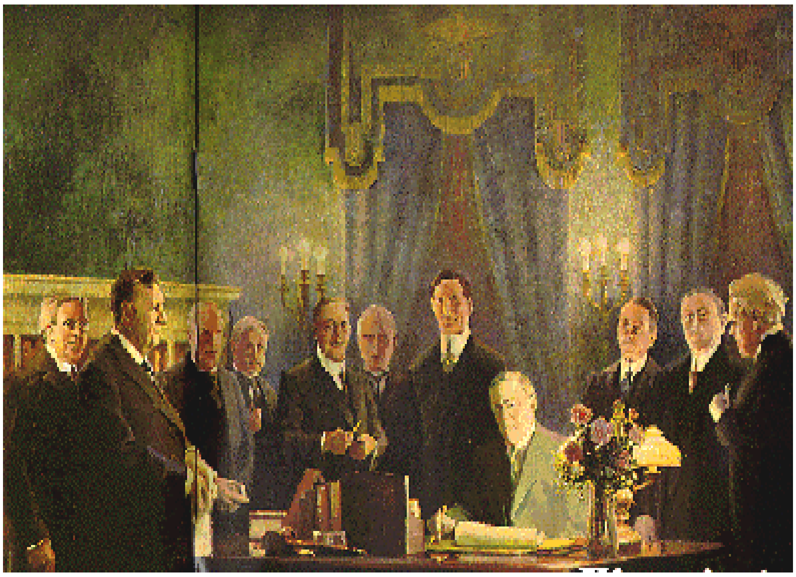
Historical Beginnings… The Federal Reserve



By Roger T. Johnson
Federal Reserve Bank of Boston

Roger T. Johnson was a member of the Public Services Department of the Federal Reserve Bank of Boston.

Edited by Mary Jane Coyle
Designed by Marilyn Rutland

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COVER: The signing of the Federal Reserv Wilson, December 23, 1913, is depicted i Kurtz, Sr. Commissioned by the Federal Res the painting is presently on loan to the Feder in Washington, D.C. from the Woodrow Wi Virginia. While more people were present a Mr. Kurtz chose to picture the following m Garrison, Secretary of War; Josephus Da Franklin K. Lane, Secretary of the Interic General; Senator Robert Owen, Chairman Currency Committee; Champ Clark, Speak McAdoo, Secretary of the Treasury; Wood United States; Representative Carter Gla Committee on Banking and Currency; Underwood; and William B. Wilson, Secreta **Courtesy, Woodrow Wilson Birthplace Fo**

Contents

Introduction

Federal Reserve Board members, 1914.
Seated left to right: C.S. Hamlin, Governor; W.G. McAdoo, Secretary of the Treasury; F.A. Delano, Vice Governor
Standing left to right: P.M. Warburg; J.S. Williams, Comptroller of the Currency; W.P. Harding; and A.C. Miller
Courtesy, Federal Reserve Board of Governors, Washington, D.C.

At 6:00 P.M. on December 23, 1913, President Woodrow Wilson entered his office. He was smiling as he looked around the circle of friends anc assembled there. Spotting Carter Glas exceedingly influential congressman fr end of the room, the President beckon Robert Owen of Oklahoma at his side. hand warmly, the President sat down a gold pens, signed into law the Federal S. Link, Wilson's principal biographer the long struggle for the greatest singl legislation of the Wilson era and one o domestic Acts in the nation's history."

With this law, Congress establi system which would enable the world' nation to manage its money and credit ever before. As essential as our centra to be in the complex economy of the 1 legislative struggle to create the Feder long and often extremely bitter, and th result of a carefully crafted yet somew compromise.

Indeed, until nearly the beginn century the United States had been a n frontier and its enormous expanse of r in the dawn of the modern age, the Un decades was a land of small farms and cities of any consequence, and the you more interested in becoming a success democracy rather than an economic po institutions necessary to a commercial common medium of exchange, and a mechanism to regulate that medium-were greeted with indifference if not outright hostility.

Yet, America's very success as an experiment in democracy, and its tremendous agricultural production, provided the base for an urban and, ultimately, an industrial society. "The United States was born in the country and has moved to the city," Professor Richard Hofstadter wrote.[2] Yet, some of the young nation's most eloquent leaders were strong champions of the agrarian way of life who disdained urban life, and the continuing conflict between rural values and urban reality has been one of the most important themes of American history.

State Street in 19th century, Boston
Courtesy, Boston Public Library, Print Department

