A Comparative Study of the Banking Crises in the Panic of 1907 and the Depression of 1929-1933

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A COMPARATIVE STUDY OF THE BANKING CRISES IN THE PANIC OF 1907 AND THE DEPRESSION OF 1929-33

BY

ESTHER H. CALVERT

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN LOYOLA UNIVERSITY FEBRUARY 1938
The author, Esther H. Calvert, was graduated from the Englewood High School, and from the Chicago Normal College. She received her P.H.B. Degree in the field of Education at the University of Chicago, and did graduate work in the field of History at Loyola University for a Master of Arts Degree. Her teaching experience, which began in 1917, in the employ of the Chicago Board of Education, has been largely confined to the eighth grade level.
PREFACE

It is the purpose of this research to determine the contributing factors in the banking crises of 1907 and 1929-33. The latter crisis shows that precautions taken after the catastrophe of 1907 were not sufficient to avert one which proved even more serious. This study, however, is limited to those elements which were responsible for the widespread breakdown of the banking system.

Discussions of each of these crises and the legislation which followed, occupied page after page of the country's newspapers for days, weeks, and months. All worthwhile periodicals carried views of the nation's outstanding commentators. The Congressional Record bore testimony of the debates which preceded all legislation. Numerous other sources, both primary and secondary, make possible the weighing of evidence, which alone makes research of value. This material may be found in the Chicago Public Library, the Newberry Library, the Crerar Library, and in the library of the First National Bank of Chicago.

Gratitude is hereby expressed to Reverend Joseph Roubik, S.J., and Dr. Paul Kiniery for the interest shown by them in my work; and in particular to Mr. John A. Zvetina for the many helpful suggestions and constructive criticisms necessary to the writing of this thesis.

Esther H. Calvert

Chicago, February 1938
INTRODUCTION

Many reasons have been advanced regarding the Nation's financial collapse in the year 1907. The theory of panic cycles promulgated by some is given little credence. Comparative studies, however, of the tangible reasons, through the use of contemporaneous materials, replace abstract ideas with concrete facts. From these facts we hope to arrive at the real solution of our problem.

Because the banking problem is so very pertinent to our subject, the entire first chapter is given over to that field, only to the extent which will serve to make meaningful the related matter. The panic of 1907 is dealt with in a more detailed manner, for too much emphasis cannot be laid upon the fact that it was not a chance happening nor the result of carefully laid plans, but the outcome of a faulty banking system. The reforms which follow are merely the answer to a direct need to safeguard the finances of the people and nation.

With the Stock Market crash of October, 1929, subsequent investigations and increasing bank failures, the average citizen was again made aware of the unstable financial structure of the nation's banking institutions. Once more was seen the need for legislation which would tend to make more secure the savings of
those whose earnings had been placed in those institutions for safe keeping. This takes us to a discussion of the Glass-Steagall Bill, an amendment which modifies the Federal Reserve Act, and which was passed during the Hoover administration; as well as the Banking Act of 1933. A comparative study of the crises will briefly digest the foregoing material, calling attention, in particular, to underlying causes, similarities and dissimilarities, and remedial measures.
CHAPTER I.

HISTORY OF BANKING PRIOR TO 1907 - - - - - -
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HISTORY OF BANKING PRIOR TO 1907

It was during the Presidency of Washington that Alexander Hamilton, Secretary of the Treasury, fostered the idea of a national bank as a means of improving the national credit of the new government. Such an institution he claimed would be instrumental in the safe keeping of public funds, transmission of public monies, collection of revenue, and in the making of loans. In his "Report on a National Bank", which may be found in The Works of Alexander Hamilton, is the statement "...it is the manifest design and scope of the Constitution, to vest in Congress all the powers requisite to the effectual administration of the finances of the United States... banks are the usual engine in the administration of national finances ....".

Just as there had been opposition to the adoption of the Constitution because of its centralizing tendencies, there was opposition to the bank. Its Republican opponents headed by Jefferson, maintained that the Constitution contained no provision

empowering Congress to Create the bank. 3

With the success of the Federalists, however, the act incorporating the First United States bank in accordance with the plan submitted by Hamilton, made possible the opening of a central bank at Philadelphia on December 12, 1791. Its charter was for a period of twenty years. 4 We will not concern ourselves with its operations, but will move on hurriedly to the year 1808 when the shareholders began to petition for the renewal of the charter which was to expire in 1811. Note only was this opposed by the adherents to the policy of strict construction of the Constitution, but by the political enemies of Gallatin, Secretary of the Treasury. He, in his report to the Senate, had stated that the Bank was "wisely and skillfully managed", and had urged that its charter be renewed. 5

There was also an unfriendly attitude on the part of the many state banks which had been established since 1790, and which kept an eye to their own interests. 6 According to Roy Garis, Principles of Money, Credit and Banking, a motion to postpone action on rechartering the bank was passed 65 to 64, on January 24, 1811. On February 20, 1811 a similar bill was passed in the

5. Ibid., p. 126, See also Roy L. Garis, Principles of Money, Credit and Banking, Macmillan Co., N.Y., 1934, p. 538.
senate, against the bank, at which time the Vice-President voted against it in order to break a tied vote of 17 to 17. Then came the War of 1812, and a disordered condition followed making apparent the need of a banking institution which would exert a stabilizing influence upon the Government by supplying financial revenue to the Treasury Department, and by restoring a national currency or circulating medium. The Government had been forced to depend upon state banks, and when these had suspended specie payments, the Treasury operations were paralyzed.

It was at this time that John C. Calhoun of South Carolina, despite his former viewpoint of strict construction, became a staunch advocate of the measure which would charter the second bank. He intimated that it might be a means of compelling state banks to return to specie payments. This he did by focusing the attention of the members of the House of Representatives upon the provision in the Constitution whereby Congress was empowered to regulate the currency of the United States. After much pro and con debate, the bank was rechartered on April 10, 1816, and began operations on January 7, 1817. Charter provisions of both banks were similar. The first had established eight branches, whereas

7 Garis, p. 539.
the second operated twenty-five.

One authority states, "the Bank of the United States fell because so great an institution in a representative republic could not escape political entanglements and the suspicion of the abuse of power." So it is that we find hostility arising in 1829 when President Andrew Jackson questioned the wisdom of rechartering it. Behind his attitude lay political intrigue which prompted his condemnation of the institution. In his annual message to congress in 1829, he said, "Both the constitutionality and expediency of the law creating the bank are well questioned by a portion of our fellow citizens ..."

Thus the bank became one of the issues of the campaign of 1832, and with Jackson's victory came the removal of its funds to selected state or "Pet banks."

About this time many state banks expanded their note circulation and became involved in land speculations. Then came the accompanying collapse of 1837, with the suspension of

It might be said that the Supreme Court had passed on the issue of chartering a bank in two cases, McCulloch vs Maryland and Osborn vs Bank. See Walter Dodd, Cases and Authorities on Constitutional Law (West Pub. Co., St. Paul, 1932) pp. 562 and 572.

specie payments by banks in all sections of the country. It has been noticed that changes in our banking structure result from national emergencies. So the national banking system prior to its modification by the Federal Reserve Act, was an outgrowth of the financial crisis which accompanied the Civil War. Here we had the work of Chase, Secretary of the Treasury, sponsored by President Lincoln. According to Dr. E. A. Goldenweiser, Director, Division of Research and Statistics of the Federal Reserve Board, "Banking, in the years between 1846 and 1863, when the national system was initiated, was under the laws of the several states...Under the national banking system, currency issues were safe but rigidly inelastic."

The national banking system was not at all satisfactory but despite agitation for reform, the inconveniences and hardships of the crisis of 1907 had to be undergone before any concerted effort was made to remedy the situation. Because of the decentralized nature of the banking system, banks had no means of cooperating or acting jointly in times of stress. Too, there was no manner by which the scattered reserves of the banks might be mobilized at such a time.

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It may be wise to pause here and consider the nature of the investments made by the institutions known as banks. Between the years 1850 and 1900, bankers permitted corporations which were building railroads, or were engaged in mining and manufacturing, to borrow much money. Since there was not enough money in America to develop its natural resources as rapidly as was desired, many Europeans, particularly the English, loaned large sums to Carnegie and Rockefeller. Bankers were instrumental in bringing this money from Europe and putting it to work in developing American industry. J. P. Morgan was such an intermediary. This industrial activity served to increase the wealth of the American people, and their deposits began to increase. Thus by 1900, bankers had become "Masters of Industry and Capital" because they controlled, even though they did not own, those industries which had been heavy borrowers.

For at least six years preceding the panic it had been known that a few capitalists had been actively engaged in speculative industrial schemes of their own, gaining thereby control of a group of banks through mere stock ownership. They controlled the board of directors and used the funds of these banks in their own deals. Trust companies had entered the general field of banking also. Banks which were subject to instant call for cash by their depositors were not permitted investments which could not be converted quickly into cash. Trust companies were
not considered subject to such demands. Despite this distinction, many trust companies had accepted deposits, undertaking to carry on the same kind of business the banks were doing. 16

It was in 1908 that Andrew Carnegie spoke of our banking system as being the worst in the world. 17 We find ourselves wondering whether or not he may have had such convictions prior to the crisis of 1907, when the New York Clearing House demanded that trust companies keep a fifteen per cent cash reserve in their vaults, if they wished clearing house privileges. With the exception of a few, however, the trust companies rejected the ultimatum, saying that they were strong enough to clear for themselves. 18 Then came the crash which proved their weakness.

CHAPTER II.

THE BANKING CRISIS IN THE PANIC OF 1907 --
Cause--Effect upon the nation as a whole--
Need for remedial legislation.
CHAPTER II.

