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

CHAPTER 2
Financial Reform in the 20th Century

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with a crisis in the nation's financial centers did persuade many Americans that their banking structure was sadly out of date and in need of major reform.

1908: THE MONETARY COMMISSION

The initial response of Congress was feeble. In 1908 it passed the Aldrich-Vreeland Act, which was designed to make the money supply somewhat more elastic during emergency currency shortages. This was not financial reform but a temporary palliative. Another provision of the law created the National Monetary Commission. This body, composed of nine senators and nine members of the House of Representatives, had the responsibility of making a comprehensive study of the necessary and desirable changes in the money and banking system of the United States.

The chairman and dominant member of the commission was Senator Nelson W. Aldrich of Rhode Island, the single most powerful member of the United States Senate and a pillar of the eastern establishment. Aldrich's prominence and power sharply reflected the political controversies of the period. In the 1890s the rural populists of the South and West had challenged the institutions and the power of finance and business, for they felt that the wealth and "special privileges" enjoyed by the few were resulting in the exploitation of the many.

In the first decade of the 20th century, the progressive movement—more broadly based than the populists, 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.

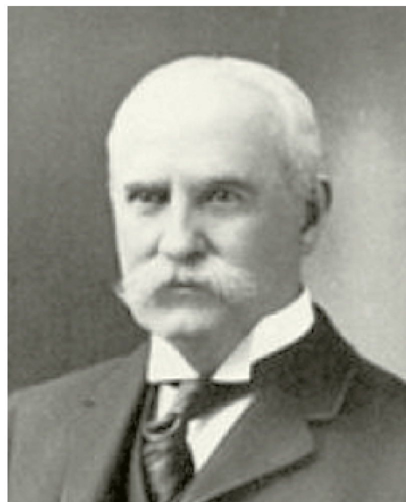
"Some Horses Just Fear a Bridle," by J. Darling
Courtesy, Des Moines Register

In the bitter controversies between the progressives, who generally represented the small business owners 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.)

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 structure of the nation to make it more efficient and centralized, the progressives were interested in reforming the financial structure by making the banking system less powerful. The National Monetary Commission, under Aldrich's direction, was empowered to undertake a broad study of the nation's financial needs; while the bankers generally applauded the Commission, the progressives viewed it with suspicion, believing that anything Aldrich and the banking community supported would serve their narrow interests rather than the interests of the American people.

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.



Senator Nelson Aldrich
Courtesy, Rhode Island Historical Society

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 overwhelming 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 populist, a three-time Democratic presidential nominee who had based his campaign in 1896 on an attack on the bankers and the deflationary impact of the gold standard, asserted that, if the Aldrich plan were implemented, the big bankers would, "then be in complete control of everything through the control of our national finances."

Bryan's denunciation of the Aldrich plan was shared by many leaders of the progressive movement. Though this opposition signaled an early demise for the kind of currency and financial plan that the bankers wanted, two significant events of 1912 helped to prepare the way for passage of a banking and currency reform program which the bankers in general feared, but which the progressives wanted—a reform designed to limit the power of the banking

"It might help some if Wall Street gave trading stamps," Puck Magazine
Courtesy, Boston Public Library

Pujo Committee in 1913 examined the control of the banking and financial resources of the nation   Courtesy, Library of Congress

system and put central banking under public, rather than banker, control.

THE "MONEY TRUST"

The first significant event of 1912 was the hearings before the House Banking and Currency Committee, the so-called Pujo hearings, which examined the control of the banking and financial resources of the nation. These hearings, which continued into the early months of 1913, apparently persuaded most of the American people that the ultimate control over America's banking and financial system rested in the hands of a tiny group on Wall Street, the so-called "money trust." In its report, issued in February, 1913, the committee said, "If by a 'money trust' is meant an established and well defined identity and community of interest between a few leaders of finance… which has resulted in a vast and growing concentration of control of money and credit in the hands of a comparatively few men… the condition thus described exists in this country today."

