

Excerpt from  
*All the Presidents' Bankers: The Hidden  
Alliances That Drive American Power*  
by Nomi Prins

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### **Passing the Federal Reserve Act**

It turned out that 1913 was a busy year for legislation. On February 3, the Sixteenth Amendment was ratified, allowing the Treasury Department to impose an income tax. Two months later, the Seventeenth Amendment, requiring direct popular election of US senators, was passed. But Washington's main debate concerned the Glass-Owen bill, the reformation of the Aldrich bill. That legislation would define financial power in the United States and, by extension, US private banking power globally. Despite concerns over the structure of the board and who would be in charge of appointing its officials, the bankers adopted a more conciliatory tone toward this version of the Glass-Owen bill, which, after all, granted them the ability to access currency when they needed it and to expand their branches overseas. Glass was encouraged by the changed attitude of some of the influential bankers.

"These gentlemen," as Glass informed Wilson on January 27, "concluded that they could not carry out Mr. Warburg's purpose of 'battering the committee into a repudiation of the Democratic platform.'" Glass continued, "They were now willing to cooperate with the committee in trying to secure the 'best remedial legislation that is possible to obtain.'" Having the bankers on board ironically placed a potential bull's-eye mark on Glass, who realized "too pronounced activity by the organized bankers might arouse suspicion and hostility among those who regard banks as essentially evil." He decided, therefore, "to proceed discreetly."

Work on the bill thus progressed through the spring. Based on advice from his confidant Colonel Edward House, Wilson appointed William McAdoo – who had worked on Wilson's campaign and had been his interlocutor with Vanderlip – as his Treasury secretary. On April 11, House and McAdoo dined at the White House at Wilson's invitation. After dinner, the three men adjourned to the library to discuss New York appointments, currency reform, and the Glass bill. They agreed that McAdoo, Glass, Owen, and House should meet Monday evening and "whip it in shape." It could represent an early and strong political victory for Wilson.

Two months later, as the Glass bill adopted more of what the big bankers wanted, Brandeis voiced his concern to Wilson over the pending legislation in an attempt to swing the pendulum away from Wall Street. "The power to issue currency should be vested exclusively in Government officials," he wrote. "The American people will not be content... in a Board composed wholly or in part of bankers; for their judgment may be biased by private interest or affiliation."

But Glass was now leaning toward giving the bankers precisely that power. On June 18, 1913, he asked Wilson to allow bank representation on the proposed Federal Reserve Board. Glass had been up past one o'clock the night before discussing the matter with Representative Robert Bulkley, a member of the subcommittee on banking and currency and "a strong man of the committee with whom we must reckon," as he told Wilson.

Bulkley, a millionaire Democrat from Ohio, was popular in the Washington society circuit; he counted as his friends bankers and Republicans alike. He didn't want the banking business exposed to undue government controls. As such, he proposed an alteration to the current draft of the plan to allow bankers to sit on the main Federal Reserve Board. He confirmed Glass's new belief that it would prove "an almost irretrievable mistake to leave the banks without representation on the Central Board."

Five days later, Wilson addressed the issue of banking and currency reform before a joint session of Congress. He again stressed that control of the banking system "must be vested in the Government itself, so that the banks may be the instruments, not the masters, of business and of individual enterprise and initiative." But he shied away from specifics about how the board should be comprised.

### **Signing the Federal Reserve Act**

Wilson had privately agreed to incorporate Bulkley's suggestions. He intended to allow bankers on the Board of the New York Federal Reserve, one of a dozen reserve banks that would comprise the Federal Reserve System – the most powerful one by virtue of its location in the heart of the banking community and the size of its assets. It was a compromise that gave the bankers the power they wanted but preserved the president's power to appoint the main board in Washington, DC. By doing so, Wilson got the Republican votes needed to pass the bill.

After six more months of haggling over minor details, Wilson signed the Federal Reserve Act into law on December 23, 1913, establishing the twelve-bank Federal Reserve System and its powerful Wall Street-centric arm, the New York Fed (the part that complied with the bankers' demands). The name sounded "public" and "of the government," and indeed the act delineated the Fed's ability to balance credit, monitor inflation, and help cultivate employment. (Though that aspect was absent from the private conversations that preceded the act, the addition played well publicly.) And yet its members were the private banks that wanted it to exist. It was Aldrich's plan in essence, if not in each particular detail.

Wilson painted the act's passage as a political victory for the power of the presidency and his party, coated in populist terms. At the signing he effused, "This bill furnishes the machinery for free and elastic and uncontrolled credit, put at the disposal of the merchants and the manufacturers of this country for the first time in fifty years." (The National Banking Act was passed in 1863 – with revisions in 1864 and 1865 – to help fund the Civil War by creating currency notes issued by the larger nationally chartered banks rather than state-chartered ones. The Union government established many more nationalistic institutions, as opposed to the more fractious and weaker brand of federalism that existed beforehand. The National Banking Act also formed the Office of the Comptroller of the Currency, which issued national banking charters, ensured these banks adhered to strict capital requirements, and required them to back currency notes via holding US government securities.)

At the signing ceremony, in the spirit of bipartisanship and the influence it bestowed upon him politically, Wilson said, "We rejoice together." In a quiet moment afterward, he wrote Glass of his admiration for the way he had carried the fight for the currency bill so successfully. He presented his partners Glass, McAdoo, and Owen with gold signing pens.

Though it was largely devised with bankers' input, the act was presented to the American public as in their best interests domestically. Like the European powers, the United States would now have a centralized entity that operated on the principle of "discount" rates, whereby large national banks would receive loans stemming from reserve funds for a certain interest charge, which would supposedly be used to lend onward to businesses and citizens as needed.

The Federal Reserve System was similar to a European central bank from a monetary policy perspective in that it was able to set rates, but some of its members were more powerful than others. Though all twelve member banks theoretically decided matters with equal influence, the most powerful components of the system characterized the power-sharing arrangement of the president and the bankers. The Board of Governors would be selected by the president, and the Board of the New York Fed would be closest to the Wall Street bankers, who would hold the most sway over the Federal Reserve System because they controlled the largest portion of reserves.

### **The Bankers' Bank**

Officially the Federal Reserve was created in response to the Panic of 1907 and earlier ones. But its main purpose was to elevate the stature of the United States in global financial activities relative to European central banks, and as a result to strengthen American bankers' dominance domestically and internationally. It served the dual role of perpetuating the power of the president and that of the bankers, and as such, despite publicized differences of opinion on the matter, it served the alliance of the two.

Though the Fed's decisions were technically "independent," the body would serve the bankers first, by keeping them flush with money and by acting as their lender of last resort. National banks were automatically members of the system, as are more than one-third of all US banks, including the biggest ones, today.