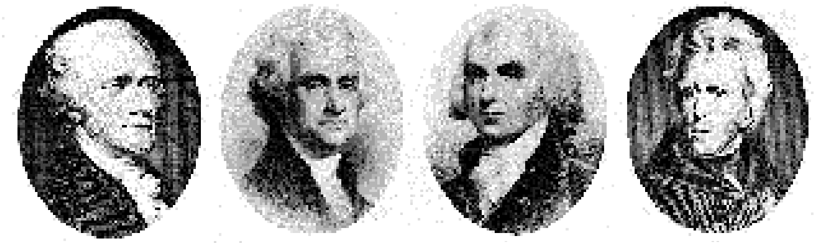
Early Experiments in Central Banking

Chapter 1

1791: THE FIRST ATTEMPT

This conflict between rural values and urban reality was sharply etched in the first major political controversy following the ratification of the Constitution in 1789, a controversy, in the first years of George Washington's presidency, which dealt with the myriad of issues regarding the monetary and fiscal powers of the new federal government. Secretary of the Treasury Alexander Hamilton advocated the creation of a central bank, a Bank of the United States, to manage the government's money and to regulate the nation's credit. Secretary of State Thomas Jefferson strongly disagreed, arguing that since the Constitution did not specifically empower the Congress to create a central bank Congress could not constitutionally do so. Hamilton responded that Congress could create just such a bank under the constitutional clause giving it all powers "necessary and proper" to the exercise of its specifically enumerated responsibilities; since Congress had been given so many monetary and fiscal powers, Hamilton argued, it would be perfectly proper for it to create a central bank to carry them out. Hamilton won the argument, and the First Bank of the United States was created in 1791.

N.C. Wyeth's Alexander Hamilto
painted for the Federal Reserve B
Courtesy, Federal Reserve Ban



Alexander Hamilton | Thomas Jefferson | James Madison | Andrew Jackson

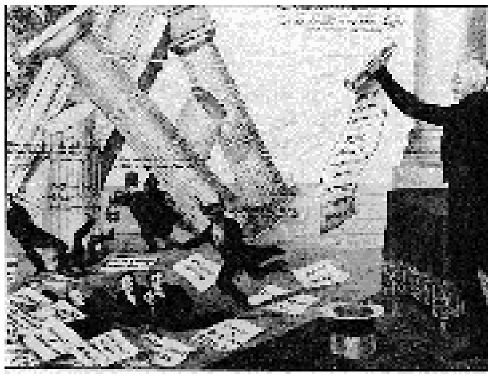
The First Bank of the United States had a capital stock of $10 million, of which $2 million was subscribed by the Federal government, while the remainder was subscribed by private individuals. Five of the twenty-five directors were appointed by the United States government, while the other twenty were chosen by the private investors in the bank. It was not only easily the largest bank of its time, but it was also the largest corporation in the United States; it was a nationwide bank, headquartered in Philadelphia but with branches in other major cities, and it performed the basic banking functions of accepting deposits and issuing bank notes, of making loans and of purchasing securities.

Its power made it useful to American commerce and to the Federal government but frightening to many of the American people. Its charter ran for twenty years, and when it expired, in 1811, Jefferson's Virginia colleague, James Madison, was President. An opponent of the initial bill in 1791, Madison, like many other Jeffersonian Republicans, had changed his mind, and now subordinated his initial constitutional objections and favored the bank's recharter on the grounds of economic expediency. The vote in Congress was extremely close, but the bill to recharter the bank failed in both houses by the margin of a single vote.

Chaos quickly ensued, brought
the War of 1812 and by the lack of a c
anism over banking and credit. Statec
proliferated, and issued a bewildering
were sometimes of little value. Moreo
government lacked a safe repository fo
mechanism to transfer them from plac
means to market its own securities.

1816: THE CONTROVERSIA

By 1816, Madison's final year as
charter a Second Bank of the United S
Congress. Henry Clay, Speaker of the
recharter of the first bank five years ea
Congress had no right to charter such
of circumstance and the lights of ex " (
him perience, that Congress did have t
congressmen felt the same force and s
the bill chartering the Second Bank of
narrowly passed both houses and recei
signature.



The Second Bank of the Unite
like the first, except that it was much l

$10 million but $35 million. Like the first, one-fifth of the stock was owned by the federal government and one-fifth of the directors were appointed by the President; also, like the first, the charter was to run for twenty years.

So powerful was the Second Bank of the United States that many citizens, politicians, and businessmen came to view it as a threat to themselves and as a menace to American democracy. Andrew Jackson, who became President in 1829 when the charter still had seven years to run, made clear his opposition to the bank and its recharter. Jackson has occasionally been labeled an economic illiterate, and it does appear that he neither understood nor sympathized with the functions of money and banking. Nevertheless, many diverse groups in the nation feared the bank's power and sup. ported Jackson's opposition to it. It was essentially the bank's vast economic power which made it politically vulnerable. State-chartered banks, farmers, businessmen on the rise, and many politicians; saw the bank as a giant monster standing in their way.

Despite the deep opposition to the bank, Henry Clay, Jackson's opponent in the 1832 presidential election, was able to push a bill through Congress to recharter the bank and intended to use Jackson's veto of the bill as a campaign issue. Jackson's powerful veto message denounced the bank as unconstitutional and described the dangers of "such a concentration of power in the hands of a few men irresponsible to the people." Though the President was on shaky grounds in challenging the bank's constitutionality (the Supreme Court in the famous 1819 case of McCulloch v. Maryland had specifically affirmed the constitutionality of the bank), his attack on the bank's power touched a popular nerve. Clay and his supporters widely circulated Jackson's veto message, but they greatly misjudged the popular response to it, and the President's impressive victory in the election was the beginning of the end

