

CONFERENCE REPORT ON CURRENCY BILL

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SPEECH

OF

HON. CARTER GLASS

OF VIRGINIA

IN THE

HOUSE OF REPRESENTATIVES

DECEMBER 22, 1913



WASHINGTON  
GOVERNMENT PRINTING OFFICE

1914

47324-13492

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The House had under consideration the conference report on the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.

Mr. GLASS. Mr. Speaker, on the 18th day of last September this House, by a vote of 286 to 85, passed H. R. 7837, known as the currency bill. The conferees on the part of the House to reconcile the differences with the Senate now have the pleasure of reporting the bill back without one single fundamental alteration of its structure.

I had purposed making a detailed explanation of the changes in the bill, but in the limited time remaining I can only indicate to the House just what was done in conference concerning the Senate amendment to the House bill, which was in the nature of a substitute.

ORGANIZATION COMMITTEE.

The House bill provided for an organization committee vested with the power of putting the new regional reserve bank system in practical operation, the said committee to be composed of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency. The Senate altered this provision by eliminating the Secretary of Agriculture and the Comptroller of the Currency and substituting two members of the Federal Reserve Board to be designated by the President. In conference the House provision was restored. The House conferees regarded it as exceedingly important that the Comptroller of the Currency, having intimate knowledge of all the details of banking, should be a member of the organization committee; and also the Secretary of Agriculture, who, at this time, happens to be experienced in economics. Moreover, it was objected that the Senate amendment would indefinitely delay the organization of the system by reason of the fact that the work of organization could not proceed until the President should first designate at least two members of the Federal Reserve Board, which could not intelligently be done until the boundary lines of the various regions could first be established. Thus the alteration by the Senate was regarded by the House conferees as impracticable; and the organization of the system will, consequently, devolve upon the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency, as provided originally in the House bill.

FEDERAL RESERVE BOARD.

The Senate amendment also eliminated from membership on the Federal Reserve Board the Secretary of Agriculture and the Comptroller of the Currency. This action by the Senate reflected the deliberate opinion of the Democratic Party caucus

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and apparently represented the unanimous conviction of the caucus and the Senate. The House conferees signified a willingness to yield with respect to the Secretary of Agriculture, but strenuously resisted the proposition to eliminate the Comptroller of the Currency. The conferees on the part of the Senate long persisted in the determination not to permit this official to hold membership on the Federal Reserve Board, but the House conferees, with equal pertinacity, insisted that the Comptroller of the Currency, already charged by law with the supervision and with a large power of control of the national banks of the country, was by virtue of his official duties peculiarly suited for membership on the board. The House conferees prevailed; so that the Federal Reserve Board will be composed of the Secretary of the Treasury, the Comptroller of the Currency, and five members to be appointed by the President for terms of 10 years each, instead of 6 years, as originally provided in the House bill, and with salaries of \$12,000 per annum, instead of \$10,000 per annum, as provided in the House bill.

#### NUMBER OF BANKS.

Concerning the number of regional reserve banks to be established, the House bill, as you know, provided that there should not be less than 12, leaving subsequent increase in the number of banks to the judgment of the Federal Reserve Board. The Senate amended the bill in that particular so as to provide that the number of banks should not be less than 8 nor more than 12. On that point the House conferees yielded.

#### VOTING FOR DIRECTORS.

In this connection, the House bill provided that the directors of classes A and B of the regional reserve banks—the first class peculiarly representative of the banking interest and the second class representative of the business community—should be selected from approved lists to be supplied by the stock-holding banks. The Senate so amended this provision as to extend the field of choice, permitting the electors to vote for any individual in the regional reserve district. Regarding this as an utterly impracticable, if not interminable, process, the House conferees stood firm and the Senate yielded. The House accepted the Senate modification concerning a preferential ballot, so as to prevent the possibility of a tie vote for directors.

#### QUALIFICATIONS OF DIRECTORS.

Concerning the qualification of directors of regional reserve banks, the House bill provided that directors of class B could not be officers, directors, or employees of member banks. The Senate so amended the provision as to prohibit stockholders of member banks from being directors of class B in the regional reserve banks; but on this point the Senate receded.

