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# **Historical Beginnings... The Federal Reserve**



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Published by Public and Community Affairs  
Department, Federal Reserve Bank of Boston

Revised, December 1999

COVER: The signing of the Federal Reserve Act by Woodrow Wilson, December 23, 1913, is depicted in a painting by Howard Chandler Christy, Jr. The painting is presently on loan to the Federal Reserve Bank of Boston from the Woodrow Wilson Birthplace in Washington, D.C. from the Woodrow Wilson Birthplace in Virginia. While more people were present at the signing, Mr. Kurtz chose to picture the following men: William B. Wilson, Secretary of War; Josephus Daniels, Secretary of the Interior; Franklin K. Lane, Secretary of the Interior; General; Senator Robert Owen, Chairman of the Currency Committee; Champ Clark, Speaker of the House; Woodrow McAdoo, Secretary of the Treasury; Woodrow Wilson, President of the United States; Representative Carter Glass, Chairman of the Committee on Banking and Currency; and William B. Underwood; and William B. Wilson, Secretary of the Treasury. **Courtesy, Woodrow Wilson Birthplace Foundation**

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# 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 and assembled there. Spotting Carter Glass, an exceedingly influential congressman from the end of the room, the President beckoned Robert Owen of Oklahoma at his side. On his hand warmly, the President sat down at a desk, took a gold pen, signed into law the Federal Reserve Act. S. Link, Wilson's principal biographer, described the long struggle for the greatest single piece of legislation of the Wilson era and one of the most important domestic Acts in the nation's history."

With this law, Congress established a central bank system which would enable the world's nations to manage its money and credit more effectively than ever before. As essential as our central bank is to be in the complex economy of the 21st century, the legislative struggle to create the Federal Reserve was long and often extremely bitter, and the result of a carefully crafted yet somewhat of a compromise.

Indeed, until nearly the beginning of the 20th century the United States had been a nation of a frontier and its enormous expanse of rich land. In the dawn of the modern age, the United States was a land of small farms and small cities of any consequence, and the young nation was more interested in becoming a successful democracy rather than an economic power. The institutions necessary to a commercial

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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.<sup>2</sup> 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 19<sup>th</sup> century, Boston  
Courtesy, Boston Public Library, Print Department

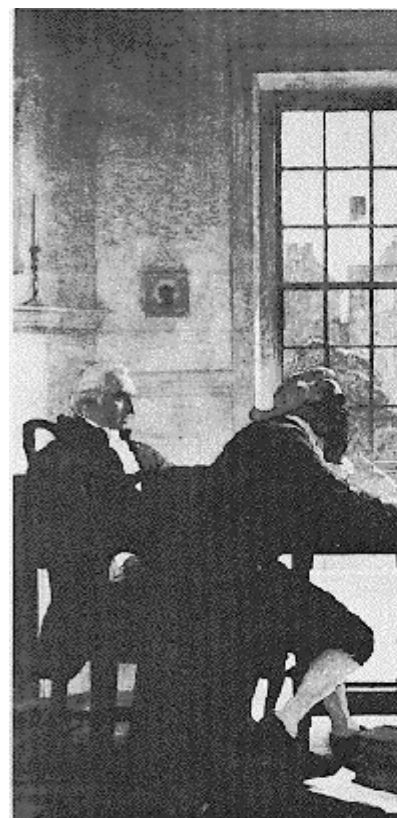
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# Early Experiments in Central Banking

## 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 Hamilton  
painted for the Federal Reserve Bank  
Courtesy, Federal Reserve Bank



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 on by the War of 1812 and by the lack of a central mechanism over banking and credit. State banks proliferated, and issued a bewildering array of currencies, many of which were sometimes of little value. More importantly, the government lacked a safe repository for its securities and a mechanism to transfer them from place to place or the means to market its own securities.

## 1816: THE CONTROVERSIAL

By 1816, Madison's final year as President, Congress chartered a Second Bank of the United States. Henry Clay, Speaker of the House, pushed for the recharter of the first bank five years earlier. However, Congress had no right to charter such a bank in the first place, of circumstance and the lights of expediency. In the end, however, his experience, that Congress did have the power to do so. Congressmen felt the same force and supported the bill chartering the Second Bank of the United States. It narrowly passed both houses and received the President's signature.



