



The Creature from Jekyll Island

By Edward Griffin

Sources:



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Posted 2/11/03

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The Creature from Jekyll Island: A Lecture on the Federal Reserve "G. Edward Griffin exposes the most blatant scam of all history. It's all here: the cause of wars, boom-bust cycles, inflation, depression, prosperity. It's just exactly what every American needs to know about the power of the central bank."

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Date: April 04, 2000

Creature of Jekyll Island Edward Griffin

Introduction:

Mr. Griffin is a graduate of the University of Michigan where he majored in Speech Communication. He is the recipient of the Telly Award for Excellence in TV Production. He is the founder of the Cancer Cure Foundation and has served on the board of directors of the National Health Federation and the International Association of Cancer Victims and Friends. He is a contributing editor for the New American Magazine and is President of American Media, a publishing and video production company in southern California.

Edward Griffin: We'll start way back in history to give some kind of historical perspective to this; we'll go back to the first century BC and the tiny kingdom of Phrygia. There was a philosopher by the name of Epictetus and it was Epictetus who said "Appearances are of four kinds: things either are as they appear to be; or they neither are nor appear to be; or they are but do not appear to be; or they are not and yet appear to be." When I read that statement for the first time, I had a big chuckle over it and I thought for sure that if Epictetus were alive today he would probably be a Harvard professor of money and banking; it sounds like so many explanations that I have read about various aspects of the Federal Reserve System. What he did was he took a fairly simple concept but by the time that he was through explaining it, we didn't have any idea what he was talking about. All Epictetus said was that appearances can sometimes be deceiving. That's all he said but by the time he was through explaining the four different ways in which they can be deceiving, we were left back at the switch somewhere.

Nevertheless, I thought, accidentally perhaps, Epictetus had given me a track to run on so-to-speak. Actually it could be the theme since if there's anything in the world that is deceiving it is the Federal Reserve System. In fact, it is one of those appearances of the fourth kind which are those appearances which are not and yet appear to be. I'm going to use that as sort of a hook on the topic. We'll come back to it from time-to-time and punctuate it if I can remember to do that because it tells us something at the most fundamental level about the Federal Reserve System and that is that appearances can be deceiving.

When I did my research on this topic I came to the startling conclusion that the Federal Reserve System does not need to be audited, it needs to be abolished. This is very intriguing to think we should audit the Fed but I discovered that probably if they audited the Fed it would get a clean bill because it's undoubtedly doing exactly what it's supposed to do according to the law. What it is supposed to do according to the law is justification for abolishing it so all we have to do is understand what the Federal Reserve System is supposed to do and we'll be

pretty upset about it. The fact of the matter is that most people haven't the foggiest idea of what it is in fact supposed to do.

I came to the conclusion that the Federal Reserve needed to be abolished for seven reasons. I'd like to read them to you now just so that you get an idea of where I'm coming from, as they say. I put these into the most concise phrasing that I can to make them somewhat shocking and maybe you'll remember them.

1. The Federal Reserve is incapable of accomplishing its stated objectives.
2. It is a cartel operating against the public interest.
3. It's the supreme instrument of usury.
4. It generates our most unfair tax.
5. It encourages war.
6. It destabilizes the economy.
7. It is an instrument of totalitarianism.

I don't know what you think about those seven points. I know a lot of you folks agree with them right off the bat, but I presume that there are some skeptics here tonight and I hope there are otherwise I am the minister talking to the choir. I know in fact that there are always quite a few skeptics that come to these meetings and frankly you are the folks I'm talking to tonight because once, not too long ago, I was in that same frame of mind. I would've thought to myself those are rather extreme statements, I don't think they can be supported by fact. Though time doesn't permit me to cover all of those seven points here tonight, I would like to splash around on the first four topics for a little while and show you that there is in fact quite a bit of reason for a rational person to conclude that those statements are true.

I think the best place to begin is with the formation of the "creature from Jekyll Island"; the creation of the Federal Reserve. It takes me back to the title of the book "The Creature from Jekyll Island" and anybody that's here thinking that we're going to show a movie which is a sequel to Jurassic Park, you're in the wrong place. The title was designed, of course, to attract attention but it does have a great deal of significance to it. For those of you who have not yet had a chance to delve into this, I should explain to you that Jekyll Island is a real island that's off the coast of Georgia. It was on that island back in 1910 that the Federal Reserve System was created at a highly secret meeting that took place there. What I'd like to do is illustrate to you that the meeting did in fact take place and I'll

show some of the documentation that is available for that to prove that the secrecy was extreme and then we'll come face-to-face with the question "why the secrecy"? When things are done in secret quite often there's something to hide and we'll explore what it was that they wanted to hide. Once we've come to an understanding of that, then we'll finally understand a very important aspect of the Federal Reserve System which is not generally understood.

Back in 1910, Jekyll Island was completely privately owned by a small group of millionaires from New York. We're talking about people such as J. P. Morgan, William Rockefeller and their associates. This was a social club and it was called "The Jekyll Island Club." They owned the island and it was where their families came to spend the winter months. There was a magnificent structure there, the clubhouse, which was the center of their social activities. That clubhouse is still there, by-the-way. The island has since been purchased by the state of Georgia, converted into a state park and the clubhouse has been restored and you can visit it. I think you'd be very impressed by it. As you walk through the downstairs corridors you'll come to a door and on the door there is a brass plaque and it says: "In this room the Federal Reserve System was created." This is not a secret anymore; it's a matter of public record. Around the clubhouse there were some cottages as they were called which were built by some of the families to quarter themselves. They're attractive little things; they were magnificent examples of the architecture of the turn of the century. One of the cottages through which they take tours if you're interested in doing that, as I recall the guide told us that there were 14 bathrooms in that cottage--not exactly what we would call a cottage.

The clubhouse is where the Federal Reserve System was created. Let's retell that story in detail and see how it came about. The year was 1910, that was three years before the Federal Reserve Act was finally passed into law. It was November of that year when Senator Nelson Aldrich sent his private railroad car to the railroad station in New Jersey and there it was in readiness for the arrival of himself and six other men who were told to come under conditions of great secrecy. For example, they were told to arrive one at a time and not to dine with each other on the night of their departure. They were told that should they arrive at the station at the same time they should pretend like they didn't even know each other. They were instructed to avoid newspaper reporters at all cost because they were well-known people and had they been seen by a reporter they would've asked questions. Especially if two or three of them had been spotted together, this would've raised eyebrows and they would've asked a lot of questions. One of the men carried a shotgun in a big black case so that if he had been stopped and asked where he was going he was prepared to say that he was going on a duck hunting trip. The interesting thing about that part of the story is that we find out later from his biographer that this man never fired a gun in his life, in fact he borrowed that shotgun just to carry with him on this trip as part of the deception.

Once they got on board the private railroad car this pattern continued. They were told to use first names only, not to use their last names at all. A couple of the men even adopted code-names. The reason for that is so that the servants on board the train would not know who these people were. They were afraid that if the servants would talk about it then the word would leak out and it might get into the press. They traveled for two nights and a day on board this car and they arrived after a 1,000 mile journey to Brunswick, Georgia. From there they took a ferry across the inland straits and they ended up on Jekyll Island in the clubhouse where for the next nine days they sat around the table and hammered out all the important details of what eventually became the Federal Reserve System. When they were done they went back to New York.

For quite a few years thereafter these men denied that any such meeting took place. It wasn't until after the Federal Reserve System was firmly established that they then began to talk openly about their journey and what they accomplished. Several of them wrote books on the topic, one of them wrote a magazine article and they gave interviews to newspaper reporters so now it's possible to go into the public record and document quite clearly and in detail what happened there.

Who were these seven men? The first one I have already mentioned, Senator Nelson Aldrich was the Republican whip in the Senate, he was the chairman of the National Monetary Commission which was the special committee of Congress created for the purpose of making a recommendation to Congress for proposed legislation to reform banking. The public was quite concerned in those days over what was going on in the banking industry; a lot of banks were folding, people were losing their investments in banks, they had broken their promise to guard the depositors assets, there were runs on the bank, banks couldn't give the people their money back. In particular they were concerned over the concentration of wealth in the hands of a few large banks in New York on Wall Street. This is what they called the "money trust" in those days. The money trust was a common phrase. Quite a few politicians had been elected to office on their campaign promise to break the grip of the money trust. President Wilson was one of those politicians that campaigned on that even though Wilson was himself hand-picked by the money trust and financed by the money trust and surrounded by the money trust--all of his advisors and politic cronies. The public didn't know that at the time and it was a popular issue. If you campaigned against the money trust you were quite apt to be elected and that was what I call "the people you love to hate" money trust.

That was one of the purposes of the National Monetary Commission which was to propose legislation to break the grip of the money trust and Aldrich was chairman of that committee. He was also the very important business associate of J. P. Morgan. He was the father-in-law of John D. Rockefeller, Jr. which means that eventually he became the grandfather of Nelson Rockefeller, our former vice-president. You remember his full name was Nelson Aldrich Rockefeller; his middle name being derived from his famous grandfather.

The second important person there was Abraham Andrew who was Assistant Secretary of the Treasury. He later became a Congressman and he was very important in banking circles.

Frank Vanderlip was there. He was the President of the National City Bank of New York which was the largest of all of the banks in America representing the financial interests of William Rockefeller and the international investment firm of Kuhn, Loeb & Company.

Henry Davison was there, the senior partner of the J. P. Morgan Company. Charles Norton was there; he was the President of the First National Bank of New York which was another one of the giants. Benjamin Strong was at the meeting; he was the head of J. P. Morgan's Banker's Trust Company and Benjamin Strong three years later would become the first head of the Federal Reserve System.

Finally, there was Paul Warburg who was probably the most important at the meeting because of his knowledge of banking as it was practiced in Europe. Paul Warburg was born in Germany and eventually became a naturalized American citizen. He was a partner in Kuhn, Loeb & Company and was a representative of the Rothschild banking dynasty in England and France where he maintained very close working relationships throughout his entire career with his brother, Max Warburg, who was the head of the Warburg banking consortium in Germany and the Netherlands. Paul Warburg was one of the wealthiest men in the world. In fact, those of you who are Little Orphan Annie fans will remember Daddy Warbucks. Daddy Warbucks was the characterization of Paul Warburg and everyone at the time was well aware of that fact. I have his photograph in my book and if you compare the photograph to the cartoon drawing you'll see the resemblance between Paul WARburg and Daddy WARbucks. And while we're on the topic of cartoon characters, if you played Monopoly, you remember the drawing of the capitalist with the handle-bar mustache and the cigar? That's J. P. Morgan.

These were the seven men aboard that railroad car who were at Jekyll Island. Amazing as it may seem, they represented approximately 1/4 of the wealth of the entire world. These are the men that sat around the table and created the Federal Reserve System. For the skeptic who's wondering it didn't happen that way surely Griffin is exaggerating to make some kind of a point. Let me put your mind at ease that it did happen that way (perhaps not at ease but in a state of tension).

How do we know? For example, Frank Vanderlip who was at the meeting wrote an article that appeared in the Saturday Evening Post on February 9, 1935 and I'd like to read for you just a short excerpt from that article. This is what Vanderlip said: "I do not feel it is any exaggeration to speak of our secret expedition to

Jekyll Island as the occasion of the actual conception of what eventually became the Federal Reserve System. We were told to leave our last names behind us. We were told further that we should avoid dining together on the night of our departure. We were instructed to come one at a time and as unobtrusively as possible to the railroad terminal on the New Jersey littoral of the Hudson where Senator Aldrich's private car would be in readiness attached to the rear-end of a train to the south. Once aboard the private car we began to observe the taboo that had been fixed on last names. We addressed one another as Ben, Paul, Nelson and Abe. Davison and I adopted even deeper disguises abandoning our first names. On the theory that we were always right, he became Wilbur and I became Orville after those two aviation pioneers the Wright brothers. The servants and train crew may have known the identities of one or two of us, but they did not know all and it was the names of all printed together that would've made our mysterious journey significant in Washington, in Wall Street, even in London. Discovery we knew simply must not happen."

