

**"FINANCIAL FREEDOM UNDER WOODROW WILSON"**

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**SPEECH**

OF

**HON. CARTER GLASS**

OF VIRGINIA

AT THE

**JEFFERSON DAY CELEBRATION**

IN

**Washington, April 13, 1916**

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The House of Representatives having under consideration the agricultural appropriation bill, Mr. GARRETT addressed the Chair.

Mr. GARRETT. Mr. Chairman, I ask unanimous consent to print in the RECORD a speech delivered by Hon. CARTER GLASS, of Virginia, at the Jefferson banquet held in this city last night.

The CHAIRMAN. The gentleman from Tennessee asks unanimous consent to print in the RECORD a speech delivered by Hon. CARTER GLASS at the Willard Hotel last night. Is there objection?

There was no objection.

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**Speech of Hon. Carter Glass at the Jefferson Day Banquet.**

Mr. Toastmaster and gentlemen, the task to which I shall briefly address myself this evening is that of presenting a compendium of the financial achievements of this Democratic administration as they relate themselves directly or indirectly to the Federal reserve act. This can not more impressively be done than by drawing a simple contrast between the deficiencies of the old system, with its persistent disorders, and the effectiveness of the newer system in abating the distempers which, for so long a period, afflicted the country in every phase of its business life.

And it may be remarked at the outset that the defects of the old system were so glaring, as the failure to remedy them was so fraught with disaster, that the omission, when we contemplate it, not only causes amazement but constitutes an offense against the well-being of this Nation of which our political adversaries should feel ashamed. It affords justification for an indictment of the Republican Party from which it can find no avenue of escape. The party was plainly incompetent or it was afraid to alter a banking and currency system which lent itself so inevitably to the enterprises of financial adventurers and, periodically, visited every community of the country with blight.

FIFTY YEARS OF BARBAROUS BANKING.

For exactly half a century, almost to the very day, the United States was compelled to endure the handicap of the most unscientific banking and currency system of any that prevailed in the major nations of the earth. For a part of the time we seem to have been ignorant of our plight; for another part indifferent

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to the situation, and for the remainder of the time afraid to apply the remedy lest we should wound the sensibilities or interfere with the profits of a privileged class. We were during no protracted stage without ample warning, for the malady manifested itself frequently and violently in disturbances which swept the country like a hurricane from end to end. Five times within 30 years, immediately preceding the advent of this administration, a financial catastrophe had overtaken us right in the midst of apparent business prosperity and contentment. Each time the disaster was due largely, if not altogether, to a defective banking and currency system; and it is literally certain that our always tedious restoration was rendered vastly more difficult and painful by the sad lack of well-devised facilities.

#### SIAMESE TWINS OF DISORDER.

The old system had two fundamental defects. One was an inelastic currency; the other a fictitious bank reserve. They were Siamese twins of disorder; and sometimes I am inclined to ascribe the invariable failure of our Republican friends to reform the financial system of the country to their unwillingness to subdue both of these evils at the same time. While they repeatedly would tackle the problem of an inelastic currency, which everybody wanted solved, they seemed never in a mood to defy the powerful interests behind the national bank reserve system, through the peculiar operation of which nearly the whole sum total of idle bank funds in the United States was congested at a single center for use in the stimulation of speculative enterprises.

#### AN UNRESPONSIVE CURRENCY.

The national currency was inelastic because based on the bonded indebtedness of the United States, rather than upon the sound, liquid business assets of the country. For 50 years we proceeded upon the assumption that the country always needed a volume of currency equal to its bonded indebtedness, and never at any time required less, whereas we frequently did not need near as much as was outstanding and just as often could have absorbed vastly more than was available. Hence, when it happened that the circulating medium was redundant, when its volume was too great to be used in local commercial transactions, instead of taking it through the expensive process of retirement it was bundled off to the great reserve centers at a nominal interest rate, to be thrown, at call, into the vortex of stock speculation.