THE BANKING CRISIS IN THE PANIC OF 1907

Every panic calls for its presidential scapegoat, so by many, the one of 1907 is attributed to prosecutions carried on by President Theodore Roosevelt against illegal combinations. This, however, was not a just accusation for he had no part in setting in motion the destructive machinery of Wall Street. Most contemporary writers express this view. Even the Spectator, an English publication of the period, when commenting on the "American wheel of credit" and the President's treatment of financial magnates, refutes the idea. In the years preceding the panic there had been a most unusual expansion throughout the world. One writer anticipating a crisis, i.e., the collapse of the money market, believed it would be due to excessive enterprise; and as early as 1906 had suggested two ways to avert disaster, namely: check the pace of enterprise; provide sufficient funds to make a money famine impossible.²

² N. Johannsen, The Coming Crisis and How to Meet It, N. Y. 1907. a pamphlet.
The symptoms of the approaching crisis were: wonderful prosperity as shown by enterprises and schemes of all sorts; rise in the prices of all commodities; request for workmen and the rise in salaries; growing luxury; small reserve in specie and decreasing deposits.³ It was Paul M. Warburg, author of The Federal Reserve System Its Origin and Growth, who, when speaking of the panic of 1907, stated,

"It was one of the tragic defects of the American banking system at that time that, while disasters of this kind were the automatic consequences of over-expansion, there was no possibility of averting them by timely preventive collective action. There was no government or private authority that could assume leadership in warning the country or that had actual power to put on the brakes if the car were moving too fast and heading for the precipice."⁴

Our concrete example deals with the activities of an ambitious Montana miner by the name of F. Augustus Heinze. He had lost heavily through the failure of the Amalgamated syndicate which had been sponsored by the National City Bank of New York City, and financed by J. P. Morgan. Mr. Heinze had then forced two high financiers, James Stillman, president of the City Bank, and Henry H. Rogers, director of Standard Oil, to make a large financial settlement to him, thereby humiliating themselves. He then took his millions to New York and combined with Charles W. ³Clement Juglar, A Brief History of Panics and Their Periodical Occurrence in the United States (G. P. Putnam's Sons, N. Y. 1916) pp. 7-10. ⁴Paul M. Warburg, The Federal Reserve System Its Origin and Growth, Macmillan Co., N. Y., 1930. Vol. I. pp. 15-16.
Morse, a shipping magnate, Russell Thomas, a well-to-do sportsman, and Charles T. Barney, president of the Knickerbocker Trust Company, which had reserves of more than seventy million dollars.  

The old line trust companies which were dominated by J. Pierpont Morgan and his partner, Robert Bacon, by William Rockefeller, a speculator, by Henry Rogers and James Stillman, could not sit idly by and watch the encroachment of this new banking group upon their long established monarchy.

The year 1907 had opened with a strained money market, as was shown by the New York Stock Market which is the barometer of business conditions. Despite the disturbing element, i.e., President Roosevelt's attitude toward unscrupulous men of wealth, the Heinze, Morse, Thomas combine made heavy loans in an attempt to corner the market on United Copper.

Five days preceding the historic date which marked the beginning of the panic, the New York Daily Tribune carried a front page article captioned, "Big Copper Crash Sends Firm To Wall." The firm referred to was that of Gross and Kleeberg, alleged Heinze brokers. They stated that they had bought stock for the Heinze people who now refused to take it off their hands.

The next day's issue contained two items which bore a direct

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7. Ibid.
relationship. One, "Otto Heinze and Company forced to suspend", and the other, "F. Augustus Heinze gives up bank presidency."

Mr. Heinze had been elected president of the Mercantile National Bank in January, after the Heinze, Morse, Thomas combination took over the Gould interests. Although he had already denied any personal interest in the market position of United Copper, Heinze gave as his reason for resigning that, his brothers' firm now in difficulty, needed all his attention. Others in the banking circle were of the opinion that because his brothers were identified with the United Copper corner and the manipulations which brought about its collapse, Heinze had considered it best to retire from the presidency.9

This was just the opening which his enemies had sought. Immediately, they called loans on all securities of all companies with which Heinze, Morse and Thomas were associated. Under pressure, the directors of the Mercantile Bank resigned, for even though the bank was found to be solvent, aid was denied it by the Clearing House Committee until a change in stock control had been effected.10

The Clearing House Committee's investigation did not stop here. They thought it wise to ascertain the status of other associated institutions. While so doing they discovered that

9 New York Daily Tribune, Oct. 18, 1907. See also Hearings Before The Committee on Banking and Currency, United States Senate, 63 Cong. 1st Sess. Gov't Print. Office, 1913, Vol. 3, pp. 2760-84
the position of the Knickerbocker Trust Company was dangerous. Charles T. Barney, its president, resigned saying that in such perilous times he felt that the position could be better filled by someone else. He claimed that the institution was sound and that he was unaware of any refusal of the National Bank of Commerce to continue clearing from the Knickerbocker Trust Company. But, when the Knickerbocker applied for aid, such was denied it, and it was forced to close its doors. Thus, what was at that time considered the most formidable run of bank depositors in the history of banking, followed the enforced retirement of Barney.

Alexander D. Noyes, in the January 1908 issue of the Forum, appropriately stated, "History will set the beginning of the 1907 panic on October 22, the day the Knickerbocker Trust Company closed its doors ... the date when the public first showed signs of the sudden collapse of depositors' confidence which marked the series of troubled weeks which followed." The Chicago Daily Tribune, at this time conveyed the news that Gotham was on the brink of a panic, and that President Theodore Roosevelt, while speaking at Nashville, Tennessee, made it clear that he was in no manner responsible for the financial situation and general uneasiness. A portion of this speech read,

these policies of mine can be summed up in one brief sentence. They represent the effort to punish successful dishonesty. All I did was to turn on the light. I am responsible for turning on the light, but I am not responsible for what the light showed. It was impossible to cut out a cancer without making the patient feel for a few days sicker than he felt before."15

At Washington, however, the entire financial machine set to work to do whatever possible to avert widespread financial difficulties. These officials and bakers were of the opinion that the disturbance could be confined to the New York area. Secretary of the Treasury, Cortelton, went to New York, and after conferring with leading bankers and financiers on the local banking situation, deposited $1,000,000.00 of government money in each of six or seven national banks of that city. Not one penny of aid was given the Knickerbocker Trust Company from outside sources.16

The Chicago banks as yet experienced no difficulties, but they kept in close touch with the New York situation. On Thursday, October 24, news came that the trouble which began in New York, had spread to Pittsburg, but that the Chicago banks were still solid. The following reason was given for Chicago's good fortune: "Chicago banks have not been and are not speculating in real estate ... A corps of special bank examiners

16. Ibid.
employed by the Chicago Clearing House Association keeps the association's committee informed of any irregularities in the city's banks at their inception. Thus, no costly deception could long continue in any bank."17

According to a London publication, The Daily Telegraph, via cable to the Chicago Daily Tribune, "Mr. Roosevelt's object is beyond reproach. He desires to strike at the guilty and dishonest in high places ... But is it absolutely necessary that the sky should be dragged down in order to catch the few larks that Mr. Roosevelt is bent on netting?"18 This brief expression leads one to believe that the English viewpoint was that despite his good intentions, the President's anti-trust speeches precipitated the panic.

Glancing here and there over the country by an examination of news articles, the banking conditions in the leading cities were still favorable. New England conditions were about the same as before the collapse of the Heinze Copper corner. Philadelphia was unaffected; Ohio was serene; Indiana banks were able to supply the legitimate demands of their customers, while St. Louis and Kansas City were unperturbed. Minneapolis declared herself "firm and stable", while the Dakotas were in fine shape.

18. Ibid., Oct. 25, 1907.
Atlanta boasted of normal bank withdrawals; New Orleans was unalarmed and Memphis was ready to meet any emergency. The Rocky Mountain states were not disturbed, for Portland, Los Angeles and San Francisco were in a condition to lend money to the east if it were needed.

The next day told a different story. Goldfield, Nevada banks closed in consequence of the governor's proclamation of a holiday. This was a relief to local banks because of runs and the closing of the State Bank. Runs also occurred in Baltimore, Maryland, and Providence, Rhode Island.19

The monied men of New York began to express themselves and J. Pierpont Morgan avered that the fight had been practically won, and that the people should keep their heads. John D. Rockefeller intimated that depositors, big and little, should furnish money to remedy the muddle, i.e., become composed and let money work as usual. E. H. Harriman declared the New York banks to be sound and able to stand, if the people stood by them. He, too, urged tolerance, prudence and coolness.20

A few days later the President congratulated Mr. Cortelyou, and the financiers who aided him in the crisis. From the White House he wrote, "My Dear Mr. Cortelyou ... The action taken by you and by the business men in question, has been of the utmost

20. Ibid.
consequence and has secured opportunity for the calm considera-
tion which must inevitably produce entire confidence in our
business conditions."21 Despite these statements by financiers
and by the President, unrest and bank runs continued and some
banks began to require notice for withdrawals.

By cable from London came a news item from London Economists
Frank W. Hirst, editor of the Economist, and George Paish, edi-
tor of the Statist, claiming that American business had gone
ahead of cash, but that the depression would not last long. In
discussing the way London differed from New York, they said,
"(1) We don't deposit money in sham banks. (2) Our banks do not
speculate. (3) We have a sound banking system. (4) Englishmen's
nerves are not so lightly strung as Americans and consequently
there is not so much histronics here during temporary disarrange-
ment."22

From Paris came the comments of French financial writers on
America's monetary crisis, conveying the idea that they, too,
helped President Roosevelt as the key to the situation. Said one,
"Becoming politically important accidentally and late in life, he
plunged head down into a study of all socialistic theories ... It
is the ill fortune of President Roosevelt and the Americans that
those dreams presented themselves to his mind first after he

22. Ibid.
reached power and was in position to make them effective." Said another, "He excites popular envy and legislatess not for the future, but to draw a crowd around him."23

Claiming he had brought the country to the brink of ruin, Roosevelt was blamed in unmeasured terms, in the highest German banking circles, for the panic. A director of an institution having extensive American relations, said, "We hold the President solely responsible for agitating public opinion and undermining public confidence in what is a perfectly sound situation. He seems to have forgotten Rockefellers, Morgans, and Harrimans, can lose millions without feeling it but ... that there are tens of thousands to whom this upheaval will mean eternal ruin."24

At the same time from Berlin came a statement, "The violent financial squall in the United States is regarded here as having passed. The great Berlin banks are assuring their customers that the crisis which for a week has gripped New York is relaxing and that conditions in America are so sound that no deep seated consequences can follow."25

Clearing House Certificates were resorted to as a means of bringing about normal conditions. Such a certificate is emergency currency to be used by banks only, secured by collateral which is accepted at seventy-five per cent of its

24. Ibid.
face value. Unlike the bank note its use is restricted to pay-
ment of daily balances at the clearing house.\textsuperscript{26} New York, St.
Louis, Pittsburgh, Boston, Philadelphia, Baltimore, Chicago, Mil-
waukee, Omaha and Indianapolis issued such certificates.\textsuperscript{27}

Their use showed the need for currency reform. Since they
prevented the withdrawal of large sums, money was kept in Chicago
banks, and few depositors sought to withdraw funds. In New York,
although runs on banks had not ended, demands were being met. So,
with affairs on the upgrade, London, Paris and Berlin began to
wax optimistic over this "rich man's crisis and poor man's panic."\textsuperscript{28}

Taking every precaution to avoid any acts which might
disturb the calm which had begun to settle upon his city,
Comptroller Metz of New York City, held back part of the salary
checks usually paid on the first of the month, deciding to distri-
bute them over five days. His purpose was to prevent a renewal
of any feeling of disquiet which might accompany the spectacle of
long lines of policemen, firemen, school teachers, street sweepers,
and other city employees dashing in the thirty-five city deposi-
tories on Saturday.\textsuperscript{29}

By October 31st, the financial skies seemed to be free from
clouds, for reports from all sections of the country, to the

\begin{thebibliography}{9}
\bibitem{26} Chicago Daily Tribune, Oct. 28, 1907.
\bibitem{27} New York Daily Tribune, Oct. 28, 1907.
\bibitem{28} Chicago Daily Tribune, Oct. 29, 1907.
\bibitem{29} New York Daily Tribune, Oct. 31, 1907.
\end{thebibliography}
government officials, showed rapid improvement. Not one demand for Clearing House assistance came that day from New York.