Why not? why the secrecy? what's the big deal about a group of bankers getting together in private and talking about banking or even banking legislation. And the answer is provided by Vanderlip himself in the same article. He said: "If it were to be exposed publicly that our particular group had gotten together and written a banking bill, that bill would have no chance whatever of passage by Congress." Why not? Because the purpose of the bill was to break the grip of the money trust and it was written by the money trust. And had that fact been known at the get-go, we would never have had a Federal Reserve System because as Vanderlip said it would have had no chance of passage at all by Congress. So it was essential to keep that whole thing a secret as it has remained a secret even to this day. Not exactly a secret that you couldn't discover because anybody can go to the library and dig this out, but it is certainly not taught in textbooks. We don't know any of this in the official literature from the Federal Reserve System because that was like asking the fox to build the henhouse and install the security system.

That was the reason for the secrecy at the meeting. Now we know something very important about the Federal Reserve that we didn't know before, but there's much more to it than that. Consider the composition of this group. Here we had the Morgans, the Rockefellers, Kuhn, Loeb & Company, the Rothschilds and the Warburgs. Anything strange about that mixture? These were competitors. These were the major competitors in the field of investment and banking in those days; these were the giants. Prior to this period they were beating their heads against each other, blood all over the battlefield fighting for dominance in the financial markets of the world. Not only in New York but London, Paris and everywhere. And here they are sitting around a table coming to an agreement of some kind. What's going on here? We need to ask a few questions.

This is extremely significant because it happened precisely at that point in American history where business was undergoing a major and fundamental

change in ideology. Prior to this point, American business had been operating under the principles of private enterprise--free enterprise competition is what made American great, what caused it to surpass all of the other nations of the world. Once we had achieved that pinnacle of performance, however, this was the point in history where the shift was going away from competition toward monopoly. This has been described in many textbooks as the dawning of the era of the cartel and this was what was happening. For the fifteen year period prior to the meeting on Jekyll Island, the very investment groups about which we are speaking were coming together more and more and engaging in joint ventures rather than competing with each other. The meeting on Jekyll Island was merely the culmination of that trend where they came together completely and decided not to compete--they formed a cartel.

I need to define that word so that you will know what I mean when I use the word cartel. It is a group of independently owned businesses which come together for the purpose of reducing or eliminating competition between themselves to enhance their profit margin or to secure their positions in the market. They do this by various means one of which is price fixing--no competition on price. There are other means. If we were forming a cartel here I might insist that I get the north and you can have the south and we won't compete. Or I would say I'll produce the gizmo and you can have the widget and we won't compete or we'll share patents and processes and whatever we do we agree to eliminate competition between ourselves. The more layers of agreement that we put one on top of the other, the more we become encased in this cartel structure and we become as one insofar as the market is concerned even though within that grouping we are separately owned.

This is just as true with a banking cartel as it is with any other industry. We come to the conclusion when we analyze the nature of the Federal Reserve System how it operates, read the Federal Reserve Act, place it against the context of the historical background and we come smack to the realization that the Federal Reserve System although it parades around looking as though it's a government operation of some kind, is merely a cartel of banks right under our noses and it is protected by law. I sometimes get the impression that it's been there dangerously operating all these years and we didn't even know it. I saw a video some years ago about the lava tubes in Hawaii. They are very impressive because apparently once in a while the ground will just break out, a hole will fall down and you can look into the hole and you see that there's a river of lava actually flowing just a few feet under your feet and you don't even know it's down there unless something breaks through and you hope you're not on the piece that breaks through. I got the feeling that this is how the Federal Reserve has been operating right under our feet; this cartel has been running and we didn't even know it because that fact has been carefully concealed from us.

Conclusion number 2 about the Federal Reserve System, a very important thing that we didn't know is the cartel. There's even more to it than that. Perhaps the

third ingredient is the most important of all and that is the realization that this cartel went into partnership with the government. Now we have hold of something extremely significant. Cartels often go into partnership with governments because they need the force of law to enforce their cartel agreement but in this case they did it in spades.

Whenever a partnership is formed there has to be a benefit to the partners otherwise they don't form it. So we need to ask the question what is the benefit, the payoff, for these two partners? Why did they go into it? Why did the government go into a partnership like this and why does the banking cartel? In answering those questions we finally come to grips with the reality of what this creature from Jekyll Island is. Let's take a look at that; what's the payoff to these two partners? In order to see that we'll have to examine in some detail the mechanism by which the Federal Reserve System creates money. This is a real interesting study. I call it the "Mandrake Mechanism" named after that comic-book character of the 40s, Mandrake the Magician, who could create something out of nothing and then wave his cape and it was back into the void again. That's a pretty descriptive phrase for the way the Federal Reserve System does it.

Let's take a look at it and see how they create money through the Mandrake Mechanism. I am going to do this in a very simplified form. I want to warn you that it's going to sound like it's too simple. It's not. I'm going to strip out all the banking terminology, all the banker language, all the accounting phrases that need to be defined and speak in very plain English that anybody can understand. It may sound to you as though I've simplified it too much and I want to assure you that in spite of the simple language everything I'm going to tell you is absolutely 100% technically accurate. The other thing I want to warn you about is don't try and make sense out of this because it can't be done; this does not make sense and you'll blow a fuse trying to make it make sense. Just remember that it is a scam and if you keep that fact in mind then you'll have no trouble comprehending what's going on.

Here's how it works. It starts with the government side of the partnership, it starts in Congress which is spending money like crazy. It spends far more money than it takes in. It is spending way beyond its income. How can it do that? Basically this is what happens. Let's say Congress needs an extra billion dollars today so it goes to the treasury and says "we want a billion dollars" and the treasury official says "you guys have got to be kidding, we don't have any money here, you spent it all a long time ago, everything that we've taken in taxes you fellows have spent by March." Congress says "we thought that was true but we thought we'd stop by just in case somebody sent some more in." They get together and they go down the street and they get the idea that we'll borrow the money. So they stop at the printing office and they don't print money at the printing office, they print certificates and they're very fancy things with borders on the edge with an eagle across the top and a seal at the bottom and it says "US Government Bond" or "Note" or "Bill" depending on the length of the maturity of it. If you hold it up to the

light it really says "IOU" because that's what it is. They print these things up and it looks very impressive and then they offer them to the private sector; they're hoping that people will come up and loan money to the federal government and a lot of people do and are anxious to lend money to their government. Why? Because they've been told by their investment advisors that that's the most sound investment that you can make. Why? We've all heard that these loans are backed by the full faith and credit of the US government. They're not quite sure what that means but it sure sounds good. I'd like to explain for you who are in doubt what that means. The full faith and credit of the US government means that the government solemnly promises to pay back that loan plus interest if it has to take everything you and I have in the form of taxes in order to do it, it's going to do it. It will take everything we have if necessary to hold its pledge. People don't realize that they're putting themselves on the line, they're going to get their own money back minus a substantial handling fee.

Plenty of money is loaned to the government but never enough. Congress needs more money than that. They say not to worry. They go further down the street to the Federal Reserve building. The Fed has been waiting for them, that's one of the reasons it was created. By the time they get inside the Federal Reserve building the officer of the Fed is opening his desk drawer. He knows they're going to be there and he's ready and he pulls out his checkbook and he writes a check to the US Treasury for one billion dollars or whatever the amount is that they need. He signs the check and gives it to the treasury official.

We need to stop here for a minute and ask a question. Where did they get a billion dollars to give to the treasury? who put that money into the account at the Federal Reserve System? The amazing answer is there is no money in the account at the Federal Reserve System. In fact, technically, there isn't even an account, there is only a checkbook. That's all. That billion dollars springs into being at precisely the instant the officer signs that check and that is called "monetizing the debt," that's the phrase they throw at you. That means they just wrote a check, a big rubber check. If you and I were to do that we would go to jail but they can do it because Congress wants them to do it. In fact, this is the payoff, this is the benefit to the government side of this partnership, this is how the government gets its instant access to any amount of money at any time without having to go to the taxpayer directly and justify it or ask for it. Otherwise, they would have to come to the taxpayer and say we're going to raise your taxes another \$3,000 this year and of course if they did that, they would be voted out of office real fast. They like the Mandrake Mechanism because it's a no questions asked source of money. You may have noticed that it's been many years since Congress has even discussed what anything costs, it's not an issue. It doesn't make any difference what the cost is because regardless of the overrun they know they can go down the street to the Federal Reserve and by law the officer has to write that big check and give it to them and they're off and running.

There in a nutshell is the reason the government likes the Mandrake

Mechanism--easy instant access to any amount of money of any kind without the taxpayer being involved directly in the loop. But what about the banking side? This is where it really gets interesting. Let's go back to that billion dollar check. The treasury official deposits the check into the government's checking account and all of a sudden the computers start to click and it shows that the government has a billion dollar deposit meaning that it can now write a billion dollars in checks against that deposit which it starts to do real fast. For the sake of our analysis, let's just follow \$100 out of that billion in a check that for some reason they write to the fellow that delivers the mail to our door. The postal worker gets a check for \$100 and he looks at this thing and he can't imagine in his wildest dreams that that money didn't exist two days ago anywhere in the universe. It's spendable so he wouldn't even care if you told him. He deposits it now into his personal checking account. Now we're finally out of the Federal Reserve and out of the government's check and we're into the private banking system. We're in finally to that part of the partnership which is involved in the cartel. A \$100 deposit has now been made in the local bank and the banker sees that and runs over to the loan window and opens it up and says attention, everybody, we have money to loan, someone just deposited \$100." Everyone is overjoyed at that because that's one of the reasons they come to the bank, they come to borrow money. That's a sign of national health if you're in debt so they're anxious to know that the bank has money to loan, they line up for these loans. They heard the banker and they say \$100 that's not very much and he says not to worry we can loan up to \$900 based on that \$100 deposit. How can that be done? It gets complicated the way they do it and I'll tell you in very simple terms. The Federal Reserve System requires that the banks hold no less than 10% of their deposits in reserve. The bank holds 10% of that \$100 in reserve, \$10, and it loans this first fellow in line \$90. What does he do with it? He wants to spend it so he puts it into his checking account. In fact it probably goes directly into his checking account. Let's assume that they gave it to him and he puts it back, when he puts it back it's a deposit isn't it?

Only a \$100 deposit but \$900 in loans and that deposit is still there. Where did the \$900 come from and the answer is the same--there was no money. This springs into existence precisely at the point at which the loan is made. Notice the difference, an important distinction is when the money is created out of nothing for the government it is spent by the government. On the banking side, however, when it's created out of nothing it's not spent by the banks it is loaned by the banks to you and to me and we spend it. Notice that when they loan it to us we have to pay them interest on it. Think about this for a minute. This money was created out of nothing and yet they collect interest on it which means that they collect interest on nothing. Not too shabby! What a concept, why didn't I think of that! I wish I had a magic checkbook like that where I could just write checks all day long and didn't have to have any money any place just checks, loan it to you folks and you're silly enough to pay me interest on it. That's how it works.

Now you see what the benefit is to the banking cartel for being involved in this

Federal Reserve System, interest on nothing. The process doesn't end there, however. It has consequences to you and to me. I've heard some people say "isn't that interesting, these fellows are sure smart, I guess they deserve to be rich." It's as though we're out of the loop, it doesn't affect us any, they got rich but we're ok. Well no, they got rich alright but they got it by taking it from us. How does that work? Let's follow this.

This newly created money goes out into the economy and it dilutes down the value of the dollars that were already out there. It's like pouring water into a pot of soup, it dilutes the soup. So by throwing more and more money into the economic soup out there the money gets weaker and weaker and weaker and we have the phenomenon called inflation which is the appearance of rising prices. I emphasize the word "appearance" because in reality prices are not rising at all. What we're seeing is that the value of the dollar is going down, that's the real side of the equation. If we had real money based on gold or silver or anything tangible that couldn't just be created out of thin air, it could be based on microphones, that they couldn't just create with the stroke of a pen, you would see then that prices would remain stable over a long period of time.