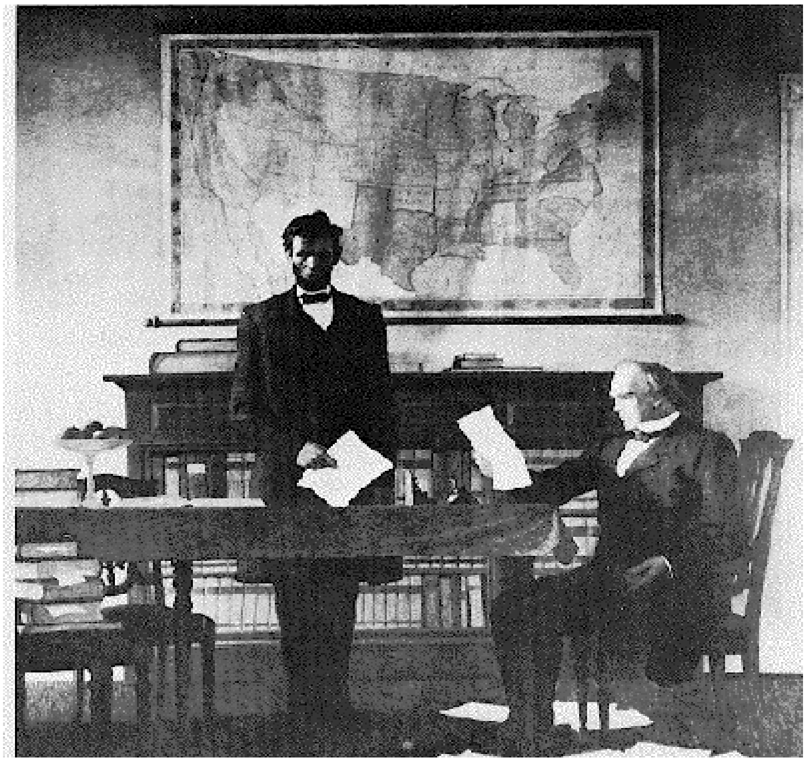
of the Second Bank of the United Stat
expired in 1836, it ceased its role as A

For the next quarter century A
carried on by a myriad of state-charter
regulation. Although in some areas of
York, New England, and Louisiana, th
functioned with restraint, in other area
was not so stable, and the difficulties i
hampered the stability of the American
system of state-chartered banks exclus
violent fluctuations in the amount of b
and the amount of demand deposits (t
deposits) held by banks. The bank not
dividual banks, varied in quality from
unrelievedly bad. Finally, this banking
inadequate bank capital, risky loans, a
against the bank notes and demand de

Bank Note from Pawtuckaway Bank, Eppin
Courtesv. Federal Reserve Bank of Bosto

1863: THE NATIONAL BANKING ACT

During the Civil War Congress passed the National Banking Act of 1863, along with major amendments in 1864 and 1865, and this legislation brought a much greater measure of clarity and security to American banking and finance. Basically, the legislation provided for the creation of nationally-chartered banks (all such banks are recognized by the word "National" or the letters "N.A." -- which stand for "National Association" -- in their title), and, by effectively taxing the state bank notes out of existence, the legislation in reality provided that only the national banks could issue bank notes.



The Abraham Lincoln Mural, by N.C. Wyeth painted for the Federal Reserve Bank of Boston in 1922
Courtesy, Federal Reserve Bank of Boston

The legislation also provided s
requirements for the national banks, a
circulating bank notes be backed by h
government securities. Other provisio
limits, examinations by the newly-crea
Comptroller of the Currency, and rese
and deposits. To the surprise of many
national banking legislation, state-cha
survive even though they no longer ha
bank notes mainly because the use of c
rapidly. As a result, demand deposits (
not bank note issues became the most
to the banks.

Yet the national banking legisl
ultimately proved inadequate. Though
national chartering of banks and natio
not provide the essentials of central ba
banking remained essentially a local fu
effective mechanism which would reg
and credit and which would assure the
system of finance. What institutional a
level that were to develop in the next l
(correspondent relationships and chec
example) grew up in the vacuum of fe

arrangements were private and quite beyond the control or regulation of national policy.

The first Wells Fargo office, San Francisco, California
Courtesy, Wells Fargo Bank, History Room, San Francisco

BANKING PROBLEM

In the absence of a central ban financial picture was increasingly char currency and immobile reserves. The currency, secured by government bon response to the realities of the bond m response to the requirements of Ameri of currency in circulation, therefore, d of bonds which the national banks hel needs of the economy. Such inelasticit to aggravate matters rather than allevi economy to gyrate wildly and somewh booms and busts.

Moreover, under the national b reserves were spread around the coun immobile where they sat. There were banks: country banks, reserve city ban city banks. Country banks (and these located in places other than the fifty ci and central reserve cities) had to keep the form of vault cash, and the rest in a national bank in a reserve or central reserve city. Reserve city banks (and these were all national banks located in 47 specific and generally important cities) had to keep part of their reserves in the form of vault cash, and the rest in the form of a deposit with a national bank in a central reserve city bank. Central reserve city banks (and these were all national banks within only three cities: New York, Chicago, and St. Louis) had to keep all of their reserves in the form of vault cash.

All this meant that fifty different cities in the nation served as reserve depositories. Even though the total of reserves in the national banking system was very large, the economic value of this reserve was largely mitigated because it was so spread out; it was as if the American army were scattered all over the country, with each soldier assigned to protect his own specific area of several square miles. Such an army would clearly be infinitely less powerful than one whose forces were all gathered in a few strategic locations. The reserves of money could not be shifted easily to areas of the country needing them.

