

⌈ FEDERAL RESERVE ACT--CRITICISM
AND EXPLANATION ⌋

ALSO

FEDERAL AID TO VOCATIONAL EDUCATION

⌈ REMARKS

OF

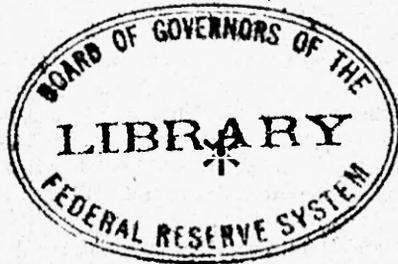
HON. EDMUND PLATT

OF NEW YORK

IN THE

HOUSE OF REPRESENTATIVES

DECEMBER 22, 1913, AND
JANUARY 13, 1914



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REMARKS
OF
HON. EDMUND PLATT.

December 22, 1913.

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. PLATT. Mr. Speaker, it has been well said by the gentleman from Virginia [Mr. GLASS] and by others that this is a great measure—one of the greatest measures that has passed this House of Representatives and the Congress of the United States for a long time. I want to congratulate my Democratic friends for the large measure of success they have attained in making the measure largely a good measure, but at the same time I want to point out to them that they are enacting this great measure with some very serious defects, and with a certain amount of fear and trembling, under the party lash and under threat from the President that there would be no Christmas dinners unless it was passed at once. And yet what have you done, gentlemen? You are passing a great measure which the Democratic Party is going to take credit for and on the end of it you are extending a Republican measure which you have condemned in most unmeasured terms on the floor of this House. There is nothing you have condemned more roundly and vehemently than the Vreeland-Aldrich law. It has been cursed from one end of this Hall to the other by gentlemen on the other side of the House, and yet this bill extends it for one year because our Democratic friends are afraid this bill may not be panic proof.

Mr. GLASS. May I interrupt my colleague?

Mr. PLATT. Certainly.

Mr. GLASS. Is it not fair to state that while we are extending the Vreeland-Aldrich Act we are amending it so as to make it available to the people of the country? We reduce the tax,

so the people may get the currency should they need it. [Applause on the Democratic side.]

Mr. PLATT. Oh, I admit you are making it more available, but at the same time it is a Republican measure which you have very much condemned, but you found it necessary to put it into this bill.

Mr. GLASS. As a Republican measure it was not operative; as a Democratic measure it may be operative. [Applause on the Democratic side.]

Mr. PLATT. Well, I hope it will not be needed, but there is a good deal in this bill based on the Vreeland-Aldrich bill besides, and that is one trouble with it. [Laughter.] The currency feature of this bill is a scheme whereby the United States issues notes for the banks. It provides for a currency made to loan to the banks at a low rate of interest, and that appears as a tremendous special privilege given to privately controlled banking institutions. Other organizations of the country, like the farmers and workingmen, will ask why, if the United States can issue its Treasury notes to loan to banks at one-half of 1 per cent interest, it can not issue notes to loan to them at 2 per cent. And it is a perfectly logical conclusion that is going to give you a whole lot of trouble. I agree with everything that my colleague the gentleman from California [Mr. HAYES] has said—that the notes issued under this bill ought to be bank notes. The banks are to keep the reserves and can redeem them, but for some reason unknown, or perhaps not entirely unknown, you have characterized these notes as Government notes when really they are practically bank notes and—

Mr. GLASS. I will ask the gentleman if, under the national-bank act, a distinctly Republican measure, you have not been loaning currency to the banks for 50 years on their collateral, while not loaning to farmers? [Applause on the Democratic side.]

Mr. PLATT. No; we have not. We have been depositing money and taking security for it. You can call that a loan if you want to, but it is a deposit. Under this bill the Government lends its notes to the banks at a low rate of interest and the banks loan the same notes to the people at a high rate of interest, and this is a special privilege.

Mr. KORBLY. Is it not a fact that the banks put up 140 per cent of security to get these borrowed notes you speak of?