To illustrate that point, it's interesting to know that if we had lived in ancient Rome with a one ounce gold coin we would've been able to buy a very fine toga, a hand-crafted belt and a pair of sandals--that was the price in Rome. Today, if we have a one ounce gold coin what can we buy with it? We can go into any men's store and buy a very fine suit, a hand-crafted belt and a pair of shoes. The price of these items hasn't changed in thousands of years when expressed in terms of real money but when expressed in terms of these things we carry around in our pockets called Federal Reserve notes which is not really money at all, fiat money anyway, the prices keep going up and up and up because the value of those units keeps going down and down and down because they keep making more and more and more of them and dumping them into the economic soup.

That's still not the end of the process. We lost some purchasing power through this process called inflation. We lost something and very few people ask the question "who got it"? It's as though nobody got it, we all lost it, it's like it evaporated and went up to heaven somewhere. No, somebody got it. For every loser there's a winner. Or I should say for every fifty losers there's one winner that gets it all. Somebody got it. Who? Those people that got our lost purchasing power are the ones who were right up at the point where the fresh money was injected into the economic pot of soup. The ones that got the money first gained because they had full purchasing power at that instant when the money was created. By the time they spent it and gave it to you and you spent it on something and gave it to him and by the time that it got out to the edge of the pot where most of us are it's diluted. The ones that were right up at the nozzle got our lost purchasing power. Who are they? Obviously the government was up there first. Remember the billion dollar check, the very beginning of this process went to the government and they spent it instantly and that money went out into

the economy and that was the beginning of this ripple effect. Who else? The next ones were the people who were up at the loan window. They got the money that was freshly created by the banking system because they were the borrowers. We all know that in times of inflation borrowers gain, this is no mystery. We've been told and advised to borrow money and stay up to the hilt in debt because you borrow in dollars but because of inflation you can pay back with 50 cent pieces.

So everybody knows about this part of it. What they forget is that the alleged benefits of doing this are surrendered to the bank in the form of interest payments. They're really not gaining that much. The gain that they are getting through the inflation process they're having to give to the bank in the form of interest on nothing. And it seems that they're gaining because they have these paper profits. The value of this real estate is going up and up and up or the value of my stock is going up and up and up but it's all paper. As far as purchasing power is concerned it's not going up, up, up at all. Nevertheless they're still having to pay for that illusion in the form of interest payments on nothing.

Then comes the inevitable contraction of the economy. People don't realize that the economy moves traditionally like a sawtooth--it goes up gradually for a long period of time and seems like forever it's going to go up, you can plan on it forever and don't worry about it and then clunk! it falls down very quickly and then it starts the next long climb and people forget that every once in a while it comes down very abruptly. When it contracts people are extended out there and they can't service their debt and make the payments and they lose their assets.

Another interesting thing about this is that when the bank loans you money which it created out of nothing, it costed nothing to make it, it wants something from you. It wants you to sign on the dotted line and pledge your house, your car, your inventory, your assets so that in case for any reason you cannot continue to make your payments they get your marbles, they get all of your assets. They're not going to lose anything on this. Whether it's expansion or contraction, inflation or deflation the banks are covered and we like sheep go right along with it because we haven't figured it out, we don't know that this is a scam. Of course we have no choice either right now because it's all enforced by law. We have no escape. We have no choice but it's even better that we don't understand it because we can't complain about it either. There you have it.

The two groups that got our lost purchasing power--is anyone surprised?- the two members of the partnership, the government and the banking cartel. The two groups that comprise the Federal Reserve System.

This lost purchasing power which is going from us to them is a tax. We don't think of it as a tax but it is. We have no escape from it. In fact, it's more a tax than the income tax or the excise tax which you can escape in one way or another. You can't escape this one. There are no deductions, no exemptions, everyone pays it and it is the most cruel, unfair tax of all because it falls most heavily on those

who can least afford to pay it. It falls on those on fixed incomes, those who are retired. Anyone who has saved their money is paying this tax in direct proportion to the degree to which they have been frugal. It's a tax even though we don't think of it as that and it's time to think of it as that. It's a tax that goes from us to the government and to the banking cartel.

Let's summarize. What is the benefit to the members of the partnership? The government benefits because it is able to tax the American people any amount it wishes through a process which the people do not understand called inflation. They don't realize they're being taxed which makes it real handy when you're going for re-election. On the banking side they're able to earn perpetual interest on nothing. I emphasize the word "perpetual" because remember when the loan is paid back it's turned around and loaned out to somebody else. Once that money is created the object of the bank is to stay loaned up" as they say. In reality the banks can never stay 100% loaned up and that ratio varies a lot but the objective is to stay loaned up to whatever extent is possible. Generally speaking once this money is created in the loan process it is out there in the economy forever, perpetually earning interest for one of the members of the banking cartel which created that money.

There you have in a condensed form a crash course on the Federal Reserve System and I can assure you that you know more about the Federal Reserve than you would probably if you enrolled in a four year course in economics because they don't teach this reality in school.

So what, they say? Can you imagine that? I knew when I wrote this book and it got out that there would be some objection to it but I never dreamed what it would be. I couldn't think of any objection to it, I thought what are they going to say, what are the defenders of the Federal Reserve System going to say to me? I figured they were going to try and pick some error that I had made in some technical issue and try and make me look like a buffoon. But I never dreamed that the only opposition, at least that I've run into so far, is the question "so what"?

I was on the Pat Buchanan radio show about a month ago and they have a cohost which is usually a representative of the opposing point of view and this day they had a fellow by the name of Barry Lind (?) who was an ACLU type high-powered intellectual and I was kind of nervous thinking here it comes, I'm going to get it now and I'm going to be made a fool of right in front of all these millions of people out there in radio land. I was really worried. It's kind of hard on these radio shows to get your point across as they don't let you speak like you folks let me do here. The lion's share of the time goes to Buchanan and then the cohost gets his shot and then the commercials come in and you've got three minutes to say your whole thing and they're always interrupting you. I made my little shot as best I could and it was Barry Lind's turn and he looked at me and he said: "Well, what you say is true, but so what?" I couldn't believe it. And then he capped it

with, which is the real argument: "We're living well aren't we?"

This is an interesting question and I have run into that repeatedly since then. What are you complaining about? we're living well aren't we? And the implication is that without this scam we couldn't be living well, without this scam somehow we'd be still crawling around in caves. We wouldn't have society with a high standard of living, we wouldn't have any of the things that we cherish without this scam, that's the whole implication. So how do you answer that? So what?

First of all, we are not living that well. People like Barry Lind are undoubtedly living very well and there are plenty of people in the system who are living very well. Generally those are the ones who are up at the nozzle where this new money is coming into the system or they're involved in the government or they have government subsidies if they're close to the nozzle. For most people, away from the nozzle, it's not going so well, we're not living that well. It is a matter of fact that the only reason that America has been able to maintain the appearance of a high standard of living since the Federal Reserve System has gotten into full swing, especially after WWII, is because of the shift towards two family incomes. It now takes two working people to just maintain the semblance of where we used to be with one person working in the family. And in spite of the two family income real wages are down for the common man today, real wages in terms of the number of hours a person must work in order to acquire the necessities of life. Young couples who are living on a single income now have a lower standard of living than their parents did. The net worth of the average household is falling. The leisure time for the average American is shrinking. The percentage of families who own their own homes is dropping. The age at which a family acquires its first home is rising. The number of families that are counted in the middle class is falling. The number of people below the poverty line is rising. Personal bankruptcies today are about three times what they were in the 1960s and over 90% of Americans are broke at the age of 65. So we're not living well at all as a result of this creature.

Furthermore, there's another thing wrong with it. That is that when you have a money supply based upon thin air it not only expands but it contracts. If it were based on gold or silver or microphones, the money supply couldn't expand and contract because there they are but when it's politically motivated it can contract and that is the core cause of all of the booms and busts that have plagued America for so many years. In other words, this is the concept behind the recession and the depression and that is another thing that's wrong with it.

The third thing that's wrong with it is that it is dishonest. You don't really need anything more than that do you? Even if it were the element that was creating our prosperity, even if it didn't cause recessions and depressions the fact that it is fraud, the fact that it is deception, it's dishonest and theft is really a good enough reason in my opinion to get rid of it. That's what's wrong with this scam. Let's go back to Jekyll Island. They had an interesting problem there which was what to

call their creature. This partnership between government and banks which we've been discussing was not new with the Federal Reserve System. In fact, it was a concept that was created in Europe in the 16th century. It was perfected with the formation of the Bank of England in 1694 and from that point forward all of the governments of Europe had used this Mandrake Mechanism. They didn't call it the Mandrake Mechanism, of course, they called it a "central bank," that's the technical phrase for this partnership. If you want to look it up in a textbook or encyclopedia you'll find it under the heading "Central Bank."

From the Bank of England forward all the governments of Europe had central banks for a very good reason. The kings and princes of Europe had learned from hard experience that they could raise the taxes of their subjects only so high and then they had a revolt on their hands and they tended to lose their jobs (and heads). It appears that that natural level was about 40-43%; people will tolerate taxes up to about 40-43% and then they start digging in their heels and they just won't allow it to go any further. But with the central bank mechanism in place the lid was off. Now these governments could tax their people 50%, 60%, 70% and in some cases 80% of everything they produced and they did not have a revolt on their hands. They did not have resentment because the people didn't know that they were paying a tax. They knew that prices were going up, but they didn't understand why, they didn't know who was getting their lost purchasing power.

It was a nifty arrangement for these governments. It was at that point in history that governments' wars began to heat up. They always had wars but they were relatively small things because wars are expensive and the people won't pay more than 40% for everything including wars. But now that they had a way to tax higher than that, they could engage in very expensive wars. It's at that point in history that Europe plunged headlong into continuous war and big, very, very expensive wars. The people paid for them uncomplainingly through the process of inflation.

So when it came time to transplant this concept to America these seven men on Jekyll Island knew very well that they were creating a central bank; that was the reason that Paul Warburg was so valuable because he was the man with the intense knowledge, the detailed technical knowledge of how central banks operate. But they had a problem. How could they conceal that from the American people because Congress was already on record as saying they did not want a central bank in America. I don't think they knew what that phrase really meant, but they knew that Europe had them, whatever they were, and we didn't want any. They said in America if we're going to have banking reform we don't want what they do over in Europe, we want something that is unique for America and its principles and economy.

The problem before these men on Jekyll Island is what to call the central bank so that nobody would know it was a central bank. And they theorized over this and this was their strategy: they said first let's give it a name and we'll add the word

"Federal" to it to make it sound like it's government. Then we'll add the word "Reserve" to make it seem like there are reserves somewhere, like it was a banking concept. We'll add the word "System," a very important word even though it may seem obscure now because remember in those days the concern was the concentration of financial power in New York so they had to sell the idea of a system of regional banks which would diffuse that power all over the nation. First they talked about ten regions and then they said that wasn't enough, twelve regions, we'll have twelve banks. And we'll build big buildings out there in all of those regions so the local yokels can go and look at the building and say "golly we've got one of those out here." Diffusion of power away from New York; you can go and touch the building. The word "System" was very important.

When you look at it you realize that what they created there was not federal, there are no reserves, it's not a system at all in the sense of diffusion of power and these Federal Reserve banks aren't even banks. On all four words we're dealing with appearances of the fourth kind. It was brilliant strategy.