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

President Wilson and President Taft
Courtesy, Library of Congress

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 drive a prairie schooner through any part of his argument and never scrape against a fact or a sound statement."[1] As we have already seen, Bryan had strongly opposed the Aldrich plan as just an attempt to give the big bankers even more power; to Bryan, currency reform and curbing the power of the leading financiers were the very same thing. "The currency can be given all the elasticity it needs without increasing the privileges of the banks or the influence of Wall Street," he said at one point.

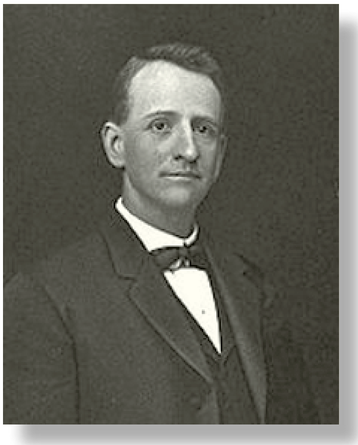
Wilson had echoed Bryan's feelings in the past. A year before his election Wilson asserted, "The greatest monopoly in this country is the money monopoly," and a few months later he declared that the nation would not accept, "any plan which concentrates control in the hands of the banks." It was probably a combination of political realities and his own lack of knowledge about banking and finance that caused Wilson to reflect many of Bryan's views, but after his election to the Presidency, Wilson relied on others for more expert advice on the currency question. Two of his most important advisers were Representative Carter Glass of Virginia, soon to become chairman of the House Committee on Banking and Finance, and the committee's expert adviser, H. Parker Willis (formerly professor of economics at Washington and Lee

"He Loves Me, He Loves Me Not," Puck Magazine
Courtesy, Boston Public Library

University, and 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: THE GLASS-WILLIS PROPOSAL

On December 26, 1912, Glass and Willis traveled to Princeton, New Jersey to lay their plan before the President-elect. Wilson was suffering from a cold and he canceled all of his other appointments, but he insisted that Glass and Willis keep their interview as scheduled. With great enthusiasm the two visitors presented to Wilson their plan for reforming the financial structure (yet avoiding the creation of a central bank under banker domination) and remedying the classic problems of immobile reserves and inelastic money supply. The Glass-Willis proposal called for the creation of twenty or more privately controlled regional reserve banks, which would hold a portion of member banks' reserves, perform other central banking functions, and issue currency against commercial assets and gold.



Representative Carter Glass
Courtesy, Library of Congress

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. 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.

H. Parker Willis
Courtesy, Washington and Lee University

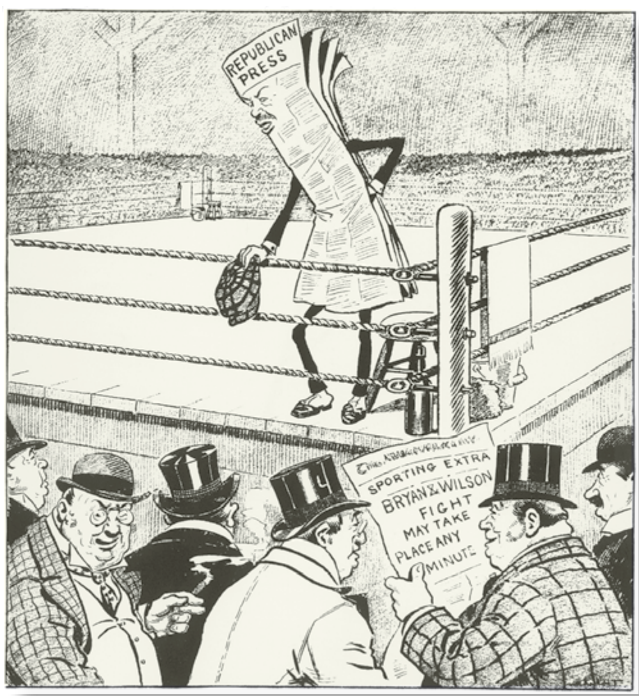
Nevertheless, from December, 1912, when Wilson first talked with Glass and Willis about currency reform, until December, 1913, when the President signed the Federal Reserve Act into law, the Glass proposal was attacked from two sides: on one side, bankers (especially from the big city institutions) and 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) dragged out the debate on the tariff in an attempt to delay consideration of the banking bill. On October 3 the major tariff reduction bill was on Wilson's desk, and he signed the new law much to the gratitude 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.

