

The Birth of A Bond

By
Rev. Chas. E. Coughlin



Sunday, April 7, 1940

Published at
Royal Oak, Michigan

SUBSCRIBE FOR SOCIAL JUSTICE TODAY!

My Name Is.....

My Address Is

City or Town..... State.....

One Year—\$3.00 Six Months—\$1.50

**LEARN THE TRUTH ABOUT AMERICA BE-
FORE IT IS TOO LATE FOR THE
TRUTH TO SAVE AMERICA!**

Copyright 1940

By

REV. CHAS. E. COUGHLIN

(All Rights for Reproduction Reserved)



The Birth of A Bond

By

REV. CHAS. E. COUGHLIN

PREFACE

In a spirit of cooperation rather than of criticism, I approach the discussion of one phase of our financial system. In doing so, let it be clear that I am neither impugning any man nor questioning any motive. I am trying to make a contribution of facts which will enable all in this audience to weigh our de facto financial system which, to my mind, is not only obsolete in so far as it is unable to meet the present needs of modern society but which, if sustained in its present activities, will, in my opinion, produce untold misery in this land that is teeming with wealth.

After all, our present financial system is a human invention. Like all products of the human mind, it can be perfected.

Thus, to the point: I bring to your attention a release made public by our Treasury Department in which was stated that our Federal debt, or obligations represented in bonds, amounts to \$45,400,000,000 as of June 30, 1939. Of this vast amount the commercial and savings banks of the nation hold \$18,800,000,000 of these bonds. In all, not counting what private individuals or non-financial corporations own, there are approximately \$30,000,000,000 of these bonds held in banks, insurance companies and other financial or quasi-financial corporations.

That is a tremendous amount of money. Our question is: How did the banks and financial institutions, in the first place, acquire this money? To answer this question one is constrained to inquire: How did these bonds come into existence and what is their nature?

I (A)

Before engaging your attention with the discussion of the above questions, it is necessary to review some facts pertinent

to the Federal Reserve Banks. On December 23, 1913—27 years ago—a Federal Reserve Act was approved by the Congress of the United States. This Act permitted bankers to establish a bankers' bank—or, to be more precise, 12 bankers' banks situated one in each regional division of the United States of America.

During the course of years, the original Federal Reserve Act was amended. According to the amended Act (Federal Reserve Act of 1933, p. 3.): "Every national banking association . . . shall be required within thirty days . . . to subscribe to the capital stock of such Federal Reserve Banks in a sum equal to six per centum of the paid-up capital stock and surplus of such bank . . ."

In other words, your local bank, a member of the Federal Reserve System (and there are very few banks in the United States not belonging to it), is a part owner of the Federal Reserve Banking System. The entire Federal Reserve Banking System is owned by the local banks which, in turn, are owned by stockholders who are, generally speaking, men and women living in your own community.

In other words, the Federal Reserve Banking System is a privately owned corporation. It is not a Government owned corporation as some persons believe.

As factual as is the statement that the Federal Reserve Banks are privately owned corporations—not Government owned corporations—it is both amusing and alarming to learn that not only some factory workers but also some professional and business men labor under the impression that the Federal Reserve Banking System is a Government owned corporation. In the official hearings previous to the passage of the Banking Act of 1935, we read on page 304 of this Government document the following classic conversation which took place between the late Senator James Couzens of Michigan, Marriner Eccles, the Governor of the Federal Reserve Board—not the Governor of the Federal Reserve Banks—and Senator Townsend. Here it is:

"Senator Couzens: Have you ever heard of the criticism that exists among the ordinary depositors of the fact that they felt that when they saw 'Federal' on these windows that they felt that they were guaranteed and taken care of by the Federal Government?

"Governor Eccles: I haven't heard that.

“Senator Couzens: Never heard that?

“Governor Eccles: No.

“Senator Couzens: I have had a number of letters to that effect.

“Senator Townsend: You have heard of criticism of the names of banks, for example, the United States Bank?

“Governor Eccles: Yes; I have; I have heard that criticism, but never of the Federal Reserve System.