The next thing was to sell this creature to the public. The first draft of the Federal Reserve Act as it was presented to Congress was called the Aldrich Bill named after the sponsor, Senator Nelson Aldrich. This was against the good advice of Paul Warburg. He said: "Nelson, don't put your name on that bill because you are so identified with big business interests that Congress will vote it down; the people will not accept it." And apparently Aldrich's ego was too big. He must've said: "Well no, after all I'm highly respected in the Senate and I am the Chairman of the National Monetary Commission" and for whatever reason he insisted that his name be on the bill. It appears that he wanted to go down in history as the originator of the Federal Reserve System. Warburg was right. When the bill was introduced Congress put thumbs-down on it. "The Bill of Big Business."

They took the bill back for it was just a minor setback, they scrambled the paragraphs around a little bit, took Aldrich's name off real fast and they found a couple of Democrats to sponsor the bill. This was different. Everybody knew that the Republicans represented big business but they also knew that Democrats represented the common man, the little guy, the fellow on the assembly line (like Ted Kennedy). They found a couple of millionaire Democrats to sponsor the bill. They found Carter Glass in the House and Senator Robert Owen who himself was a banker. Now it was the Glass-Owen bill and it was totally different and acceptable.

The next thing, Aldrich and Vanderlip began to give speeches and interviews to newspaper reporters condemning the bill. They said: "This bill will be ruinous to banking. It will be terrible for the country." By the time the common man read that in his newspaper he said: "Oh golly, I guess these big bankers don't like the bill very much so it must be pretty good."

These fellows were not stupid. You have to give them credit. They didn't get to be

where they were by being country bumpkins. They understood politics, they understood mass psychology and they played their cards exceedingly well. Meanwhile these same individuals out of their own pockets were paying the price for the costs of bringing up what they called grassroots study clubs all over the country. They sponsored these clubs and they held public meetings and printed brochures and pamphlets extolling the virtues of the Federal Reserve System. They gave large amounts of money to some of the better known universities in America; they created newly formed departments of economics with that money; they hand picked their own people to be the professors to head up those departments and then those professors with all of their academic credentials gave speeches and wrote scholarly essays extolling the virtues of the Federal Reserve System. And then at the insistence of Paul Warburg who was forever the master strategist, they added several very sound provisions to the Federal Reserve Bill. By that I mean they added some provisions which seriously restricted the ability of the Federal Reserve to create money out of nothing. Warburg's associates said, Paul, what are you doing? We don't want those in there this is our bill." And his response was this, he said, Relax fellas, don't you get it? Our object is to get the bill passed. We can fix it up later." Those were his exact words. "We can fix it up later." He was so right. It was because of those provisions that they won over the support of William Jennings Bryan the head of the Populist Movement, the last hold-out against the bill. Bryan was concerned that this would be an instrument for ruining the nation's money supply but when he saw those provisions he said, "Oh well, those are good provisions, I guess I can support the bill now" never dreaming that this was temporary. Everything is temporary in politics. When people go to sleep things can get changed.

?Warburg was right and they fixed it up later. The Federal Reserve Act since it was passed has been amended over 100 times. Every one of those provisions were long ago removed and many more have been added which greatly expand the power and reach of the Federal Reserve System to create money out of nothing. With this kind of professional strategy and deception these people were real professionals and the public didn't stand a chance. It is no surprise that popular support was finally gained for the bill and on December 22, 1913 the bill was passed by Congress and the following day was signed into law by President Wilson and the creature from Jekyll Island finally moved into Washington, DC.

Let's stand back from the creature a few paces and take a look at its general form and shape and see what it is we got. We got a corporation chartered by Congress which was given an exclusive franchise to create our nation's money supply. We got a mechanism whereby Congress has been able to raise unlimited taxes from the American people without them even knowing that they're paying a tax and we got a mechanism whereby the banks can earn perpetual interest on nothing. That is the shape and form of the creature from Jekyll Island.

Here's an interesting question, Who owns the Federal Reserve System? You hear a lot of discussion on this particularly on talk radio nowadays. When the

subject of money comes up somebody calls in and says, "Did you know the Federal Reserve is completely owned by the private banks? It's a private corporation. What we need to do," they say "is abolish the Fed and turn it over to the government so they can operate it for the benefit of the people." Some of you are laughing and I'm sure there are some people here thinking what's wrong with that so let's analyze it.

First of all it is a half-truth and it is a non-solution. Let's deal with the half truth first. It is true that the Federal Reserve System is not an agency of the federal government in any shape or form. As I mentioned before, it is a corporation that is chartered by Congress and like all corporations it has stock certificates and those stock certificates in this case are held by the banks within the Federal Reserve System. Every bank that's in the system is an owner of the Federal Reserve--remember this is a cartel. They own it in one sense of the word, in the sense that they have stock certificates but up to that point it looks as though it has all the attributes of a privately held corporation. But that's as far as it goes because those stock certificates do not carry with them any of the attributes of private ownership. For example, the holders of these certificates cannot sell them. If you can't sell something then you don't really own it, that's one of the tests of ownership, your ability to dispose of it. You cannot sell it. Furthermore the larger banks put up more money than the smaller banks, it's a ratio to their assets, so the larger banks have more stock certificates in the system than the small ones and yet regardless of the number that they hold, every bank has just one vote. There's another violation of the principle of private ownership. Furthermore that vote doesn't buy them anything. They can't vote for anything of substance; they cannot vote for their national management which is the most important thing, isn't it? The board of directors and chairman of the Federal Reserve System are appointed by the President, they're not elected by the banks that are part of the system, the President does that.

All that the local banks can vote for with their vote are the boards of directors of the regional banks, so-called, which are subdivisions within the system. They can't even vote for the leadership in their local subdivisions because the chairman and the vice-chairman of those 12 regional banks are appointed by the national board. They can vote for their officers at those regional banks, the president, the vice-president and treasurer but guess what? Those are subject to veto by the national board. Get the picture? All power has always been at the top of this system. The only thing that the charter allows them to vote for, those boards of directors, of substance is to set the interest rates within their regions. But this should come as no surprise to anybody that even that is subject to veto by the national board. You see this concept of diffusion of power throughout the regions of the US is a scam. There is no power at the local level. There is nothing that these boards of directors who are voted in by the banks who hold the certificates can do of substance. All they're allowed to do really is play golf.

It is not a privately held corporation in the traditional sense of the word. This idea

of diffusion of power over the 12 regional banks was just a necessity of 1913 to sell the concept to the American people. If it hadn't been for this aversion against the concentration of power in New York they would never have had these 12 regions; it's just a leftover from the necessity to sell it and doesn't serve any function whatsoever. So it's not a corporation in the traditional sense of the word, it's not a government agency in the traditional sense of the word so what is it? It's a hybrid, part corporation and part government, part private, part government. In fact, it is exactly what you would expect it to be considering the fact that it is a partnership between the private banking cartel and the government. It's a unique structure which was designed to perform a unique function.

Is it a solution to abolish the Fed and turn it over to the Congress to run on behalf of the people? At least we get the dirty bankers out of the loop, right? And that makes everybody feel good...well, we're not paying interest to the banks anymore but what happens? Now the government is running the whole thing by itself. Now that solves a lot of problems doesn't it? Now they're creating money out of nothing all by themselves. Well, they've always been able to do that. The government doesn't want to do that, that's the reason they got into this partnership in the beginning because when the government creates money directly it's too obvious. That's why the kings and princes of Europe couldn't do it. They printed money, that's how they did it generally, but when the government prints money you can see all this money around that says the government on there and you know exactly what's going on. They like to work through the banking system because when it appears in your checking account it doesn't say government on it and you don't know how it got there.

The government really doesn't want to do it that way but even if they did it wouldn't make much difference because it's not important who owns the Federal Reserve System. The important thing is what it does and as long as it is a central bank, which means as long as it has the power and the mandate to create money out of nothing it will create money out of nothing. That's what it will do and it will continue to do exactly the same thing and be run no doubt by the same people as it is now and we would not have solved anything. We must keep in mind that in Europe all of the central banks there are in fact direct agencies of their respective governments; they are not hybrid organizations at all like ours. And yet in those countries they do exactly the same as the Federal Reserve System has been doing here. Just turning it over to the government is a non-solution.

Let's talk briefly about what the objectives of the Federal Reserve System are. We've been told over and over again that the purpose of the Fed is to stabilize the economy. Right now with the interest rates going up, up, up what are we told? why are they doing that? Well, that's to stabilize the economy so we won't have massive inflation right? It's being done for us folks! Don't you feel just warm all over knowing that they're looking out for you? That's always the answer; the purpose of the Fed is to look out for us and stabilize the economy, put an end to banking anarchy and all that sort of thing. Right now the textbook that is most

commonly used in our school systems in economics is a book written by Paul Samuelson and in that book here's what he says regarding the purpose of the Fed: "The Federal Reserve sprang from the panic of 1907 with its alarming epidemic of bank failures. The country was fed-up once and for all with the anarchy of unstable private banking." That's what the students are learning.

Let's let that go for the moment and say ok if that is the purpose of the Fed, let's give it a report card and see how well it has done in stabilizing the economy. Since it was created in 1913 the Federal Reserve System has presided over the crashes of 1921 and 1929, the Great Depression of 1929 1939, recessions in the years 1953, 1957, 1969, 1975 and 1981, and a stock market Black Monday in 1987. We all know that corporate debt is soaring, personal debt is greater than ever before, both business and personal bankruptcies are at an all-time high, banks and savings and loan associations have failed in greater numbers than ever before in our history, interest on the national debt now consumes half of all of our tax dollars, heavy industry has all but been replaced by overseas competition, we're facing an international trade deficit for the first time in our history, 75% of downtown Los Angeles and other metropolitan areas are now owned by foreigners and over half of the nation now officially is in a state of recession.

That is the report card for the Federal Reserve System after 80 years of stabilizing our economy. I don't even think it's controversial to say that it has failed to meet its stated objectives. The only controversial part is why has it failed? My answer is because those have never been its real objectives at all.

What are its objectives? What are the objectives of any cartel? To make money for the members of the cartel, to improve the profit margins of the members of the cartel and to stabilize themselves in the marketplace. That is the true objective of the Federal Reserve System. Now if we hold that up as our guiding principle and give the Federal Reserve a report card it gets a different grade.

In particular I'd like to have you look with me at three particular objectives which were very well discussed in that period in which the Federal Reserve System was created. We always have to go back to that because we can learn so much from that period of history. There were three things that the bankers, particularly the ones on Jekyll Island, wanted the Federal Reserve Act to accomplish. What are they? The first one was to stop the erosion of their power away from New York. Just the opposite of what the Federal Reserve Act was sold to us as to accomplish, to keep the power of New York. They were concerned that as the nation was expanding westward and southward new banks were springing up all along the frontier and every year a little bit more of the nation's capital would drift away from New York. They still had the lion's share, of course, but they could see the chart and they knew that they had to put a stop to that now while they still had the power to do so. Competition is a sin said John D. Rockefeller I and that includes competition from these upstart banks.

It's a good point to mention that when I'm talking about the banking cartel I'm talking primarily about the big New York banks and not the local bank down the street that's struggling under the system. One of the purposes of the Federal Reserve System was to keep the lid on those new competitive banks so they could never grow and become large like the ones on Wall Street. The small banks have always been the target in this system and needed to be kept in line, to be regulated out of existence, a process which you've noticed has been going on for many, many years. There is objective number one, to keep control over the money markets in New York.

Objective number two was to reverse the trend of what is called private capital formation. That's banker language for a process in which an individual or a corporation uses their own savings to pay for something instead of going to the bank and borrowing it, if you can imagine that happening. It was happening at the turn of the century. The trend was that businesses in particular were withholding some of their dividends each quarter and putting that money into a sinking fund and then as the money accumulated or as the capital formed, then they finally had enough that they could use their own money to build that new factory or to launch a research & development project or whatever instead of going to the banks and borrowing for it. The banks were very concerned over this trend because this is their life-blood. Loaning money is what they do so how do you loan money when people don't want to borrow it? The answer they knew, and th

ey talked a lot about this, was to lower interest rates, get those rates down so that they were so attractive that people would be crazy not to come to the banks and borrow money at those good interest rates.