Buffeted by this conflict within his Administration, President Wilson sought a compromise that could please both Glass and Bryan and then win the support of Congress, yet a compromise that would genuinely resolve the banking and currency problem. To sharpen his own thinking, Wilson sought the advice of the man whose opinions on economic matters he respected above all others, the prominent attorney Louis D. Brandeis. Brandeis, a man of undeniable brilliance, sided



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

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

with Bryan on two key points: first, he believed that bankers must be excluded from control of the new system; and second, he believed that the Federal Reserve currency must be made an obligation of the United States government. "The conflict between the policies of the Administration and the desires of the financiers and of big business, is an irreconcilable one," Brandeis told Wilson. "Concessions to the big business interests must in the end prove futile."[2]

After several conferences, Wilson met on June 17 with Glass, Secretary of the Treasury William G. McAdoo, and Senator Robert Owen of Oklahoma (chairman of the newly created Senate Banking and Currency Committee and a supporter of Bryan's views), and he told them that he would insist upon exclusive government control of the Federal Reserve Board and would insist upon making Federal Reserve notes the obligation of the United States. The former was clearly a victory of substance for the Bryan group, while the latter point was merely a victory of form.

What Bryan and his followers really wanted was the retirement of national bank notes and their replacement by a supply of paper money issued on the initiative of public officials and backed up only by the government's promise to pay. What Bryan really got, however, was just the addition of relatively meaningless language to the basic provisions of the Glass bill. The Glass bill provided that Federal Reserve notes would be issued by the regional reserve banks against their own commercial assets and a $33^{1/3}$ percent gold reserve, and the change which placated Bryan and other progressives was the mere

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

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."

Most bankers did not like what they heard. Particularly vigorous—and often very bitter—in their opposition were the big-city bankers, especially from New York. Conservatives also lambasted the bill as a radical break in the nation's *laissez-faire* economic policy. The bankers speaking out in opposition, having favored the Aldrich plan of a central bank under banker control, disliked the framework of government regulation, dominated by political appointees. Bankers in the central reserve cities of New York, Chicago, and St. Louis, as well as many bankers in the 47 reserve cities, disliked the fact that the new Federal Reserve banks would be the sole holders of reserves for the national banks. (It will be recalled that under the national banking system, national banks in central reserve cities and reserve cities were reserve depositories for other banks.)

Many bankers with nationally chartered banks disliked compulsory membership in the Federal Reserve System for national banks, and they criticized the bill's assault on "private rights." Finally, many conservatives and bankers were strong Republicans, and they termed the bill a Democratic party measure for the altogether logical reason that it was written and sponsored by a Democratic Administration, a Democratic Administration apparently dominated by its southern, western, and "anti-business" elements. *The New York Times* referred derisively to the, "Oklahoma idea, the Nebraska idea," clearly pointing to Senator Owen and Secretary of State Bryan who, as we have seen, played a major role in writing the bill and adding the government control, through the Federal Reserve Board, which bankers appeared to find most obnoxious.

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 retired 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 in 16 years, and they were reluctant to embarrass him and themselves by resisting a major component of his program.