“Senator Townsend: Well, they were a member of the Federal Reserve System.

“Governor Eccles: Yes; but I have not heard of cases where people felt, simply because a bank was a member of the Federal Reserve System, that it was a Government-owned bank. I have heard of cases where people thought that a first national bank was Government owned; but those cases, I think, are quite remote.” (Hearings on S. 1715 and H.R. 7617, Banking Act of 1935 pp. 304, 305.)

Governor Eccles of the Federal Reserve Board was very innocent, or else overestimated the knowledge of the American public. As a matter of fact, many persons at that time believed that the Federal Reserve Banks were owned by the Government.

I (B)

There are three more points relative to the Federal Reserve Banks that may prove to be interesting before I transfer your attention to the subject of bonds.

The first point answers the question: Who makes the profits from the operations of the Federal Reserve Banks? Page 14 of the Federal Reserve Act says:

“After all necessary expenses of a Federal reserve bank shall have been paid or provided for, the stockholders shall be entitled to receive an annual dividend of 6 per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid into the surplus fund of the Federal reserve bank.

“The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstand-

ing United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury."

The second point is this :

"Federal reserve banks, including the capital stock and surplus therein, and the income derived therefrom shall be exempt from Federal, State, and local taxation, except taxes upon real estate." (Federal Reserve Act, p. 15.)

In other words, this privately owned corporation, gigantic in size and in operations, is tax-exempt except for real estate purposes.

The third point relates to the Federal Reserve Board. According to the Federal Reserve Act, a governing board is created consisting of eight members, including the Secretary of the Treasury and the Comptroller of the Currency and six private citizens appointed by the President of the United States by and with the advice and consent of the Senate. These eight persons are the Government watch-dogs, as it were, whose business it is to see that the Federal Reserve Banks operate legally. The salaries and expenses of six of the members of the Board are paid by the Federal Reserve Banks. The Federal Reserve Board, as far as ownership is concerned, enjoys the same relation to the Federal Reserve Banks as does the Federal Communications Commission, for example, to the privately owned radio stations and telegraph corporations.

This Federal Reserve Board has been in existence since the Federal Reserve Banks were established, that is in 1913. It was in existence during the panic of 1920, and failed to avert it although every person knew it was a financial panic. It was in existence in 1929, and failed to avert the depression which was notorious, among other causes, for its unreasonable debt inflation.

Still withal there are many honest men who adopt the viewpoint that our present financial system is sound as long as the Federal Reserve Board, vested with definite powers, is the watch-dog of the Federal Reserve Banks—12 privately owned corporations—which, as I will show in the course of these lectures, create the vast bulk of the money we use at a profit for themselves; put it into the stream of business or withdraw it therefrom; pay no taxes except those on real estate to the Government although, practically

speaking, they enjoy the monopoly of money creation; and, in one sense, run little risk of loss, in so far as the Government guarantees deposits in local member banks up to a given sum.

II

With this skeleton background of the Federal Reserve Banks in mind, let us now proceed to the subject of the billions upon billions of dollars' worth of bonds which the banks, members and owners of the Federal Reserve, hold in their vaults. First of all, a Government bond is a promise made by the Government to pay the bondholder the principal sum plus the interest in lawful money represented by the bond. It means that for every Federal bond extant, the taxpayers of the nation must surrender part of their wages or earnings to redeem that bond which, after all, is a mortgage upon their pay envelopes, their houses, their factories, their farms and their merchandise—and, I might say, upon their jobs.

Federal bonds are Federal debts which all citizens must share—debts to be liquidated either through direct taxation or through consumers' taxes in payment of which every person shares.

In other words, the \$30-billion worth of bonds held by the financial institutions of the country really are not 30-billion wealth dollars. Do not forget that a minus sign should be placed in front of those \$30-billion to describe them correctly.

At this juncture, let me quote from page 306 of the Hearings on S. 1715 and H.R. 7617, the Banking Act of 1935, a public document. Senator Townsend is questioning Governor Eccles of the Federal Reserve Board. The Senator says:

“Senator Townsend: Well, as a matter of fact, the bonds that we issue . . . is inflation, is it not?