How do you lower interest rates? Today it's easy when you've got the lever at the Federal Reserve you just throw it up or down and interest rates go up or down; you have total control over it. In 1913 there was no lever. The money in those days was backed by gold and silver and they couldn't control it. They hated that. These guys hate gold and silver behind money because under those conditions interest rates are the result of the natural forces of supply and demand; they couldn't just create money out of nothing. It was the result of the interaction of millions of people bidding for products and services and digging money out of the ground, literally gold and silver and converting into money.

They were looking for a way to artificially push the interest rates down. How do you do that? They said the only way you can do that is with a flexible currency. That was the cry that they put up in those days. What the nation needs, they said, is a flexible currency to meet the demands of industry and agriculture. You still hear that phrase today--"flexible currency." What does that mean? You need a dictionary sometimes to look these phrases up. Flexible currency does not mean the paper stuff in our pockets that bends, it means money created out of nothing. The trick here is not hard to figure out. If you can create money out of

nothing, you don't have to charge an awful lot of interest on it to show a profit. It's that simple. If you have a flexible currency you can in fact lower interest rates and still do pretty well, can't you? They wanted a flexible currency so they could lower interest rates and entice people back into the banks to borrow money and to reverse the trend toward private capital formation. Objective number two.

The third objective was to pass on the inevitable losses within the banking system on to the taxpayer in the name of protecting the people. Those were three of the major objectives at the time the Federal Reserve System was created. I say those are the true objectives of the Fed. On that basis, let's give it a report card.

Did it keep control in New York in the hands of the larger banks? The answer is a resounding yes. Anyone who knows about the financial markets knows that this is definitely what's happened. Yes we have big banks in the west and in the south but they're nothing compared to those banks in New York which are astride the world with offices in Peking and Moscow and Africa and everywhere; these are the giants and they have remained that way from the very beginning because of the Federal Reserve System.

A few years ago there was a book that was published by Simon & Schuster and it was called "Secrets of the Temple" written by William Grider(?). It was a best-seller and it was advertised as a scathing attack against the Federal Reserve System. When I heard that I couldn't believe my ears. A scathing attack against the Federal Reserve System published by Simon & Schuster? one of the big publishing houses? I thought, I don't have to finish my own book, they've done it. So I ran down and got a copy of the book and devoured it and read it in one day and I was totally amazed on two points. First of all, much to my surprise, I did not expect this, Grider's history was, I thought, excellent. I thought it would be a whitewash but his history was right-on. He had all the gory details and I couldn't believe it but I knew these things were true because I was right then in the middle of researching them.

On the subject of the concentration of power in New York, I'd like to read to you an excerpt from Grider's book. He said: "At the time [he's talking about 1913] the conventional wisdom in Congress was that the government institution would finally harness the money trust, disarm its powers and establish broad democratic control over money and credit. The results were nearly the opposite. The money reforms enacted in 1913 in fact helped to preserve the status quo, to stabilize the old order. Money center bankers would not only gain dominance over the new central bank but would also enjoy new insulation against instability and their own decline. Once the Fed was in operation the steady diffusion of financial power halted. Wall Street maintained its dominant position and even enhanced it."

The other thing that amazed me was Grider's conclusion. He proved that the

Federal Reserve had always acted against the public interest. He proved that it was designed to do that from the very beginning so what do you suppose his conclusion was regarding a solution? that we abolish the Fed? No, nothing that extreme. How about a major overhaul? No, not necessary. What then? Grider said, you see it's all so complicated, we're learning as we go, we've made a lot of mistakes but don't worry folks we're on it now, relax, it's under control, all we need now is wiser men.

That is the kind of powderpuff criticism it takes to be published by Simon & Schuster or any of the other major publishing houses which are firmly interlocked in the investment web on Wall Street. It doesn't make any difference how accurate your history is; it doesn't make any difference how much you point with alarm or how righteous you may sound if you have no realistic solution to the problem then who cares? They like that because it gives the people the impression that something's being done, somebody is really calling attention to the problem. But they have no solution or they're carefully selected so that the ones with the real solutions do not get the media, do not get the major publishing houses.

This is a tactic which we have to better understand especially in these critical days ahead. A tactic of controlled opposition. It makes no difference how accurate you are when you're pointing to the problems in America. If you don't have a solution what difference does it make? If your solution is put wiser men in there or if your solution is vote Republican and don't ask questions about what kind of Republican then you are controlled opposition and this is something we have to be very, very alert to in these critical days ahead.

Back to the topic. The Federal Reserve System gets an A on its report card for maintaining control over the financial markets in New York. What about reversing the trend toward private capital formation. Boy, did they ever. Periodically they get those interest rates down so low and everybody is lured into the banks. Borrow like crazy and then the economy crunches down and they're all stuck with this overhead and they can't make their interest payments.

We've seen businesses go out of existence because they cannot service their debt. You've seen people lose their homes and their cars because they cannot service their debt. There are many giant corporations today that are just hanging in there by the skin of their teeth because of their debt overhead. The fact is that many of these companies now send more money to the banks every quarter in the form of interest payments on their loans than they send to their stockholders as dividends on their stock. Think about that for a minute. The banks which had no part in the operation of the company whatsoever, the banks which made this money out of nothing are making more money from these industries than the people who work for the money, save the money, invested the money and risked the money to own those corporations. This is because they quite successfully reversed the trend toward private capital formation and they did it with a flexible

currency. The Federal Reserve System gets an A+ on its report card for objective number two.

Finally, did they pass along their inevitable losses to the taxpayer in the name of protecting the people? This is what I call "Operation Bail-Out." Every time one of the big banks gets into trouble, not the small banks remember, they're the competition, the big banks get into trouble and they are bailed out at taxpayers' expense. Always in the name of protecting the people. If a large corporation is in trouble because it can't make its interest payments to the bank anymore, they go to Congress and say "we can't let this corporation fold; look at the thousands of jobs that would be lost; look how the people would suffer." When a third world country can no longer make its interest payments to a large bank in New York, what happens? The bank goes to Congress and says "you know, you'd better do something about this because if we have to write that loan off of our books we may be bankrupt, we could fold. And look at all of the depositors, good Americans, who have their accounts with us who would lose their deposit. Maybe the FDIC won't be able to cover; we could have a crisis on our hands. If our bank falls maybe the other banks will fall too and we'll have a national recession. Look how the people will suffer." So Congress dutifully steps forward, remember it's a partner in this, and votes the funds to guarantee the loans or in some way to pass the payments on directly or indirectly in some very ingenious methods to the taxpayer. That money is raised primarily through the Federal Reserve System and we pay it through the Mandrake Mechanism.

So the Federal Reserve System has done pretty well on that. In case you have missed a few of the more memorable games, I'd like to review them for you. Penn Central Railroad was bailed out in 1970. That was a good year because Lockheed Corporation was bailed out the same year. Commonwealth Bank of Detroit was bailed in 1972; New York City in 1975; Chrysler in 1978; First Pennsylvania Bank in 1980; Continental Illinois, the largest of the banks so far, in 1982. And look at all of these third world countries which cannot pay their interest payments. They are paying their interest payments and you're doing it for them because the Federal Reserve System creates the money that we send to the International Monetary Fund and the World Bank and then they give it to those countries so that they can pay the interest to the banks. Maybe you've missed that little trail but that's how it works.

The Federal Reserve System gets an A+++ on all of these points and it has surely been a huge success in terms of the people who created it.

Actions have consequences and one of the consequences of this scam is what we call a "national debt." Its rapidly approaching 5 trillion dollars that we know about, it's much higher than that if you include the unfunded debt and all of the things that are off-budget and all of the funny stuff that they do with the accounting in Washington. With all honest accounting you'd find it was much, much higher than that.

But even at 5 trillion dollars it's a staggering figure. I'm told if we had a stack of \$100 bills about 40 inches high we'd be a millionaire. A stack of \$100 bills equaling 5 trillion dollars would rise into space 3,350 miles. That's a lot of money and it all came from us and it's earning perpetual interest.

Another way of measuring that is that we've had a known inflation of 1,000% since the Federal Reserve System was created. Another way of phrasing that is that a dollar in 1913 today buys about nine cents worth of goods. That's how much money has been taken from us, taxed from us, through this hidden process.

I say 1,000% inflation that is known because it's much more than that. Have you ever wondered, as I used to, why don't we have more inflation than we have had? I knew they were creating this money like crazy, why only this inflation? And then I found out. Have you ever heard the expression that we're "exporting our inflation." Every once in a while you find that phrase in the financial section of the newspaper. It used to drive me crazy--how can you export inflation? It's one of those phrases that people use and I'm not sure most of the people who use the phrases know what they mean. Like the other day I read that the Federal Reserve System bought dollars today to bolster up the dollar. How can you buy dollars? What do you buy it with? They buy it with other currencies, the Federal Reserve holds a lot of different currencies, yens and deutsch marks and that kind of thing so they just swap currencies around.

This expression of exporting inflation--what does that mean? It means 70% of the American currency that has been created by our Federal Reserve System is no longer in America, it's overseas. Other nations use American dollars as their unofficial money supply. Especially those countries which have no realistic money of their own. These countries that undergo inflation rates of 5,000 and 10,000% a year, you can't work with money like that. Women have to take wheelbarrows full of paper money to the grocery store to buy a bottle of milk. You can't carry on any serious economic transaction with money like that and they don't, they use American dollars.

All the banks in those systems have dual types of money. American dollars are the mainstay of economic transactions in most of those countries. That's where a lot of our money went. We have been spared the inflationary impact of all that money because had it stayed here, it would've bid against the existing money here and would have diluted our pot even more and we would've known what the inflation should've been.

What happens when the day comes when for whatever reason these countries can no longer, or no longer wish to, use American dollars? What are they going to do with those dollars? They'll send them back. They'll buy something with them while they can. It'll be a big rush. It'll be our refrigerators, our automobiles, our

real estate, our high-rise buildings, our corporate stock, our politicians, whatever's for sale. All of this money will come in and then we'll find out in a very short period of time what the true inflation rate really should have been all of these years.

Incidentally, if you've followed in the newspapers the talk about the new money that they're going to release, they're talking about two-tiered money, one for overseas and one for here. It will probably be a different color. Frankly I think they're recognizing this fact that the money would return and they're going to make it illegal for all of this overseas money to come back by making it a different color so that they won't be able to bring it here or if you do bring it here you won't be able to spend it here, it won't be legal here. Those are some of the consequences of the actions of the Federal Reserve Scam. I have one last topic that I want to talk to you about and then I'll get to the conclusion. This is an extremely important topic and it has to do with usury. In ancient times usury was defined as interest on a loan, any interest on any loan. In modern times that has been redefined to mean excessive interest on a loan. Moderate interest seems logical to us in recognition of the fact that if we work hard for our money, we save it and surrender its use for a period of time being a sacrifice on our part and then loan it to somebody else for their venture, we're entitled to a reasonable return on that sacrifice. A reasonable interest rate is a concept that very few people have problems with, it seems logical and fair.

But what is this thing called excessive interest? Thomas Edison said, "People who will not turn a shovel-full of dirt on the project nor contribute a pound of materials will collect more money than will the people who will supply all the materials and do all the work." I wondered when I read that if Tom was exaggerating so I got my calculator out. I assumed that there was going to be a \$100,000 house built. I assumed that \$30,000 would have to go for land, architect's fees and permits and that kind of thing. \$70,000 would go for the actual construction of the house, building materials and labor. I assumed that the buyer would go to the bank and put 20% down and then borrow the balance at 10% over 30 years. I punched in the numbers and discovered that the borrower will pay to the bank in interest \$172,741 compared to \$70,000 paid for the construction of the house. In other words, about 2 1/2 times as much money will be paid to the bank in interest than will be paid to those who provide all the labor and all the materials. And you may say to yourself, yes but that's fair, after all a 30 year loan is a long loan and people work for their money and sacrifice its use and loan it and so forth and deserve to be compensated. No. Not this money. Nobody worked for this money, nobody saved this money. There was no sacrifice of any kind for this money. This money was created out of nothing and I suggest that \$172,741 interest on nothing is excessive!

