He said, "You may know something about the Federal Reserve, but I certainly don't pretend to know anything about that."

Here is the story I told him.

How I Became Involved

About eight or nine years ago, a group met in Los Angeles, and they appointed me as the chairman of a committee to investigate the Federal Reserve System. They also wanted the committee to make some suggestions concerning ways and means to improve our banking and monetary systems.

In the course of time, I began reading a great many books on the subject. I also spent nearly a

month in the Library of Congress in Washington, D.C., reading a great many government documents that are not easily obtainable in any other library. However, the deeper I went into it, the more I became fascinated by the whole subject; and the result was that in 1974 I had produced a manuscript called *The Federal Reserve and Our Manipulated Dollar*, which was printed in 1975 by Devon-Adair. At the time, this was the only publishing house in the United States that would touch a subject as sensitive and dangerous as the Federal Reserve. In fact, at that time it was very difficult to obtain an audience which would even listen to a discussion on the Federal Reserve question.

The Task of Awakening the American People

I have a friend in Phoenix who has a radio program and has been a student of monetary problems for quite a number of years. He used to live in Minneapolis, and he said that to the best of his knowledge there were less than ten people in the entire state of Minnesota, including the bankers, who had even a vestigial understanding of how the Federal Reserve System operated.

Nevertheless, in the last few months, it seems, there has been a tremendous upsurge of interest in this question. About two or three months ago, the Arizona State legislature passed a resolution calling upon the President and the Congress of the United States to repeal the Federal Reserve Act and replace it with a monetary system which would be Constitutional. Just the day before yesterday, one of the members of the legislature in the state of Alabama called me up and told me that the Alabama legislature has passed a similar resolution. Now in the state of Washington, both houses have passed a resolution calling upon the United States Supreme Court to determine once and for all whether the Federal Reserve Act is unconstitutional, and, if so, to call for its abolition and replacement with a monetary system that will meet the requirements of the Constitution.

Many States Calling for the Abolition of the Federal Reserve

Now there are about fifteen or twenty states in which this matter is coming up for discussion, and we expect that before long many of these states will pass resolutions similar to those that have been passed in Arizona and in Alabama.

Furthermore, I hope that this will be just the beginning of a tremendous movement, but it will have to come from the grass roots. It will have to be from people like you bringing pressure to bear upon your legislators. They probably don't know too much about this subject, but it is up to you to help them and educate them.

In Arizona there is a fellow by the name of D. Lee Jones, who is a member of the state legislature. I have been putting ideas into his head for the last five or six years. Consequently, he was the one who led the movement of the Arizona legislature to get this resolution passed. Furthermore, the legislature in Arizona has also passed a resolution calling for the repeal of the Monetary Control Act of 1980. I believe this is one of the most vicious pieces of legislation that has ever gone through Congress.

1913-the Year We Lost Constitutional Control of Our Money

First of all, I want to say that I consider the year 1913 as the year of our great monetary betrayal. That was the year in which the Federal Reserve Act was passed on the twenty-third of December and signed by the President that same night. It was also the year in which the Sixteenth Amendment was ratified and became a part of the Constitution. It has been documented that this was also the time when plans were being made secretly to plunge this nation into the holocaust of World War I.

Since then, terrible things have been happening to the American people. You see, the American people had become so productive and so capable of producing more than is necessary for a mere living, that it became possible for ambitious parasites, who were well organized, to begin taking from the American people the greater proportion of their produce and just leave enough for the producers to live on. History will demonstrate that it is always the objective of every despotic government to take from the people as much as possible and leave them as little as possible for their own maintenance. Furthermore, they deliberately seek, as a matter of policy, to prevent them from building up any extensive wealth of their own, because that makes them independent of their political control. It also discourages them from thinking for themselves and bringing the government to heel when it goes beyond its Constitutional authority.

I estimate that the bankers made about \$40 billion out of the First World War, and I estimate that they have made about \$3 trillion in profits out of the Second World War. Now you know why they're so anxious to have these wars and to build up these enormous debts.

Why the Federal Reserve Is Unconstitutional

The Federal Reserve Act is absolutely unconstitutional, as anyone can see by examining the Constitution itself. The Congress is mandated by Article 1, section 8, paragraph 5 of the Constitution to "coin money [and to] regulate the value thereof." Section 10, paragraph 1 of Article 1 declares that "no state shall... make anything but gold and silver coin a tender in payment of debts."

In other words, any money that is not issued and controlled by the United States government, and any money that is not redeemable a gold or silver, or does not consist of coins in gold or silver, is unconstitutional money.