Also, the fact that reserve city banks held reserves for the country banks, and that their own reserves were held by central reserve cities, meant that the central reserve city banks, and particularly those in New York, were unusually sensitive to the demands for currency from the country banks. When the country banks needed currency, particularly during the crop selling season, those banks would get their currency by drawing down their reserve accounts with their reserve city banks. Those banks, now with less vault cash, were compelled to draw down their own reserve accounts with their central reserve city banks. It was much like a whip, where a little force at one end produced a tremendous force at the other; demands for currency from the country banks often put inordinate pressure upon the central reserve city banks.

As America's industrial econon
more complex in the waning years of t
the early years of the twentieth, these
national banking system -- inelastic cu
reserves -- became increasingly more
clear that the national banking system
regulating mechanism for money and
Banks of the United States had provid
history. And as the American economy
urban, and more complex, the inelastic
immobile reserves contributed to the c
and busts. These wide gyrations were
intolerable.

Wall Street's curb market, 1902
Courtesy, Library of Congress

Financial panics occurred with
often triggered an economic depressio
depression rocked the American econo
rocked before. Even though prosperity
of the decade -- and largely for reason
not control -- the 1893 depression left
uncertainty.

Financial Reform in the 20th Century

Chapter 2

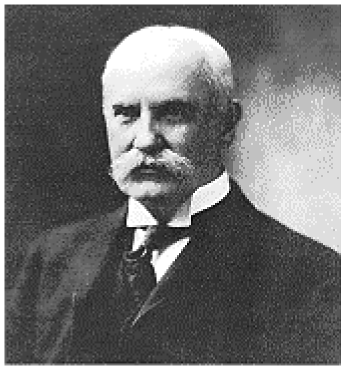
In 1907 a severe financial panic jolted Wall Street and forced several banks into failure. This panic, however, did not trigger a broader economic collapse. Yet, the simultaneous occurrence of general prosperity with a crisis in the nation's financial centers did persuade many Americans that their banking structure was sadly out of date and in need of major reform.

Bank run in the early 1900s
Courtesy, Library of Congress

1908: THE MONETARY

The initial response of Congres
passed the Aldrich Vreeland Act, whic
the money supply somewhat more elas
currency shortages. This was not finan
temporary palliative. Another provisio
National Monetary Commission. This
senators and nine members of the Hou
had the responsibility of making a com
necessary and desirable changes in the
tem of the United States.

The chairman and dominant me
was Senator Nelson W. Aldrich of Rh
most powerful member of the United S
of the eastern establishment. Aldrich's
sharply reflected the political controve
1890s the rural populists of the South
the institutions and the power of finan
felt that the wealth and "special privile
were resulting in the exploitation of th



Senator N
Courtesy,
Historical

In the first decade of the twent
progressive movement -more broadly

better educated, more urban, and more sophisticated in understanding and in using political power -- won control of many state governments and elected many senators and representatives. Though the progressive movement comprised a diversity of people and took a variety of forms, its major purpose was to limit and regulate the new aggregations of economic and political power which the growth of industrial America had spawned.

In the bitter controversies between the progressives, who generally represented the small businessman and the small town and farming population, and the conservatives, who generally represented the most powerful business and banking groups of the large eastern cities, Aldrich was a central figure. The Rhode Island senator was one of the most prominent critics of the progressives, and the progressives, in turn, found Aldrich to be one of the most bitter and stalwart champions of American conservatism. (The marriage of Aldrich's only daughter to John D. Rockefeller, Jr., further convinced many Americans that Aldrich was the champion of the rich and financially secure.)

"Some Horses Just Fear A Bridle,"
by J. Darling
Courtesy, Des Moines Register

In short, the need for financial reform had become most evident just when the progressives were attempting to limit the power of the financial community. While most bankers were

interested in reforming the financial st
make it more efficient and centralized,
interested in reforming the financial st
banking system less powerful. The Na
Commission, under Aldrich's direction
undertake a broad study of the nation's
the bankers generally applauded the C
progressives viewed it with suspicion,
that Aldrich and the banking communi
their narrow interests rather than the i
people.

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BANKERS AND THE ALDRICH PLAN

Over the following three years the National Monetary Commission undertook a broad and exhaustive study of America's financial needs and resources, conducting investigations and hearings in many American cities and visiting many foreign banking institutions. In January, 1911, Senator Aldrich presented to a group of businessmen in Washington his plan for a reform of the nation's banking and financial institutions. This plan, which was so clearly prepared under the influence of large bankers, was strongly attacked by the progressives and never appealed to the public. Moreover, the conservative Republican Aldrich presented his plan just after the election of 1910, in which the Democrats captured Congress for the first time in nearly two decades while Republican President William Howard Taft, supported by the party's conservatives, was increasingly besieged by the party's progressive wing. In short, Aldrich presented his plan just after his party had suffered a serious rebuff at the polls, and while a President sympathetic to his views was under growing attack within his own party.

The Aldrich plan provided for one central institution, to be called the National Reserve Association, with branches all over the country and with the power to issue currency, and to rediscount the commercial paper of member banks. Control of the institution would reside in a board of directors, the over-whelming majority of whom would be bankers.