I think it's time for a new definition of usury as follows: any interest on any loan of fiat money (meaning money made out of nothing). This example of a \$100,000 home, as shocking as it is, producing \$172,741 unearned interest, this is just a

grain of sand in the Sahara. You have to multiply that by all the homes in America, by all of these hotels in America, all the high-rise buildings, all the factories, all the airplanes, automobiles, farm equipment, schools, everything, all the physical assets of America. You apply this same ratio and can you see it in your mind? We're talking about a river of unearned wealth that is so wide you can't even think of crossing it, flowing perpetually into the banking cartel. A dead short across the productive element of society. Money being taken from people who are working hard providing the material and the labor. They don't even know that this is being taken from them and it's in this huge river of wealth flowing into the banking cartel. It's a staggering thought.

You are led to the question of where is this river flowing? Where's it going? Get a picture of this that it's all going into a lake somewhere and maybe there's a dam and the wealth is building up and somewhere they're getting it all. Getting it no, they're spending it. They're not accumulating it at all. What are they spending it for? The answer may surprise you. They're not buying more yachts and mansions with this money, they've already got all of those they possibly want. In fact they got rid of the mansions on Jekyll Island a long time ago because they were bored with that. That's not it. When a person has all the wealth that you could possibly want for the material pleasures of life, what is left? Power. They are using this river of wealth to acquire power over you and me and our children.

They are spending it to acquire control over the power centers of society. The power centers are those groups and institutions through which individuals live and act and rely on for their information. They are literally buying up the world but not the real estate and the hardware, they're buying control over the organizations, the groups and institutions that control people. In other words, to be specific, they are buying control over politicians, political parties, television networks, cable networks, newspapers, magazines, publishing houses, wire services, motion picture studios, universities, labor unions, church organizations, trade associations, tax exempt foundations, multi-national corporations, boy scouts, girl scouts, you name it. Make your own list of organizations and you will find that this is where those people have been for many decades spending this river of wealth to acquire operational control particularly over those institutions and individuals, those organizations that represent opposition to themselves. That's a critical area for expenditure on their part.

This process has gone on not only to a marked degree in America and in the other industrialized nations of the world, but it has gone on in the so-called third world or underdeveloped nations to such a degree that I would say the process is now complete. They own these countries already. Have you ever wondered what's going on there at the International Monetary Fund and the World Bank? Kind of an obscure operation isn't it? you don't read much about it except once in a while on the back page of the newspaper you find out that Congress at the insistence of the President authorized another \$100 billion for the International Monetary Fund. And then the article tells you that this money will be used to

make loans to underdeveloped nations or grants to them to raise their standard of living. Do you believe that? That's one of those appearances of the fourth kind if you ever saw one. If the money is to be used to raise the standard of living of these countries they're not doing a very good job of it because after all of these decades, after all of these hundreds of billions of dollars, you cannot point to one country that has had its standard of living raised one iota by that. In fact in most cases it's the other way around and that's not an accident because the money has not been used to raise the standard of living. The money does not go to the people in those countries. It goes to the politicians of those countries, to their governments and the money is designed and spent to strengthen their power structures, their ability to control their populations. They usually start off as inefficient dictatorships but by the time they get all this money from the IMF, they are now efficient dictatorships. They have a well-equipped army, a better bureaucracy, total control of their subjects. That's where the money's being spent.

These countries have been purchased because the politicians in those countries are now totally addicted to this money. We talk about welfare families in America that are third and fourth generation welfare, they're on the dole forever, they cannot dream of anything else. The politicians in these countries are the same way and it's now second, third and in some cases fourth generation international welfare from the United Nations funding. They have no ideology--communism, socialism, capitalism, fascism, what difference does it make? where's the money? As long as they live well, they have their mansions, their yachts, their limousines, they go to New York to the UN and have their suites at the Waldorf-Asoria and that's all they care about.

These countries have been purchased through this means and are now owned by this group at the UN and they're firmly in place in the new world order where they're just waiting for you and me to show up. That's the other side of this coin. Not only does this transfer of wealth from America to these countries not raise their standard of living but it does lower ours. That too, believe it or not, is part of the plan. Just waste, get rid of money, get rid of productive power to reduce our standard of living. A strong nation is not a candidate to surrender its sovereignty but a weak nation is. If America can be brought to her knees where she is struggling for survival, if people are hungry, if we have riots in our streets, then Americans could possibly be grateful for any assistance we could get from the UN. Those wonderful blue helmeted peace-keeping forces could bring order back to our streets or international money, a new world money with purchasing power again might be welcomed by the unthinking, unknowing American public. That is what we're dealing with.

What I'm trying to say is that the name of the game out there is not wealth, it is power.

[conclusions omitted]

[This was a transcription of a two tape set provided for free by Firefighters for Christ of a talk about the Federal Reserve System. Place and person names will probably be incorrect but the overall gist of what is going on is fascinating enough so that you will hopefully be able to overlook my errors. This work has been edited to make it more readable.--Moza]

<http://www.firefighters.org/>

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The Creature from Jekyll Island
<http://www.biblebelievers.org.au/jekyll.htm>

by G. Edward Griffin
(Available from: [The Reality Zone](#))

Chapter 10

What is the Mandrake Mechanism?

It's the most important financial lesson of your life!

THE MANDRAKE MECHANISM . . . What is it? It is the method by which the Federal Reserve creates money out of nothing; the concept of usury as the payment of interest on pretended loans; the true cause of the hidden tax called inflation; the way in which the Fed creates boom-bust cycles.

In the 1940s, there was a comic strip character called Mandrake the Magician. His specialty was creating things out of nothing and, when appropriate, to make them disappear back into that same void. It is fitting, therefore, that the process to be described in this section should be named in his honor.

In the previous chapters, we examined the technique developed by the political

and monetary scientists to create money out of nothing for the purpose of lending. This is not an entirely accurate description because it implies that money is created first and then waits for someone to borrow it.

On the other hand, textbooks on banking often state that money is created out of debt. This also is misleading because it implies that debt exists first and then is converted into money. In truth, money is not created until the instant it is borrowed. It is the act of borrowing which causes it to spring into existence. And, incidentally, it is the act of paying off the debt that causes it to vanish. There is no short phrase that perfectly describes that process. So, until one is invented along the way, we shall continue using the phrase "create money out of nothing" and occasionally add "for the purpose of lending" where necessary to further clarify the meaning.

So, let us now . . . see just how far this money/debt-creation process has been carried -- and how it works.

The first fact that needs to be considered is that our money today has no gold or silver behind it whatsoever. The fraction is not 54% nor 15%. It is 0%. It has traveled the path of all previous fractional money in history and already has degenerated into pure fiat money. The fact that most of it is in the form of checkbook balances rather than paper currency is a mere technicality; and the fact that bankers speak about "reserve ratios" is eyewash. The so-called reserves to which they refer are, in fact, Treasury bonds and other certificates of debt.

Our money is "pure fiat" through and through.

The second fact that needs to be clearly understood is that, in spite of the technical jargon and seemingly complicated procedures, the actual mechanism by which the Federal Reserve creates money is quite simple. They do it exactly the same way the goldsmiths of old did except, of course, the goldsmiths were limited by the need to hold some precious metals in reserve, whereas the Fed has no such restriction.

The Federal Reserve is candid.

The Federal Reserve itself is amazingly frank about this process.

A booklet published by the Federal Reserve Bank of New York tells us:

"Currency cannot be redeemed, or exchanged, for Treasury gold or any other asset used as backing. The question of just what assets 'back' Federal Reserve notes has little but bookkeeping significance."

Elsewhere in the same publication we are told: "Banks are creating money based

on a borrower's promise to pay (the IOU) . . . Banks create money by 'monetizing' the private debts of businesses and individuals."

In a booklet entitled Modern Money Mechanics, the Federal Reserve Bank of Chicago says:

In the United States neither paper currency nor deposits have value as commodities. Intrinsically, a dollar bill is just a piece of paper. Deposits are merely book entries. Coins do have some intrinsic value as metal, but generally far less than their face amount.

What, then, makes these instruments -- checks, paper money, and coins -- acceptable at face value in payment of all debts and for other monetary uses? Mainly, it is the confidence people have that they will be able to exchange such money for other financial assets and real goods and services whenever they choose to do so. This partly is a matter of law; currency has been designated "legal tender" by the government -- that is, it must be accepted.

In the fine print of a footnote in a bulletin of the Federal Reserve Bank of St. Louis, we find this surprisingly candid explanation:

Modern monetary systems have a fiat base -- literally money by decree -- with depository institutions, acting as fiduciaries, creating obligations against themselves with the fiat base acting in part as reserves. The decree appears on the currency notes: "This note is legal tender for all debts, public and private."

While no individual could refuse to accept such money for debt repayment, exchange contracts could easily be composed to thwart its use in everyday commerce. However, a forceful explanation as to why money is accepted is that the federal government requires it as payment for tax liabilities. Anticipation of the need to clear this debt creates a demand for the pure fiat dollars.

Money would vanish without debt.

It is difficult for Americans to come to grips with the fact that their total money-supply is backed by nothing but debt, and it is even more mind boggling to visualize that, if everyone paid back all that was borrowed, there would be no money left in existence.

That's right, there would not be one penny in circulation -- all coins and all paper currency would be returned to bank vaults -- and there would be not one dollar in any one's checking account. In short, all money would disappear.

Marriner Eccles was the Governor of the Federal Reserve System in 1941. On September 30 of that year, Eccles was asked to give testimony before the House

Committee on Banking and Currency. The purpose of the hearing was to obtain information regarding the role of the Federal Reserve in creating conditions that led to the depression of the 1930s.

Congressman Wright Patman, who was Chairman of that committee, asked how the Fed got the money to purchase two billion dollars worth of government bonds in 1933.

This is the exchange that followed.

Eccles: We created it.

Patman: Out of what?

Eccles: Out of the right to issue credit money.

Patman: And there is nothing behind it, is there, except our government's credit?

Eccles: That is what our money system is. If there were no debts in our money system, there wouldn't be any money.

It must be realized that, while money may represent an asset to selected individuals, when it is considered as an aggregate of the total money supply, it is not an asset at all. A man who borrows \$1,000 may think that he has increased his financial position by that amount but he has not. His \$1,000 cash asset is offset by his \$1,000 loan liability, and his net position is zero. Bank accounts are exactly the same on a larger scale. Add up all the bank accounts in the nation, and it would be easy to assume that all that money represents a gigantic pool of assets which support the economy. Yet, every bit of this money is owed by someone. Some will owe nothing. Others will owe many times what they possess. All added together, the national balance is zero. What we think is money is but a grand illusion. **The reality is debt.**

Robert Hemphill was the Credit Manager of the Federal Reserve Bank in Atlanta. In the foreword to a book by Irving Fisher, entitled 100% Money, Hemphill said this:

If all the bank loans were paid, no one could have a bank deposit, and there would not be a dollar of coin or currency in circulation. This is a staggering thought. We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash, or credit. If the banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless situation is almost incredible -- but there it is.

With the knowledge that money in America is based on debt, it should not come as a surprise to learn that the Federal Reserve System is not the least interested in seeing a reduction in debt in this country, regardless of public utterances to the contrary.

Here is the bottom line from the System's own publications. The Federal Reserve Bank of Philadelphia says:

"A large and growing number of analysts, on the other hand, now regard the national debt as something useful, if not an actual blessing . . . [They believe] the national debt need not be reduced at all."

The Federal Reserve Bank of Chicago adds:

"Debt -- public and private -- is here to stay. It plays an essential role in economic processes . . . What is required is not the abolition of debt, but its prudent use and intelligent management."