How Private Financiers Took Over the American Monetary System

When the Federal Reserve Act was passed, Congress delegated to a consortium of private financiers, gigantic powers that almost surpass comprehension. Since the adoption of the Federal Reserve Act, this group of private financiers can get together and issue our money. Just look at any Federal Reserve note and see who has issued it. Is it issued by the Treasury? No. It is an obligation of the United States government; but it is not issued by the United States government. It is issued by one of the twelve branch banks of the Federal Reserve System. There are twelve of these, and each one of them has the power to issue currency, and can do so in any quantity that it desires.

The Power to Set Interest Rates

This Federal Reserve System can set interest rates. Its board of governors could set the interest rate at 40 percent if it wanted to, at 50 percent if it wanted to, or it could reduce interest rates to 1 percent if it wanted to.

The Federal Reserve can create inflation or deflation at will. It can determine the money supply, and so they have acquired, by these methods, complete control over the American economy. And I can assure you that under this kind of system the President of the United States

and the members of the United States Congress, by and large, become the servants of those who control the monetary system. This is not only true of the United States, but the same situation exists in every nation of the Western world. England has the privately controlled Bank of England, Germany has the privately controlled Reichsbank, France has the privately controlled Banque de France. The Bank of Italy is very similar.

Every one of these banking systems was set up by government action, but every one of them is operated by a group of private financiers for their own benefit and profit.

Thus, one of the principle powers that was mandated to the United States Congress has been given away to private concerns in violation of the Constitution. Now Congress had no more right to convey that power to a private organization than it would have to give a private group the power to collect taxes or to raise an army and wage war.

In addition to these unconstitutional activities, the federal government has now assumed a thousand different programs that not only lack any Constitutional authority, but are categorically prohibited by the Constitution. The American people therefore find themselves under a powerful despotism which has merged us into a socialist type of welfare state. This is what has been happening while the people have been sleeping and did not fully realize what has been going on.

Who Has Gained from All This?

Now as I said a moment ago, the privately controlled Federal Reserve System can create inflation or deflation, panics or depressions, at will. The financiers are also the ones who have financed one war after another, which resulted in the government acquiring enormous debts on which these financiers reap tremendous profits from interest on these debts. The greater the debts, the greater their profits.

I estimate that at the present time, the productive American people are paying at least 60 percent of all the wealth they produce in order to pay interest on the national debt and subsidies for government programs. This is outrageous. The people should not be forced to pay more than 5 percent of their gross income for the support of the central government, and they would never have had to pay any more than that

3

if the Congress had restricted itself to its Constitutional mandates.

And so, by engaging in one war after another and by becoming a welfare state, the federal government and the private financiers have become greater and more powerful. The government has built a vast bureaucracy which assumes for itself more and more activities and takes more taxes from the people to a greater and greater extent all the time.

How the Federal Reserve Creates Money

I want to say a few words about how the Federal Reserve System creates money. It issues fiat notes, which means Federal Reserve notes cannot be redeemed in gold or silver. The Federal Reserve can print any number of these notes it desires. Any member, any branch bank of the Federal Reserve System, can order any number of notes printed, and the Bureau of Engraving and Printing of the federal government will print these notes and hand them to the branch bank of the Federal Reserve System.

They could print enough of these notes next week, if they wanted to, to pay off the national debt. But I can assure you that they are not going to do anything of the kind, because they don't want to pay off the national debt. They want to increase it. A major source of profit is interest on the national debt.

So let me repeat what I said earlier: the Federal Reserve can create inflation, deflation, panics, or depressions at will. It is completely independent of Congress.

Could the Federal Reserve Be Abolished?

Of course, Congress has the power to repeal the Federal Reserve Act any day that it wants to. Congress can amend it or abolish it. But very few Congressmen have dared to undertake it. The vested interests of these financiers is very powerful in Washington, D.C.

For example, a number of years ago, Jerry Voorhis introduced a bill-I think it was in 1945-to abolish the Federal Reserve System and to replace it with what he called a Constitutional system of money. He told me himself what happened. He brought a copy of the bill to Franklin Delano Roosevelt, who seemed to think that it was a wonderful thing. But after the President showed that bill to his Wall Street supporters in New York, he suddenly lost all interest this bill, and it wasn't very long before

Richard Milhous Nixon replaced Jerry Voorhis as a member of the United States Congress.

A number of years later, John L. Rarick of Louisiana introduced a bill to abolish the Federal Reserve System, but it didn't take very long before he was put out of business and he was no longer a member of Congress.

In other words, in the past it has been a matter of suicide for any national Congressman even to suggest the abolition of the Federal Reserve Act.