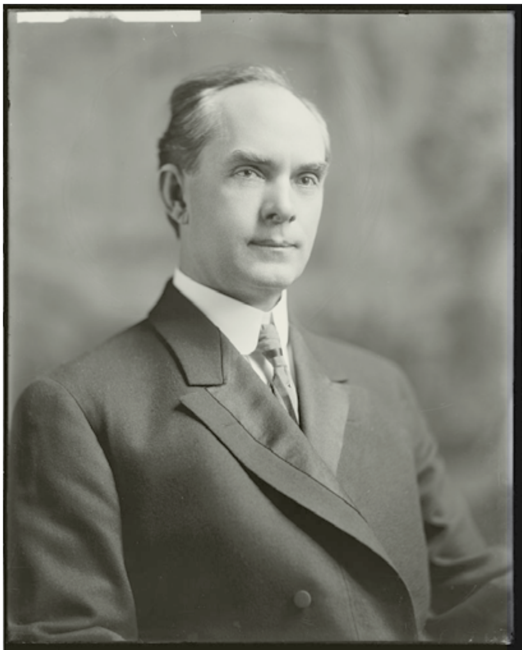
In fact, however, the following months would demonstrate how difficult it was for Wilson to unify his party in Congress behind his program. Shortly after Glass and Owen introduced the bill, a rebellion broke out among some Democratic congressmen from rural areas in the South and West. Led by Representative Robert L. Henry of Texas (he was, Carter Glass later recalled, "an exceedingly likable fellow; but he knew as much about banking as a child about astronomy"),[3] this group demanded that the Wilson Administration destroy the "Money Trust" before setting out to reform banking and currency. Moreover, these Democratic agrarians disliked the Federal Reserve bill's provision for private control of the regional reserve banks, believing that this would be a private financial trust operating under government protection.

"Schoolmaster Wilson lays down the law to Congress
Courtesy, New York Tribune

Most important, however, the dissidents protested that the Federal Reserve bill made no provision for 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. Yet the Henry proposals were no more popular with the general public than the Aldrich Plan had been, and many people regarded them as the wildest form of Populism.

Again, President Wilson moved quickly to meet the opposition to the bill. He invited the agrarian leaders to the White House and mollified them,



Representative Robert L. Henry
Courtesy, Library of Congress

in part at least, by agreeing to work for the prohibition of interlocking directorates among the banks in his forthcoming antitrust bill. With a combination of pleas, promises, and perhaps even threats Wilson was able to beat back much of the opposition from the agrarian bloc, and 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, Representative Henry did not yet give up; he now worked to get the House Democratic caucus to kill or severely modify the Federal Reserve bill. With the agrarian opposition still a threat to the passage of the bill, the most prominent agrarian radical in the country—Secretary of State William Jennings Bryan—moved dramatically to save it. Promising that the Administration would work to deal with the problem of interlocking directorates in the antitrust bill, Bryan asked his friends to stand by the President and support his banking program. Bryan's prestige was so great in the rural areas that his forceful advocacy shattered the radical opposition within the House, and the House Democratic caucus overwhelmingly approved the measure by the end of August. This approval meant that the Federal Reserve bill was a party measure, binding on all House Democrats.

Formal approval by the House Democratic caucus greatly weakened radical agrarian opposition, and was but one of many indications that the Federal Reserve bill was coming to enjoy broader public support. Progressive opinion, in favor of 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 business community, with the small business owners 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

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 Administration plan. The Chicago manifesto appeared to kill that hope and sharply etched the broad differences between the majority of the banking community and the Wilson Administration. From then until final passage of the Federal Reserve bill in December, the Wilson Administration tended to regard banker opposition as essentially irreversible.

The 20th century banker
Courtesy, American Bankers Association

PASSAGE BY CONGRESS

With the hope that strong public support for the measure would neutralize banker opposition, Carter Glass began to push the bill through the House in early September, and on September 18 the House overwhelmingly approved it by a vote of 287 to 85. Though this vote was a clear victory for Wilson, significant partisan division was also manifest; all but three Democrats supported the bill, while seven out of every 10 Republicans opposed it. (It should be noted that most far-reaching bills pass Congress with some partisan division, but if the law proves to be successful it ultimately comes to command broad, bipartisan support; the Federal Reserve is certainly no exception to this.)

Passage by the House was only half the battle, and apparently the easier half; indeed, the Senate scene was so confused that it was impossible to predict the outcome. Senator Owen, chairman of the Senate Banking Committee, was an uncertain reed of support for the Glass bill. Originally he had surrendered his own bill to co-sponsor the Federal Reserve bill with Glass, yet at the time of the House caucus in August he publicly assailed the bill's regional basis and its provision for mandatory membership for national banks. Summoned to the White House by Wilson, Owen publicly recanted his criticism of the bill, but his erratic behavior gave the measure's supporters many uneasy moments.