In a different way and to an immeasurably greater extent the business of the country was made to suffer by this rigid currency system in times of stirring development and enterprising activity. It could not begin to meet the commercial and industrial requirements of the country. For example, the total capitalization of the national banks of a given community in time of stress, under the old system, measured the full capacity of those banks to respond to the currency requirements of the locality. If the combined capital stock of the national banks of a city was \$5,000,000, that exactly circumscribed the ability of those banks to supply currency of their own issue to meet the demands of business, albeit these might necessitate the use of \$10,000,000 or more. And in time of panic, such as that which convulsed the country in 1907, had these banks held

\$5,000,000 of gilt-edge short-time commercial paper in their vaults, they could not, under the old system, have exchanged a dollar of it for currency wherewith to make up the deficiency and promptly respond to the requirements of business, for practically all the banks were in the same desperate plight, every one, with rare exceptions, looking out for itself, with no other source of supply.

#### A NOTABLE ACHIEVEMENT.

The first notable financial achievement of the Wilson administration was to revolutionize this wretched currency system, the unhappy victims of which are without number and the losses beyond human approximation.<sup>4</sup> We substituted for a rigid bond-secured circulating medium, unresponsive at any time to the commercial requirements of this great Nation, a perfectly elastic currency, based on the sound, liquid commercial assets of the country, responsive at all times and to the fullest extent to every reasonable demand of legitimate enterprise. It comes forth when required and is canceled when not needed. The amount is ample when business is active and only enough when business is lax. Contradistinguished from bond-secured currency, every dollar of it is based on a stable commercial transaction, whether of a mercantile, industrial, or agricultural nature, fortified by a 40 per cent gold reserve, by the assets of a great banking system, by the double liability of member banks, and by the plighted faith of a Government of a hundred million free citizens. So that in a case similar to the one cited a while ago, where the banks of a given community, with \$5,000,000 of liquid commercial assets, could not, under the old system, in time of stress get a dollar of currency on their holdings, because there was no source of supply, the same banks, under the Federal reserve system, could exchange their \$5,000,000 of liquid assets at a Federal reserve bank for \$5,000,000 of the best currency on earth, less a fair rate of discount. That one reform, gentlemen, represents the difference between disaster and success.

#### A VICIOUS RESERVE SYSTEM.

Another fundamental defect of the old system was its fictitious bank reserve, created by that provision of the national-bank act which authorized a deposit or book credit of individual country banks, with banks in reserve and central reserve cities to be counted as reserve, just as if held in the vaults of the interior banks. On these reserve balances, subjected to a process of multiplication, the big banks of the money centers would pay nominal interest, which operated as a magnet to attract the reserve funds of the entire country; so that on March 14, 1914, eight months before the Federal reserve system was put in actual operation, the New York banks alone held \$836,000,000 of the funds of outside banks, while they were loaning outside banks only \$192,000,000. Already the congressional monetary inquiry had disclosed the startling fact that on November 24, 1912, the legal custodians of these reserve funds had put \$240,000,000 of them in the maelstrom of Wall Street stock operations. Do you realize quite what that means? It means that these millions and many millions more were withdrawn from the reach of mercantile and industrial uses throughout the United States at a fair rate of interest and loaned to stock gamblers at an abnormally low rate of interest in comparison.

We talk about the law of supply and demand and pass laws to punish combinations in restraint of trade; but before the enactment of the Federal reserve act the banking community, under the sanction of the atrocious system of an inelastic currency and a fictitious reserve, was enabled to defy the law of supply and demand both in the lax season and in the tense. For in the season of lax trade and abundant currency, as I have already indicated, instead of keeping the money at home and giving the local commercial and industrial interests the advantage to be derived from low rates of discount, the surplus funds were sent to the money centers for the accommodation of Wall Street.

#### A PANIC BREEDER.

And, likewise, the old system was a rank panic breeder. In periods of greatest business activity the country was made to suffer desperately for lack of adequate credit facilities. When the prospect was brightest; when men of vision and ambition and energy would press forward in pursuit of prosperity and the hum of industry would literally be heard throughout the land, two links in the chain would suddenly snap, tearing to shreds the whole business fabric and carrying dismay to every community on the continent. That is to say, in plain terms, that when the country banks of the United States, trying to respond to the commercial and industrial demands upon them in their respective localities, being unable to issue additional currency, would seek to draw in their reserve balances from the congested centers, and when the big banks of these centers would, in turn, be compelled to call their loans on stock, thus contracting the credit facilities of "the street," interest rates would quickly jump, mounting higher and higher, until panic would ensue, banks throughout the country would stop payments across the counter and consternation would reign where confidence and contentment so soon before had prevailed. I have said the losses are beyond computation; and that is so. They affected not alone the financial institutions immediately involved, but the merchants whose credits were suspended; the industries whose shops were closed; the railroad; whose cars were made idle; the farmers whose crops rotted in the fields; the laborer who was deprived of his wage. No business enterprise, if any individual, ever entirely escaped.