Why There Is a Better Chance to Abolish the Fed Now

But now that this movement is becoming so strong and is spreading to practically every level of the American population, I don't think that the Federal Reserve people are able to punish anyone as they have in the past. After all, they can get rid of one occasional Congressman, but they can't get rid of all the state legislatures. Our greatest support will come from the states. That is where we will find the power to change the federal government. It must be done by grass roots organizations rising everywhere.

Now the Freeman Institute is one wonderful group, but remember that there are organizations, more or less similar to this, that are rising in all parts of the United States. A fellow in Los Angeles has developed a group that he calls "Your Heritage Protection Organization" that now has twenty thousand members in southern California alone. All of them are dedicated to the abolition of the Internal Revenue Service and the repeal of the Federal Reserve Act.

There are organizations similar to this that have sprung up in Wisconsin, in North Carolina, in South Carolina, in Alabama, and in Texas. All over the country there are movements being organized and meetings going on. People are becoming informed and interested as they never have been before.

The Triple Threat-Inflation, Taxes, and High Interest Rates

You see, this inflation and these taxes are beginning to eat away at people's pocketbooks. I addressed a group of about two thousand people in Detroit two years ago. Something like 130,000 automobile workers had lost their jobs because people can no longer afford to buy automobiles. Interest rates are too high.

The entire construction industry is almost without activity at the present time. Who on

earth can afford to build a house and pay 15 or 18 percent interest for a period of twenty or thirty years? This is impossible. And that is why people are beginning to pay attention.

When you hit them in the pocketbook, that's when they are going to respond. They will accept almost any other kind of tyranny, but if you take away their bread and butter, by means of which they feed their children or maintain the living standards which they have had in the past, they are going to begin asking questions. And when they get information, they are going to be ready to rebel.

Managers of the Federal Reserve Have a Vested Interest in Wars

The Federal Reserve System has greatly profited from one war after another. Each war creates enormous debts, and because of these debts the bankers are collecting tremendous amounts of interest from the American people. At the present time it costs the federal government approximately \$100 billion a year just to pay the interest on the national debt. And if we continue to have a deficit of another \$100 billion every year, then there's going to be another \$10 or \$15 billion of interest to pay. At this rate you can see that the interest on the national debt is soon going to be \$200 or \$300 billion a year. With such a burden it becomes impossible to survive. That's why I think the American people are gradually waking up. This economic debacle must come to an end.

The Federal Reserve and World War I

Now, let me say a few words about the known history of the Federal Reserve System. It was first passed in 1913 and became operative soon after.

The first thing it did was to act as the treasurer and the bankroller for the First World War. The Federal Reserve Banks sold the American people about \$30 billion worth of government bonds. They made a good profit on all of these sales.

In addition to that, the Internal Revenue Service had become established, so they collected another \$25 or \$30 billion from the American people to help pay for the interest and some of the principal on these bonds. And most of these profits coming from taxes went into the hands, or the pockets, of the international banking community of which the Fed was a part.

Two Man-Made Depressions

At the end of the war, we had inflation for a couple of years. I remember it very well. I was a student at Kalamazoo College at the time. Prices kept going up and up but money was plentiful. Many farmers and other small-business men were borrowing money in order to make improvements in their estates. Then the Federal Reserve called its loans and they had the depression of 1920 to 1921, in which something like 600,000 or 700,000 farmers lost their property as a result of the sudden change in policy by the Federal Reserve.

Then the Federal Reserve permitted some prosperity for about seven or eight years, between 1922 and 1929. Between 1926 and 1929, they promoted the sale of stocks on margin. And the result was that the stock market zoomed up to something like 480 in the Dow Jones average. Then they called for a contraction. They called in their loans. The stock market almost immediately collapsed and we had a depression of such catastrophic consequences that there had never been anything like it in the history of modern civilization.

I remember it very well. I was working for the Prudential Insurance Company in Detroit in 1928 and 1929. When the Depression struck in the fall of 1929, all the automobile factories in Detroit closed down. Men were on the streets. I would say that 80 percent of the entire population of Detroit was unemployed. A house that had been built for about five or six thousand dollars during the twenties could be purchased for a few hundred dollars, if anybody had a few hundred dollars to buy it. Money became so scarce that it almost ceased to exist.

From Depression to War

This depression went on for about eleven years, and it was managed entirely by the Federal Reserve System. They could have ended that depression any time that they had wished-within a month, if they had wanted to. And why didn't they want to? It turned out that they were preparing the United States for entry into the greatest war that had ever occurred, and they planned that after the war they would establish the greatest central government that had ever existed upon the face of this globe. And that's what the United Nations started out to be.

FDR Firmly Supported Federal Reserve Policies

When Franklin D. Roosevelt went into office in 1933 he followed the desires of the bankers, just as Woodrow Wilson had done before him back in 1913 when he promised in his campaign speech to get the Federal Reserve Act passed.