What's wrong with a little debt?

There is a kind of fascinating appeal to this theory. It gives those who expound it an aura of intellectualism, the appearance of being able to grasp a complex economic principle that is beyond the comprehension of mere mortals. And, for the less academically minded, it offers the comfort of at least sounding moderate. After all, what's wrong with a little debt, prudently used and intelligently managed? The answer is nothing, provided the debt is based on an honest transaction. There is plenty wrong with it if it is "based upon fraud".

An honest transaction is one in which a borrower pays an agreed upon sum in return for the temporary use of a lender's asset. That asset could be anything of tangible value. If it were an automobile, for example, then the borrower would pay "rent." If it is money, then the rent is called "interest." Either way, the concept is the same.

When we go to a lender -- either a bank or a private party -- and receive a loan of money, we are willing to pay interest on the loan in recognition of the fact that the money we are borrowing is an asset which we want to use. It seems only fair to pay a rental fee for that asset to the person who owns it. It is not easy to acquire an automobile, and it is not easy to acquire money -- real money, that is. If the money we are borrowing was earned by someone's labor and talent, they are fully entitled to receive interest on it. But what are we to think of money that is created by the mere stroke of a pen or the click of a computer key? Why should anyone collect a rental fee on that?

When banks place credits into your checking account, they are merely pretending to lend you money. In reality, they have nothing to lend. Even the money that non-indebted depositors have placed with them was originally created out of nothing in response to someone else's loan. So what entitles the banks to collect rent on nothing? It is immaterial that men everywhere are forced by law to accept these nothing certificates in exchange for real goods and services. We are talking here, not about what is legal, but what is moral. As

Thomas Jefferson observed at the time of his protracted battle against central banking in the United States, **"No one has a natural right to the trade of money lender, but he who has money to lend."**

Third reason to abolish the system.

Centuries ago, usury was defined as any interest charged for a loan. Modern usage has redefined it as excessive interest. Certainly, any amount of interest charged for a pretended loan is excessive. The dictionary, therefore, needs a new definition.

Usury: The charging of any interest on a loan of fiat money.

Let us, therefore, look at debt and interest in this light. Thomas Edison summed up the immorality of the system when he said:

People who will not turn a shovel of dirt on the project [Muscle Shoals] nor contribute a pound of materials will collect more money . . . than will the people who will supply all the materials and do all the work.

Is that an exaggeration? Let us consider the purchase of a \$100,000 home in which \$30,000 represents the cost of the land, architect's fee, sales commissions, building permits, and that sort of thing and \$70,000 is the cost of labor and building materials. If the home buyer puts up \$30,000 as a down payment, then \$70,000 must be borrowed. If the loan is issued at 11% over a 30-year period, the amount of interest paid will be \$167,806. That means the amount paid to those who loan the money is about 2 1/2 times greater than paid to those who provide all the labor and all the materials. It is true that this figure represents the time-value of that money over thirty years and easily could be justified on the basis that a lender deserves to be compensated for surrendering the use of his capital for half a lifetime. But that assumes the lender actually had something to surrender, that he had earned the capital, saved it, and then loaned it for construction of someone else's house. What are we to think, however, about a lender who did nothing to earn the money, had not saved it, and, in fact, simply created it out of thin air?

What is the time-value of nothing?

As we have already shown, every dollar that exists today, either in the form of currency, checkbook money, or even credit card money -- in other words, our entire money supply -- exists only because it was borrowed by someone; perhaps not you, but someone.

That means all the American dollars in the entire world are earning daily and compounding interest for the banks which created them. A portion of every business venture, every investment, every profit, every transaction which

involves money -- and that even includes losses and the payment of taxes -- a portion of all that is earmarked as payment to a bank.

And what did the banks do to earn this perpetually flowing river of wealth? Did they lend out their own capital obtained through investment of stockholders? Did they lend out the hard-earned savings of their depositors? No, neither of these were their major source of income. They simply waved the magic wand called fiat money.

The flow of such unearned wealth under the guise of interest can only be viewed as usury of the highest magnitude. Even if there were no other reasons to abolish the Fed, the fact that it is the supreme instrument of usury would be more than sufficient by itself.

Who creates the money to pay the interest?

One of the most perplexing questions associated with this process is "Where does the money come from to pay the interest?" If you borrow \$10,000 from a bank at 9%, you owe \$10,900. But the bank only manufactures \$10,000 for the loan. It would seem, therefore, that there is no way that you -- and all others with similar loans -- can possibly pay off your indebtedness. The amount of money put into circulation just isn't enough to cover the total debt, including interest. This has led some to the conclusion that it is necessary for you to borrow the \$900 for interest, and that, in turn, leads to still more interest. The assumption is that, the more we borrow, the more we have to borrow, and that debt based on fiat money is a never ending spiral leading inexorably to more and more debt.

This is a partial truth. It is true that there is not enough money created to include the interest, but it is a fallacy that the only way to pay it back is to borrow still more. The assumption fails to take into account the exchange value of labor. Let us assume that you pay back your \$10,000 loan at the rate of approximately \$900 per month and that about \$80 of that represents interest. You realize you are hard pressed to make your payments so you decide to take on a part-time job.

The bank, on the other hand, is now making \$80 profit each month on your loan. Since this amount is classified as "interest," it is not extinguished as is the larger portion which is a return of the loan itself. So this remains as spendable money in the account of the bank. The decision then is made to have the bank's floors waxed once a week. You respond to the ad in the paper and are hired at \$80 per month to do the job. The result is that you earn the money to pay the interest on your loan, and -- this is the point -- the money you receive is the same money which you previously had paid. As long as you perform labor for the bank each month, the same dollars go into the bank as interest, then out of the revolving door as your wages, and then back into the bank as loan repayment.

It is not necessary that you work directly for the bank. No matter where you earn the money, its origin was a bank and its ultimate destination is a bank. The loop through which it travels can be large or small, but the fact remains all interest is paid eventually by human effort. And the significance of that fact is even more startling than the assumption that not enough money is created to pay back the interest. It is that the total of this human effort ultimately is for the benefit of those who create fiat money.

It is a form of modern serfdom in which the great mass of society works as indentured servants to a ruling class of financial nobility.

Understanding the Illusion . . .

That's really all one needs to know about the operation of the banking cartel under the protection of the Federal Reserve. But it would be a shame to stop here without taking a look at the actual cogs, mirrors, and pulleys that make the magical mechanism work. It is a truly fascinating engine of mystery and deception.

Let us, therefore, turn our attention to the actual process by which the magicians create the illusion of modern money. First we shall stand back for a general view to see the overall action.

Then we shall move in closer and examine each component in detail.

The Mandrake Mechanism: An Overview

The entire function of this machine is to convert debt into money. It's just that simple. First, the Fed takes all the government bonds which the public does not buy and writes a check to Congress in exchange for them. (It acquires other debt obligations as well, but government bonds comprise most of its inventory.) There is no money to back up this check. These fiat dollars are created on the spot for that purpose. By calling those bonds "reserves," the Fed then uses them as the base for creating nine (9) additional dollars for every dollar created for the bonds themselves. The money created for the bonds is spent by the government, whereas the money created on top of those bonds is the source of all the bank loans made to the nation's businesses and individuals. The result of this process is the same as creating money on a printing press, but the illusion is based on an accounting trick rather than a printing trick.

The bottom line is that Congress and the banking cartel have entered into a partnership in which the cartel has the privilege of collecting interest on money which it creates out of nothing, a perpetual override on every American dollar that exists in the world.

Congress, on the other hand, has access to unlimited funding without having to

tell the voters their taxes are being raised through the process of inflation. If you understand this paragraph, you understand the Federal Reserve System.

Now for a more detailed view. There are three general ways in which the Federal Reserve creates fiat money out of debt.

One is by making loans to the member banks through what is called the Discount Window.

The second is by purchasing Treasury bonds and other certificates of debt through what is called the Open Market Committee.

The third is by changing the so-called reserve ratio that member banks are required to hold. Each method is merely a different path to the same objective: taking IOUs and converting them into spendable money.

THE DISCOUNT WINDOW

The Discount Window is merely bankers' language for the loan window. When banks run short of money, the Federal Reserve stands ready as the "bankers' bank" to lend it. There are many reasons for them to need loans. Since they hold "reserves" of only about one or two per cent of their deposits in vault cash and eight or nine per cent in securities, their operating margin is extremely thin. It is common for them to experience temporary negative balances caused by unusual customer demand for cash or unusually large clusters of checks all clearing through other banks at the same time. Sometimes they make bad loans and, when these former "assets" are removed from their books, their "reserves" are also decreased and may, in fact, become negative. Finally, there is the profit motive. When banks borrow from the Federal Reserve at one interest rate and lend it out at a higher rate, there is an obvious advantage. But that is merely the beginning.

When a bank borrows a dollar from the Fed, it becomes a one-dollar reserve.

Since the banks are required to keep reserves of only about ten per cent, they actually can loan up to nine dollars for each dollar borrowed.

Let's take a look at the math. Assume the bank receives \$1 million from the Fed at a rate of 8%. The total annual cost, therefore, is \$80,000 ($.08 \times \$1,000,000$). The bank treats the loan as a cash deposit, which means it becomes the basis for manufacturing an additional \$9 million to be lent to its customers. If we assume that it lends that money at 11% interest, its gross return would be \$990,000 ($.11 \times \$9,000,000$). Subtract from this the bank's cost of \$80,000 plus an appropriate share of its overhead, and we have a net return of about \$900,000. In other words, the bank borrows a million and can almost double it in one year. That's leverage! But don't forget the source of that leverage: the

manufacture of another \$9 million which is added to the nation's money supply.

THE OPEN MARKET OPERATION

The most important method used by the Federal Reserve for the creation of fiat money is the purchase and sale of securities on the open market. But, before jumping into this, a word of warning. Don't expect what follows to make any sense. Just be prepared to know that this is how they do it.

The trick lies in the use of words and phrases which have technical meanings quite different from what they imply to the average citizen. So keep your eye on the words. They are not meant to explain but to deceive. In spite of first appearances, the process is not complicated. It is just absurd.

THE MANDRAKE MECHANISM: A DETAILED VIEW

Start with . . .

GOVERNMENT DEBT

The federal government adds ink to a piece of paper, creates impressive designs around the edges, and calls it a bond or Treasury note. It is merely a promise to pay a specified sum at a specified interest on a specified date. As we shall see in the following steps, this debt eventually becomes the foundation for almost the entire nation's money supply. In reality, the government has created cash, but it doesn't yet look like cash. To convert these IOUs into paper bills and checkbook money is the function of the Federal Reserve System. To bring about that transformation, the bond is given to the Fed where it is then classified as a . . .

SECURITIES ASSET

An instrument of government debt is considered an asset because it is assumed the government will keep its promise to pay. This is based upon its ability to obtain whatever money it needs through taxation. Thus, the strength of this asset is the power to take back that which it gives. So the Federal Reserve now has an "asset" which can be used to offset a liability. It then creates this liability by adding ink to yet another piece of paper and exchanging that with the government in return for the asset. That second piece of paper is a . . .

FEDERAL RESERVE CHECK

There is no money in any account to cover this check. Anyone else doing that would be sent to prison. It is legal for the Fed, however, because Congress wants the money, and this is the easiest way to get it. (To raise taxes would be political suicide; to depend on the public to buy all the bonds would not be realistic, especially if interest rates are set artificially low; and to print very large quantities

of currency would be obvious and controversial.) This way, the process is mysteriously wrapped up in the banking system. The end result, however, is the same as turning on government printing presses and simply manufacturing fiat money (money created by the order of government with nothing of tangible value backing it) to pay government expenses. Yet, in accounting terms, the books are said to be "balanced" because the liability of the money is offset by the "asset" of the IOU. The Federal Reserve check received by the government then is endorsed and sent back to one of the Federal Reserve banks where it now becomes a . . .