Senator Robert L. Owen
Courtesy, Library of Congress

In addition to uncertainty about Owen's support and doubts about his effectiveness, the Administration was further weakened in the Senate because its tactics backfired badly. Earlier in the session the Administration had gotten the tariff bill through both House and Senate without any committee hearings, on the grounds that previous lengthy consideration of tariff reduction made more hearings unnecessary. The Administration used the same argument on the Glass bill, and it had worked in the House where no hearings were held. The Senate, however, rejected the Administration position and voted to hold full-scale hearings on the banking measure. Not only would extended hearings delay—and perhaps endanger—ultimate passage of the bill, they would also be conducted by the Senate Banking Committee, where President Wilson had less support among Democrats than he had in the Senate as a whole.

Indeed, three of the seven Democrats on the Senate Banking Committee

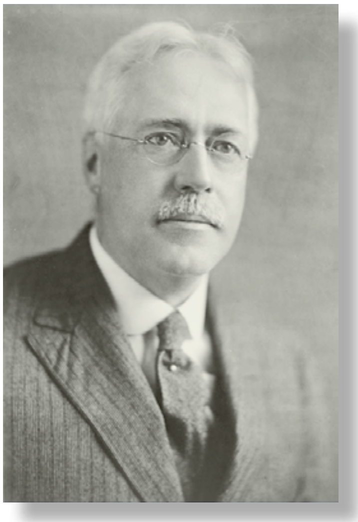
—Gilbert Hitchcock of Nebraska, James O' Gorman of New York, and James Reed of Missouri—appeared ready to combine with the Republican minority in an effort to drag out the hearings and perhaps ultimately kill the bill by slow strangulation. As a result the hearings, begun in September, wore on into October, and they became a forum for the bill's opponents of both the right and the left. Banker opposition was especially vocal and vigorous. In early October, a few weeks after the House had overwhelmingly approved the bill and while the Senate hearings were continuing, the American Bankers Association held its annual convention in Boston and passed a series of resolutions denouncing the Federal Reserve bill as socialistic, confiscatory, unjust, un-American, and generally wretched.

Wilson's perception of these events was that the three Democratic senators, the Republican minority, and the largest bankers had joined in a conspiracy to kill his banking reform plan. Despite his intense irritation at the obstructionist tactics of the three Democratic senators, the President ultimately came to use the same tactics on them that he had used with such effectiveness on the House rebels; he called them into personal consultation at the White House and used a combination of pleas and promises to try to win their support, or at least their neutrality. Wilson agreed with them that the bill might have to be amended further, and this helped mollify the dissident senators.

Program cover, American Bankers Association meeting in Boston
Courtesy, Federal Reserve Bank of Boston Archives

In late October, and with dramatic suddenness, Wilson's hopes for an accommodation were almost killed. Frank A. Vanderlip, president of the National City Bank of New York, appeared before the Senate Banking Committee and proposed an entirely new banking and currency plan, which he had prepared at the request of Senators Hitchcock, Reed, and O'Gorman, the committee's three Democrats. The Vanderlip plan called for the establishment of one Federal Reserve Bank with the capital to be subscribed by the public, the government, and the national banks. The central Federal Reserve Bank would have twelve branches around the country. Control of the bank would rest entirely in the hands of the federal government, and the bank could issue currency against its commercial assets and a 50 percent gold reserve.

This bill managed to have an appeal both to the agrarian radical opponents on the left and the banker opponents on the right. Many progressives and agrarian radicals liked the thoroughgoing governmental control in the Vanderlip plan, while many conservatives liked it because it provided for just



Frank A. Vanderlip
Courtesy, Library of Congress

one central bank. Some supported the Vanderlip plan because it appeared to restrict the power of private bankers and Wall Street, while others supported it because it appeared to put the control of banking into the hands of bankers. Finally, the fact that the public could buy stock in this bank (in contrast with the Federal Reserve bill, which provided that only member banks could buy capital stock in the regional banks) gave the bill added public appeal. Within a few hours of its introduction eight of the 12 members of the Senate Committee supported the Vanderlip plan.