#### CAPITALIZATION.

The House bill provided that the capital of the regional reserve banks should be in amount equal to 20 per cent of the capital of member banks, one half to be paid in, and the other half subject to call; being in the nature of a double liability. The Senate so altered this provision as to provide that the aggregate capital of a regional reserve bank should be in amount equal to 6 per cent of the capital and surplus of member banks. The House provision was based upon the theory that a bank's capital stock is less liable to variation than its surplus.

Nevertheless, the House yielded on this point, not regarding it as at all vital. Indeed, the aggregate capital under the one provision will be approximately the same as that provided by the other plan.

#### EARNINGS.

In the matter of distribution of the earnings of the proposed regional reserve bank system there was quite a wide difference in the Senate amendment from the House bill. The House bill, as you will recall, provided a cumulative dividend of 5 per cent to be paid to the stockholding banks, after which a surplus fund of 20 per cent was required to be established by the regional reserve banks. The excess earnings above the cumulative 5 per cent dividend and the 20 per cent surplus were to be divided between the Government and the stockholding banks in a ratio of 60 per cent to the Government and 40 per cent to the banks. The Government's earnings were to be applied to the extinction of the bonded indebtedness of the United States. The Senate so amended this provision as to allow the banks a 6 per cent cumulative dividend and required the regional reserve banks to provide a surplus of 20 per cent, the entire net earnings in excess of the dividend and surplus to go to the United States Government. However, one half of the Government's earnings was to constitute a franchise tax and the other half was to be appropriated to an insurance fund for the protection of the individual depositors of national banks.

#### SO-CALLED DEPOSIT INSURANCE.

This Senate amendment was bitterly contested by the House conferees as being a mere pretense of a deposit guaranty. It was, indeed, neither a deposit guaranty nor a potent insurance fund, in the judgment of the conferees on the part of the House. Therefore the House conferees insisted upon the modification of the Senate amendment by striking out this alleged deposit insurance, but permitting the cumulative dividend to remain at 6 per cent, as fixed by the Senate, the balance of the excess earnings of the system to go to the United States Government. The view of the House conferees was that when we have, if ever we shall have, a deposit guaranty law, the tax should be assessed against the banks; that the banks, in that event, should be required to guarantee their own depositors; and that not a dollar of the funds of the United States Government should be applied to that purpose. [Applause.]

The conferees on the part of the House felt, regardless of the merits of the proposition to insure or guarantee bank deposits, that the incorporation of this Senate amendment here would delay indefinitely, if not defeat, the proposition for a real deposit guaranty law. For this reason the House conferees stood firm and the Senate conferees yielded; so that in the bill as reported back there is no provision for an alleged deposit insurance.

#### POWERS OF RESERVE BOARD.

The powers of the Federal Reserve Board were in some minor particulars and in one or two material aspects altered by the Senate amendment, notably where the House authorized the Federal Reserve Board to compel one Federal reserve bank to rediscount the discounted paper of another Federal reserve bank under certain restrictions. Such authority could only be exercised in time of emergency and only by the affirmative action of



five of the seven members of the Federal Reserve Board. The Senate amendment swept away every one of the restrictions imposed by the House bill and vested the Federal Reserve Board with plenary power to order the rediscount at its pleasure and by a majority vote. The House conferees insisted upon a restoration of the requirement that at least five members of the Federal Reserve Board must concur in the proposed action.

#### REDISCOUNTS.

In the matter of rediscount operations the only material change made by the Senate amendment to the House bill relates to the time limit of certain agricultural credits. This, you will recall, was an item of the bill which provoked considerable controversy in the House Democratic caucus and in the House itself. In the judgment of some of us the difference is more apparent than real, and certainly more political than economic. The House bill, keeping constantly in view the capital purpose of establishing regional reserve banks with quick and liquid assets, promptly and certainly responsive to the commercial, agricultural, and industrial requirements of the country, provided a 90-day maturity for paper subject to discount, making no discrimination whatsoever for or against the merchant, the manufacturer, or the farmer. The Senate amendment, in the case of agricultural credits, extended the period of maturity to six months. The House having reversed itself on this particular proposition and having instructed the House conferees to yield on the Senate amendment, the conferees acquiesced.