The Aldrich plan received scant public support and aroused strong opposition. Many progressives protested that the Aldrich plan would not provide for adequate public control of the banking system, that it would enhance the power of the larger banks and the influence of Wall Street; and that its currency reform provisions would be dangerously inflationary. "Big financiers are back of the Aldrich currency scheme," William Jennings Bryan proclaimed. The Nebr
Democratic presidential nominee who
in 1896 on an attack on the bankers an
of the gold standard, asserted that, if th
implemented, the big bankers would "
control of everything through the cont
finances."

Bryan's denunciation of the Al
many leaders of the progressive mover
position signaled an early demise for t
financial plan that the bankers wanted,
1912 helped to prepare the way for pa
currency reform program which the ba
but which the progressives wanted -- a
the power of the banking system and p
public, rather than banker, control.

THE "MONEY T

The first significant event of 19
before the House Banking and Curren
called Pujo hearings, which examined
and financial resources of the nation. T
continued into the early months of 191
most of the American people that the
America's banking and financial system
tiny group on Wall Street, the so-calle
report, issued in February, 1913, the c
'money trust' is meant an established a
and community of interest between a f
which has resulted in a vast and growi
control of money and credit in the han
men . . . the condition thus described e
today."

President Wilson and President Taft
Courtesy, Library of Congress

The second event of 1912, crucial to financial reform, was the election of Democrat Woodrow Wilson to the Presidency. Elected on a progressive platform, and with a record as a reformist governor of New Jersey, Wilson pledged himself to financial reform without the creation of a central bank. The new President, however, knew very little about banking, and he had to rely upon others for advice on the shape of his reform proposal.

One leading public figure Wilson could not ignore was William Jennings Bryan, and Bryan's views were a strong force in shaping the financial reform program that ultimately became the Federal Reserve System. A three-time Democratic presidential nominee, Bryan had a very wide following in the rural states, and he was a strong and vocal leader of the anti-Wall Street Democrats. At the 1912 Democratic convention he dramatically threw his support to Wilson and received much of the credit for the latter's ultimate nomination. The new President named Bryan his Secretary of State. For years Bryan had a reputation as one of the nation's most outstanding and enthralling public speakers, but some people who knew him best believed that the power of his oratory concealed the paucity of his intellect. One of his cabinet colleagues later

sneered: "I discovered that one could
through any part of his argument and
or a sound statement."[1] As we have al
strongly opposed the Aldrich plan as j
big bankers even more power; to Brya
curbing the power of the leading finan
thing. "The currency can be given all t
without increasing the privileges of th
Wall Street," he said at one point.

"He lo
Puck M
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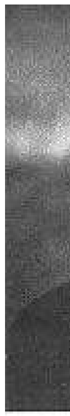
Wilson had echoed Bryan's fee
before his election Wilson asserted, "T
this country is the money monopoly,"
declared that the nation would not acc
concentrates control in the hands of th
a combination of political realities and
knowledge about banking and finance
reflect many of Bryan's views, but afte
Presidency, Wilson relied on others fo
the currency question. Two of his mos
Representative Carter Glass of Virgini
chairman of the House Committee on
the committee's expert adviser, H. Par
professor of economics at Washington

in 1912, associate editor of the New York Journal of Commerce). Throughout most of 1912, Glass and Willis had conferred repeatedly on the currency problem, and Willis finally completed a tentative draft of a bill by the end of October -- just a few days before Wilson's victory.

BACK TO THE DRAWIN
GLASS-WILLIS PI

On December 26, 1912, Glass
Princeton, New Jersey to lay their plan
elect. Wilson was suffering from a col
his other appointments, but he insisted
keep their interview as scheduled. Wit
two visitors presented to Wilson their
financial structure (yet avoiding the cr
under banker domination) and remedy
of immobile reserves and inelastic mon
Willis proposal called for the creation
privately controlled regional reserve b
portion of member banks' reserves, pe
banking functions, and issue currency
and gold.

Representative Carter Glass
Courtesy, Library of Congress



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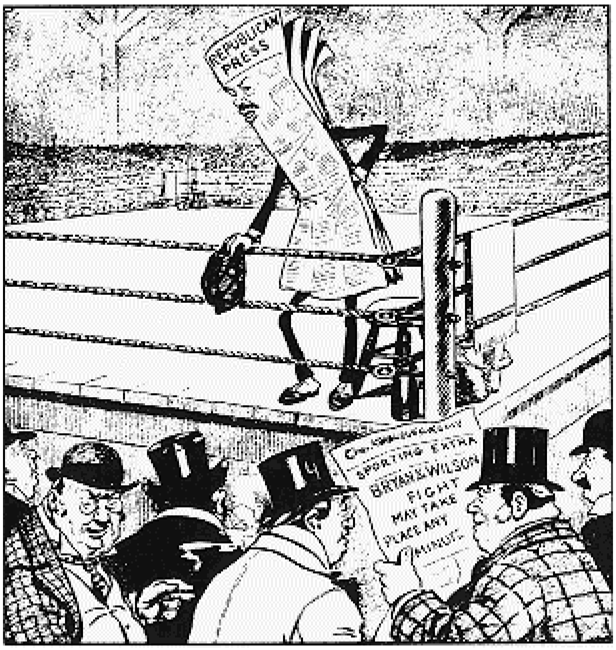
Wilson liked much of the Glass-Willis proposal, but he wanted something else added -- a central board to control and coordinate the work of the regional reserve banks, what he called the "capstone " to the entire structure. At first Carter Glass was appalled by Wilson's proposal, fearing that it would result in the same centralization that he had so disliked in the Aldrich plan, but he kept his views fairly quiet and soon his fears faded away. The "capstone" that Wilson wanted -- a Federal Reserve Board was to be a public agency unlike the banker dominated central bank of the Aldrich plan. The Glass-Willis proposal of December, 1912, with Wilson's modifications, formed the basic elements of the Federal Reserve Act signed into law in December, 1913.