Mr. PLATT. I think they are secured sufficiently. I agree with the gentleman from Virginia and the gentleman from Indiana, in that the notes are probably secure, but you have

got to explain from now on what business they have to read as Government notes when they ought to be bank notes standing on the security of good banking and a sufficient reserve. [Applause.]

Mr. Speaker, the Federal reserve act is founded on the "Aldrich plan," prepared by the National Monetary Commission of which ex-Senator Aldrich, of Rhode Island, was the chairman. It is a clever and able adaptation of the "Aldrich plan" to the Democratic platform, which declared against a central bank or reserve association. Students of banking are practically agreed that a central reserve association or bank would be stronger and safer than the divided plan of the Glass-Owen Federal reserve act, but there is no good reason why the latter should not work well, in my judgment, if the President appoints the right men on the Federal reserve board which is to supervise and regulate the new system.

The Federal reserve act, or "currency bill," provides for the establishment of not less than 8 nor more than 12 reserve banks, in which a part of the reserves of all national banks and of as many State banks as decide to join are to be pooled. These Federal reserve banks are to be depositaries of the general funds, receipts from customs, internal revenue, and so forth, of the United States Government, which will place in their vaults some \$400,000,000 in addition to the reserves from the member banks. They are also authorized to deal in Government and State bonds, to buy and sell gold, and so forth, and to issue notes on the security of United States bonds, so they will have ample resources.

The main purpose of the establishment of the Federal reserve banks is to prevent panics and to afford the member banks a place to go for help in time of stress or of extraordinary demand for loans. In order to obtain help a member bank puts its own indorsement on some of the notes of merchants or farmers for whom it has discounted and sends them to the Federal reserve bank of the district for rediscount, receiving back the proceeds with which to extend further accommodations to its home patrons. This is stating the operation in its simplest terms, and perhaps rather more simply than it will work in practice. The proceeds of such rediscounting will probably not be remitted to the member bank, as a rule, but will more generally be placed to its credit in the Federal reserve bank. In either event the amount can be counted as additional reserve upon the strength of which accommodation can be extended at home considerably beyond the proceeds of

the notes rediscounted. The limit upon this is the requirement that the Federal reserve bank itself must keep a reserve "in gold or lawful money" of 35 per cent against its deposits; that is, \$35 out of every \$100 placed to the credit of member banks. There is undoubtedly possibility of inflation in these provisions, but good management will guard against it.

It is expected that the present bank notes based on Government bonds will be gradually superseded by the new Federal reserve Treasury notes authorized. These notes are to be issued to the Federal reserve banks on the security of commercial paper by the Federal reserve board through the Federal reserve agent in each bank. This process is awkward and indefensible, except as an effort to comply with the Democratic platform. On its face, as I have stated, it appears to be a loan to the banks of Government notes. Practically, however, the notes are to be bank notes, as the Federal reserve banks are required to keep a 40 per cent reserve in gold against them. These notes, or rather the machinery provided for their issue and the form they are to take, constitute one of the worst features of the bill. It amounts to a compromise with greenbackism, but was the best that Mr. Bryan and his friends could be got to agree to. I see no reason why any Republican should vote for a bill containing this deceptive provision, which should be eliminated; but if the people understand that it was adopted only for political reasons and is not to be too literally construed, it may do no serious harm. That at least is my hope, after having done my best to get it made right, both in the Banking and Currency Committee and on the floor of the House in debate.

Mr. Speaker, I have avoided as much as possible going into elaborate details, such as the provisions for organizing the new banks, the reserve requirements of member banks, and so forth, and have endeavored to set forth plainly the main features of the bill. I think the Democratic administration has made a serious mistake in conveying the impression that the wheels of industry will begin to hum the moment the bill is passed. It contains no magic. It will do little, if anything, to help the country out of any business depression brought on by the tariff or other causes, though I believe it will effectually prevent a panic. It should be remembered that a panic and a business depression are two different things, and that we may have the latter without the former. In a business depression there is no extra demand for money; quite the opposite, in fact. At such a time money piles up in the banks, because business men do not care to venture it in new enterprises or in the

enlargement of their businesses. At such a time the new banking system would probably be of no assistance whatever, and restoration of confidence would depend upon other things which I need not mention at this time.