In this connection, Mr. Speaker, I wish to say that while the House conferees would have, in any event, implicitly followed the instruction of the House, we did so the more readily in this case from the conviction that sound banking instinct and universal banking experience will take care of the situation presented by this change in the House bill. In short, we are perfectly confident that those to whom shall be confided the power and responsibility of administering this new banking and currency system will have the wisdom and courage to maintain it in the most efficient state possible.

#### RESERVES.

In dealing with the reserve requirements, the Senate amendment to the House bill somewhat strengthened the reserve by advancing the minimum requirement from  $33\frac{1}{2}$  to 40 per cent of gold or lawful money, prescribing a flat penalty of 1 per cent on all impairment of the reserve behind the notes between 40 per cent and  $32\frac{1}{2}$  per cent, and authorizing the Federal Reserve Board to assess a graduated tax of  $1\frac{1}{2}$  per cent per annum upon each  $2\frac{1}{2}$  per cent or fraction thereof that such reserve falls below  $32\frac{1}{2}$  per cent.

The reserve requirements for individual banks was very materially reduced by the Senate amendment; indeed, it was loosened up to an alarming extent, making inflation dangerously probable. The Senate amendment did not require a dollar of reserve to be kept in the vaults of individual banks, but made it possible for every dollar of the reserve to be kept in the regional reserve banks, thus frustrating the purpose of the House to put a stop to the vicious practice of pyramiding reserves under which the tendency to inflation is always possible and inviting. The House conferees adjusted this point of difference not entirely to their satisfaction, but vastly to

the betterment of the provision, so that while the reserve requirements as to individual banks are somewhat less exacting than they were in the House bill they are very much more exacting than they were in the Senate amendment to the House bill.

#### BOND REFUNDING.

The Senate radically altered the bond provision of the House bill. The pivotal point of banking and currency reform in this country around which controversy has raged for a quarter of a century has been the rigid and inelastic nature of a currency based on Government bonds. The demand of the banker, the textbook writer, the business man, and other currency experts has been for the abrogation of the bond-secured currency system and the gradual substitution thereof of a currency based on commercial assets and immediately responsive to business requirements. That has been the universal contention of all persons who have a clear comprehension of the question. It has been the declared policy of the Democratic Party for years, the declaration having appeared in specific terms in three of its recent national platforms. Nevertheless, the Senate in its wisdom radically altered that provision of the House bill so as to make an appreciable retirement of the bond-secured currency unlikely, if not impossible. The House conferees gained a measure of advantage by so modifying the Senate amendment as to make probable the retirement of at least \$300,000,000 of the bond-secured currency within a period of 20 years, and the possible retirement of \$500,000,000 of that currency, based upon a gold reserve and commercial assets, expanding and contracting automatically with the business requirements of the country.

#### NO CHARGE FOR EXCHANGE.

One of the most important provisions of the currency bill passed by this House was that which sought to put an end to the flagrant abuse involved in excessive charges by banks throughout the country for collections and exchanges. The House bill provided that exchanges should be made at par and that charges for collections should not exceed the actual cost to the banks. This item of the bill, as most of you remember, was bitterly controverted in the Democratic caucus, and also in the House. Naturally thousands of banks deriving large profits from the practice of charging constructive interest upon checks in transit and very arbitrary charges for collections and for exchanges exhibited great distaste to this provision of the bill. They vigorously protested to members against the inclusion of this prohibition, and thus the effort to remove this tax burden upon the business of the country was contested with the utmost pertinacity. However, those of us in the House who sought to tear down these tollgates upon the highways of commerce prevailed. The fight was renewed in the Senate, and that body so modified the House provision as to leave it solely within the discretion of the Federal Reserve Board to diminish or abolish the evil complained of, as it might please. The House conferees declined to yield on this point. They insisted upon such a modification of the Senate amendment as will exact exchanges at par and restrict charges for collections to the actual cost of such transactions to the banks. In brief, as the bill now is reported to the House the banks can