During the next two days the press carried such statements as, "America has grown faster than means provided for its development ... More bank notes will ease the strain", and, "Crisis is lever to money reform. Need for a more elastic currency is emphasized by the recent financial disturbance--present system inadequate." 30

The natural tendency of individuals during a panic is to hold on to all cash, thus making a condition which is already bad, worse. It is therefore necessary to devise some plan to draw this hoarded currency out of hiding. So it was that Wall Street brokers advertised an offer to pay in certified checks on New York banks, a premium of one and one-half per cent for any kind of currency. Employers of labor with their large weekly or monthly payments could not wait until cash became more plentiful, and it was they, directly or indirectly through their banks, who had employed the Wall Street brokers to announce the premium for currency. The result was successful for soon the hoarded money began to appear. 31

President Roosevelt was urged to call Congress. The White House was deluged with petitions asking national action on the

financial crisis, but the President did not feel that the situation justified the calling of a special session. He did, however, decide to aid currency reform and to recommend that Congress devise some plan for greater elasticity in the circulating medium. It was only a few days later that Mr. Meyer, head of the Government Mail Department, made his plea for postal savings banks, and explained how such a project would tend to promote prosperity within the United States. 32

Summarizing--, we might say that the conditions which brought on the crisis had accumulated over many years. Nowhere had over-trading and over-expanding been greater than in the United States, and though some sort of let down may have occurred, it need not have taken the form of a panic, if a better banking and currency system had existed.

As one peruses articles which have been written on this particular crisis, contemporaneous and otherwise, one finds himself being convinced that it was a rich man's panic; that it was the monied people, those who have always controlled the Stock Exchange, who suffered, not the people at large. No sane person can be of the opinion that the collapse was a planned affair even though the unfortunate bickerings in Wall Street supplied the necessary momentum, serving thus as the immediate cause.

32. Chicago Daily Tribune, Nov. 6, 1907.
New York, the money center of the country, reflected an influence upon the nation as a whole, with the exposure of the speculative practices of men high in finance. The reaction of small depositors was a natural one, as was that of the western banks in reducing their funds at the eastern center. With the dawn of the new year the financial scare faded, and as the money outlook improved, the business world again became optimistic, but as Senator Bourne, before Congress on March 5, 1910, refuting the prediction of the junior Senator of New York that other panics would come, stated, "under normal conditions there will be no more panics in this country if capital is properly regulated ..."33
CHAPTER III.

THE POSTAL SAVINGS SYSTEM-------------
Opposition of the banking groups--
Arguments of those favoring the bill--
President Taft approves the bill, June 25, 1910--Excerpts of the bill--The bill in operation.
CHAPTER III.

THE POSTAL SAVINGS SYSTEM

We now come to the first of the banking reforms resulting from the collapse of 1907, namely, the creation of the United States Postal Savings System. An extract from pamphlets issued by the United States Post-office Department reads, "Between 1873 and 1910, eighty bills relating to the establishment of postal savings were introduced in Congress, the last of which was enacted into law in 1910."¹ That the law was enacted is well and good, but let us consider the arguments which were used in an attempt to prevent it, and those which helped bring about its enactment.

During a period of approximately forty years, the establishment of such a system had been advocated by eight Postmaster Generals, but it was considered a matter of minor importance until the panic exposed the general lack of confidence in the existing banking institutions. That President Roosevelt favored the system was indicated in his December 1907 and March 1908 messages to Congress.²

In The Independent of November 5, 1908, we find an article by Mr. George Von L. Meyer, Postmaster General of the United States, "Much Needed Legislation", in which he says,

"...there is a timid class which has only faith in Government institutions...The Republican platform commits the Republican party to the adoption of a postal savings bank law...The Department has had assurance that more than a majority of the Senate will support the bill...Whatever opposition there may be to the proposition by banking institutions is from misunderstanding of its purposes or from purely selfish motives." 3

Mr. Charles E. Sprague, former president of the savings bank section of the American Bankers Association, was one to disagree with Mr. Meyer. His view was that few feared the ultimate solvency of the banks in 1907, but they wanted currency at once. Therefore he claimed that persons would have been just as eager to draw money from postal banks, to hoard or to sell that money, as any other money. If this had been the case he believed the Government would have had to refuse payment even though it had agreed to repay upon demand. 4

About the same time in the December 12th Outlook, was an item which may have served to crystalize public opinion. It referred to the millions of dollar which were kept in hiding in those regions which lacked proper banking facilities, and had

no confidence in private bankers. If post-offices were allowed to receive these savings on deposit the condition of economic waste would be relieved, for hoarded money would again circulate. Persons who began saving small amounts in the postal savings banks, would, as their deposits grew, realize the advantage of depositing in a regular savings bank, because of the higher interest rate. In this way the postal institutions would be of aid to the established banks.

Again, however, we find opposition. Mr. John Harsen Rhoades, a trustee of one of the leading savings institutions in the city of New York, objected to the principle and methods which would be employed. He had the idea that such a system would increase the centralized powers of the Federal Government, and stated that he had a distaste for anything like Government absorption of private enterprise. The Outlook opinion was that there existed no dangerous tendency toward centralization of power in the Federal Government, and that people didn't resent Government management if it were more effective than private management.

When discussing the Carter Bill which was then before Congress, Mr. Rhoades stated, "The time may arrive when postal savings banks will be a necessary adjunct to our financial life; but, inasmuch as today our national banking system is antiquated

6. Id.
and inadequate to our needs, why saddle upon it a weight of a postal savings project? Would it not be well for those interested in establishing postal savings banks to bide their time and wait until our system of banking has improved? Banking and currency reform should precede the postal savings bank."

In refutation of arguments presented by those who opposed his project, Mr. Thomas H. Carter, sponsor of the bill, spoke well in its defense. He said,

"A cursory examination of the map and of the last census returns will demonstrate that approximately one-half of the total population of the United States abides in places having no savings banks at all. Since it is conceded that savings facilities, coupled with confidence in the banks, will encourage thrift, keep money in circulation, insure more home comforts, and develop better citizenship, the question naturally arises, Why not make some effort to extend the benificent influence of sound savings institutions to the one-half of our population which does not now enjoy the advantages common to those residing in or near the great centers of population? Certain cherished facilities for saving small amounts of money now enjoyed by some of the people can be extended to all the people in a lawful way and without expense to the Government or injury to anyone, and the postal system has the machinery installed and in operation thru which such facilities may be extended to the patrons of every one of the 40,000 post-offices in the country."  

When Kansas City, Missouri postal officials were making an investigation, to ascertain why large numbers of money orders

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had not been presented for payment, they discovered that immigrant laborers had been using the post-office as a savings bank. They had become familiar with such in Europe and, having a distrust of American banks, had followed the example of one of their group. This clever man would buy money orders which, if not presented for payment in a year, were turned over to the Treasury department where a certificate for the amount of the order was made out. Such a certificate, non interest bearing, was good indefinitely. Thus, the Government became his banker.10

For over seventy days the bill was under consideration by the Sixtieth Congress and was then passed on to its successor, the Sixty-first Congress. In the course of the debate every legitimate objection was presented. These were, however, just as ably and zealously refuted.11 Again Mr. Carter came to its defense.

"The frequently recurring panics from which we have suffered.....have been more destructive than the wars in which we have engaged. The financial disorders which have resulted from panics from time to time have been born of fear and distrust. The experience of the past in this particular will be repeated in the future until we provide some depository in which the vast army of wage earners and others of small means have absolute confidence.....It follows, therefore, that the postal savings system will

be a powerful agency working most efficiently
to preserve the equilibrium in times of finan-
cial disturbance. Finally this system will
beget interest in and devotion to the Government. 12

Despite the fact that some termed it "paternalistic, reck-
less and socialistic", the bill, after much consideration passed
the Senate by more than a two-thirds majority, and was sent on
to the House of Representatives. 13 When finally accepted by this
body, it was sent to President William H. Taft, by whom it was
signed on June 25, 1910. 14

In the examination of the United States Postal Savings Act
and Its Amendments, only the sections pertinent to the general
theme of this chapter, will be cited. We find that it is,
"An Act to establish postal savings depositories for depositing
savings at interest with the security of the government for re-
payment thereof, and for other purposes". 15 Through its enact-
ment there was created, a board of trustees which would control,
supervise, and administer the postal savings depository offices
that had been designated and established under the provisions of
the act. It would in like manner take charge of the funds re-
ceived as deposits. The board was to consist of the Postmaster
General, the Secretary of the Treasury, and the Attorney General,

12. Ibid., p. 455.
15. Statutes of U. S. Sessions Laws 61 Cong. 3 Sess. (Gov't
acting ex officio, and having power to make proper regulations to receive, transmit, deposit, invest and repay the funds deposited at postal savings depositories. In Sec. 3, we find that the board of trustees was authorized and empowered to state which post offices should be postal savings depositories. Every post office so designated was authorized and required to receive deposits of funds from the public. Each depository was to account for and dispose of all funds, according to the provisions and regulations of the Postal Savings Act. Postal savings depository funds were to be kept separate from other funds. Postmasters, and other officers and employees of the postal service, were to be held accountable for such funds as, "the faith of the United States is solemnly pledged to the payment of the deposits made in postal savings depository offices with accrued interest thereon as herein provided."\(^{16}\)

In keeping with this act, the first institutions of this kind were opened for business on January 3, 1911, at which time one such bank was opened in each state and territory. When the fiscal year 1913 came to a close, 12,151 depositories had been established. Thus it is that this type of bank, designated to absorb the deposits of timid depositors, flourishes today.\(^{17}\)

\(^{16}\) Ibid. pp. 214-19.
\(^{17}\) Kemmerer, pp. 53, 128.
We shall find that these depositories became more and more popular as confidence in banking institutions failed.\textsuperscript{18} On February 28, 1933 deposits reached the billion dollar mark.\textsuperscript{19} Because of this, opposition became so bitter that the Seventy-third Congress was urged to abolish postal savings banks. This, however, was not done, but it was felt that the guaranty of deposits provision in the Banking Act of 1933 would bring about a reduction of deposits in the postal savings banks.\textsuperscript{20}

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CHAPTER IV.