GOVERNMENT DEPOSIT

Once the Federal Reserve check has been deposited into the government's account, it is used to pay government expenses and, thus, is transformed into many . . .

GOVERNMENT CHECKS

These checks become the means by which the first wave of fiat money floods into the economy. Recipients now deposit them into their own bank accounts where they become . . .

COMMERCIAL BANK DEPOSITS

Commercial bank deposits immediately take on a split personality.

On the one hand, they are liabilities to the bank because they are owed back to the depositors. But, as long as they remain in the bank, they also are considered as assets because they are on hand. Once again, the books are balanced: the assets offset the liabilities. But the process does not stop there. Through the magic of fractional-reserve banking, the deposits are made to serve an additional and more lucrative purpose. To accomplish this, the on-hand deposits now become reclassified in the books and called . . .

BANK RESERVES

Reserves for what? Are these for paying off depositors should they want to close out of their accounts? No. That's the lowly function they served when they were classified as mere assets. Now that they have been given the name of "reserves," they become the magic wand to materialize even larger amounts of fiat money. This is where the real action is: at the level of the commercial banks. Here's how it works. The banks are permitted by the Fed to hold as little as 10% of their deposits in "reserve." That means, if they receive deposits of \$1 million from the first wave of fiat money created by the Fed, they have \$900,000 more than they are required to keep on hand (\$1 million less 10% reserve). In bankers' language, that \$900,000 is called . . .

EXCESS RESERVES

The word "excess" is a tip off that these so-called reserves have a special destiny. Now that they have been transmuted into an excess, they are considered as available for lending. And so in due course these excess reserves are converted into . . .

BANK LOANS

But wait a minute. How can this money be loaned out when it is owned by the original depositors who are still free to write checks and spend it any time they wish? The answer is that, when the new loans are made, they are not made with the same money at all. They are made with brand new money created out of thin air for that purpose. The nation's money supply simply increases by ninety per cent of the bank's deposits. Furthermore, this new money is far more interesting to the banks than the old. The old money, which they received from depositors, requires them to pay out interest or perform services for the privilege of using it. But, with the new money, the banks collect interest, instead, which is not too bad considering it cost them nothing to make. Nor is that the end of the process. When this second wave of fiat money moves into the economy, it comes right back into the banking system, just as the first wave did, in the form of . . .

MORE COMMERCIAL BANK DEPOSITS

The process now repeats but with slightly smaller numbers each time around. What was a "loan" on Friday comes back into the bank as a "deposit" on Monday. The deposit then is reclassified as a "reserve" and ninety per cent of that becomes an "excess" reserve which, once again, is available for a new "loan." Thus, the \$1 million of first wave fiat money gives birth to \$900,000 in the second wave, and that gives birth to \$810,000 in the third wave (\$900,000 less 10% reserve). It takes about twenty-eight times through the revolving door of deposits becoming loans becoming deposits becoming more loans until the process plays itself out to the maximum effect, which is . . .

BANK FIAT MONEY = UP TO 9 TIMES GOVERNMENT DEBT

The amount of fiat money created by the banking cartel is approximately nine times the amount of the original government debt which made the entire process possible. When the original debt itself is added to that figure, we finally have . . .

TOTAL FIAT MONEY = UP TO 10 TIMES GOVERNMENT

The total amount of fiat money created by the Federal Reserve and the commercial banks together is approximately ten times the amount of the underlying government debt. To the degree that this newly created money floods into the economy in excess of goods and services, it causes the purchasing

power of all money, both old and new, to decline. Prices go up because the relative value of the money has gone down. The result is the same as if that purchasing power had been taken from us in taxes. The reality of this process, therefore, is that it is a . . .

HIDDEN TAX = UP TO 10 TIMES THE NATIONAL DEBT

Without realizing it, Americans have paid over the years, in addition to their federal income taxes and excise taxes, a completely hidden tax equal to many times the national debt! And that still is not the end of the process. Since our money supply is purely an arbitrary entity with nothing behind it except debt, its quantity can go down as well as up. When people are going deeper into debt, the nation's money supply expands and prices go up, but when they pay off their debts and refuse to renew, the money supply contracts and prices tumble. That is exactly what happens in times of economic or political uncertainty. This alternation between period of expansion and contraction of the money supply is the underlying cause of . . .

BOOMS, BUSTS, AND DEPRESSIONS

Who benefits from all of this? Certainly not the average citizen.

The only beneficiaries are the political scientists in Congress who enjoy the effect of unlimited revenue to perpetuate their power, and the monetary scientists within the banking cartel called the Federal Reserve System who have been able to harness the American people, without their knowing it, to the yoke of modern feudalism.

RESERVE RATIOS

The previous figures are based on a "reserve" ratio of 10% (a money-expansion ratio of 10-to-1). It must be remembered, however, that this is purely arbitrary. Since the money is fiat with no previous-metal backing, there is no real limitation except what the politicians and money managers decide is expedient for the moment. Altering this ratio is the third way in which the Federal Reserve can influence the nation's supply of money. The numbers, therefore, must be considered as transient.

At any time there is a "need" for more money, the ratio can be increased to 20-to-1 or 50-to-1, or the pretense of a reserve can be dropped altogether. There is virtually no limit to the amount of fiat money that can be manufactured under the present system.

NATIONAL DEBT NOT NECESSARY FOR INFLATION

Because the Federal Reserve can be counted on to "monetize" (convert into

money) virtually any amount of government debt, and because this process of expanding the money supply is the primary cause of inflation, it is tempting to jump to the conclusion that federal debt and inflation are but two aspects of the same phenomenon. This, however, is not necessarily true. It is quite possible to have either one without the other.

The banking cartel holds a monopoly in the manufacture of money. Consequently, money is created only when IOUs are "monetized" by the Fed or by commercial banks. When private individuals, corporations, or institutions purchase government bonds, they must use money they have previously earned and saved. In other words, no new money is created, because they are using funds that are already in existence. Therefore, the sale of government bonds to the banking system is inflationary, but when sold to the private sector, it is not. That is the primary reason the United States avoided massive inflation during the 1980s when the federal government was going into debt at a greater rate than ever before in its history. By keeping interest rates high, these bonds became attractive to private investors, including those in other countries. Very little new money was created, because most of the bonds were purchased with American dollars already in existence. This, of course, was a temporary fix at best.

Today, those bonds are continually maturing and are being replaced by still more bonds to include the original debt plus accumulated interest. Eventually this process must come to an end and, when it does, the Fed will have no choice but to literally buy back all the debt of the '80s -- that is, to replace all of the formerly invested private money with newly manufactured fiat money -- plus a great deal more to cover the interest. Then we will understand the meaning of inflation.

On the other side of the coin, the Federal Reserve has the option of manufacturing money even if the federal government does not go deeper into debt. For example, the huge expansion of the money supply leading up to the stock market crash in 1929 occurred at a time when the national debt was being paid off. In every year from 1920 through 1930, federal revenue exceeded expenses, and there were relatively few government bonds being offered. The massive inflation of the money supply was made possible by converting commercial bank loans into "reserves" at the Fed's discount window and by the Fed's purchase of banker's acceptances, which are commercial contracts for the purchase of goods.

Now the options are even greater. The Monetary Control Act of 1980 has made it possible for the Creature to monetize virtually any debt instrument, including IOUs from foreign governments. The apparent purpose of this legislation is to make it possible to bail out those governments which are having trouble paying the interest on their loans from American banks. When the Fed creates fiat American dollars to give foreign governments in exchange for their worthless bonds, the money path is slightly longer and more twisted, but the effect is similar to the purchase of U.S. Treasury Bonds. The newly created dollars go to the

foreign governments, then to the American banks where they become cash reserves. Finally, they flow back into the U.S money pool (multiplied by nine) in the form of additional loans. The cost of the operation once again is born by the American citizen through the loss of purchasing power. Expansion of the money supply, therefore, and the inflation that follows, no longer even require federal deficits. As long as someone is willing to borrow American dollars, the cartel will have the option of creating those dollars specifically to purchase their bonds and, by so doing, continue to expand the money supply.

We must not forget, however, that one of the reasons the Fed was created in the first place was to make it possible for Congress to spend without the public knowing it was being taxed. Americans have shown an amazing indifference to this fleecing, explained undoubtedly by their lack of understanding of how the Mandrake Mechanism works. Consequently, at the present time, this cozy contract between the banking cartel and the politicians is in little danger of being altered. As a practical matter, therefore, even though the Fed may also create fiat money in exchange for commercial debt and for bonds of foreign governments, its major concern likely will be to continue supplying Congress.

The implications of this fact are mind boggling. Since our money supply, at present at least, is tied to the national debt, to pay off that debt would cause money to disappear. Even to seriously reduce it would cripple the economy. Therefore, as long as the Federal Reserve exists, America will be, must be, in debt.

The purchase of bonds from other governments is accelerating in the present political climate of internationalism. Our own money supply increasingly is based upon their debt as well as ours, and they, too, will not be allowed to pay it off even if they are able.

EXPANSION LEADS TO CONTRACTION

While it is true that the Mandrake Mechanism is responsible for the expansion of the money supply, the process also works in reverse. Just as money is created when the Federal Reserve purchases bonds or other debt instruments, it is extinguished by the sale of those same items. When they are sold, the money is given back to the System and disappears into the inkwell or computer chip from which it came. Then, the same secondary ripple effect that created money through the commercial banking system causes it to be withdrawn from the economy. Furthermore, even if the Federal Reserve does not deliberately contract the money supply, the same result can and often does occur when the public decides to resist the availability of credit and reduce its debt. A man can only be tempted to borrow, he cannot be forced to do so.

There are many psychological factors involved in a decision to go into debt that can offset the easy availability of money and a low interest rate: A downturn in

the economy, the threat of civil disorder, the fear of pending war, an uncertain political climate, to name just a few. Even though the Fed may try to pump money into the economy by making it abundantly available, the public can thwart that move simply by saying no, thank you. When this happens, the old debts that are being paid off are not replaced by new ones to take their place, and the entire amount of consumer and business debt will shrink. That means the money supply also will shrink, because, in modern America, debt is money. And it is this very expansion and contraction of the monetary pool -- a phenomenon that could not occur if based upon the laws of supply and demand -- that is at the very core of practically every boom and bust that has plagued mankind throughout history.

In conclusion, it can be said that modern money is a grand illusion conjured by the magicians of finance in politics. We are living in an age of fiat money, and it is sobering to realize that every previous nation in history that has adopted such money eventually was economically destroyed by it. Furthermore, there is nothing in our present monetary structure that offers any assurances that we may be exempted from that morbid roll call.

Correction. There is one. It is still within the power of Congress to abolish the Federal Reserve System.

SUMMARY

The American dollar has no intrinsic value. It is a classic example of fiat money with no limit to the quantity that can be produced. Its primary value lies in the willingness of people to accept it and, to that end, legal tender laws require them to do so.

It is true that our money is created out of nothing, but it is more accurate to say that it is based upon debt. In one sense, therefore, our money is created out of less than nothing. The entire money supply would vanish into the bank vaults and computer chips if all debts were repaid.

Under the present System, therefore, our leaders cannot allow a serious reduction in either the national or consumer debt. Charging interest on pretended loans is usury, and that has become institutionalized under the Federal Reserve System.

The Mandrake Mechanism by which the Fed converts debt into money may seem complicated at first, but it is simple if one remembers that the process is not intended to be logical but to confuse and deceive. The end product of the Mechanism is artificial expansion of the money supply, which is the root cause of the hidden tax called inflation.

This expansion then leads to contraction and, together, they produce the destructive boom-bust cycle that has plagued mankind throughout history wherever fiat money has existed. jekyll.htm

'The Creature from Jekyll Island' is available from: [The Reality Zone](#)

Additional Reference:




JEKYLL ISLAND PONZI SCHEME EXPOSED ???

Posted By: Questionnairy (RMN)

3.9.03

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