“Governor Eccles: To the extent that they create a deficit.” That is the minus sign to which I refer—the deficit.

Governor Eccles continues to state that when bonds are issued by the Government the banks create the money. He says:

“. . . a deficit financed by Government bond issues of \$4,000,000,000 will add, if those bonds are taken by the banking system, \$4,000,000,000 of deposits to the banking system.”

In other words, my friends, every time the Government borrows from the banks—and do not think that I am misspeaking when I say this—every time the Government borrows from the banks,

money is added to the deposits of the banks. Borrow \$4,000,000,000, and the deposits of the banks increase \$4,000,000,000. Borrow \$30,000,000,000, and the deposits of the banks increase \$30,000,000,000.

How are these billions of minus dollars put into circulation?

Mr. Eccles (and if any man in all the world should know what he is talking about it should be Mr. Eccles, the Governor of the Federal Reserve Board,) says:

“The deposits will first go to the Government, the Government spends the funds, and they come to the banks as deposits of individuals and corporations.” (Hearings on S. 1715 and H.R. 7617, Banking Act of 1935, p. 306.)

Now, for the important question: Where did the banks get the money to buy the bonds from the Government? If you and I—private citizens—buy a Government \$1,000 bond, we pay \$1,000 in money that we earned by our labor or enterprise.

Not so with the banks. Only simple, uninformed persons think that the banks pay dollar for dollar for the bonds they receive from the Government.

Here is what Mr. Eccles says:

“To the extent that the public buys the Government bonds, it in no way changes the volume of money. It does affect the velocity of money because the individual buying the bond draws the money to buy the bond, the money is transferred to the Government and then the Government spends it. It in no way changes the volume of money in the System when the individuals and corporations buy the bonds, but when the banks buy bonds it does make a difference. To the extent that the deposits are increased by the banks purchasing bonds, the excess reserves of the banks are reduced by 10 per cent.

“In other words, if the banks buy a billion dollars of Government bonds, the deposits of the banks as a rule are increased by a billion, and the average required reserve is increased by \$100,000,000. Therefore, if the banks have a 1-billion-dollar excess reserve and they buy a billion dollars worth of Government bonds and increase the deposits a billion dollars, the excess reserve is reduced to \$900,000,000. If they bought 20-billions of Government bonds, the banks would increase the deposits in the banks 20 billions and their

excess reserves would be entirely wiped out through that operation." (Hearings on S. 1715 and H.R. 7617, Banking Act of 1935, p. 308.)

In other words, according to the figures of Mr. Eccles, the Federal Reserve Bank members pay no more than \$100 for a \$1,000 bond; \$100,000 for a \$1,000,000 bond.

For the \$18,800,000,000 worth of bonds now held by the banks, they paid, according to these figures \$1,880,000,000, which is 10 per cent of their value.

Now let us pause to review what was said: What are the steps taken when the banks get Government bonds for nothing except the cost of making bookkeeping entries and the reduction of their excess reserves equalling one-tenth the value of the bonds purchased?

(a) There is need to build battleships, or feed the hungry or engage in some Government project that will cost, let us say, \$1,000,000. Congress approves the project and appropriates the money, instructing the Treasury to borrow it from the banks.

(b) The Secretary of the Treasury then instructs the Bureau of Engraving to manufacture United States bonds.

(c) These United States bonds, which are a first mortgage on everyone's home, farm, business, income and job, are allocated to the local banks throughout the country. Each bank indicates how many bonds it wants. It will always ask for more than it hopes to get. Why not? This is a something-for-nothing proposition affecting the excess reserves of the bank only to the extent that its reserves are depleted one-tenth of the value of the bonds.

(d) When the bonds are received by the banker he makes a bookkeeping entry, marking down as assets a million dollars of bonds and, as liabilities, a million dollars of deposits.

(e) Then Uncle Sam obtains a check for a million dollars which the banker was able to write when he decreased his excess reserves by \$100,000. In other words, the banker created, at least, on this transaction 900,000 minus dollars.