THE FEDERAL RESERVE ACT-------------
The work of Aldrich--Of Glass--Attitude of the Democrats--Of the Republicans--Of President Wilson--Currency Bill approved--Its purpose.
CHAPTER IV.

THE FEDERAL RESERVE ACT

The financial difficulties accompanying the depression of 1907-08 were so serious as to provide the final illustration and arguments necessary to bring the Federal Reserve System into existence. As the act which brought this system into being was not passed until December 23, 1913, it is necessary for us to take notice of the intervening event and attempts at legislation.

Senator Nelson W. Aldrich was, between 1907 and 1912, the acknowledged leader in the movement for banking and currency reform. As chairman of the National Monetary Commission which has been created by the Aldrich-Vreeland Act of 1908, he began to formulate remedial measures. The Aldrich-Vreeland Act had provided for an emergency issue of bank notes by groups of national banks, a temporary measure, aiming to relieve the financial stress until such time, that more suitable governmental legislation might be enacted. In the meantime the National Monetary Commission was to make a survey of banking conditions here and abroad, and to compile a report which should serve as the basis

of the anticipated legislation.3

On January 16, 1911, he presented to a group of Washington business men, the first draft of that which was later to become the basis of the Aldrich bill. This draft, while only tentative, had as its outstanding feature the provision for a central bank, which was in keeping with the interests of Wall Street.4 After the necessary revision, the report of the Commission and the plan or bill were sent to Congress on January 8, 1912. The bill never received full discussion in either house of Congress, because the Monetary Commission had been created during the Republican administration and its bill stood no chance of becoming law after the shift in power which came with the election of Woodrow Wilson in November 1912.5

President Wilson had made it clear both before and after his election that he intended to have a "real and direct" connection with Congressional legislation. This determination, we shall see, was borne out by the exhibition of team work between the President and Congress in the passage of the Currency Bill or Federal Reserve Act.6

When the leading House Democrats were rather certain that no action would be taken on the Aldrich bill, they devoted their time to political scheming. The House Banking Committee

4. Laughlin, p. 16.
5. Bradford, p. 329. See also Laughlin, p. 56.
was divided, i.e., half to investigate the Money Trust, and the other half under the chairmanship of Charter Glass to take up the matter of banking legislation. It was this sub-committee under Mr. Glass which formulated the currency bill which was eventually legislated as the Federal Reserve Act. 7

As Mr. Glass was not active in opposition to the plans to investigate the Money Trust, he was left undisturbed in working out a banking bill. On January 30, 1913 the first draft of his bill went to President Wilson. Having definitely entered the political stage, it was now to be subjected to the whims of the political forces in Congress and other administrative influences. The measure was taken up at the extra session of Congress, April 1913, although it was not for this that the session had been called. 8

As the bill stood, there were features which were bound to provoke opposition, and it was evident that this opposition would center about the composition of the Federal Reserve Board. Bankers became fearful that control would be given over to politicians, and doubtless there was some basis for this fear. 9 Such an opinion was expressed by Nathaniel French of the firm of French and Hecht, Manufacturers, Davenport, Iowa, when he appeared before the Senate Banking and Currency Committee in

8. Ibid., p. 138.
October, 1913. His view was that the Act itself was a great re-
form and that good might be gained from its enactment, but he
feared the system would drift into politics.\textsuperscript{10}

To further bear this out, Laughlin cites Carter Glass’s

\textit{An Adventure In Constructive Finance}, where we find, "...the
President requested the House chairman, as compensation to
bankers for denial of representation on the central board, to set
up a Federal Advisory Council, to be composed exclusively of
bankers, authorized to sit at times with the Federal Reserve
Board in a purely advisory capacity."\textsuperscript{11}

Bankers were not the only antagonists. Secretary William
Jennings Bryan opposed it on the grounds that in some respects it
did not conform to Democratic history nor doctrine. He maintained
that it was the function of the Government and not the banks, to
issue money.\textsuperscript{12} We find that at a later date Father Coughlin
maintained the same idea. One of the sixteen points of his
National Union for Social Justice, calls for a "central bank and
a nationalized banking system."\textsuperscript{13}

\begin{itemize}
\item[10.] \textit{Hearings Before the Committee on Banking and Currency}
\textit{Vol. 3.} p. 2070.
\item[11.] Carter Glass, \textit{An Adventure In Constructive Finance}, (Double-
\item[12.] Laughlin, p. 154.
\item[13.] \textit{Literary Digest}, (Mar. 23, 1935) Vol. 119. p. 7. See also
Raymond Gram Swing, "Father Coughlin, The Wonder of Self
\end{itemize}
Strange as it may be, however, when the House radicals, under the leadership of a Mr. Henry of Texas, who wished to curry the favor of Mr. Bryan, expressed themselves with venom against the bill, Mr. Bryan turned right about face and endorsed the bill. Another ambitious Cabinet member, who was antagonistic to the Glass bill, was Secretary McAdoo. Being spurred by personal aspirations, he presented a bill which he claimed to be superior to that of Mr. Glass. His bill, he deemed a more practical one which met with the approval of many bankers, although he cited only one specifically.

So, says Mr. Laughlin,

"Later the Glass bill, thus supported by the President in spite of criticism of Mr. Bryan, the revolt of Secretary McAdoo, and the warfare of the Aldrich group in New York, went to the House Democratic Caucus for approval September 11, 1913... After minor changes in the caucus, the fourth draft...as modified by the Banking Committee, was reported to the House...It was debated for five days. The main objections urged to the measure were as to the powers granted the Federal Reserve Board, the compulsory membership of the national banks and the transfer of reserves. After an amendment by Mr. Fess that nothing in the bill could be construed as a change in the gold standard...the bill passed the House September 18, 1913 by a vote of 287--85. Three Democrats voted against the bill, 48 Republicans for it and 82 against it." 16

14. Laughlin, p. 159.
15. Ibid.
16. Ibid., pp. 159-61
During the period of debate, Representative Hardwick, Democrat of Georgia, assailed the Party's finance plan, saying that it would "foster banking monopoly in which the government would be a party." He continued that in every other branch of industry the Democratic party had contended,

"Down with monopolies, combines and trusts... and yet it seems likely that in this bill.... we have established a gigantic money trust, with all the banks of the country concentrated in twelve great central banks, with the government linked between them and the government in actual partnership, lending them money, issuing them money....In this bill it appears that we have abandoned the position taken by the Democratic party in the recent campaign, and have gone over, bag and baggage, to the Roosevelt (Theodore) position....Bear this in mind: if the bill becomes a law you will have prosperity, expansion, more loans, more credits, boom times for a while. The goose will hang high. But pay day comes with a nation, as well as with an individual."17

Representative Kahn, of California, stated that he was against the bill because Secretary of State, Bryan, was for it, and added that any proposed legislation which Mr. Bryan approved should be scrutinized carefully.18

The bill was now sent to the Senate where changes were suggested because of the influence of New York banking interests upon the Senate, and because there were within the Democratic group, varied viewpoints regarding banking policy

18. Ibid.
and on the provisions of the bill. Only the "dominating force of Mr. Wilson's leadership" made final action possible. In Joseph P. Tumulty's, Woodrow Wilson As I Know Him, is a statement to the effect that it is doubtful that many persons realize the character of the opposition which President Wilson met even in the ranks of his own party. Representative Glass had informed him that the stubborn opposition in the Committee, led by Democratic Senators O'Gorman and Reed and Republican Senator Root, might succeed in "killing the bill." Secretary McAdoo had informed him that opposition leaders in the Senate had planned a filibuster and thus prevent passage of the bill. The opposition was influential enough to bring about a party break in the Senate.

"Quiet tips" were given to balky Senators, to visit the White House. It was understood that the President's patience had been exhausted, for the New York Tribune, of September 27, 1913 stated,

"He fears that unless he wields the master's rod the opposition to the currency bill will assume dangerous proportions, as...influences are at work to upset the administration's programme. Patronage is the rod which the President will undoubtedly use on the trio whom he believes are liable to cause the most disturbance."22

Senator Hitchcock would not change his attitude because he felt that he had nothing to lose through his defiance of the president, since Secretary Bryan controlled the patronage in Nebraska, and since he himself had been elected to Congress by both Republican and Democratic views. From the first he had made it clear that he was not in accord with President Wilson's currency views.23

There were many persons who requested hearings before the Senate Banking and Currency Committee regarding the administration's bill, so, further action was delayed to permit these hearings. Among those heard were: bankers; business men who had experienced hardship in 1907, in obtaining currency from the banks even though they had plenty of collateral; and members of Chambers of Commerce. There were individuals as: R. C. Williken, Monetary Statist Bond Bldg. Wash. D. C., who spoke on defects and advantages of the bill; Jeremiah W. Jenks, Prof. of Government, New York University, who thought the bill good and, that it would decidedly improve the existing defective banking system; Victor Morawetz, a New York lawyer who specialized in corporation and banking law, and who considered the bill defective; and H. Parker Willis, Prof. of Economics and writer of financial articles, who was expert advisor to the House Banking and Currency Committee

under Carter Glass's chairmanship. 24

When the Senate finally passed the bill 54--34, on December 19, 1913, with three Republicans voting for it, its form had changed from that upon which the House had passed. This necessitated sending both bills to a conference of the two Houses. The conference was composed of nine Senate conferees and Representatives Glass, Korbley of Indiana, and Hayes of California. When favorable action was secured, the bill was signed by President Wilson on December 23, 1913. 25 Thus far this was the most important piece of legislation of the Wilson administration. The problem, now, was to get the new law into operation. 26

The Act as approved was, "An Act 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." 27 Section 10 specified the qualifications of members of the Federal Reserve Board. This board consists of seven members appointed by the President with the advice and consent of the Senate. After the enactment of the Banking Act of 1935, the terms of the appointees were changed. 28

The appointment of the Reserve Board showed evidence of the spoils system, for, of the five appointed to serve with the Secretary of the Treasury and the Comptroller of the Currency, some knew little of banking, but they did represent some interest group, i.e., labor or farmer. In April, this committee announced the twelve reserve cities, provided for in the Act, as being Boston, New York, Chicago, Philadelphia, Richmond, Kansas City, Atlanta, St. Louis, Minneapolis, Dallas, Texas, Cleveland, and San Francisco. They gave as the basis of their selections, "....the ability of banks in a given district to subscribe the necessary capital for their regional bank; the mercantile, industrial and financial connections existing in each district; and the probable usefulness of a regional bank to serve a district... their general geographic situation, the population, area and prevalent business activities of the district."  