Nevertheless, from December, 1912, when Wilson first talked with Glass and Willis about currency reform, until December, 1913, when the President signed the Federal Reserve Act into law, the Glass proposal was attacked from two sides: on one side, bankers (especially from the big city institutions) and conservatives thought that the bill intruded too much government into the financial structure, while on the other side the agrarians and "radicals" from the West and South thought that the bill gave the government too little authority over banking. Bryan was the national spokesman for the latter group, and it was his views that Wilson had to face first.

The first action of the new Wilson Administration upon taking office on March 4, 1913, was to work for a downward revision of the tariff. Currency reform would follow as a second item of business. The President recognized that it would be a difficult struggle to get both bills through the Congress, but the Democrats were somewhat more united on tariff reduction than they were on currency reform and so it made political sense to tackle the tariff issue first. Throughout April, May, and June this issue dominated Congress and the President, and through the rest of the summer high-tariff Republican senators (who generally favored the Aldrich plan) dr
the tariff in an attempt to delay consid
On October 3 the major tariff reductio
desk, and he signed the new law much
Democratic progressives.

BATTLE LINES DRAWN

Although placated by Wilson's leadership in the tariff struggle, the Democratic progressives, nevertheless were far more concerned about the banking bill that the President was preparing. By the late spring of 1913, Bryan (who was supporting Wilson on tariff reduction) had made clear his opposition to the Glass bill and his determination to give government a larger role over banking and currency than Glass contemplated. Specifically, Bryan thought that the bill gave bankers too much control over the proposed Federal Reserve System, hence failing to weaken Wall Street's credit monopoly, and he believed that the currency should be issued by the government rather than by the reserve banks, as the Glass bill proposed.



"Bryan versus Wilson"
Puck Magazine
Courtesy, Boston Public Library

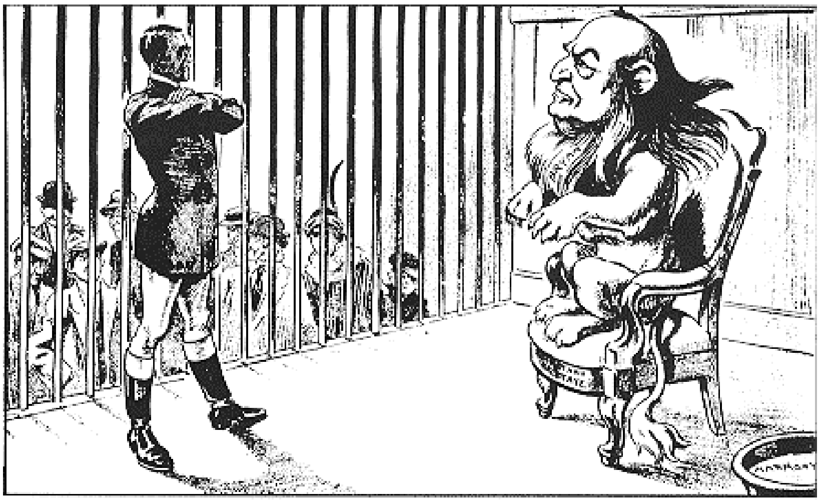
Buffeted by this conflict withir
President Wilson sought a compromis
Glass and Bryan and then win the supp
compromise that would genuinely reso
currency problem. To sharpen his own
the advice of the man whose opinions
respected above all others, the promin
Brandeis. Brandeis, a man of undeniab
Bryan on two key points: first, he beli
excluded from control of the new syst
believed that the Federal Reserve curre
obligation of the United States govern
between the policies of the Administra
financiers and of big business, is an irr
Brandeis told Wilson. "Concessions to
must in the end prove futile."[2]

After several conferences, Wil
Glass, Secretary of the Treasury Willi
Senator Robert Owen of Oklahoma (c
created Senate Banking and Currency
supporter of Bryan's views), and he to
insist upon exclusive government cont
Board and would insist upon making F
obligation of the United States. The fo
victory of substance for the Bryan gro
was merely a victory of form.

What Bryan and his followers
retirement of national bank notes and t
supply of paper money issued on the in
and backed up only by the governmen
Bryan really got, however, was just th
meaningless language to the basic prov
the Glass bill provided that Federal Re
issued by the regional reserve banks a

commercial assets and a 33 1/3 percent gold reserve, and the change which placated Bryan and other progressives was the mere declaration that these notes were obligations of the federal government. This additional language did not change the essential character of Federal Reserve notes as asset currency. Glass had been initially disappointed with Wilson's request for a public board to control the new system, but seeing that this was the absolute minimum that Bryan demanded, Glass had no real alternative but to accept it.