On this point Governor Eccles said:

"In purchasing offerings of Government bonds, the banking system as a whole creates new money, or bank deposits.

When the banks buy a billion dollars of Government bonds as they are offered—and you have to consider the banking system as a whole, as a unit—the banks credit the deposit account of the Treasury with a billion dollars. They debit their Government bond account a billion dollars, or they actually create by a bookkeeping entry, a billion dollars.” (Hearings on S. 1715 and H. R. 5357, page 399, Banking Act of 1935.)

In this way, the money—at least 90 per cent of it—that we use is debt money. It is nevertheless money created by a privately owned corporation at a profit for themselves.

Mr. Eccles says on this point :

“When I say credit in this connection, I mean money, because by far the largest part of money in use by the people of this country is in the form of bank credit, or bank deposits.” (Hearings on H.R. 5357, p. 181, Banking Act of 1935.)

“Money is created in our present system by banks loaning to corporations, to individuals, and to the Government.” (Hearings on H.R. 5357, the Banking Act of 1935, p. 399.)

The statements which I have made are almost unbelievable: It is unbelievable that privately owned banks who own the Federal Reserve Banks create money through the process of bonds and loans.

It is unbelievable that at least 90 per cent of our business is conducted through the money which these banks create.

It is unbelievable that, at 3 per cent interest on loans, we pay these privately owned banks \$900,000,000 a year on \$30,000,000,000 of bonds which they hold.

It is unbelievable that the local banks—the members of the Federal Reserve Banks—are engaged not so much in lending money to small business, to home owners, to farmers on any large scale, as they are engaged in buying the debt of the nation.

It is unbelievable that the members of the Federal Reserve Banks collect interest on at least nine-tenths of the bonds which they secured without even buying them with legal tender.

It is unbelievable that the more debt the Government creates and the more bonds the local banks obtain, the greater is the profit for the bankers under this present system.

And speaking of things that are unbelievable, the Federal Reserve Board—the Government watch-dog—is empowered to require the Federal Reserve Banks and, indirectly, the local banks, to purchase or sell Government bonds without any limitation. (Hearings on S. 1715 and H.R. 7617, the Banking Act of 1935, p. 310.)

This means, in my opinion, that if the financial policies now in vogue will be continued for another six years, the vaults in the local banks will hold not \$30,000,000,000 of bonds but \$60,000,000,000 of bonds; the national debt will not be \$45,000,000,000 but \$90,000,000,000; and the tax burdens which the citizens are bearing will be double what they are today.

In concluding this portion of my lecture, I see several weaknesses in our present financial structure. (I warn you, these are my own opinions based on the facts I have just read.) First, it is a structure predicated upon debt, not upon wealth. Second, it is a structure owned not by the Government but by private corporations which, in one sense, are subject to the supervision of a Government-controlled Federal Reserve Board—and in another sense are not. And thirdly, it is a structure which, as a result of this control, forces private banks to buy Government bonds—to invest in Federal debt—rather than invest in the enterprises of a local community when this bank got its start from the money obtained from the local community.

I just said that the Federal Reserve Banks are owned by private corporations and are governed in one sense by a Federal-controlled board and, in another sense, are not governed by a Federal-controlled board. To clarify this statement, let me use the words of the Comptroller of the Currency (1935), Mr. J. F. T. O'Connor, who, in a letter written to Mr. Owen D. Young on June 6, 1935, said:

“Federal Reserve Banks are owned by member banks. Six of the directors of such banks are elected by member banks (private interests) and should the present title 2 of the Banking Act of 1935 be enacted, the entire supervision would be in the hands of the Governor of the Federal Reserve bank” (not the Governor of the Federal Reserve Board) “who would be elected by the directors. You would then have the situation of the very men in some cases, whose banks are to be examined, sitting on a board of directors of an institution charged with the responsibility of an examination of the par-

ticular institutions these men represent. It would certainly seem to be against the public policy for a man to appoint an examiner to examine his own bank . . .