#### ANOTHER GREAT ACHIEVEMENT.

Another great achievement of the Wilson administration, therefore, was to remedy this monstrous condition. No other legislative effort, as I recall the history of events, was ever directed against this bank-reserve evil. It required courage. It constituted a challenge to the dominating financial interests of America, and they accepted the invitation to the conflict. It was a memorable fight, in which sound economic principles triumphed so completely that many of the great bankers who seemed once implacable now conceded that a tremendous advance has been made in the direction of scientific banking, and there is a general concurrence of belief that the Federal-reserve system saved this country from a financial convulsion in the fateful autumn of 1914, even before it was in full operation.

We corrected this vicious bank-reserve system by establishing regional reserve banks and making them, instead of private banks in the money centers, the custodians of the reserve funds

of the United States; by making these regional banks, instead of private correspondent banks, the great rediscount agencies of the country; by requiring these regional banks to minister to commerce and industry rather than to the schemes of speculative adventure. Under the old régime we had been taught to believe that the balance of the country was dependent on the money centers. Under the new dispensation the fact has been revealed that the money centers are dependent on the balance of the country. Under the old system the country banks were subservient to the money centers, for only there could they resort for rediscount favors. Under the new system it is no longer a question of favor; it is purely a question of business. Under the old system it was at times a question of ability to serve, and at other times of willingness. The new system supplies both the ability and the incentive to do business. Indeed, this financial product of the Wilson administration is both a proclamation of emancipation and a declaration of independence for the national banking system of the United States.

#### NEW YORK'S RIGHTFUL PRIMACY UNDISTURBED.

I noted the other day that a Representative in Congress tauntingly referred to the fact that bank deposits in New York had vastly increased since the adoption of the Federal reserve act and triumphantly asked what had become of the boast that the primacy of New York as a money center would under the new system depart. Such talk, however specious it may seem, is assuredly not sensible. Nobody ever made such a silly boast. Nobody ever dreamed of such a stupid notion. Nobody ever pretended to desire anything of the kind. Of course, New York has more deposits under the Federal reserve act than ever before. So has Pittsburgh, so has Boston, so has Baltimore, so has Richmond, so has Chicago, so has San Francisco, so has Dallas, so have the banks of a thousand other communities scattered from one end to the other of this country. That is exactly what we expected; that is precisely what we predicted; that is the very thing the Federal reserve act was designed to accomplish. It was contrived for the express purpose of putting the whole national banking system on such a sound basis as to create confidence and stimulate business and swell the volume of deposits of every community of the United States.

People put their money in banks now, and banks redeposit with other banks now, because they know that under the new system no panic will ever come to keep them from getting their funds back. The proponents of the Federal reserve act had no idea of impairing the rightful prestige of New York as the financial metropolis of this hemisphere. They rather expected to confirm its distinction, and even hoped to assist powerfully in wresting the scepter from London and eventually making New York the financial center of the world. Eminent Englishmen with the keenest perception have frankly expressed apprehension of such result. Indeed, momentarily this has come to pass. And we may point to the amazing contrast between New York under the old system in 1907, shaken to its very foundations because of two bank failures, and New York at the present time, under the new system, serenely secure in its domestic banking operations and confidently financing the great enterprises of European nations at war.

#### AN INSPIRING CONTRAST.

In 1907, after six years of Theodore Roosevelt and 43 years of the old system, New York could not let a country bank have \$50,000 of bank currency to meet the ordinary requirements of commerce or the pay rolls of industry. In 1915, after three years of Woodrow Wilson and one year of the new system, New York let two European nations, in the very cataclysm of a stupendous war, have \$500,000,000, still leaving the banks of that city with larger deposits than ever before in their existence. Oh, yes, Mr. Toastmaster, New York City banks have greater deposits to-day than they had 17 months ago by \$605,000,000, thus putting to shame the evil Republican prophecy that the Federal reserve act would create a disastrous constriction of commercial credits and precipitate a panic of unsurpassed violence in this country.