The Second Bank of the United States was similar to the first, except that it was much larger.



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\$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 supported 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 States. When its charter expired in 1836, it ceased its role as a

For the next quarter century American banking was carried on by a myriad of state-chartered banks. Federal regulation. Although in some areas of the country, such as New York, New England, and Louisiana, the banks functioned with restraint, in other areas the system was not so stable, and the difficulties in the South hampered the stability of the American banking system. The system of state-chartered banks excluded the violent fluctuations in the amount of bank notes and the amount of demand deposits (the amount of deposits) held by banks. The bank notes of individual banks, varied in quality from the best to the unrelievedly bad. Finally, this banking system was plagued by inadequate bank capital, risky loans, and a general lack of confidence against the bank notes and demand deposits.



Bank Note from Pawtuckaway Bank, Epping, New Hampshire.  
Courtesy, Federal Reserve Bank of Boston



## 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, and circulating bank notes be backed by ho government securities. Other provision limits, examinations by the newly-crea Comptroller of the Currency, and rese and deposits. To the surprise of many national banking legislation, state-char 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 nation 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 h (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 bank, the financial picture was increasingly chaotic. The currency and immobile reserves. The currency, secured by government bonds, responded to the realities of the bond market in response to the requirements of America's demand for currency in circulation, therefore, did not respond to the needs of the economy. Such inelasticity tended to aggravate matters rather than alleviate them, leading the economy to gyrate wildly and somewhat between booms and busts.



Moreover, under the national bank system, reserves were spread around the country in immobile form where they sat. There were three types of banks: country banks, reserve city banks, and city banks. Country banks (and these were located in places other than the fifty cities and central reserve cities) had to keep their reserves in the form of vault cash, and the rest in

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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 economy became more complex in the waning years of the nineteenth century and the early years of the twentieth, these rigidities in the national banking system -- inelastic currency and reserves -- became increasingly more obvious. It was clear that the national banking system was not an effective regulating mechanism for money and credit. The Federal Reserve Banks of the United States had provided a new mechanism in history. And as the American economy became more urban, and more complex, the inelasticity of the immobile reserves contributed to the cycles of booms and busts. These wide gyrations were increasingly intolerable.



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

Financial panics occurred with increasing frequency and often triggered an economic depression. The depression of 1893 rocked the American economy more than any depression had ever rocked before. Even though prosperity returned in the latter part of the decade -- and largely for reasons that were not under man's control -- the 1893 depression left a legacy of 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.

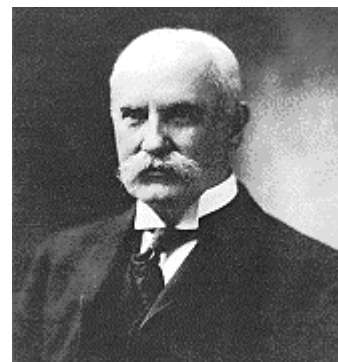


Bank run in the early 1900s  
Courtesy, Library of Congress

## 1908: THE MONETARY

The initial response of Congress passed the Aldrich Vreeland Act, which the money supply somewhat more elastic currency shortages. This was not financial temporary palliative. Another provision National Monetary Commission. This senators and nine members of the House had the responsibility of making a commission necessary and desirable changes in the system of the United States.

The chairman and dominant member was Senator Nelson W. Aldrich of Rhode Island, the most powerful member of the United States of the eastern establishment. Aldrich's sharply reflected the political controversy of the 1890s the rural populists of the South the institutions and the power of financial felt that the wealth and "special privileges" were resulting in the exploitation of the



Senator Nelson W. Aldrich  
Courtesy, Historical

In the first decade of the twentieth century the 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 system to make it more efficient and centralized, many progressives were interested in reforming the financial system to make the banking system less powerful. The National Monetary Commission, under Aldrich's direction, was to undertake a broad study of the nation's banking system. The bankers generally applauded the Commission's work, but the progressives viewed it with suspicion, fearing that Aldrich and the banking community were protecting their narrow interests rather than the interests of the people.