“It is difficult to see how Federal Reserve banks can take the responsibility of supervision when, as is frequently the case, they are the member banks’ largest creditor; and how can a Federal Reserve bank deal impartially with depositors in insolvent banks in the hands of receivers if it is responsible for the appointment of the receiver and must also collect its own debt against the bank.” (Hearings on S. 1715 and H.R. 7617, Banking Act of 1935, p. 1004.)

III

Possibly the best yardstick to use in measuring the efficiency of the present financial system is the one which is related to the statement “by their fruits they shall be known.”

What are the fruits?

In the last seven years our Government has spent in cash over \$26,000,000,000 to create jobs and raise the purchasing power of the people.

In the same period of time it spent \$6,000,000,000 for materials to be used essentially in a works program.

In the same period of time it has loaned \$17,000,000,000 to business to create jobs for the unemployed.

That makes \$49,000,000,000 in seven years which our Government has put into the channels of commerce and trade primarily to give employment to those who sought a job in our country.

Still withal we are told that approximately 10,000,000 persons who are seeking jobs can not find them. We are told that two-thirds of our families are living on an average income of \$69.00 a month. We are told that more than 40,000 farms have been confiscated by Government as well as hundreds of thousands of homes and properties. We are told that taxation has risen abnormally. And, we are told, that production is practically up to normal.

Debt money has failed to filter down adequately and efficiently to the farmer, the laborer and the unemployed.

Although production is almost up to normal, and fewer men—

both laborers and farmers—are being used in production, nevertheless distribution is absolutely out of gear.

Is it not true that by the word “distribution” we understand the movement of foodstuffs from the farm through the store to your pantry; wearing apparel from the cotton fields or the sheepfold through the mill to your clothes closet; shelter from the forests, the quarries and the mines through the factories to a home you can call your own?

Why have not two-thirds of our population the food, the clothing and the shelter they require? It is all here in America in the raw; it is all here in our wonderful factories and our skilled men. It is not distributed because the financial system, which is the medium of distribution, has broken down. Instead of being a help to the majority of our citizens, has it not been a detriment?

My friends, I have heard it said in financial circles of late that our national debt is money which we owe to ourselves. I have heard the question argued: “Why should we pay ourselves what we owe ourselves?” I have heard the conclusion drawn that neither the Government nor the owners of the Federal Reserve System care much whether or not we pay the principal as long as we pay the interest on the bonds.

Do men who defend such a theory simply want to wax fat on the interest money which we citizens and taxpayers will be required to expend for the privilege of supporting a system of debt money—of fountain pen money—which is issued into circulation with an interest charge upon it?

“By their fruits they shall be known” is not a bad yardstick to employ in judging the efficacy of the present financial system which is notorious for pyramiding debts and for failing to contribute efficiently towards solving our unemployment problem, towards securing an annual living wage, towards guaranteeing production-at-a-profit for the farmer, towards multiplying the ownership of private homes, towards eradicating discontent, towards decentralizing wealth now concentrated in the hands of a few.

That last point—the concentration of wealth in the hands of a few—is part and parcel of the Federal Reserve Banking System. For, be it known that the local banks—the member banks of the Federal Reserve System—not only create money when they accept

Federal bonds by making loans to the Government; they also create money when they make a loan to a private citizen. In the case of the private citizen—yourself, for example—if you wish to borrow \$10,000 from a bank, the bank obliges you, in most cases, to put up security—your home, your factory or your farm. The bank loans you \$10,000, having marked on its books a \$10,000 deposit. But the loan which it makes to you is only a check-book, granting you the privilege of writing \$10,000 worth of checks. If you fail, when overcome by ill-health or by a depression, to make your payments to the bank, your home, your farm or your factory is seized. In the first instance you were loaned only privately created money, more properly called debt money with a minus sign in front of it. In the last instance, when you fail to meet the payment of debt represented by fountain pen money, your real wealth is confiscated.

I am not impugning the men who own or who are engaged in the local banks or in the Federal Reserve Banking System. I am simply calling to your attention the unworkability of the present financial system which, to my mind, is leading this country into chaos.