Being of the opinion that there was widespread ignorance among the voters of the country as to the dangers of the country's financial system, Edwin W. Kemmerer in his A.B.C of the Federal Reserve System, states,

29. Laughlin, p. 142.
"In 1912 the United States had many times more commercial banks than any other country in the world... The great majority of national banks were national in nothing but name. In 1907 our supply of reserve money was large. We had at that time in the United States the largest supply of gold in the world. It was ineffective, however, because it was widely scattered; hence suspension of cash payments throughout the country, currency premium, the breakdown of our domestic exchanges, the illegal issue of millions of dollars of money substitutes, and all other disgraceful accompaniments of the old time American panic.... These then were the three most serious phases of our banking decentralization: (1) Absence of a responsible national conservator of the money market, like the Bank of France or the Bank of England. (2) Scattered bank reserves. (3) Immobile bank reserves." 31

Prior to the establishment of the Federal Reserve System, thousands of banks held their own gold reserves, but after its establishment, member banks turned their gold reserves over to the control of the Federal Reserve Bank, and under the control of the Federal Reserve Board a "vast central pool of credit" was created. 32

Great credit goes to President Wilson, who, though not a financier, realized the need for and the importance of the reform made possible by the Federal Reserve Act, which was the most notable achievement of his first term as President. 33

patience and persistence are commendable, for without these attributes, he could not, in the face of such bitter opposition have engineered the passage of the bill. Credit likewise must be given the Monetary Commission, for even though their project failed, they aroused public opinion to the extent that the financial world at least was more open-minded when the Glass-Owen Bill was to be considered. More credit is due Representative Glass of Virginia, and Senator Owen of Oklahoma, the sponsors of the bill in their respective Houses of Congress.

The attitude of the bankers only served to crystallize public opinion. When bankers fought the bill because it denied private control, the public looked upon it with favor. True, there were exceptions in the banking group. Senator Weeks of Massachusetts was such. Although a Republican and a banker, he advocated the bill and voted for it.

Whether the bill served the purpose for which it was designed, remains to be ascertained. We shall have every opportunity to do so when we are confronted with the conditions which accompany the depression of 1929-33.


CHAPTER V.

THE DEPRESSION OF 1929--------
The Stock Market crash of October 1929--Events leading to the crash--Effect upon the nation--The Reconstruction Finance Corporation--Glass-Steagall Act, pro and con--Approved by President Hoover.
CHAPTER V.

THE DEPRESSION OF 1929

It was pointed out by Frederic A. Delano, in the December 1932 Review of Reviews, that past panics have been the result of overspending or as one might say, the result of "speculating on prospective profits." The panic of 1929 had a similar origin. For eight years, following the war, we had been industrially active. With increasing profits, people, who were ordinarily conservative, lost their sense of perspective, despite the fact, that sensible persons should have known the upward swing could not continue indefinitely.¹ It was the English viewpoint that not only was speculation rampant, but, as one writer tersely put it, "purchases of cars, radio sets, gramophones, furniture, and even clothing and holidays on the installment system had become exces-sive."² Still another Britisher compared the body politic with the human body. He conveyed the idea that just as a malady attacks each of us in our weakest place, so it was that the attack upon our "top-heavy structure of speculation" in 1929 was inevitable.³

The United States, according to his view, was not a completely
developed nor a completely settled country. Thus, there was
great possibility for speculation in real estate. Under pressure
many bankers granted loans against real estate as collateral.
So, he said, "thus when the crisis came the vast majority of
bankers had one foot deeply buried in the stock market and the
other in the fortunes...of their particular localities." 4

When the World War began, the United States was a debtor
nation, but when it ended she was a creditor. As such, she had
entered a most remarkable speculative era, one, "which dwarfed
all others, not only in duration, but also in volume and scope." 5
Having amassed nearly one-half of the monetary gold of the world,
she was in no way subjected to the trying economic adjustments
suffered by the European Nations, while effecting some semblence
of stability.

The disorganized trade and industry of those nations served
to further and favorably stimulate those of the United States.
Her profits increased year by year, until they surpassed all
previous ones. This, then, served to accelerate the speculative
movement on the New York Stock Exchange, a speculative frenzy
which was carried too far, for the gambling fever had gripped
all classes of the populace. The Federal Reserve Board felt

   p. 394. See also Bernhard Ostrolenk, "Why the Banks Collapsed",
that in some way the fever must be checked, but it feared in-
curring disfavor of the public, if it took any drastic steps.
So, for political reasons, it was content merely to issue warn-
ings. 6

According to Warburg, the Federal Reserve Board published a
statement on February 7, 1929, warning the people of the dangers
involved in the use of the credit supply of the nation for specu-
latve purposes. 7 On April 12, 1929 another warning was issued
with the result that "the disciples of the gospel of the new era
were...resentful of the meddling eight men at Washington..."8
There were others, however, who felt that the Board had not
meddled enough. But, Warburg's opinion was that though credit
should be given the Board for its warnings, the Board should have
gone farther and "should have driven the people ashore before the
ice broke."9

In Joseph Stagg Lawrence, Wall St. and Washington, is a
statement that the Board was requested to give to the Senate any
information and suggestions that it felt would correct the evil
which the Federal Reserve Board had mentioned in press dis-
patches that, "money is being drawn from the channels of busi-
ness and used for speculative purposes and some of said

7. Warburg, p. 506. See also Thomas H. Gammock, "Scolding by the
Fisher,The Stock Market Crash and After, (Macmillan Co. 1930),
p. 265.
9. Ibid., 513.
speculation is illegitimate and harmful..."10

During the wave of pseudo prosperity, bank deposits continued to increase, and bankers soon became cognizant of the fact that they could become the custodians of immense sums, simply by offering higher interest rates for time deposits.

"In theory, time deposits were investments rather than commercial funds, because they were not active accounts and were not expected to be withdrawn readily. In practice, however, time deposits in commercial banks differed little from demand deposits, because banks, instead of insisting upon any period of notice for withdrawals, paid the deposits upon demand."11

So it was that from 1921 to 1929 the commercial banks had a constant supply of funds for investment purposes. Banks then became involved in the "issue, purchase, sale and holding of stocks."12 The large New York banks opened or created special security affiliates for this purpose.13 The Reserve Banks, too, were not without guilt, for they, indirectly, through making money easily obtainable, had aided speculation.14 The result was that the Federal Reserve Board was soon compelled to interfere, to prevent such use of capital which was intended for the use of industry. Business men, bankers and government officials sided with the

soard's views regarding the existing danger.15

Warnings were not heeded and the general speculative movement was suddenly climaxed by the crash of the stock market in October, 1929. Ordinary people were not the only surprised ones, for even the most influential economists had been of the opinion that America was on the high road to plenty, and that poverty had been conquered. In The Spectator, Mr. S. K. Ratcliffe, a Britisher, speaks of President Hoover as being the head of this school of thought. Therefore, in keeping with this doctrine, the President was persistent in his statements that an upward turn would soon come.16

Then began the incomparable period of depression, which was to affect the industrial, commercial, and agricultural life of the nation. With this was to come the usual bank failures, restricted currency, and non-payment, plus the added factors of general alarm and lack of assurance.17

We shall pause here to consider the crash and its effect upon the nation. Said The New York Times, "Amid scenes of wild confusion and drastically lower prices, the stock market continued yesterday to pay the piper for its long dance...."18

17. Bruce, American Parties and Politics, pp. 172-3
Brokers, resembling a disheveled mob, exhausted both mentally and physically, with uncertain steps reached their offices at the close of "one of the most nerve wracking days in the history of the present speculative generation." 19

Thousands of stockholders threw their shares on the market in an attempt to salvage what they could, thereby causing a great decline in stock prices. The foundations of the market were shaken, for never had Wall Street been so unexpectedly forced to liquidate such large brokerage accounts. 21

In Chicago's market, too, a wave of liquidation was created by crowd impulse. 22 Chicago and New York bankers went to the rescue of their customers, by furnishing millions of dollars to break the downward course of the market. In the Chicago Daily Tribune, a news item by William Shinnick states,

"Chicagoans took their losses in yesterday's stock market battle like soldiers....There was none of the loud moaning or weeping that are sometimes assumed to go with financial crises. At least if there was any, it was done in places where the world couldn't hear. But the tension was there...The general attitude was one of bewilderment...." 23

There was an unusual amount of excitement around the brokerage houses in London. They remained open after the regular

closing hour, even though they expressed the view that they did not fear a money tieup, such as accompanied the panics of 1893 and 1907.

24

In Berlin, it seemed that the break in the New York market was expected; and the French journals, weekly and semi-monthly, as well as the daily press, gave their explanations of the various Wall Street crisis. So it was appropriately said, "The elegant Parisian lady, the English working man, the German bourgeois are all interested for various reasons in a financial crash some three thousand miles away...."25

There came demands from Senators at Washington, for an investigation, not only of Wall Street and the factors contributing to the crash, but of the Federal Reserve System as well.26 On Saturday October 26, 1929, President Herbert Hoover issued a reassuring statement, saying that business was sound; that leading bankers and industrialists claimed the country was financially sound; and that hysteria seemed momentarily to have passed.27

On the preceding day, at Washington, lobby investigations, the naval conference, and the tariff question were all put aside,

24. Ibid.
so that the drama of Wall Street and its country-wide repercussions might be observed. Periodically, Andrew Mellon, Secretary of the Treasury, kept in touch by telegraph, with Wall Street Senator Carter Glass, former Secretary of the Treasury, blamed "Mitchellism" and improper administration of the Federal Reserve System for the debacle. "Mitchellism" was his way of referring to the influence of Charles E. Mitchell, chairman of the National City Bank of New York. His theory was that speculation enriches the speculator and thereby enriches the industrialist, and as it creates wealth it is a social benefit, for with this wealth comes the ability to acquire cars, homes, and personal adornment.

Then came criticisms from other Senators, who estimated that Federal Reserve funds had been used in the speculative market. Representative Louis McFadden, chairman of the House Committee on Banking and Currency, claimed that the Wall Street decline was due to the Federal Reserve policy of withdrawing gold to aid in Europe's rehabilitation.