#### THE COUNTRY'S RESERVES SECURE.

But, with all this, there are some things that New York once had which it has not to-day and never will have again as long as the Federal reserve act shall remain on the statute books. It has not the gold reserve funds of the country for use in the stock markets of "the Street," nor has it any longer the power to control the rediscounting system of the United States upon terms of its own adjustment. To-day 12 regional banks of the new system, strung from Maine to Mexico, from the Atlantic to the Pacific, hold more than \$500,000,000 of these funds, and soon will have many millions more, to be used as basic credit facilities for cheerfully rediscounting the commercial paper of the merchants and manufacturers, the farmers and stockmen, the exporters and importers of America, with not a dollar for the whirlpool of speculation. And these trade loans are already being made at an average rate of interest  $1\frac{1}{2}$  per cent lower than has prevailed before in a long number of years.

#### FOREIGN BANKING.

In the foreign field, for the first time in the history of national banking, six great branch banks have already been established in countries to the south of us, four of them by the very national bank of all others that most desperately resisted the passage of the Federal reserve act, but which was quickest to avail of its advantages. Other branch banks are in contemplation, and before many years have elapsed the branch-banking system authorized by this Democratic administration will not only be saving millions of dollars in foreign exchange, hitherto paid to London, Berlin, and Paris, but will be a powerful factor in establishing and fostering foreign trade relations throughout the world.

#### RURAL CREDITS.

I sometimes think that in its eagerness to do more for the farming community of the United States this Democratic administration has failed to appropriate full credit for the really great things it already has done. Not in 50 years did the Republican Party ever write a provision into the national-bank act for as much as one dollar of rural credits. On the contrary, by the text of the law, by the rulings of the Treasury, and by decisions of the courts, every semblance of farm credits was sedulously excluded. In the first great banking measure put on the statute books by the Democratic Party, in nine months after the inauguration of a Democratic President there are millions of dollars of farm-credit facilities, whatever professional demagogues may so to the contrary. Not a dollar of the funds of a

national bank could be loaned on improved farm land by any legislation of a Republican Congress. Under the Federal reserve act, according to a computation by the late Charles A. Conant, one of the best financial experts this country ever had, \$359,000,000 are made available for loans on farm mortgages alone having five years to run. In the matter of current rediscounts every possible advantage is given to farm credits over mercantile paper, and in the matter of acceptances on the exportation of the great staple products of this country infinite aid is extended to the American farmers. In addition to this the Federal reserve system has already had a powerful influence in lowering the rate of interest, and in this circumstance alone it may confidently be predicted that the farmers of the country will be saved annually hundreds of thousands of dollars.

AN UNPRECEDENTED RECORD.

In the limited time prescribed for me I can not begin to recount the financial achievements of this Democratic administration as embodied in its legislation and illustrated by the splendid service of its executive officers, at the head of whom stands the most courageous and resourceful Secretary of the Treasury the country has had in a quarter of a century. These accomplishments, in their number and magnitude, surpass the record of any other administration of which I have knowledge.

THE MASTER MIND.

As to the Federal reserve act itself there has been occasional speculation as to who most deserves credit for its conception and its enactment into law. Its paternity has curiously been ascribed to men who were savagely hostile to the act; to men who never saw a sentence of the original draft; to men who could not write its title in a month's trial. I know very well that the chairman of the Banking and Currency Committee of the House has been given an undue part of the praise. But commendation so seldom is applied to a public man that I have never repelled the pleasant things said of me. With outward gravity and inward amusement I have heard myself accused of statesmanship, and—have liked it. But, gentlemen, the serious fact is that the master mind of the whole performance was Woodrow Wilson's. It was his infinite prescience and patience; it was his admirable courage and wisdom; it was his patriotism and power—his passion to serve mankind—that gave zest and inspiration to the battle for financial freedom. And when, on the evening of December 23, 1913, he affixed his signature and seal to House bill 7837, there was consummated in the offices of the White House the greatest legislative miracle of our time. It is because I realize now as never before the inevitably dangerous as well as the tremendously beneficent potentialities of the Federal Reserve System that I earnestly pray for the reelection of the man who may most be relied on to administer the law to the lasting good, and not to the injury, of the American people.

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