"It might have been given to the Magazine Court"

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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 Nebraska Democratic presidential nominee who in 1896 on an attack on the bankers and of the gold standard, asserted that, if the plan were implemented, the big bankers would "control of everything through the control of the finances."

Bryan's denunciation of the Aldrich plan and many leaders of the progressive movement in that position signaled an early demise for the financial plan that the bankers wanted. The election of 1912 helped to prepare the way for a currency reform program which the bankers wanted but which the progressives wanted -- a program which would take the power of the banking system and put it in the hands of the public, rather than banker, control.

## THE "MONEY TRUST"

The first significant event of 1913 was the so-called Pujo hearings, which examined the financial resources of the nation. The hearings continued into the early months of 1913. In the report, issued in February, 1913, the commission stated that "the 'money trust' is meant an established and community of interest between a few men . . . the condition thus described exists 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 [win] through any part of his argument and [lose] or a sound statement."<sup>1</sup> As we have already seen, Bryan strongly opposed the Aldrich plan as just giving big bankers even more power; to Bryan, curbing the power of the leading financial institutions was the only thing. "The currency can be given all to the people without increasing the privileges of the Wall Street," he said at one point.



"He lo  
Puck M  
Courte

Wilson had echoed Bryan's fears. Before his election Wilson asserted, "This country is the money monopoly," and declared that the nation would not accept a concentration of control in the hands of the few. A combination of political realities and lack of knowledge about banking and finance reflect many of Bryan's views, but after his Presidency, Wilson relied on others for advice on the currency question. Two of his most trusted advisers were Representative Carter Glass of Virginia, chairman of the House Committee on Banking and Currency, and the committee's expert adviser, H. Parker Willis, a professor of economics at Washington



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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 DRAWING BOARD GLASS-WILLIS PROPOSAL**

On December 26, 1912, Glass and Willis traveled to Princeton, New Jersey to lay their plan before Woodrow Wilson, who had just been elected. Wilson was suffering from a cold and had many other appointments, but he insisted that they keep their interview as scheduled. With the two visitors presented to Wilson their financial structure (yet avoiding the creation of a central bank under banker domination) and remedy for the problem of immobile reserves and inelastic money. The Willis proposal called for the creation of a system of privately controlled regional reserve banks, each holding a portion of member banks' reserves, performing essential banking functions, and issue currency and gold.



Representative Carter Glass  
Courtesy, Library of  
Congress



H. P. Lee  
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.

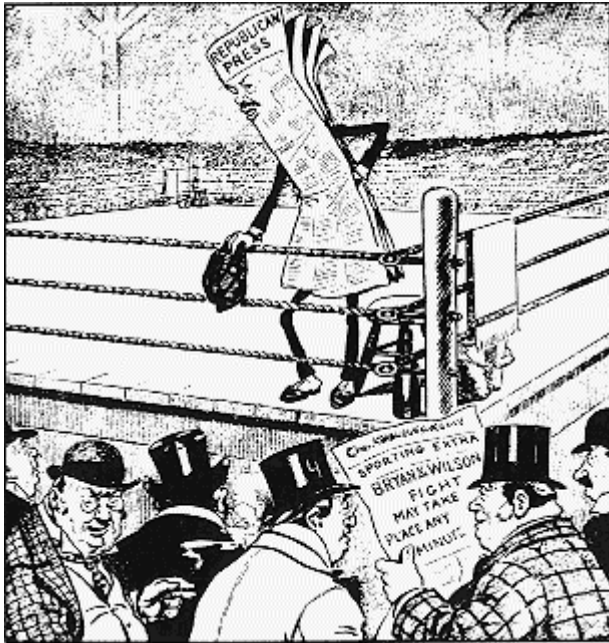
Nevertheless, from December, 1912, when Wilson first talked with Glass and Willis about currency reform, until December, 1913, when the President signed the Federal Reserve Act into law, the Glass proposal was attacked from two sides: on one side, bankers (especially from the big city institutions) and 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) drove the tariff in an attempt to delay consideration. On October 3 the major tariff reduction bill was on the President's desk, and he signed the new law much to the delight of the 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 within the administration, President Wilson sought a compromise between Glass and Bryan and then win the support of the Democratic compromise that would genuinely resolve the currency problem. To sharpen his own position, he sought the advice of the man whose opinions were most highly respected above all others, the prominent lawyer Louis Brandeis. Brandeis, a man of undeniably high standing, supported Bryan on two key points: first, he believed that currency should be excluded from control of the new system; second, he believed that the Federal Reserve currency should have no obligation of the United States government to the holders between the policies of the Administration and the interests of financiers and of big business, is an irreconcilable conflict. Brandeis told Wilson. "Concessions to the interests of the financiers must in the end prove futile."<sup>2</sup>

