AN AMERICAN BANKING SYSTEM, FROM "NATIONAL ISSUES OF 1916"

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CHARLES N. FOWLER & ELMER H. YOUNGMAN

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Very truly yours
Charles N. Fowler

An

American Banking System

From

"National Issues of 1916"

By

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Member of House of Representatives from 1895 to 1911, and Chairman of the Banking and Currency Committee for Eight Years

With an introduction by

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New York

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INTRODUCTION

THE COMING BATTLE BETWEEN GOVERNMENT PAPER "MONEY" AND BANK CREDIT CURRENCY

THERE have been two memorable banking and monetary contests in the history of the United States. The first was between concentrated banking power as represented by the Bank of the United States on the one hand and Andrew Jackson on the other. The second was between the believers in a gold standard, under the leadership of McKinley, and the upholders of so-called "bimetallism," represented by William J. Bryan.

A third battle remains to be fought between Government paper "money" and bank credit currency.

FEDERAL RESERVE ACT NEVER APPROVED BY THE PEOPLE

In both the great contests which have previously taken place the matters in controversy were settled by being made issues in Presidential campaigns. Full and free discussion was had and the results have been accepted as a finality, so far as any questions can be finally settled.

The Act of December 23, 1913, commonly known as the Federal Reserve Act, while representing a culmination of many years of discussion of our banking problem, was not itself subjected to the test of a popular verdict. The declarations relating to banking and currency in the party platforms in the national campaign preceding its adoption had been rather tame and more or less general in character. They were not taken very seriously by anybody. Neither the Federal Reserve Act nor anything remotely resembling it had any place in the popular debates that preceded the election of November, 1912, which resulted in placing the Democratic party in power.

NEW ADMINISTRATION TAKES ADVANTAGE OF PREVIOUS AGITATION OF BANKING QUESTION

But no sooner was the new Administration installed in Washington than it became apparent that there was to be legislation of some kind on banking and currency.

For years, Mr. Fowler as Chairman of the Banking and Currency Committee of the House, had kept alive interest in the subject and had by his ability and persistence convinced the bankers and a good many other business men that legislation was necessary. Indeed, there was a more or less general recognition of the desirability of such legislation. Banking reform, for many years sneered at as visionary, had at last achieved a certain popularity. When the Democratic party came into office it at once resolved to take advantage of this situation and to appropriate to its own use whatever credit and popularity could be extracted from a banking bill of some kind. Immediately on the assembling of Congress a bill was hastily thrown together in the House. It was crude in many of its details, and before becoming a law was radically altered by the Senate.

AN AMERICAN BANKING SYSTEM

MR. BRYAN'S HAND SEEN IN FEDERAL RESERVE ACT

Before entering upon a consideration of this measure it will be well to revert to some rather recent political history, as this will make it possible to gain a clearer understanding of the monetary or currency theories which the Act embodies.

It has been seen already that Mr. William J. Bryan was in 1896 the leader of those who under the guise of "bimetallism" sought to commit the United States to the silver standard. This attempt was frustrated by the people of the United States. From the inauguration of McKinley on March 4, 1897, to March 4, 1913, the Democratic party was out of office. By a split in the Republican party in the 1912 campaign the Democrats were again restored to power, though polling a smaller popular vote than their opponents. On the fourth of March, 1913, Woodrow Wilson, the Democratic nominee, was inducted into office as President of the United States. He named as Secretary of State William J. Bryan, the former apostle of free silver at the ratio of sixteen to one and a defeated candidate for the Presidency. Mr. Bryan had been largely instrumental in nominating Mr. Wilson and as a prominent man in his party was fairly entitled to the recognition given him in the new cabinet.

Students of American politics understand that Mr. Bryan had held "Wall Street" and the bankers responsible for his failure to achieve his ambition to reach the Presidency. He did not realize that this failure was due to the fact that the people had taken an accurate measure of his economic views and had made up their minds that they were unsound and dangerous. Coupled with his unsound views regarding money, as illustrated by his fanatical advocacy of the free and unlimited coinage of silver in 1896, there was a fierce hatred of the wealthier classes of the country, whom he styled the "predatory rich." Much of the popularity he had won was based upon his denunciation of those who had accumulated a fortune, and it was but natural that in his aversion toward the rich he should include the banks of the country. They were a part of the great "money power" conjured up by his imagination and which must be restricted, regulated and punished in any banking legislation that might be enacted.

Without this preliminary statement it is impossible to get a proper perspective of the Federal Reserve Act, which represents Mr. Bryan's theories regarding money so far as he was able to apply them after his free silver defeat, and also throws about banks the restrictions he and his school of thinkers deem necessary in order to restrain the "money power" as supposedly represented by the banks of the country.

Before the Federal Reserve scheme was brought up in Congress, the stage was properly set for it. All the devices known to the creators of theatrical illusions were employed. The trusts were investigated and plausibility was given to the charge that they were fostered if not created by the great banking interests, and that through "interlocking directorates" the big banks and business concerns were practically controlled by a few financial magnates. After the popular emotion had been thus aroused, the next step was, of course, to devise a means of delivering the people from their oppressors. This was to be done by taking away from the banks a portion of their capital and handing it over to Government control, and at the same time take away from the bankers in some fifty cities the reserves which they held for other banks. The management of the capital and reserves thus taken over was to be transferred from the banks to the Government. Included in the bill was a plan for purchasing the bonds which the banks held as security for their circulating notes; and as these bonds were gradually absorbed by the Federal Reserve Banks which the bill created, the national banks of the country would in the course of time be deprived of the right of note issue, leaving this function solely to the Government of the United States; for while the notes provided for in the Federal Reserve Act are called Federal Reserve Notes, they are actually obligations of the United States.

In studying the Federal Reserve Act, particularly as regards its fundamental principles, it is absolutely essential to bear in mind that it embodies the monetary and banking theories of William J. Bryan.

It must be remembered that Mr. Bryan was possessed of the hallucination that there was some magical power in the fiat of Government that could take fifty cents' worth of silver and by stamping it one dollar, convert it into a real dollar equal to 25.8 grains of gold. That he was sincere in this belief, and that it amounted almost to a religious mania, no one who recalls the frenzy of Mr. Bryan and his followers in 1896 can for a moment doubt. The free silver campaign of that year actually had about it many of the characteristics of the hysterical outbursts that have marked fanatical religious movements in darker ages. Against the solid rock of sturdy American common sense this delusion was dashed in pieces. The whole question was threshed out in a national campaign and the popular verdict was decidedly in favor of the gold standard and against Mr. Bryan's theories with respect to money.

Nevertheless his opportunity was to come later,