Blaming President Hoover and Secretary of the Treasury Mellon, Senator Joseph T. Robinson, Democrat of Arkansas, and minority leader of the Senate, made the statement,

31. Ibid.
"While prices of stocks were soaring when speculation was at its height, no one in authority stood in the way or resisted the movement—a movement which clearly fore-shadowed disaster...It may be well to trace the beginning of this calamity...Had the Democratic party been in power when the stampede on the stock exchange occurred, the ruinous results would have been charged, by Republican leaders, to the financial policies of the administration."32

Returning to the scene of action, Wall Street, there thronged those who wish to tell everyone of their losses; but no one wished to hear. They were only a part of the great multitude of American citizens of every class of society, who had considered it smart to sit around brokerage offices on the trail of "easy money". To them this had been preferable to the moderate earnings gained from physical labor.33

In England the opinion was expressed that America should welcome this check to her speculative mania, and a chance to return to normal. True, there had been many crises in England, but never a pure gambling crisis of the magnitude of that which gripped America.34

With the stock market crash, came a period of depression, during which time, some of the larger city banks, as well as many smaller country institutions, failed.35 First to close its doors, in December 1930 was the Bank of the United States, in

New York City. Investigation disclosed that fraud and mis-
management had brought about its failure. Public confidence was
shaken, and the wave of deposit withdrawals gathered impetus.
So, in 1931, 2298 bank suspensions were recorded. 36

As stated previously, it became known that the Federal Re-
serve funds had been used to a great extent, in the promotion of
speculation, even though such use was contrary to law. 37 In
John M. Dagier's article, "The Challenge to the Banks," World's
Work, Oct. 1931, we find that President Hoover felt that the
Federal Reserve System had not been sufficient to prevent the
wrongful use of capital and bank deposits. 38 But, said Mr.
Carter Glass, chairman of the Senate probe committee, "It took
the disaster of 1907 to get us the Federal Reserve banking
system; the disaster of 1928-29 ought to get us somewhere in
improvement of the system." 39

The first attempt to relieve the tense situation was the
organization of the National Credit Corporation in October 1931.
According to President Hoover's suggestion, the banks in each
Federal Reserve district formed associations; and each of these
established a loan committee. Then, if a bank needed funds, it
applied to its group committee which approved and granted the

38. John M. Dagier, "The Challenge to the Banks", World's Work,
39. Ibid, p. 43.
loan, if the collateral presented was satisfactory.\textsuperscript{40} This corporation did not prove to be the success that had been anticipated, and it was followed by the Reconstruction Finance Corporation Act of January 22, 1932, which provided for an organization to relieve distressed banks, business, agriculture and railroads. It began operations on February 2, 1932 with a capital of $5,000,000,000 subscribed by the United States Treasury. Through its aid, the number of bank failures decreased in March 1932 to the lowest figure since October 1929.\textsuperscript{41}

Congress had stipulated that the corporation was to be a bipartisan agency, to whose board not more than four members of the seven appointed, could be of one political party. The board, as originated, consisted of four Republicans and three Democrats. The original members were: Andrew Mellon, Secretary of the Treasury, who was soon succeeded by Ogden Mills; Eugene Meyer, governor of the Federal Reserve Board; Paul Bestor, Farm Loan Commissioner; and General Charles G. Dawes, Republicans. The Democrats were: Harvey Couch, of Alabama; Wilson McCarthy, of Utah; and Jesse H. Jones. Upon request of President Hoover, Mr. John Nance Garner, the speaker of the House of Representatives; Senator Josepeth T. Robinson, the minority leader in the Senate;

\textsuperscript{40} Bradford, p. 451.  
\textsuperscript{41} Bradford, p. 451.
and Senator Carter Glass, submitted names from which the Democratic members of the board were chosen.42

The policies of the corporation were largely determined by President Hoover.43 With the creation of the R. F. C. it was stipulated that quarterly reports were to be made to Congress regarding the total amount lent the various classes of borrowers. It was not required that the names of the borrowers, nor the amount lent to each, be made public. This brought forth the accusation that certain interests could be favored. Therefore the law was amended, requiring a report, showing the names of the borrowers, the amount borrowed, and the rate of interest charged, to be sent monthly to the President, Senate and House of Representatives.44 It was feared, however, that gossipers might spread information as to who the borrowers were, and thereby make depositors distrustful of those institutions. Such would be disastrous in view of the fact that there was already too much hoarding and consequent bank failures.45 Already the hoarding movement had brought forth an appeal from the President that as a "patriotic move toward loosening credit and restoring economic stability" hoarding should cease. In such a way, all citizens might aid the war against depression.46

43. The Saturday Evening Post, (June 12, 1937) p. 7.
44. Ibid., p. 38.
45. Ibid., p. 40.
Most of us are aware, however, that during a depression, people almost always fear that the bank which holds their savings may not be solvent; and as Paul Douglas said in *Collapse or Cycle*, "they feel happier with their money in their pockets." If any confidence had remained, it was soon lost when disclosures were made regarding the unwise practices of many prominent bankers.

Meanwhile, there was in the making a credit expansion bill, which was to become known as the Glass-Steagall Bill. On February 11, 1932, Senator Glass told the Senate that bankers were propagandizing against his bill, just as they had when the Federal Reserve legislation had been proposed years before. Some persons who admitted a lack of knowledge as to its contents and purposes, were, at their bankers' requests, sending telegrams to their Senators, asking them to oppose the bill. It was even predicted by a Republican Senator that the section which would restrict the loans of the Federal Reserve banks for speculative purposes, would not be considered.

There were favorable reports on the Glass-Steagall bill in the Banking Committees of both Senate and House. Since the bill was designed to "gear the machinery of the Federal Reserve system for greater service to the nation during the business

emergency", the committees made slight amendments which would make it possible for the smaller financial institutions of the country to receive aid from the central banking system. About this time, Secretary of the Treasury, Ogden Mills, stated,

"There has been a very real fear that has gripped the people of the United States, and it has necessarily had a paralyzing influence on the credit machinery of the country--the fear on the part of those desiring credit that they might not be able to get it; the fear of those in debt that their loans might be called; the fear of the great credit class known as depositors, that they might not in all cases be able to withdraw their deposits, and... the fear of the bankers who are the trustees for the depositors that under these outside pressures their institutions might be threatened." 

Senator Glass was to present the bill to the Senate on Monday, whereas Representative Steagall, its co-author, was to do likewise in the House. Because of the nature and purpose of the measure, the House put aside all other business and, after a three hour debate, passed the bill with a vote of 350 to 15. Even though there had been charges of "gag rule and no time to study the bill", many of its critics had voted in favor of it.

When he introduced his bill, Mr. Steagall said of its pro-

visions,

"These are not cure-alls....but I do believe they will extend the service of the Federal Reserve System and bring that great agency into the full part it was intended from the start to take in the credit machinery and banking system of this country. Our banking system has drifted into unhappy days. Some of us for years have warned the country of what was taking place and have pleaded with those in power to change the policies under which we were operating. Now a much larger task confronts us as a result of the vicious practices which apparently were condoned by those responsible for the Federal Reserve System."

In the Senate, the bill was not taken up until the following day. It was then that Senator Glass spoke in its defense. He emphasized the fact that the purpose of the bill was to "make credit reservoirs of the Federal Reserve System more accessible to small banks". It was pointed out that banks, in groups of five, could pool their time or demand promissory notes, provided they were backed by adequate security, and then borrow directly from the Reserve banks. In defense of the Federal Reserve System itself, Senator Glass said that there had been innuendoes that the Federal Reserve System had broken down. These charges he considered untrue. If there were a breakdown it was not in the system, but in the banking community of the United States, where member banks of the Federal Reserve had ceased to function.

53. Ibid.
It became known that the banks which were members of the Federal Reserve in New York, felt his accusation unjust. They said nothing in refutation of this statement, however, for they were anxious that the bill be passed.\footnote{55}

At still another time, when Senator Shipstead, of Minnesota, expressed doubt of the bill's passage, in face of bankers' opposition, Senator Glass stated that he was unwilling to even think that the Congress of the United States would let certain of the country's bankers draft legislation for it.\footnote{56} Senator Connally of Texas let it be known that he hoped there would be no further delay in passing the bill which would give the country, "this real piece of legislation", which was to his mind the only "hopeful light" in all that had been considered by the Senate at that session.\footnote{57} So, with but little opposition, the bill was passed in the Senate. Naught was needed now but the President's signature, and that was expected to be obtained soon thereafter.\footnote{58}

The Glass-Steagall Bill was next sent to President Hoover. With the affixing of his signature, it became a law on February 27, 1932.\footnote{59}

\begin{footnotes}
\footnote{55} Ibid.
\footnote{56} Congressional Record, 72 Cong. 1, Sess. Vol. 75, part 4.
\footnote{57} Ibid., p. 4330.
\end{footnotes}
With the enactment of this amendment to the Federal Reserve Act, it was hoped, once more, that a panacea for the banking ills of the nation had been found. For the time being we will leave that as a matter of conjecture. Strange as it may seem, there appeared in The New York Times, of March 20, 1932, an article stating that three weeks had passed since the signing of the bill, during which time, it was ascertained from the weekly reports of the Federal Reserve System, that none of the privileges, which might be gained from its enactment, had yet been exercised. Nevertheless, the measure must have had some psychological value, for there was a drop in the number of bank failures and a restoration of confidence, through the mere knowledge of the fact, that the banks could obtain aid if such were needed.60

Taking a hurried glance at the foregoing, before passing on to our next event, the year 1929 had a good start. Signs of prosperity were everywhere. Industry was at its peak. Luxuries were, to a given extent, enjoyed by most of the vast population. Bank deposits were mounting and speculation was rampant. Without a warning the bubble burst, when on October 19, 1929, the disastrous crash of the Wall Street market sent a tremor of uneasiness over the country.61

61. Bernard Fay, Roosevelt and His America, p. 94.
To use the words of Mr. Roosevelt, in his acceptance speech of July 2, 1932, when he spoke of the aftermath of the great expansion and "delirious speculation" which had gone on before the crash, "men lost their jobs...banks became frightened and started calling loans...Those who had money were afraid to part with it."^62

Then came the usual reaction: dwindling confidence in banks; withdrawals; hoarding; remedial legislation to coax currency from hiding, to restore faith in banking institutions, and if possible avert further disaster. So we found the enactment of the Glass-Steagall Bill which it was hoped would make more satisfactory the functions of the Federal Reserve System, which itself was the outcome of legislation intended to avert a recurrence of conditions, such as were experienced in 1907.

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CHAPTER VI.

INSTABILITY OF BANKING----------
Signs of weakening--Fearful depositors--
Bank runs and collapses--Emergency Banking Laws and President F.D.Roosevelt,
1933--The new Glass-Steagall Bill or the
Banking Act of 1933.
CHAPTER VI.

INSTABILITY OF BANKING

Albert Shaw, editor of *Review of Reviews*, once made the statement, that much of the woe and misery experienced in the United States, from its beginning to the present day, had been due to banks. Most countries, regardless of their size, he claimed, had some sort of banking system; but the United States had "just banks and more banks".¹ He went on to say that due to the lack of uniformity in the banking laws of the various States, supervision or inspection, in many instances, was very lax. The breath-taking activities of certain bankers in Wall Street had been emulated in southern and western cities, but only on a lesser scale.²

When the year 1933 opened, we found Congress in a confused state. It seemed that no one had power. Lippmann gives us the impression that President Hoover apparently had no influence upon the Congressional body; and President-elect Roosevelt, as yet had no authority.³ Bernard Fay leaves a slightly different impression, by intimating that it was evident that on the eve of his retirement President Hoover was unwilling to assume responsibilities

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which might hamper the new executive; and the latter felt unwilling to offer support until legally entitled to do so.  