not make exchange and collection charges a source of profit; they can not any longer charge constructive interest; they can not exact a tax for a theoretical transfer of funds from point to point when no transfer is actually made, but only an entry on the books. They can no longer harass the commerce of the country nor penalize the business men of the Nation by an unjust tax. While the House conferees did not succeed in entirely restoring the provision as it left this Chamber, they vastly improved the amendment made by the Senate. The provision, as it stands, will result in an immense saving to the tradespeople of the United States. It will eliminate the amazing wastefulness incident to many independent collection organizations by substituting one compact collection system. It will abolish the exchange charges altogether and appreciably reduce charges against collections. I speak thus confidently only in anticipation of wise action by the Federal Reserve Board when appointed. If the board will have the wisdom and courage to establish immediately a comprehensive and economical plan of bank clearings, it will be difficult to compute the advantages that this section of the currency bill will secure. While some banks will have their profits diminished, it will be profits to which they are not fairly entitled and for the loss of which they will be more than compensated by the better and speedier facilities afforded for the transaction of business.

#### GOVERNMENT DEPOSITS.

In the matter of Government deposits the House bill required that the regional reserve banks should be constituted fiscal agents of the United States Government and required the Secretary of the Treasury to deposit all of the current funds of the Government in these banks, omitting, of course, the Treasury trust funds. The Senate so altered this provision of the House bill as to make it optional with the Secretary of the Treasury to so deposit the Government funds and to place it within the discretion of that official to constitute the regional reserve banks fiscal agents of the United States Government. I have been unable to get any clear perception of the reason for this alteration of the House bill further than that I a little suspect that it was done for tactical purposes, perhaps to enable the Secretary of the Treasury to combat the schemes of intractable bankers, should there be such. The object of the framers of the House bill in making the provision mandatory instead of discretionary was to furnish the regional reserve banks with the idle funds of the Government as a basis for active business transactions, and at the same time to correct the unscientific and senseless process of withdrawing these funds from business channels and impounding them in the Treasury and sub-treasuries. It is scarcely thinkable that we shall ever have a Secretary of the Treasury who would not so exercise the discretion conferred upon him by the bill, as now reported, as to carry out the real purpose which the House had in view when it made this provision mandatory; hence, the House conferees reluctantly yielded the point about 3 o'clock this morning.

#### BANK EXAMINATIONS.

In the matter of bank examinations some minor alterations were made by the Senate amendment and some technical changes also, which were modified in conference so that there is little

practical difference between the Senate amendment and the original House bill. One notable change made by the Senate was an authorization of inquisitorial investigations by committees of the House upon their own initiative; but the House conferees insisted upon so altering this amendment as to permit inquisitorial action by the Senate and House jointly, or by either House acting through a committee directly authorized to exercise inquisitorial powers.

THE NOTE ISSUES.

The note provision of the House bill has been bitterly assailed, both in the other branch of Congress and by certain men of large experience and influence in banking. The president of the largest banking institution in the Western Hemisphere went all over the country recently, charging that the Federal reserve notes provided by the House bill and by the Senate amendment to the House bill, substantially now reported from the conference committee, constitute "flat money." This charge was vehemently echoed, without investigation or reflection, as I am obliged to believe, in the other branch of Congress. Mr. Speaker, the characterization is not only inaccurate, is not only untrue, is not only amazing, but is positively wanton.

I have said in speeches elsewhere what I shall now repeat here. There is not in this country and there has never been in any country of the civilized world a government issue or a bank-note issue comparable in security to the Federal reserve notes provided by the bill which you are now asked to enact into law. [Applause.]

NOT AN ELEMENT OF FIATISM.

Fiat money! Why, sir, never since the world began was there such a perversion of terms; and a month ago I stood before a brilliant audience of 700 bankers and business men in New York City, and there challenged the president of the National City Bank to name a single lexicographer on the face of the earth to whom he might appeal to justify his characterization of these notes. I twitted him with the fact that not 1 per cent of the intelligent bankers of America could be induced to agree with his definition of these notes, and asked him to name a single financial writer of the metropolitan press of his own town, to whom he might confidently appeal to justify his absurd charge. "Fiat money" is an irredeemable paper money with no specie basis, with no gold reserve, but the value of which depends solely upon the taxing power of the Government emitting it. This Federal reserve note has 40 per cent gold reserve behind it; has 100 per cent short-term, gilt-edge commercial paper behind it, which must pass the scrutiny, first, of the individual bank, next of the regional reserve bank, and finally of the Federal Reserve Board. In addition to this, it constitutes a first and paramount lien on all the assets of the regional reserve bank, including the double liability of the member banks; and, superadded to this, it has behind it the taxing power, the credit, and the honor of a Nation of 95,000,000 of free people. There is not a semblance of fiatism about these notes; and at the very moment that Mr. Vanderlip, of the National City Bank of New York, was in Chicago recklessly characterizing these notes as "flat"—meaning without sufficient security—Paul M. Warburg, perhaps the greatest inter-