After several conferences, Wilson and Glass, Secretary of the Treasury William C. Glass, Senator Robert Owen of Oklahoma (created Senate Banking and Currency Committee, a supporter of Bryan's views), and he took the position to insist upon exclusive government control of the Federal Reserve Board and would insist upon making the Federal Reserve have no obligation of the United States. The final result was a victory of substance for the Bryan group and a mere victory of form.

What Bryan and his followers wanted was the retirement of national bank notes and the issuance of a new supply of paper money issued on the interest of the government and backed up only by the government. The result of Bryan really got, however, was just the same as the meaningless language to the basic provisions of the Glass bill provided that Federal Reserve notes issued by the regional reserve banks as

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 what was proposed -- vigorous -- and often very bitter -- in the eyes of big-city bankers, especially from New York. They lambasted the bill as a radical break in traditional economic policy. The bankers speaking out against it, having favored the Aldrich plan of a central bank with control, disliked the framework of government control dominated by political appointees. Bankers in the reserve cities of New York, Chicago, and St. Louis, and many bankers in the forty-seven reserve cities, felt that the new Federal Reserve banks would dilute the reserves for the national banks. (It was the national banking system, national banks, and the cities and reserve cities were reserve cities, not the banks.)

Many bankers with nationally chartered banks and compulsory membership in the Federal Reserve System, and they criticized the bill as "anti-business." Finally, many conservatives and Republicans, and they termed the bill a "socialist" measure for the altogether logical reason that it was sponsored by a Democratic Administration. The Administration apparently dominated by "anti-business" elements. The bill was referred derisively to the "Oklahoma idea," clearly pointing to Senator Owen and his bill, who, as we have seen, played a major role in adding the government control, through the Federal Reserve Board, which bankers appeared to find objectionable.



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."

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## 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 and they were reluctant to embarrass him and the currency bill was the major component of his program.



In fact, however, the following year would demonstrate how difficult it was for Wilson to get Congress behind his program. Shortly after the President introduced the bill, a rebellion broke out among Democratic congressmen from rural areas in the South, led by Representative Robert L. Henry of Alabama. As Glass later recalled, "an exceedingly lively group demanded that the Wilson Administration call the 'Money Trust' before setting out to reorganize the currency. Moreover, these Democratic congressmen opposed the Federal Reserve bill's provision for private regional reserve banks, believing that the 'Money Trust' was a financial trust operating under government control."



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."<sup>4</sup> 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. Yet they were no more popular with the general public than the Plan had been, and many people regarded the new form of Populism.

Again, President Wilson moved to quell the opposition to the bill. He invited the dissenters to the White House and mollified them, in part by promising work for the prohibition of interlocking directorates in his forthcoming antitrust bill. Henry's pleas, promises, and perhaps even threats, did not beat back much of the opposition from the House. In early August the House Banking and Currency Committee reversed the direction it had taken a few weeks earlier and overwhelmingly approved the Federal Reserve bill.