How the Federal Reserve Secured America's Gold Without Paying a Penny

One of the first things that Roosevelt did I remember it very well-was to close all the banks. Then he got the Gold Reserve Act passed in 1934, under which the United States government gave the Federal Reserve System all the gold that was in Fort Knox. They gave it to them as an outright gift. They didn't even ask for a receipt in return for the gold.

This was at a time when gold could be produced for about \$12 an ounce. Americans who owned gold were told, under penalty of felony, that they had to turn in all their gold coins to the United States government or to the Federal Reserve System. All they received in return for their gold was Federal Reserve notes at around \$22 for every ounce of gold. Then President Roosevelt got an act passed by Congress raising the price of gold bullion to \$35 an ounce. I can tell you, however, that a good many Americans were smart enough not to turn in their gold coins at \$22 an ounce, but melted them into bullion and got \$35 an ounce for it.

How International Financiers Made Billions in Gold Manipulations

It is rather amazing that between 1934 and 1941 the Federal Reserve System was buying gold from all over the world at \$35 an ounce, when it was only worth about \$12. The amount of gold in the Federal Reserve System increased from \$3 billion to about \$23 or \$24 billion during that period, at the expense of the taxpayer. Meanwhile, these foreigners, bankers who had previously bought their gold for as little as \$10 or \$12 an ounce, sold it to the American Federal Reserve System for \$35. They must have made a nice little profit of \$15 or \$20 billion during those years by the sale of gold to the American Federal Reserve System.

After World War II was over, inflation began to take hold. Soon gold was worth far more than \$35 an ounce. Gradually, between 1955 and 1972, it went up, and up, and up, so that by 1969,

or somewhere along in there, gold was worth about \$125 or \$150 an ounce, and then the foreign bankers bought the American gold at \$35 an ounce. As of 1954, the Federal Reserve System owned about twenty-eight thousand tons of gold in Fort Knox-worth something like \$30 billion at \$35 an ounce. Now, between 1955 and 1972, this gold was sold to foreign investors at \$35 an ounce. Today it is worth several hundred billion dollars. As it was sold, the gold was taken out of Fort Knox and placed in the vaults of the New York Branch of the Federal Reserve System. So far as I know, it lies there at this date and is stored there for its foreign owners at the expense of the American taxpayers.

Tax Advantages Given Foreign Investors

These foreigners can sell this gold at any time they wish, and there will be no income tax on their profits! It is not even necessary to reveal the names of those who now own what was once the wealth of the American people. Read Section 895 of the Internal Revenue Code, and you will find the loopholes for foreign investors spelled out in so many words. If you want to know who controls the nation's money system, just study these monetary laws along with the provisions of the Internal Revenue Code. You will soon find out who really owns and controls this nation's monetary system.

Is the Federal Reserve Under U.S. Government Management?

What, then, is the Federal Reserve System?

I meet people all the time who believe implicitly and profoundly that the Federal Reserve is a part of the United States government. But such is not the case. It was set up by government authority under a law passed by Congress, but it consists of a consortium of private financiers and bankers. It might be called a pseudogovernment institution operated by private financiers for private profit. There are similar banks in all the great countries of the Western world, and those in charge of these banks cooperate together and run their banks in tandem. They are one big, international conglomerate of power. They manage to make fabulous profits no matter what happens. Their influence in the economic and political life of each of these nations is paramount.

Two Hundred Years of Banking Problems

Let us go back a little in American history.

In spite of everything that was done by Thomas Jefferson and other great leaders of our Founding Fathers-including James Madison, Benjamin Franklin, and others-they were never completely able to defeat the bankers once they got into power. Under the leadership of Alexander Hamilton, the first United States Bank was established in 1791, with a life of twenty years. Now, at the end of the twenty years, James Madison was President, and he vetoed a bill to renew the franchise of the bank, so there was no United States Bank between 1811 and 1816.

Nevertheless, all of the debts that had been created during the second war with England [War of 1812], enough pressure was brought to bear upon Madison that he finally felt compelled to accept the establishment of the second United States Bank in 1816. This bank was also given a life of twenty years. When the Congress tried to extend the life of this bank in 1832, it was vetoed by Andrew Jackson. So between 1836 and 1863 there was no national bank.

Abraham Lincoln's "Greenbacks"

At the beginning of Civil War, when Abraham Lincoln was desperately anxious to raise money, the bankers offered to loan him money at 28 percent interest.

I have always been convinced that he was assassinated because of the enmity of the bankers against him.