On June 23, 1913, President Wilson appeared before a joint session of Congress and presented his program for currency reform. With a united Administration now behind him, the President pleaded for a banking system that would provide for an elastic currency and that would vest control in the government, "so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative."



Bryan tamed, "Ain't It Wonderful" Puck Magazine
Courtesy, Boston Public Library

Most bankers did not like wha
vigorous -- and often very bitter -- in t
big-city bankers, especially from New
lambasted the bill as a radical break in
economic policy. The bankers speakin
having favored the Aldrich plan of a c
control, disliked the framework of gov
dominated by political appointees. Ba
reserve cities of New York, Chicago,
many bankers in the forty-seven reserv
that the new Federal Reserve banks w
of reserves for the national banks. (It v
the national banking system, national b
cities and reserve cities were reserve d
banks.)

Many bankers with nationally c
compulsory membership in the Federa
national banks, and they criticized the
rights." Finally, many conservatives ar
Republicans, and they termed the bill a
measure for the altogether logical reas
sponsored by a Democratic Administr
Administration apparently dominated b
western, and "anti-business" elements.
ferred derisively to the "Oklahoma ide
clearly pointing to Senator Owen and
who, as we have seen, played a major
adding the government control, throug
Board, which bankers appeared to find

Members of the Boston Clearing House
Courtesy, Boston Clearing House, Federal Reserve Bank of Boston

Continuing its harsh criticism, the Times said: "It reflects the rooted dislike and distrust of banks and bankers that has been for many years a great moving force in the Democratic party, notably in the Western and Far Western States. The measure goes to the very extreme in establishing absolute political control over the business of banking." The *New York Sun*, considered by many to be the spokesman for Wall Street at that time, called the bill "this preposterous offspring of ignorance and unreason ... covered all over with the slime of Bryanism."

POLITICAL COMPROMISES

Just as earlier in the year Wilson had moved to still the opposition of Bryan and many progressives, now the President acted to attempt to reconcile the banking community to his currency bill. Accordingly, on June 25 -- just two days after the President had presented his bill to Congress -- Wilson, along with Glass, Owen, and McAdoo, met with four leading bankers, who represented the currency commission of the American Banking Association. As a result of this conference some important modifications were made in the bill. One provided that national bank notes would be refired gradually, hence protecting the banks' large investments in the bonds that backed this currency; another weakened the Federal Reserve Board's authority over the rediscount rate, giving more responsibility in this matter to the regional reserve banks; finally, the President agreed to accept a Federal Advisory Council, consisting of representatives of the banking community, to serve as a liaison between the reserve banks and the Federal Reserve Board. Despite Wilson's efforts, the bankers at the conference were not satisfied, for they did not get what they wanted -- a centralized structure under banker control -- and the heart of the bill retained what they did not want -- a decentralized structure under public (or, as the bankers put it, "political," meaning Democratic) control.

The next day Glass and Owen introduced the revised Federal Reserve bill in the House and Senate. Despite the continuing banker and conservative opposition, the Wilson Administration was in a strong position to get its currency bill passed through Congress. The Administration was unified in support of the bill, progressive opinion in the country seemed to favor the currency program, and the President's success in the tariff issue demonstrated his strong control over the Democratic majorities in both houses of Congress. For the Democrats, Wilson was their party's first president
were reluctant to embarrass him and th
major component of his program.

In fact, however, the following
demonstrate how difficult it was for W
Congress behind his program. Shortly
introduced the bill, a rebellion broke o
cratic congressmen from rural areas in
by Representative Robert L. Henry of
Glass later recalled, "an exceedingly li
as much about banking as a child abou
group demanded that the Wilson Adm
"Money Trust" before setting out to re
currency. Moreover, these Democratic
Federal Reserve bill's provision for pri
regional reserve banks, believing that t
nancial trust operating under governm

Representative Robert L. Henry
Courtesy, University of Texas at Austin

Most important, however, the dissidents protested that the Federal Reserve bill made no provision of agricultural credit, giving the farmers little hope of eliminating the state of debt that had ensnared them since the aftermath of the Civil War. "The bill as now written," Representative Henry said in July, "is wholly in the interest of the creditor classes, the banking fraternity, and the commercial world, without proper provision for the debtor classes and those who toil, produce, and sustain the country."[4] To sustain his objections, Henry introduced a series of amendments that would prohibit interlocking directorates among the member banks, weaken the structure of the Federal Reserve Board, and alter the currency issues in such a way as to enable farmers to obtain money on far more liberal terms.