And, incidentally, vested with this tremendous power of creating money through the medium of loans, the Federal Reserve Banks and their affiliates, the local banks, and the friendly Federal Reserve Board might repeat in 1940 the history chronicled in 1914.

Let me conclude this lecture by reading to you Document 763.72111/351½a, which the Secretary of State, William Jennings Bryan, addressed to President Wilson on August 10, 1914:

“My dear Mr. President: I beg to communicate to you an important matter which has come before the Department. Morgan Company of New York have asked whether there would be any objection to their making a loan to the French Government and also the Rothchilds—I suppose that is intended for the French Government. I have conferred with Mr. Lansing and he knows of no legal objection to financing this loan, but I have suggested to him the advisability of presenting to you an aspect of the case which is not legal but I believe to be consistent with our attitude in international matters. It is whether it would be advisable for this Government to take the position that it will not approve of any loan to a

belligerent nation. The reasons that I would give in support of this proposition are:

“First: Money is the worst of all contrabands because it commands everything else. The question of making loans contraband by international agreement has been discussed, but no action has been taken. I know of nothing that would do more to prevent war than an international agreement that neutral nations would not loan to belligerents. While such an agreement would be of great advantage, could we not by our example hasten the reaching of such an agreement? We are the one great nation which is not involved and our refusal to loan to any belligerent would naturally tend to hasten a conclusion of the war. We are responsible for the use of our influence through example and as we cannot tell what we can do until we try, the only way of testing our influence is to set the example and observe its effect. This is the fundamental reason in support of the suggestion submitted.

“Second: There is a special and local reason, it seems to me, why this course would be advisable. Mr. Lansing observed in the discussion of the subject that a loan would be taken by those in sympathy with the country in whose behalf the loan was negotiated. If we approved of a loan to France we could not, of course, object to a loan to Great Britain, Germany, Russia, Austria or to any other country, and if loans were made to these countries our citizens would be divided into groups, each group loaning money to the country which it favors and this money could not be furnished without expressions of sympathy. These expressions of sympathy are disturbing enough when they do not rest upon pecuniary interests—they would be still more disturbing if each group was pecuniarily interested in the success of the nation to whom its members had loaned money.

“Third: The powerful financial interests which would be connected with these loans would be tempted to use their influence through the newspapers to support the interests of the Government to which they had loaned because the value of the security would be directly affected by the result of the war. We would thus find our newspapers violently arrayed on one side or the other, each paper supporting a financial group and pecuniary interest. All of this influence would make it all the more difficult for us to maintain neutrality, as our action on

various questions that would arise would affect one side or the other and powerful financial interests would be thrown into the balance.

“I am to talk over the telephone with Mr. Davidson of the Morgan Company at one o’clock, but I will have him delay final action until you have time to consider this question.

“It grieves me to be compelled to intrude any question upon you at this time, but I am sure you will pardon me for submitting a matter of such great importance.

“With assurances (etc.)

W. J. Bryan

“P.S. Mr. Lansing calls attention to the fact that an American citizen who goes abroad and voluntarily enlists in the army of a belligerent nation loses the protection of his citizenship while so engaged, and asks why dollars, going abroad and enlisting in war, should be more protected. As we cannot prevent American citizens going abroad at their own risk, so we cannot prevent dollars going abroad at the risk of the owners, but the influence of the Government is used to prevent American citizens from doing this. Would the Government not be justified in using its influence against the enlistment of the nation’s dollars in a foreign war? The Morgans say that the money would be spent here but the floating of these loans would absorb the loanable funds and might affect our ability to borrow.”

I recognize I have not been constructive in today’s lecture. In the pages of “Social Justice” and next Sunday at this same hour, over these same stations, I hope to pursue this subject. I leave this thought with you, namely: Is it not possible to issue money against the wealth of the nation? Is it not possible for Congress, through its own agency, to issue tax-exempt money? Is it not possible to solve the problem of distribution just as well as we solved the problem of production? Is it not possible for Americans, living in a land of plenty, to enjoy the products thereof, instead of being barred from enjoying them because, to my mind, we are wedded to an obsolete system of finance?