Well, anyhow, he issued \$450 million in "greenbacks" without paying any interest to the banks, and this did a great deal to help finance the war. These "greenbacks" were simply government notes issued by the United States Treasury. They added to the national debt but they did not require the payment of any interest, so this saved the taxpayers many millions of dollars.

Eventually, however, the bankers were able to get a law through Congress declaring these "greenbacks" not to be legal tender for the payment of import or export duties, nor for the payment of taxes, nor for the payment of interest on the national debt.

This resulted in the "greenbacks" losing their value and dropping to about thirty cents on a dollar. The bankers, then, were able to buy these "greenbacks" at thirty cents on the market and use them at par value to buy government bonds worth several billion dollars. The Congress was

then induced to pass the National Banking Act of 1863, which allowed the banks to issue their own currency up to 90 percent of the amount of the United States bonds that they had in their vaults. Most of these were purchased at thirty cents on the dollar, so they made their 28 percent all right, and a lot more besides. The tendency of the banks to exploit our country in time of war is one of the cruel facts of history.

The Gold Standard

In 1873 the government went from the silver to the gold standard. The official unit of currency became a gold coin containing 25.8 grains of standard gold. We operated under that gold standard from 1873 to 1933, and these were years, for the most part, of great prosperity. Nevertheless, the policies of the banks did cause a number of very, very severe panics, especially in 1873, 1893, and 1907. But that was because the bankers simply closed their doors and shut down the credit. During these depressions, there was a tremendous amount of unemployment and a great many people suffered very seriously. However, as a whole, the country was prosperous. Prices kept dropping at the rate of about 1 percent per year between 1873 and 1900. Industry flourished, and the development of the West proceeded at a tremendous pace.

Reduction of the National Debt Alarms Wall Street

By 1900, most of the national debt had been paid off, and the result was that the bankers did not have enough government bonds to use as a basis for the issuance of their own currency. So they became desperately anxious to establish in the United States, a monetary system very similar to the privately owned Bank of England and similar banks that existed in most of the European countries.

But that was not an easy thing to accomplish because by this time the people in the nation had become very suspicious of the operations of Wall Street, and they were very hostile to the machinations of the money manipulators. Nevertheless, they were finally able to succeed in getting this kind of a banking system established, but only after a series of deceitful maneuvers that are without parallel in the history of the American nation. Here is what happened to eventually bring the Federal Reserve System into existence.

Paul M. Warburg

In 1902, a man by the name of Paul Moritz Warburg came to the United States from Germany. He was a member of the great Warburg family of financiers who were closely allied with the Rothschilds, who operated banks in France and in England. It was later disclosed that it was Rothschild money which financed Mr. Warburg when he came to the United States and for \$500,000 he bought a partnership in Kuhn, Loeb, and Company, a great financial concern in New York City. Then he was given a salary of \$500,000 a year. That's a very nice salary, especially when there was no income tax.

And what was his duty? His duty was to go up and down the United States promoting the idea of a great central bank that would solve all the economic problems of the United States forever. He promised that if Congress would pass a bill setting up the kind of a bank Mr. Warburg was promoting, there would never again be any such thing as a depression; there would never again be any such thing as inflation or deflation; there would always be enough money to carry on business; and credit would be available for all necessary and desirable purposes throughout the United States.

Mr. Warburg was a very persuasive fellow, and he developed a good many friends who liked his ideas, especially many of the leading bankers on Wall Street. But he also developed a great many enemies who did not believe all of his promises.

The Initial Effort to Draft a Bill for an American Central Bank

The banking plan which eventually became the Federal Reserve System was put together by a group of financiers who assembled on Jekyll Island, just off of the coast of Georgia, in the fall of 1910. These bankers met there in the greatest secrecy. Warburg was one of them. Senator Nelson Aldrich of Rhode Island was another. There were also representatives from all the great banking concerns in New York City. This group gradually hammered out the kind of bill that they wanted.

Senator Aldrich then introduced this bill into Congress. However, he wasn't clever enough to make it look like a government institution. Warburg had told them that if they wanted to get this bill passed they would have to make the people believe that the new banking system

would be a government institution independent of Wall Street. Otherwise, it would never get passed into law.

This turned out to be true. The Aldrich Bill was rejected. The bankers had to find someone who would convince Americans that the new banking system would operate under the control of the government and not Wall Street. They needed a special kind of political leader to do this.

Woodrow Wilson, the Persuader

So up in New Jersey they found exactly the man they wanted. His name was Woodrow Wilson. He had previously been president of Princeton University and was then the governor of New Jersey. He was one of the most persuasive and, as it turned out, probably one of the most hypocritical politicians on the national scene. What history has established is the fact that Woodrow Wilson went up and down the United States assailing the Wall Street bankers right at the time they were paying his campaign expenses. He accused the bankers of every crime in the world. He said he was opposed to them, and that it would be his objective in office to prevent them from ever getting any of their kind of legislation passed.