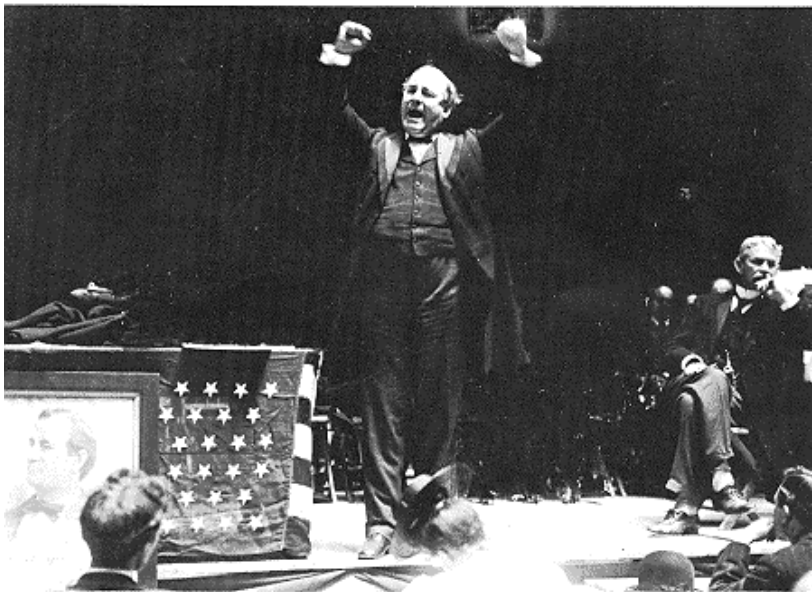
Though beaten in the committee, Henry did not yet give up; he now worked to rally the House Democratic caucus to kill or severely modify the bill. With the agrarian opposition still a threat, the bill, the most prominent agrarian radical, Senator William Jennings Bryan - save it. Promising that the Administration would deal with the problem of interlocking directorates, Bryan asked his friends to stand by the bill. Bryan's prestige in the House and his banking program. Bryan's prestige in the House areas that his forceful advocacy shattered. Bryan's prestige within the House, and the House Democrats. The House overwhelmingly approved the measure. This approval meant that the Federal Reserve bill was a measure, binding on all House Democrats.

Formal approval by the House of Representatives greatly weakened radical agrarian opposition. There were many indications that the Federal Reserve bill would enjoy broader public support. Progressives



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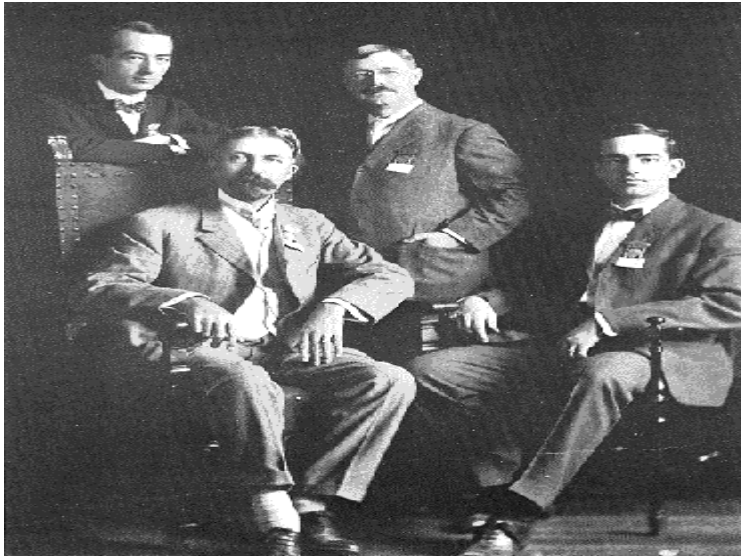
banking and currency reform for several years, endorsed the changes recently made in the bill. Additionally there were strong indications of growing support for the bill among the nation's businessmen, with the small businessmen especially enthusiastic about it. Finally, and perhaps most important, a 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

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## OPPOSITION FROM BANKERS



The 20<sup>th</sup> 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 Administration's 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 the bill. The broad differences between the majority of the community and the Wilson Administration made the passage of the Federal Reserve bill in 1913. The Administration tended to regard banker opposition as irreversible.

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