national banker in America, was here in Washington protesting to me that the security behind the notes was entirely too exacting!

Mr. Vanderlip misses the mark a mile, while Mr. Warburg is not far from being right; but we have thought it better to err on the side of prudence rather than incur the risks of insecurity.

DANGEROUS TALK.

No man with the prestige or influence which identification with one of the greatest banking institutions in the world gives him should fail to appreciate the importance of his public utterances. He should not fail to understand that his responsibility to society transcends that of a mere individual; and I predict with great confidence that when the president of the National City Bank of New York comes to realize how inconsiderate was his characterization of these Federal reserve notes, as well as how dangerous, he will regret ever having given utterance to such an ill-conceived opinion. When the institution which he heads shall have become a part of and a factor in the system which this bill provides Mr. Vanderlip will be ashamed to remember that he made such a bitter and utterly unfair assault on the measure.

And, Mr. Speaker, if this be true of a great bank officer, with a manifest self-interest at stake, with how much greater force may this reproach for a like offense be directed at a Member of Congress of the United States, with only his country to serve. I said awhile ago that this charge of "flatism" was vehemently echoed in the other branch of Congress. It could not have been frankly done upon an intelligent analysis of the provisions of the bill, and it should not have been done without such an examination. But the criticism was made with such fervor and such absence of qualification as to make the charge especially alarming to foreign investors in American securities. Indeed, it was made in such rank fashion as to put in jeopardy abroad the credit of our entire banking and currency system as proposed in this measure.

I desire here to enter indignant protest against such criticism. The constitutional duty of a Congressman to warn his country of perils which he may foresee is not greater than the moral obligation to sound no false alarm. And, in either event, the obligation assumes the nature of a grave responsibility when the Congressman speaking adds to the reputation of a great lawyer the fame of an international statesman. No man of this type, with such responsibilities, should for party advantage or for any purpose trifle with the credit of his country, either at home or abroad.

AS TO INFLATION.

This bill, in its House form, has likewise been subjected to the criticism of providing a wide range of "inflation." On this point I have been more amused than exasperated, because the startling inconsistencies of the critics have been simply ludicrous. On the very day that Mr. Forgan, a great banker, was asserting before the Senate committee that the bill "immensely contracted commercial credits," his fellow townsman, Mr. Dawes, ex-Comptroller of the Currency, was proclaiming out West that the bill "enormously inflated commercial credits." Surely it

could not do both things at the same time; nor will it ever do either at any time. It will afford a large expansion of credits, when needed, upon a perfectly sound basis and insure certain contraction of credits at the end of legitimate commercial transactions. This was what it was designed to do, and without the power to do which the bill would be manifestly deficient.

This charge of "inflation," like the criticism in regard to the "flat" nature of the notes, was echoed in the Senate; and yet the bill came back from the Senate with the possibilities of inflation vastly increased. The only thing done in the other body to diminish the possibilities of overexpansion was slightly to increase the gold reserve; but at the same time the bill was so amended in the other body as to permit the banks to count the Federal reserve notes as reserve; the reserve requirements were appreciably reduced; banks were accorded the dangerous privilege of unrestricted "acceptances," and other things were done that made the bill, for the first time, amenable to the charge that it provided "inflation."