It was all part of the political strategy to make Woodrow Wilson President. His backers encouraged him to tell the people what they wanted to hear.

Of course, at that time the Republican party was the majority party in the United States, so the bankers realized that they had to do something to reduce the amount of votes that would go to the Republican candidate, William Howard Taft. Therefore, they induced Teddy Roosevelt, who was also a Republican, to organize the Bull Moose party in 1912. I can remember very well seeing headlines in the newspapers at that time about how the wonderful trustbuster, Teddy Roosevelt, had organized the Bull Moose party in order to bring about a conservative government for the United States. But what Teddy Roosevelt did was to split the Republican vote so that Woodrow Wilson was able to get elected by 42 percent of the popular vote in 1912.

The Federal Reserve Act Is Passed

Once Woodrow Wilson got into office, he had to operate very carefully, pretending that he was opposed to anything that was wanted by the bankers, but all the time working with them.

Congressman Carter Glass introduced the Federal Reserve Act, but he later wrote that the mastermind of the whole performance was Woodrow Wilson.

Eventually the Federal Reserve Act was passed on December 23, 1913. They got a man by the name of Henry Parker Willis, who was a professor at the University of Chicago, to prepare a text of the proposed law. It went through four or five revisions and was then shown to William Jennings Bryan. He named four changes that would be necessary.

When President Wilson saw the proposed changes he accepted them because they were all nonsubstantive. President Wilson told Congressman Glass these changes would help make the people think that the Federal Reserve was indeed a government institution, whereas it actually remained as much a private organization as it was before. So that is the way the Federal Reserve Act was finally passed.

Original Sponsors Turn Against the Federal Reserve

As I studied the history of the Federal Reserve, it was amazing to discover how many sponsors of the Fed turned against it when they saw it in operation. Take for example Professor Willis, who wrote the first draft. Ten years after the Fed began operating, he was still praising it to the skies; but six years after that, he turned bitterly against it and began condemning it in a series of articles that were published in several national magazines.

Now, Senator Robert L. Owen, who was the chairman of the Senate Finance Committee, thought the Fed was a perfectly wonderful thing in the beginning. He also wrote a book praising it. But in 1934 he wrote another book in which he said that it was the most disastrous thing that had ever happened to the United States.

Even William Jennings Bryan found out what a terrible thing he had done when he endorsed the final version of the Federal Reserve Act. I have always wondered whether William Jennings Bryan was actually deceived, or whether it was political pressure which caused him to support the Federal Reserve Act. One thing is certain-without his approval it could never have been passed.

When Bryan asked Wilson to make four changes, the bankers pretended that they were absolutely opposed to it. So when members of

Congress heard the bankers express their strong opposition, most of them decided that it must be a very good thing.

In the meantime, of course, Paul Moritz Warburg and his friends were just laughing their heads off behind the scenes. What a wonderful thing they had accomplished! By saying they didn't want it done at all, they got Congress to do it.

I read a letter that Warburg wrote to Carter Glass at the time, admitting what a wonderful ploy this was to pretend that they were opposed to the act when this was the only means of getting it passed in the first place.

Who Belongs to the Federal Reserve?

As I said before, the Federal Reserve System consists of twelve branch banks, but the New York Branch is the principal one. Every national bank must be a member of the Federal Reserve System. State charter banks can become members if they meet certain qualifications. And there are now something like fifty-eight hundred banks that belong to it, of which about forty-five hundred are national banks.

Every member bank must contribute, or must buy stock equal to 3 percent of its capital in surplus. And all the member banks in the United States have invested approximately \$1 billion in the entire Federal Reserve System. Now, so far as I know, that is the only investment made by any private source anywhere in the Federal Reserve System.

The Federal Reserve System is not established for the purpose of making profit for the Federal Reserve itself. The system is established for the purpose of making profits for the member banks that belong to the system. And they do this primarily by the system of fractional reserve banking, concerning which I promised to say a few words a while ago.

The Assets of the Federal Reserve

The assets of the Federal Reserve System amounted to about \$171 billion, as of December 31, 1980. That is the date of the latest annual report presently available. Of that \$171 billion, \$130 billion consisted of federal securities, which they have in their vaults. They have about \$8 billion in what they call miscellaneous investments, including real estate and some other things. They also have gold valued at \$11.2 billion, rated at \$42.24 an ounce. But if that gold

were to be valued at the present market value, its value would be about \$130 billion. I presume that at the present time, all of the actual assets of the Federal Reserve System are probably worth at least \$200 billion, possibly more.