For a while it appeared that the agrarian bloc might be able to kill the Federal Reserve bill. In July they were able to take control of the House Banking and Currency Committee,

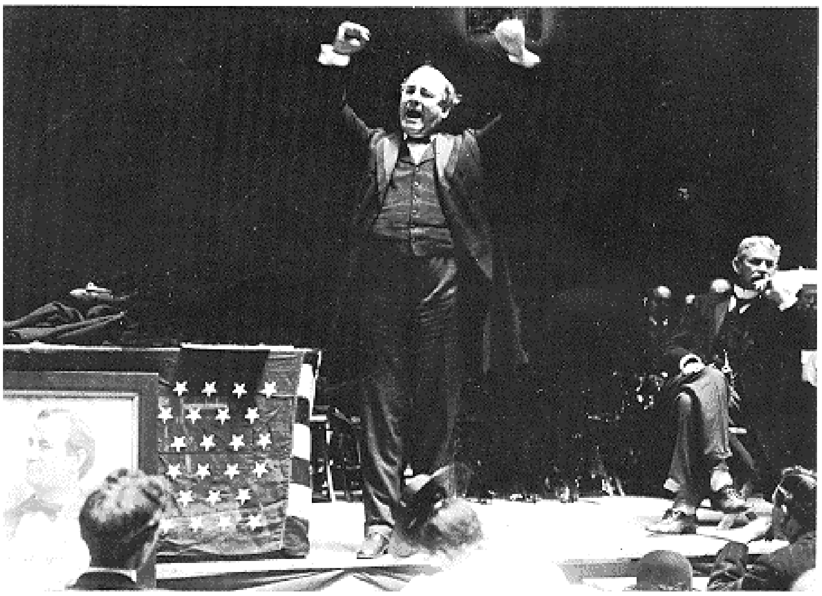
much to Chairman Glass's despair. Ye
were no more popular with the genera
Plan had been, and many people regar
form of Populism.

Again, President Wilson move
opposition to the bill. He invited the a
White House and mollified them, in pa
work for the prohibition of interlockin
banks in his forthcoming antitrust bill.
pleas, promises, and perhaps even thre
beat back much of the opposition from
early August the House Banking and C
reversed the direction it had taken a fe
overwhelmingly approved the Federal

Though beaten in the committe
did not yet give up; he now worked to
cratic caucus to kill or severely modify
With the agrarian opposition still a thr
bill, the most prominent agrarian radic
tary of State William Jennings Bryan -
save it. Promising that the Administra
with the problem of interlocking direc
Bryan asked his friends to stand by the
his banking program. Bryan's prestige
areas that his forceful advocacy shatte
within the House, and the House Dem
overwhelmingly approved the measure
This approval meant that the Federal R
measure, binding on all House Democ

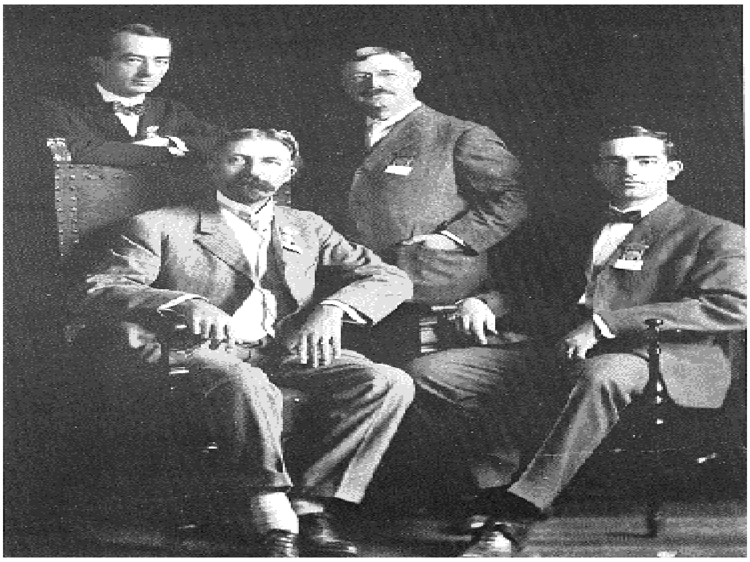
Formal approval by the House
greatly weakened radical agrarian opp
of many indications that the Federal R
enjoy broader public support. Progress

banking and currency reform for several years, endorsed the changes recently made in the bill. Additionally there were strong indications of growing support for the bill among the nation's businessmen, with the small businessmen especially enthusiastic about it. Finally, and perhaps most important, a few fissures had begun to appear in the wall of opposition put up by the nation's bankers. As early as June several leading Chicago bankers had enthusiastically endorsed the measure, and a significant number of the small, country bankers in the South and Middle West were giving the bill their support. Nevertheless, the vast majority of the nation's bankers -- country and city -- still strongly opposed the bill, often with the bitterest hostility; a San Antonio banker, for example, called the bill a "communistic idea."



Secretary of State William Jennings Bryan
Courtesy, Library of Congress

OPPOSITION FROM BANKERS



The 20th century banker
Courtesy, American Bankers Association

In fact, the strong banker opposition came sharply into view at just about the time the House Democratic caucus was approving the bill. Meeting in Chicago in late August with a commission of the American Bankers Association, the presidents of 47 state banking associations and 191 clearinghouse associations raised many objections to the Administrations banking reform. They made it clear that they wanted the Aldrich plan, with one central bank generally controlled by bankers and generally independent of government regulation.

According to Wilson's major biographer, Professor Arthur S. Link, the Chicago conference decisively altered the controversy over the banking issue, making the Administration more hostile to the bankers publicly opposing the Federal Reserve bill. Until this time Wilson and his major advisers had believed that the bankers, despite their rhetoric, would in the final analysis work responsibly for the
Chicago manifesto appeared to kill tha
the broad differences between the maj
munity and the Wilson Administration
passage of the Federal Reserve bill in
Administration tended to regard banke
irreversible.