But the House conferees insisted upon a restoration of safeguards. As the bill now stands we have provided against inflation in almost every conceivable way—by the requirement of a substantial gold reserve; by the requirement of a secondary reserve of short-time commercial paper; by restricting the power of the reserve board to issue notes except upon application from the banks; by the interposition of banking instinct and experience applied in a threefold degree—that is to say, banking discretion is applied in the original discount operation of the individual bank; banking discretion is applied in the rediscount operation of the regional reserve bank; banking discretion is applied when the Federal Reserve Board passes upon the application of the regional reserve bank for additional currency. Thus inflation is held in check, first, by the limited supply of gold; second, by the limited amount of short-time commercial paper; third, by the banking discretion of the individual bank; fourth, by the banking discretion of the regional reserve bank; fifth, by the banking discretion of the Federal Reserve Board, with a broad view of conditions not in a single district, but throughout the entire country.

#### CHANGES SUMMARIZED.

Without desiring to prolong this review of the questions discussed and determined by the Senate and House conferees, I may briefly summarize them as follows:

1. The House conferees restored the Secretary of Agriculture and Comptroller of the Currency to the organization committee.
2. The House conferees restored the Comptroller of the Currency to the Federal Reserve Board, giving the President power to appoint five members with 10-year terms instead of six with 6-year terms.
3. The House conferees struck out the provision from the Senate bill authorizing domestic acceptances.
4. The House conferees threw out the so-called "insurance of deposits" provision.
5. The House conferees threw out the Senate provision permitting Federal reserve notes to be used as reserves in the individual banks.
6. The House inserted a provision requiring that the net earnings going to the Government should be applied to the gold

redemption fund or to the reduction of the bonded indebtedness of the United States.

7. The House inserted a provision requiring that branch banks shall be operated by a board of seven directors, having the same qualifications as directors of the Federal reserve banks, four to be appointed by the parent bank and three by the Federal Reserve Board.

8. The House altered the Senate reserve features so as to extend the transition period from two to three years, as was provided in the House bill.

9. The House so altered the Senate reserve provision as to require that at least one-third of the reserves of country banks should be held in the vaults of the local banks, whereas the Senate provision permitted all the reserves to be held in the vaults of the reserve bank.

10. The House conferees practically restored the collection at par of checks and exchanges.

11. A new section on bank examinations was written, omitting some of the objectionable provisions put in by the Senate.

12. The House conferees so amended the Senate bond provision as to require the retirement over a period of 20 years of about \$300,000,000 of the bond-secured national-bank notes, whereas the Senate amendment did not provide for the retirement of more than \$125,000,000.

13. The House conferees threw out the provision prohibiting directors of the Federal reserve banks, class C, from being stockholders of any bank, and practically restored the House provision requiring directors of this class to be selected from a list supplied by the Federal reserve bank.

14. The House conferees practically restored the House restrictions in the matter of requiring one Federal reserve bank to rediscount for another Federal reserve bank.

15. The House conferees limited the denominations of the notes to be issued to \$5 minimum, striking out the \$1 and \$2 provision of the Senate, which, it was contended, would cause inflation.

16. The Senate provision fixing a number of banks at not less than 8 or more than 12 stands, as against the House provision making the number not less than 12.

17. There was a compromise on the minimum capital, the Senate bill requiring \$3,000,000 and the House bill \$5,000,000. The capital was finally fixed to \$4,000,000.

18. The Senate provision striking the Secretary of Agriculture off the Federal Reserve Board stands.

19. The Senate method of balloting for directors was retained.

20. The Senate increase of gold reserve behind the note issues to 40 per cent, with a graduated tax for falling below that amount, stands.

21. The method of raising the capital of the Federal reserve banks on capital and surplus of member banks instead of on capital alone was retained in the Senate amendment.

22. The Senate increase of salaries of members of the Federal Reserve Board from \$10,000 to \$12,000 is retained, as is the alteration in the term of service from 6 to 10 years.

23. There were several hundred alterations of the text of the Senate amendment.

## ESSENTIALLY THE HOUSE BILL.

There are, Mr. Speaker, many minor alterations in the text of the House bill, but there is none in its essential features. There also are many changes in the details of the Senate amendment, and in matters of phraseology there are numerous alterations of both the House bill and the Senate amendment. But, in the last analysis, the measure here presented as the conference report upon the disagreeing votes of the two Houses is in all fundamental respects the House currency bill. The report is presented with the confident hope and expectation that it will be adopted and that Congress will have thus written upon the statute books legislation that has been sorely needed and insistently demanded by the banking and business interests of the country for many years.

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