Now you can see what Americans could do to improve our whole monetary system. Congress could repeal the Federal Reserve Act and get back all the assets of the Federal Reserve System by simply paying off the stocks owned by the member banks, which are worth approximately \$1 billion.

I would consider that a very, very good bargain. Congress could do it immediately. It could abolish the Federal Reserve System and replace it with a monetary system that would be Constitutional and would go back to the provisions originally intended by our Founding Fathers.

The Open Market Committee

I want to say a few words about what is known as the Open Market Committee. The Open Market Committee operates only through the New York Branch of the Federal Reserve System. The Open Market Committee buys and sells government securities in the open market. They pay for these either by writing a check against the Treasury or by printing more Federal Reserve notes. They can print any number of Federal Reserve notes of any denomination that they please.

In 1933 there were about \$3 billion of Federal Reserve notes in existence. By 1941 there were about \$5 billion in Federal Reserve notes. By 1960 they had increased to about \$60 billion. At the end of 1980 there were \$124 billion of Federal Reserve notes in existence.

It is through this committee that the Fed uses its power to control the American money supply and the interest rates. Neither the President nor the Congress can control the money making power which was given to the Federal Reserve in the act of 1913.

Fractional Banking

I want to say a few words also about the operation of the fractional reserve system. How do the member banks of the system make most of their money? They make most of their money by operating what is known as a fractional reserve money lending system.

This is controlled by the Federal Reserve

Board, which consists of seven members who are appointed by the President and confirmed by the Senate. They are appointed for a period of fourteen years. These seven men have the power to set what is known as the reserve requirements for the banks, and they can fix the reserve requirement at any amount they please.

Now, if reserve requirements for the creation of credit are set at ten, then these banks can create credit on their books equal to ten times the amount of the bonds which they have in their vaults. This permits them to make enormous profits.

It is also important to remember that the member banks obtain their supply of Federal Reserve notes absolutely free. They can also obtain government bonds printed by the Treasury absolutely free. This is because they are allowed to pay for these bonds with checks written against the value of the bonds themselves.

Most people can't understand how this could be allowed. It seems impossible, but nevertheless, this is the way it operates. In fact, this is how the Federal Reserve System makes about \$300 or \$400 billion profit for the member banks in the United States every year.

Suppose a member bank has \$1 million of government bonds in its vaults. It obtained these bonds for nothing, as previously mentioned. It collects 8, or 10, or 12 percent interest on the bonds, which is paid by the American taxpayers. Then it can create credit on its books equal to ten times, or more, of the amount of these bonds.

Do you follow me? It is the greatest profit producing machine that was ever conceived by the mind of man.

What This Does to the Average American

Suppose you are building a house. We'll say it is going to cost \$100,000 to complete this house. You have \$20,000, so you buy the lot and you engage an architect and you start building your domicile. Then you go to your friendly banker and say that it's going to take another \$80,000 in order to complete this building. Well, if he has credit available, he will examine your application very carefully, and if he finds that the house is going to be worth at least \$100,000 when it is finished, he will take a first mortgage on it. And then he will give you credit on the books of the bank equal to approximately \$80,000.

Of course, he takes out a couple of points, you understand. He isn't going to let you write checks equal to a whole \$80,000-maybe \$76,000 or \$77,000.

As the building proceeds, you pay off the contractors with checks written against this account. Now remember that this banker has not lent you a penny. He has created credit on his books equal to \$80,000. The collateral to guarantee this loan, if you want to call it that, is your house, which you are building.

Now, you are going to borrow this money, or borrow this credit, and you get a thirty-year mortgage at perhaps 15 percent interest, and by the time you pay off that mortgage you will have repaid that banker not \$80,000, but probably \$250,000. In other words, you will be spending the next twenty-five or thirty years of your life paying interest on this loan created out of thin air.

Wonderful!

It is an operation that staggers the imagination, and yet this is an operation by means of which the member banks of the Federal Reserve System are able to obtain mortgages on most of the real estate in the United States and compel the people who are producing the wealth of the nation to turn over the bulk of all the value of which they create to these bankers in order to pay off their loan.

This is the way it operates. This is the technique by which they become wealthy to a degree that is simply impossible for ordinary people to understand. When I tell this to most people, they just don't believe it. They don't think that a thing like this could actually happen. But it does. It's the routine procedure; it happens all the time.

The New Awakening

I have been talking about this for a good many years, and gradually people all over the country are beginning to understand. And they are beginning to get so angry that they are ready to do something about it. There are thousands of people who are organizing to bring pressure upon the state legislatures to pass resolutions, like the ones that I described at the beginning of my talk.