Wilson voiced immediately his strong and uncompromising opposition to the Vanderlip plan, and, with his great popularity, this played a major role in weakening its public appeal. Under strong and continuing Administration pressure, O'Gorman and Reed were gradually moderating their opposition to the Federal Reserve bill, and by early November they finally came to publicly support its main features. Ultimately, in late November, the Senate committee reported two different bills to the full Senate—a slightly amended Federal Reserve bill, and the Vanderlip plan. The result of this maneuver was to break the hold that the Senate committee had exercised over the Federal Reserve bill.

Continuing public support for the Federal Reserve bill hastened final Senate action in December. Respected conservatives continued to speak in opposition—Republican Senator Elihu Root of New York called the bill "financial heresy"—but they were overshadowed by the steady support from Progressive leaders, and the growing support for the bill among organized business opinion and a growing minority of bankers. On December 19 the critical vote was taken in the Senate, and the Federal Reserve bill was narrowly preferred over the modified Vanderlip plan by a margin of only three votes, 44 to 41. A few hours later the Senate passed the Federal Reserve bill itself, 54 to 34. As in the final House vote partisan division was evident, but it was even sharper in the Senate; all Democrats supported the measure while all but six Republicans opposed it.

President Wilson addresses Congress
Courtesy, Library of Congress

The House and Senate versions of the Federal Reserve bill varied slightly, so the two bills went to a conference committee, composed of members from both houses, to resolve the differences. For example, the House bill had provided that at least 12 regional reserve banks be created, but the Senate bill provided that the number of reserve banks be no fewer than eight but no more than 12; the conference committee accepted the Senate version on this matter, yet the House conferees prevailed on some other points. In contrast with the months of congressional wrangling before the two bills were passed, the conference committee resolved the minor differences between the two measures in only two days, and both the House and Senate quickly approved the compromise measure.

On December 23, just a few hours after the Senate had completed action, President Wilson, surrounded by members of his family, his cabinet officers, and the Democratic leaders of Congress, signed the Federal Reserve Act. "I cannot say with what deep emotions of gratitude... I feel," the President said, "that I have had a part in completing a work which I think will be of lasting benefit to the business of the country."


DECEMBER 24, 1913—SIXTEEN PAGES. PRICE TWO CENTS

PRESIDENT'S SIGNATURE ENACTS CURRENCY LAW

Wilson Declares It the First of Series of Constructive Acts to Aid Business.

PRESIDENT WOODROW WILSON.

Makes Speech to Group of Democratic Leaders.

Conference Report Adopted in Senate by Vote of 43 to 25.

Banks All Over the Country Hasten to Enter Federal Reserve System.

Gov-Elect Walsh Calls Passage of Bill A Fine Christmas Present.

WILSON SEES DAWN OF NEW ERA IN BUSINESS

Aims to Make Prosperity Free to Have Unimpeded Momentum.

HOME VIEWS OF CURRENCY ACT

"A Christmas present to the people of the country," is the name Gov-Elect David I. Walsh gives to the Currency act.

"I think," he said last night, "that President Wilson and the National Congress are to be congratulated upon the enactment of the Currency bill.

"The purpose of the act is one

FOUR PENS USED BY PRESIDENT

WASHINGTON, Dec 23—President Wilson signed the Glass-Owen Currency bill at 6:01 o'clock tonight in the presence of members of his Cabinet, the Congressional Committee on Banking and Currency and Democratic leaders in Congress generally.

With a few strokes of the pen, the President converted into law the

President Wilson signs the Federal Reserve Act
Courtesy, Boston Public Library

The Federal Reserve Act was now law, and of all the men who deserve credit for this major reform of America's banking and currency system—Nelson Aldrich, Carter Glass, Robert Owen, William McAdoo, H. Parker Willis, and even William Jennings Bryan—none deserves more credit than President Wilson himself. Withstanding the contrary demands of the private bankers on the one hand and the agrarian radicals on the other, the President had supervised the development of a bill and had skillfully commanded Democratic support for it and led it through the congressional thicket. The passage of the Federal Reserve Act stands as almost a textbook case of wise and skillful presidential leadership over Congress.