New York banks which saw their share of the nation's deposits begin to decline. A way had to be devised to reclaim that money. The Federal Reserve System, which by then was the captive of the New York banks, was pressed into service to accomplish the deed.

Few of those country banks had chosen to become members of the Federal Reserve System. That added insult to injury, and it also provided an excuse for the Fed to wage economic war against them. The plan was neither complex nor original; it had been used many times before by central bankers. It was (1) extend easy credit to the farmers to lure them into heavy debt, and then (2) create a recession which would decrease their income to the point where they could not make payments. The country banks then would find themselves holding non-performing loans and foreclosed property which they could not sell without tremendous losses. In the end, both the farmers and the banks would be wiped out. The banks were the target. Too bad about the farmers.

Congressman Charles Lindbergh, Sr., father of the man who made the world's first solo transatlantic flight, explained it this way: "Under the Federal Reserve Act, panics are scientifically created; the present panic is the first scientifically created one, worked out as we figure a mathematical problem."[1]

The details of how this panic was created were explained in 1939 by former Senator Robert Owen, Chairman of the Senate Banking and Currency Committee. Owen, a banker himself, had been a co-author of the Federal Reserve Act, a role he later regretted. Owen said:

> In May 1920 ... the farmers were exceedingly prosperous.... They were paying off their mortgages. They had bought a lot of new land, at the instance of the government—had borrowed money to do it—and then they were bankrupted by a sudden contraction of credit and currency, which took place in 1920....
>
> The Federal Reserve Board met in a meeting which was not disclosed to the public—they met on the 18th of May 1920; it was a secret meeting—and they spent all day; the minutes made 60 printed pages, and it appears in Senate Document 310 of February 10, 1923.... Under action taken by the Reserve Board on May 18, 1920, there resulted a violent contraction of credit.... This contraction of credit and currency had the effect, the next year, of diminishing the national production $15,000,000,000; it had the effect of throwing millions of people out of employment; it had the effect of reducing the value of lands and ranches $20,000,000,000.[1]

1. Charles A. Lindbergh, Sr. *The Economic Pinch* (1923 rpt. Hawthorne, California: Omni Publications, 1968), p. 95.

The contraction of credit had a disastrous effect on the nation as a whole, not just farmers. But the farmers were more deeply involved, because the recently created Federal Farm Loan Board had lured them with easy credit—like ducks at the pond—into extreme debt ratios. Furthermore, the large-city banks which were members of the System were given support by the Fed during the summer of 1920 to enable them to extend credit to manufacturers and merchants. That allowed many of them to ride out the slump. There was no such support for the farmers or the country banks which, by 1921, were falling like dominoes. History books refer to this event as the Agricultural Depression of 1920–21. A better name would have been *Country-Duck Dinner in New York.*

BUILDING THE MANDRAKE MECHANISM

In Chapter Ten, we examined the three methods by which the Federal Reserve is able to create or extinguish money. Of the three, the purchase and sale of debt-related securities in the open market is the one that provides the greatest effect on the money supply. The purchase of securities by the Fed (with checks that have no money to back them) *creates* money; the sale of those securities *extinguishes* money. Although the Fed is authorized to buy and sell almost any kind of security that exists in the world, it is obligated to show preference for bonds and notes of the federal government. That is the way the monetary scientists discharge the commitment to create money for their partners, the political scientists. Without that service, the partnership would dissolve, and Congress would abolish the Fed.

When the System was created in 1913, it was anticipated that the primary way to manipulate the money supply would be to control the "reserve ratios" and the "discount window." That is banker language for setting the level of mandatory bank reserves (as a percentage of deposits) and also setting the interest rate on loans made by the Fed to the banks themselves. The reserve ratio under the old National Bank Act had been 25%. Under the Federal Reserve Act of 1913, it was reduced to 18% for the large New York

1. U.S. Cong., Senate, Special Committee on the Investigation of Silver, *Silver*, Part 5, 76th Cong., 1st sess. (Washington, DC: GPO, 1939), April 7, 1939, pp. 196–97.