Somebody asked me today, "What should be the next step?" One of the next steps should be for all the people here to bring pressure to bear upon some of the members of your state

legislature to pass a resolution like the ones that were passed in Alabama, and in Arizona. Get thirty or forty states to pass resolutions of that sort, and if necessary, have them enact laws that will compel the United States Congress to do something about monetary reform. I tell you that if we don't get this reform, this nation will suffer some tremendous difficulties in the near future.

We Must Organize a United Front

I have been talking for years about these things. For a long time very few people listened, but I have discovered over the years that generally something which I have said begins getting some attention about ten years later. That means we have to continue teaching that which we know to be true. Now we need to organize and unite those who do some thinking for themselves, especially the members of what I call the middle class-the people who are self-employed, the people who have little businesses, the professionals. There is where the power is if we unite.

You know, there are millions of these people in the United States. There are about thirteen million that are called "proprietors," according to the Internal Revenue Code. In addition to that, we have hundreds of thousands of professionals-doctors, architects, dentists, lawyers, and so on. We have five or six million salesmen and consultants in the United States. We have three million farmers, and six million small property owners. Why, if all these people get together and organize to accomplish a single objective, they could control every legislature in the nation, and they could control the United States Congress. This is what I'm looking forward to. If that can be done, believe me, we will have recovered our nation, and we will have reestablished it upon the basis which our Founding Fathers gave us.

Three Specific Suggestions

For years I have been advocating at least three things. I have been saying, first of all, that we have got to abolish the Internal Revenue Service, which exists not primarily to collect taxes, but in order to control the people. It is filled with loopholes and allowances for the rich and the favored, and is filled with traps and snares to destroy the unwary, or the hard-working small-business man.

I have known people who have made millions of dollars but pay no income tax. For example, David Rockefeller testified before a Congressional committee.

"You know, gentlemen," he said, "that I do not owe any personal income tax. But nevertheless, I send a small check, now and then, to the Internal Revenue Service out of the kindness of my heart."

What a philanthropist! Here is a man who makes probably \$100 million in personal income each year, but the loopholes in the law say he doesn't owe any income tax.

And yet, here is the small-business man who works ten or twelve hours a day, and he finds out that he is caught in some trap, and he owes more money than he has made all year. These IRS agents go to work on little people and often destroy them. And if there are some publications they don't like, there are teeth in the law, which are both arbitrary and vindictive. They allow the IRS to jump on them and destroy them, no matter how honest they are.

What if we did away with the IRS? People have asked me thousands of times, "Suppose they were to do away with the Internal Revenue Code and the Internal Revenue Service-how would the government be able to operate?"

I have simply replied that if we were to establish a 5 percent general transactions tax, it would produce, without any IRS, approximately the same amount of income for the federal government that the income tax now produces, and at a cost of less than one third of what it costs under the present system.

So I want to see the abolition of the Internal Revenue Code.

You know, when Jefferson became President, the first thing he did was to abolish the Department of Internal Revenue. He fired all the collectors of internal revenue. He cut the taxes by 50 percent, and he paid off half of the national debt in eight years. The same thing could be done now with the same kind of statesmanship.

The second thing that must be done is to abolish the Federal Reserve System and restore a Constitutional monetary system. We have already discussed how that can be done.

A Retirement Program to Replace Social Security

The third thing that should be done, in my opinion, is to replace the Social Security system. It is getting in greater and greater trouble all the time. People should be putting their money in what I call the "Universal Trust Plan." Under such a plan, tens of millions of families would be building estates for themselves, and would receive interest on money which they had saved throughout their lives.

Do you know that if a man invests \$125 a month in a savings account at 8 percent, at the end of forty years he will have a fortune of \$475,000? He can then retire and draw about \$2,500 a month for the rest of his life without touching the principal. And if he wanted to use up the principal during his retirement, he could be getting about \$4,000 or \$5,000 a month for his full life expectancy.

It would not cost the younger generation one thin dime to support the older people. Did you ever stop to think about what would happen to this country if we found some cure for cancer and for heart failure? The old people would live to be older than I am. How in the name of common sense could young people produce enough money to support all us senior citizens lasting from eighty-five to ninety-five years of age? It would be a hardship.

But under the system such as I have been advocating for many years, the old people would be a wonderful treasure. They wouldn't cost the young people anything. Instead of paying all this money to the bankers, this interest would be going to about forty or fifty million people who have retired on annuity accounts which they have produced by their own savings.

I say that this would be a good start to reestablish Constitutional government in the United States. Every red blooded American patriot ought to dedicate his life to the accomplishment of objectives of this kind. You people right here are forming a strong nucleus to help accomplish that objective.

I thank you.