

**THE FEDERAL RESERVE ACT, A
DISCUSSION OF THE PRINCIPLES AND
OPERATIONS OF THE NEW BANKING ACT
AS ORIGINALLY PUBLISHED IN THE
WALL STREET JOURNAL AND THE
BOSTON NEWS BUREAU**

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The Federal Reserve Act, a discussion of the principles and operations of the new Banking Act as originally published in the Wall Street Journal and the Boston News Bureau by C. W. Barron

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C. W. BARRON

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**FEDERAL RESERVE
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*A Discussion of the Principles and Operations
of the new Banking Act as originally pub-
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and the Boston News Bureau*

By
C. W. BARRON

*Including a Description of the Financial, Commercial
and Industrial Characteristics of each of the Federal
Reserve Districts and the Federal Reserve Act fully
indexed, with pertinent legislation*

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9/8/20

1914
BOSTON NEWS BUREAU COMPANY
BOSTON

INTRODUCTORY.

It is with some misgivings that I have consented to have placed in book form these twenty-eight articles discussing the Federal Reserve Act.

Having studied this measure in the embryo of legislation, the principles operative in its formation and the strength and weakness in the minds of its makers, I deemed it my duty to speak the hopeful word in the financial publications with which I am associated, The Wall Street Journal, the Boston News Bureau and the Philadelphia News Bureau.

I had to work quickly, in such hours of the day as I could command apart from my regular labors, to issue these articles every alternate day, beginning Jan. 9, 1914.

I have been surprised at the favor of their reception. Requests for their publication in book form have come from various parts of the country and from abroad. I was surprised also to learn that they were translated as fast as issued for the use of bankers in Europe. I made my statements boldly, avoiding technical terms, and expected the response at least of criticism and controversy. Now I yield to the demand of many readers to put these notes in more enduring form than the columns of financial newspapers.

It is a pleasure and a duty to acknowledge assistance. First I would thank John Perrin, probably one of the most widely known bankers in the United States and recently appointed Federal Reserve Agent for San Francisco. Together we watched the varying phases of debate at the Capitol, discussed banking principles to the "wee small hours," and rejuvenated ourselves by laughing over many phases of the debates as the bill was being put into shape for final enactment. Perrin knows a bank from the messenger right up through the line to the president's desk, and what is more, he knows all the principles underlying credit and is familiar with every financial theory that ever rooted or bloomed on either side of the Atlantic. He won't say this himself. Indeed, he will probably only recognize the fact and then doubt it when he first reads this in print.

To Charles P. Blinn, Jr., of the National Union Bank, Boston, I am indebted for statistical compilations which, while not appearing

in this book, greatly assisted me to give the proper poise and balance when transmuting dry statistics into popular presentations harmonious in principles and practice.

I am indebted to Luther Conant, Jr., formerly United States Commissioner of Corporations, but in the year 1913-14 on the staff of *The Wall Street Journal*, for most conscientious reading of manuscript and proofs. To his accurate scrutiny of all phrases, figures and balances is probably due the fact that the controversies I so confidently expected have not arisen.

The articles in the latter part of this book by Dr. John F. Crowell of *The Wall Street Journal*, and formerly of Washington, speak for themselves. Dr. Crowell's life study has been in the line of statistical presentation, as well as in the principles which underlie facts, and out of which all facts arise.

These twenty-eight essays on the Federal Reserve Act are really *Essays on Credit*. To the oncoming generation of bankers who are to make this country great and prosperous, if not foremost in the world of finance, I would emphasize that banking is essentially nothing but credit and that the true gold in the world is the gold of credit. It has been a popular impression, handed down from ancient times, that banking is putting money in a box or stocking or in the hand of another for safekeeping. This is banking by an Indian, a Hottentot, or an aborigine, ancient or modern.

Real banking is giving and receiving real credit. The essential gold is the gold of honor,—of promises well based on integrity maintained. The money box holds only the needed change for the Saturday night payroll, enough gold for the exchanges of commerce between states and nations where credits have not yet full or effective sway, and also enough gold to insure confidence and ability to maintain that confidence by prompt pay.

Modern banking is very young in the world's history and it will take time for the world to realize that real character and real credit are the true gold—here and hereafter.

C. W. BARRON.

Nov. 6, 1914.

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PART I.

COMMENTS ON THE FEDERAL RESERVE ACT.

A NEW AND BROAD CREATION.

Next to the Declaration of Independence and the Constitution of the United States the Federal Reserve Act, signed by President Wilson Dec. 23d, 1913, may be the most important measure ever placed before the people of these United States. Upon its wise administration depends the good or ill of a hundred million people and as a nation we shall probably live under it not only for the 20 years named in the act, but, with amendments found necessary from time to time, for possibly many generations.

The miraculous thing about its creation is that it sprang forth in a few hours before the Christmas holidays from a new Congress that understood little of currency and less of banking and an Executive and a Cabinet that never made any pretence to a clear understanding of financial principles. Yet a Congress of financial experts, with an Administration and a Cabinet composed of the leading bankers of the country, probably could not have produced so good a bill. Bankers are not generally progressive or even open-minded. The line of safety must be their rule of procedure, and all changes they naturally regard with suspicion.

Congress, having no fixed principles, was subject to no prejudices and the bankers, who could never be induced to formulate a bill, unconsciously made one by their negations.

This bill is the re-formation of an absolutely unworkable and chaotic measure passed by the House. It was forced into shape by pressure from the Administration to do something promptly, as the nether millstone, and the determination of the banking interests to quit the national banking system, as the upper millstone, should the act give evidence of being for them dangerous.

Yet the bill in its broad principles is the result of currency expert and banking agitation that has been going on for well nigh a generation; even before the necessity for currency legislation was emphasized by the 1907 panic.

The bill as it passed the House was so highly dangerous as to be undiscussable. Had not the financial papers refrained from criticism, a panic might easily have ensued. Had the House bill passed the Senate and been signed by the President, it might have disrupted the national banking system and caused the sudden retirement of \$700,000,000 of national bank currency.

The country has never been informed of the quiet currents of expression that went on last autumn between leading banking interests. The sentiment of the national bankers crystallized in a quiet but unrecorded determination to make no acceptance of the House bill and to avoid the creation of any panic by simply sitting still and leaving it to the Administration, if it so elected, to enforce the act and put the national banks out of existence through receivership. In other words, the banks would not themselves take the responsibility of a foreclosure upon the national banking system, with a contraction of \$700,000,000 in the currency afloat, which meant the sudden retirement of 40% of the money in the hands of the people.

This was the quiet sentiment of the national bank interests of the country as understood and privately, yet individually, formulated at the American Bankers' Association Convention in Boston in October.

Our readers will, therefore, now better understand why the financial newspapers have so little discussed the currency measure while it was pending.

The bankers were a unit in their declaration against political control of the credits of the country. They saw the dangers of absolutely free check collections, giving rise to check-kiting from one end of the country to the other; the impossibility of calling up the reserves from the banking interests of the country, as proposed in the House bill, without disaster, and sundry other features of this bill that made it beyond the probability of any volume of money in the country to inaugurate, to say nothing of the amount of credit required to sustain it,—the disaster of contraction to inaugurate it and if inaugurated the wild check-kiting and inflation that must follow.

Now, miracle of miracles, with responsibility to nobody, and yet with credit to everybody, the millstones of banking sentiment and political legislation have ground out a bill that may prove, with wise administration, as much of a marvel as the Declaration of Independence or the Constitution of the United States.

While the bill was under discussion in the Senate it was changed so rapidly that the financial world, except for a few leading experts, lost personal interest in it, and refused to follow the matter in the