Federal Aid to Vocational Education.

January 13, 1914.

The House having under consideration Senate resolution No. 5, from the Committee on Education, providing for an inquiry into the subject of Federal aid to vocational education by a commission of nine persons, to be appointed by the President of the United States, Mr. SMITH of Minnesota offered an amendment providing that the inquiry should be conducted by members of the House and Senate Committees on Education themselves.

Mr. PLATT. Mr. Chairman, it seems to me that many Members have been discussing this subject as if the resolution was going to establish vocational education. Now, vocational education, as has been said, is nothing new, but that is not what we are discussing; it is not what the resolution refers to, but national aid. National aid is new, and it is not easy to tell how to apply it. It is likely to make trouble. I voted for this resolution in the committee, and I shall vote for it here. I am not inclined to believe in all the national-aid fads coming before the people to-day, but it seems to me that this is something that deserves an expert investigation, which can not be given by a committee of the House or a joint committee of the House and Senate.

It has been said that there is nothing that a commission could find out that a committee of the House could not find out. I do not think that is true. I think a commission of experts, composed of such men as the Chief of the Bureau of Education, would find out things in regard to numerous complicated matters, such as the way that the States aid the vocational schools of the towns and cities within their borders, that a committee might not find out, and coordinate them in a way that it would be impossible for the committee to do. I think the report of such a commission would be more valuable than the report of a joint committee of the two Houses of Congress could be. I therefore hope that the amendment of my friend from Minnesota will not prevail.

Mr. ANDERSON. Will the gentleman yield?

Mr. PLATT. Certainly.

Mr. ANDERSON. Did the committee consider at all the proposition of having the Bureau of Education investigate this subject?

Mr. PLATT. That was talked of in the committee.

Mr. DAVIS. Will the gentleman yield for an interruption?

Mr. PLATT. I will.

Mr. DAVIS. I agree to all the gentleman has said except one thing, and that is where he said that cooperation by the Government in our school system was a new thing. Does not the gentleman know that since the beginning of the Government almost the National Government has subsidized the universities, has subsidized agricultural colleges, and has subsidized the common schools? It is not a new thing. The only new thing about it is how most expeditiously to extend it along this line, so as to close the gap between the subsidized common school and the subsidized agricultural college.

Mr. PLATT. The National Government did give some of its land in aid of education.

Mr. DAVIS. Yes; and in some instances it gave money directly, as you will see by looking over more recent legislation on the subject.

Mr. PLATT. It never gave money, however, by any systematic plan.

Mr. DAVIS. Some people have disputed the right of the Government to do that even in later years. My object, contrary to some others, in supporting the resolution is that it will, in fact, expedite this matter. There has been a collision in this branch of the Congress, unknown perhaps to some of the membership, the same as in the other branch, between those in favor of the extension of vocational education, and I shall vote for the resolution of the committee, because it will expedite the matter and more speedily obtain results.

Mr. PLATT. I think it will. The question is more or less a complicated one. The State of New York gives State money to local schools everywhere, but that involves State control. The local boards of education are required to report even the absences of pupils to the State, and the State passes on all those things. It refuses to give State money in cases where things are not done just as the State department of education thinks they should be done. Now, the question of Federal control is going to be involved in this matter of Federal aid ultimately, and it is a matter of expert determination, one that experts ought to report upon, and a committee of Congress could not possibly do it so well.

Mr. HAYES. Will the gentleman yield?

Mr. PLATT. I will.

Mr. HAYES. Could not a commission appointed by the two Houses of Congress get all the expert testimony it needed?

Mr. PLATT. Yes; but they could not put it in an expert way.

Mr. HAYES. They could put it together in a better way to be considered by Congress. Look at the commission that we had on Immigration and the report that we got from them. Has any Member of Congress ever looked it through?

Mr. PLATT. I will say to the gentleman that I am personally more or less opposed to commissions, and as a member of the committee I appreciate the compliment paid to the members of the Committee on Education, but I do not think that they can do this work as well as a commission, such as President Wilson would appoint for an educational investigation.

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