In January there had been 237 bank suspensions, but the seriousness of the situation had not become apparent until February 14, 1933. On that date, William Comstock, Governor of Michigan, declared a week's bank holiday in that State which was one of the largest and most industrial States of the Union. Because of difficulties which had arisen in the city of Detroit, the banking situation was so precarious, that the Governor, to avert too great disaster, had ordered the banks closed.

The moratorium, aside from disturbing depositors to a great degree, drained cash from surrounding areas. Large Detroit corporations withdrew their deposits from New York as well as from adjoining States. These withdrawals were necessary that payroll requirements might be met. These neighboring bankers in turn withdrew balances from New York, that they too might meet their creditors. Thus began the movement for the restriction of deposit payments in other States. The Federal Reserve Banks were constantly being called upon for additional credit, so that local banks could meet the demands made upon them.

On March 3, 1933, Governor Horner conferred with Chicago,

Cook County and Illinois bankers and decided that no moratorium would be declared in Illinois. Almost simultaneously, however, government officials at Madison, Wisconsin announced that a two weeks' banking holiday would become effective immediately in that State.  

The incompetence of many bankers, and the disorganization of our banking system became even more apparent as banks throughout the country were forced to close. The gravity of the depression was increased by the spreading of the banking panic to new regions. Even Congress was alarmed, for in Washington, a wave of hoarding had begun. This, according to Arthur Sears Henning, Chicago Daily Tribune commentator on political events as they happen in Washington, was the atmosphere at the capital, to which President-elect Franklin D. Roosevelt came.  

President Hoover conferred with Senator Carter Glass, of Virginia, after failing to secure Mr. Roosevelt's consent to unite in a recommendation to Congress on the matter of guarantee of bank deposits. Since Mr. Glass's authority in the field of banking and financial legislation was considered unexcelled, it was felt that he, a Democrat, might be prevailed upon, to urge the President-elect to agree to recommend the desired legislation. 

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Mr. Glass, however, did not commit himself in any way.

Attempts were made to secure a statement from Mr. Roosevelt, as to what course of action he would pursue to relieve the tense situation, with which he would soon be identified. Other than making it clear that he would act "swiftly and certainly" he let it be known that he would have nothing to say until after his inauguration; or until he had taken over the reins of power.

Meanwhile the banking crisis was becoming more acute, and the hoarding fever was rising. Plans for the use of scrip as emergency cash were being fostered in Harrisburg and Warren, Pennsylvania; Nashville, Tennessee; and Jackson, Mississippi. In Dallas, Texas and in California, legislators too, were trying to work out an exchange medium.

In Illinois, despite the announcement of the previous day, Governor Horner issued a proclamation declaring a brief moratorium. New York agreed to do likewise. Foremost Chicago bankers were of the opinion that the money panic was a "national affair and that it should be solved by action nation-wide in scope." They stated that generally, Chicago banks were in a stronger condition than banks elsewhere, including those of

15. Chicago Daily Tribune, Mar. 4, 1933.
16. Ibid.
Throughout the country, there were partial and complete moratoria. In practically all places where there was not a complete moratorium, deposit withdrawals were restricted. Alabama banks were restricted to a five per-cent basis, as were many banks elsewhere. 18

Said the London Times, when reviewing the American situation, and speaking of the part Mr. Roosevelt would play as soon as inaugurated,

"In some quarters the prediction is made that he will at once order an embargo on domestic gold withdrawals, and that, using the power believed to be vested in him by Statute, he will place a prohibitive fee on the export of gold. It is significant that a number of leading men of his own party are frankly of the belief that this action should be taken... The disease is desperate, and the remedy must be as immediate as it is potent. It is right to say that, whatever his private thoughts may be, nothing has disturbed Mr. Roosevelt's air of serene self confidence. His courage is unquestioned, his willingness to make quick decisions has often enough been noted; and he will have instant need of both... A sense of relief that the era of twelve years of Republican rule has ended is part of the atmosphere, and if nobody quite knows what Mr. Roosevelt's promised "new deal" will be, the vast majority are thankful that it will at least be something new. He will come into office with tremendous power, power derived from the sheer immensity of his victory and fortified by

18. Ibid.
the fact that he owes it not to one or more sections of the United States but to the country as a whole."\textsuperscript{19}

In London, at this time, Americans who possessed dollars had little monetary difficulty. In Paris, banks refused to cash checks on American banks which were affected by the bank holiday. Private banks in Rome refused the American dollar at any price even though there was general confidence in American banking resources.\textsuperscript{20} A prominent German banker voiced the opinion that the American crisis could easily be "surmounted" if the new leaders themselves remained calm, for, "the psychosis of fear is the worst danger threatening a country of vast resources like America."\textsuperscript{21}

On the eve of his inauguration, Mr. Roosevelt held a three hour discussion on anti-panic problems. His advisors, those present at the discussion were: Jesse H. Jones and Harvey Couch, Democrat directors of the Reconstruction Finance Corporation; Senator Carter Glass of Virginia, leading Democratic authority on the Federal Reserve System; William H. Woodin who was to be Mr. Roosevelt's Secretary of the Treasury; Professor Raymond Moley an economics expert; and Senator Cordell Hull of

\textsuperscript{19} London Times, Mar. 4, 1933.
\textsuperscript{20} Chicago Daily Tribune, Mar. 5, 1933.
\textsuperscript{21} Ibid.
Tennessee, who was to be Mr. Roosevelt's Secretary of State. 22

New York and Chicago bankers had asked that a national moratorium on banking be declared. President Hoover, it seemed was in favor of the plan, but here again, Mr. Roosevelt would not commit himself. In Washington, it was generally understood that Mr. Roosevelt planned to call an extraordinary session of Congress, to deal with the banking situation. All other problems were to be put aside temporarily. 23

Immediately after his inauguration, President Franklin Delano Roosevelt summoned, to an informal conference, his Cabinet members and leaders of Congress, to discuss tentative measures for bringing about some means for relieving the tense banking situation. 24 Only the day before, it had been stated in the London Times, that upon assuming office, the President should use his power, to obtain still more power, and with such authority, reorganize the machinery of the government, and obtain authority over Congress, "without which no programme of action can escape abortion." It further stated that, such he should do immediately while the depression was at its height, fearing not personal consequences. 25

By the latter, it was presumably meant, that he should ignore what affect it might have upon his chances in 1936 for renomina-

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22. The Business Week, (Mar. 8, 1933) p. 3. Also Chicago Daily Tribune, Mar. 4, 1933.
tion and re-election.

Strangely enough, in his inaugural address, the new President promised, "to lead his distressed countrymen out of the economic wilderness—by means of a dictatorship if necessary." 26 It was with these ideas in mind, that he assumed office on Saturday, March 4, 1933; and it was on that morning that the American crisis had reached its climax, with the closing of the New York and Illinois banks. 27 The last of the forty-eight States to declare a bank holiday, was Delaware. 28

The Sunday issue of the *Chicago Daily Tribune* bore news of conditions in that city. Having managed to get along without banks on Saturday, ways were being figured out whereby business might be carried on. There were informal discussions regarding the use of Clearing House certificates, although nothing definite could be decided upon until some action on the matter took place in Washington. New York awaited the same information. 29

In Washington, measures which were suggested by the Cabinet members to the new President, were:

"Invocation of powers with which the wartime trading with the enemy act invested in the President, to prohibit the conversion of currency into gold. (2) Establish a corporation the capital of which would be subscribed

29. Ibid.
by federal reserve banks and employed to guarantee bank deposits. (3) Issue of scrip as in the panic of 1907...to take the place of money. (4) Guarantee of bank deposits under a plan whereby half the funds would be furnished by the federal government.30

On Monday the President's Bank Proclamation of the previous evening, occupied the attention of depositors and bankers throughout the country, as the "whole financial mechanism of the United States...for the time being had ceased to function." This proclamation of a nation-wide banking moratorium, was looked upon with approval by leading bankers who felt that Clearing House certificates might be used with the same success as in 1907.31

As the President's program was aiming to restore public confidence, and to restore the banking machinery, that industry might not suffer, people throughout the country began to adjust themselves rather cheerfully to the unusual and difficult situation. Postal Savings banks, being opened for business, received tremendous deposits because confidence in these institutions had not waned.32

Although Congress had not convened plans which would facilitate emergency banking legislation in both Houses were being

31. The New York Times, Mar. 6, 1933. Also London Times, Mar. 6, 1933; Chicago Daily Tribune, Mar. 6, 1933.
worked out. A historic plan, which would bind support through caucus majority rule, was adopted by the Democrats in the Senate. By this method members were bound in advance to cast their votes "en bloc." They went even further, however, and agreed 50 to 3 that the caucus could bind all members, with only a slight majority. This latter agreement would not hold true in the House of Representatives, for there a two-thirds majority is necessary to bind all members in a party caucus.

At the same time, the House Democrats were also busy working out an emergency program which would give the President the greatest possible authority during the crisis, and to facilitate the drawing up of a "new and permanent" legislative program relating to banks and banking. It is, of course, understood that at this time there were, in reality, no committees in the House, as such could only be elected after Congress convened; but those who would in all probability compose the Banking and Currency committee, and the House leaders who had previously conferred with the President, began to work out a program which would be ready for presentation as soon as the House should be organized on Thursday. With this set-up in both Houses, the Democrats felt they had everything under control. In this way they might almost instantaneously secure passage of any urgent legislation, without

fear of any revolt by independents.\textsuperscript{34} They felt that at such a
time, it was inopportune to discuss details. The essential
matter was that the Administration should make decisions which it
considered would be most effective, having the assurance that the
nation would cheerfully fall in line.\textsuperscript{35}

In New York and in Chicago, word was still awaited from
Washington, whereby the banks might issue the Clearing House cer-
tificates which they had in readiness. Frank R. Elliott, presi-
dent of Chicago's Clearing House, stated,

"The purpose of clearing house certificates is
to manufacture an additional sound currency
to meet the demand...If the banks pay out
currency and gold the people will hoard it.
Therefore the current need in an emergency
like the present one is to give them a kind
of money that they won't hoard. The clearing
house certificates will fill this need."\textsuperscript{36}

Upon receiving notice, however, that the Government was not
in favor of the use of such scrip, the Clearing House officials
gave up this scheme.\textsuperscript{37}

It was understood that President Roosevelt would ask Con-
gress to confirm the powers which he assumed, when he proclaimed
the bank holiday.\textsuperscript{38} On March 9, 1933, when Congress convened,

\textsuperscript{34} The New York Times, Mar. 7, 1933.
\textsuperscript{35} Lippmann, Interpretations of 1933-1935, p. 22.
\textsuperscript{36} Chicago Daily Tribune, Mar. 7, 1933.
\textsuperscript{37} Ibid. Mar. 9, 1933.
\textsuperscript{38} London Times, Mar. 9, 1933.
the President's message was read. Because of its very great im-
portance, we quote:

"On March 3, banking operations in the United States ceased...Suffice it to say that the Gov-
ernment has been compelled to step in for the protection of the depositors and the business of the Nation. Our first task is to reopen all sound banks....I ask of the Congress the imme-
diate enactment of legislation giving to the ex-
cutive branch of the Government control over banks for the protection of depositors...I ask amendments to the Federal Reserve Act to provide such additional currency, adequately secured, as it may become necessary to issue to meet all de-
mands for currency...without increasing the unsecured indebtedness of the Government of the United States."39

He then stressed the need for immediate action to allay unwar-
ranted doubts regarding banks, and to create a new relationship between the banks and the people. 40

It was in response to this urgent plea, that Congress passed the Emergency Banking Bill. Of the four fairly distinct sets of provisions, the one which interests us particularly, is the first, which confirms not only the provisions of the President's proclam-
ation, but any subsequent ones which he might make regarding the "hoarding and export of gold and the reopening of the banks." He might require holders of gold to turn it over to the Govern-
ment in exchange for other currency, under penalty for failing to do so. Too, for the period of the emergency, he was empowered to

40. Ibid.
prevent member banks from carrying on any business other than that which might be consented to by the Treasury Department.\footnote{41}

Because of the extent of power granted the President by the Seventy-third Congress, during its special session, the \textit{London Times} spoke of him as a bank dictator; and stated that full powers were given him after he had "urged upon Congress the clear necessity for immediate action, since the continuance of strangulation of banking facilities was unthinkable."\footnote{42}

Using these powers, the President extended the National banking holiday, so that whatever steps necessary might be taken to prepare for the reopening of sound banks of the Federal Reserve System.\footnote{43} Fearing punishment and publicity under the terms of the Emergency Banking Act, hoarders of gold made haste to return their hoards to banks all over the country.\footnote{44} It is said that in Chicago alone, "millions of dollars in gold flowed into the vaults of several loop banks."\footnote{45}

At a later date, in refutation of the statement of President Roosevelt, of March 3, 1933, that, "the mechanics of civilization had come to a dead stop", Mr. Hoover made the statement,

\footnotesize{\begin{itemize}
\item \textit{London Times,} Mar. 10, 1933.
\item \textit{Chicago Daily Tribune,} Mar. 10, 1933.
\item \textit{Ibid.,} Mar. 11, 1933. Also \textit{The New York Times,} Mar. 11, 1933.
\item \textit{Chicago Daily Tribune,} Mar. 11, 1933.
\end{itemize}}
"We had no bank panic from the crash of the boom in 1929...We had no panic at the most dangerous point in the depression when our banks were weakest in the spring of 1932. There was no panic before the election of 1932...They (the people) became scared a few weeks before the inauguration of the New Deal on March 4, 1933...because...people awoke to the fact that promises given in the campaign would be violated...Business slackened its energies. Shrewd speculators shipped their money abroad at fabulous profits. Bankers tried to protect themselves. The public in blind fear demanded gold and the "covenants" of the United States which called for gold. Some of them were scared at banks by the destructive publication of R.F.C. loans. The banking structure was not insolvent. After the banks were closed, it was found that the solvent banks...comprised 92 per cent of the banking strength of the country. The President himself stated they were sound. Subsequently more banks were found sound and reopened."

It was on the evening of Sunday, March 12, 1933, that President Roosevelt made a radio address in which he spoke on the financial crisis and explained the purpose of the bank holidays which his previous proclamation had brought about. He prefaced his remarks with words to the effect, that this address was to be in explanation of recent Government legislation, and in appreciation of the attitude with which the people at large had accepted the accompanying inconveniences.

He briefly spoke of the customary use made, by banks, of

46. Herbert Hoover, American Ideals Versus the New Deal, Scribner Press, N.Y. (no pub. date) pp. 35-44.
47. Chicago Daily Tribune, Mar. 13, 1933.
deposits entrusted to them for safe keeping, that is, putting them to work keeping the wheels of industry in action. Said he,

"Because of the undermined confidence on a part of the public, there was a general rush by a large portion of our population to turn bank deposits into currency or gold----a rush so great that the soundest banks could not get enough currency to meet the demand. The reason for this was that on the spur of the moment it was...impossible to sell perfectly sound assets of a bank and convert them into cash except at panic prices far below their real value. By the afternoon of March 3, scarcely a bank in the country was open to do business. Proclamations temporarily closing them in whole or part had been issued by the governors in almost all the States. It was then that I issued the proclamation providing for the nation-wide bank holiday, and this was the first step in the Government's reconstruction of our financial and economic fabric.

"The second step was the legislation...passed by the Congress confirming my proclamation and broadening my powers so that it became possible...to extend the holiday and lift the ban of that holiday gradually. This law also gave authority to develop a program of rehabilitation of our banking facilities. I want to tell our citizens in every part of the Nation that the National Congress--Republicans and Democrats alike--showed by this action a devotion to public welfare and a realization of the emergency and the necessity for speed that is difficult to match in our history."48

He stated that during the interim, the Bureau of Engraving and Printing was preparing the new currency which would be sent out to the twelve Federal Reserve banks, for issuance where assets

were good. As if in answer to the anticipated query as to why all banks were not to be reopened at the same time, the President continued,

"Your Government does not intend that the history of the past few years shall be repeated. We do not want and will not have another epidemic of bank failures. As a result we start tomorrow, Monday, (March 13, 1933) with the reopening of the banks in the twelve Federal Reserve bank cities--those which on first examination by the Treasury have already been found to be alright."49

He then mentioned the order in which other banks would reopen, and brought out the fact that no sound bank would be a dollar worse off, than it had been when it was forced to close its doors. Further, he stressed the point that peoples' funds had been handled in some cases by either dishonest or incompetent bankers who had betrayed the trust placed in them by resorting to speculation and in making of unwise loans. Such behavior on their part had weakened the confidence of the public, and therefore it was the work of the Government to provide a machinery and the means whereby the financial structure would regenerate public confidence. Such then was the aim of the recent legislation.50

So it was that on Monday, March 13, 1933 all sound banks in the twelve Federal Reserve cities reopened. Banks in some 250 clearing house cities were reopened on Tuesday; while all remain-

50. Ibid.
ing sound banks were reopened on Wednesday.\textsuperscript{51} This made it possible for the country to do business again, with the use of about ninety per cent of its banking resources. Depositors seemed to have forgotten their distrust of banking institutions, for everywhere, deposits in the reopened banks, exceeded withdrawals.\textsuperscript{52}

Depositors had accepted the word of the President, regarding the safety of their deposits in the reopened banks, for, says an editorial "A Good Start" in \textit{The Business Week}, of March 22, 1933, "The old banking system received its death blow with the moratorium...Old banks may reopen under their old names, but they cannot be the same old banks...The banks are reopening now with what amounts to a government guarantee. The federal government and various states are certifying that reopened banks are sound."\textsuperscript{53}

Many persons regarded the reopening of the banks, merely as the end of an exciting week, during which they had been without funds. To them, the crisis had passed. To those at Washington, and to those in the banking world, it was the termination of efforts to attain some form of rehabilitation. To them only the greatness of the banking collapse and the need for reform been

\textsuperscript{51} Bradford, p. 459. Also \textit{Manchester Guardian}, Mar. 11, 1933.  
\textsuperscript{52} Ibid., p. 460.  
\textsuperscript{53} \textit{The Business Week}, (Mar. 22, 1933) p. 32 and (Mar. 29, 1933) p. 4.
There were, however, thousands of depositors who suffered heavy losses in banks which would not reopen. Thus the appearance of recovery was purely a surface one. The Nation, of March 29, 1933, refers to the portion of the President's inaugural speech in which he demanded that, "the money changers be driven out of the temple", but, continued the writer, those money changers, big New York bankers, had gone to Washington to contribute their bit to the act of legislation which became the Emergency Banking Act.

The most favorable opportunity for rebuilding the banking structure of the United States, presented itself in March of 1933 simultaneously with the collapse. Guy Greer, author of "Wanted: Real Banking Reform", Harpers, (Oct. 1933), intimated that a genuinely national commercial banking system might have been constructed from the "debris of the forty-nine assorted systems which had broken down." The moratorium, its purpose and effects, was still fresh in the minds of the people. While in that mental state, they through their representatives in Congress might have, with comparative ease, brought about the enactment of worthwhile banking reforms. True, emergency measures were enacted, but

56. Ibid.
there was no follow up by the passage of laws which would establish a "single system adequate for the needs of the Nation."58

Glancing backward for a moment, we recall that from several sources, we had been made aware of the fact, that bank failures did not begin with the depression. Several thousand had failed during the seemingly prosperous years. In Bankers Monthly, of November, 1929, Mr. H. N. Stronck, author of Bank Administration, made the statement that between 1921 and 1928 5004 banks had suspended.59 The natural suspicion should be, that something was wrong with the banking system. When the Senate Committee on Banking and Currency began its investigation, it found, as had been suspected, that Federal Reserve funds had been used for speculative purposes.60

It was Ernest K. Lindley who wrote "Wall Street Under the New Deal", Literary Digest, (July 22, 1933) and in it said that one did not have to accept the theory which made the depression the outcome of the frenzied speculation of 1929, in order to condemn the leaders in the banking world, for their failure to

60. Bradford, p. 462.
avert speculative excesses. The inquiry, made by the Senate Banking Committee, showed among those, who were leaders of the "wild rush up-hill and over the precipice", referring of course to speculation, were the heads of some of the country's largest banks. The House of Morgan was among these.

Once again Senator Glass had gone about his work on a banking reform bill, which was introduced in the Senate on March 17, 1932. He was determined that no changes should be made in the section which was intended to check stock market speculation. It was understood that some New York bankers were making every possible effort to prevent passage of the bill. They objected to the separating of investment and commercial banking.

On the other hand, Senator Glass was not an advocate of guarantee of bank deposits, and this was the pet issue of Representative Steagall who was the Chairman of the House Committee on Banking and Currency. The latter's bill was passed in the House on May 27, 1932, but did not come to a vote in the Senate; whereas the Glass bill had not been passed by the House.

The bill was modified and reintroduced in the 73d Congress. One strong Congressional group wanted its immediate passage; but

it became evident, that unless it was made a part of the President's emergency program, its passage was doubtful. 65

On May 10, 1933, Senator Wheeler presented to the Senate a petition from "sundry citizens" of Montana, requesting Congress to "investigate prosecute and convict to the fullest extent of the law, if found guilty, the large banking institutions of New York City and elsewhere, especially the Morgan Banking Company, New York City, N. Y." This petition was referred to the Committee on Banking and Currency and ordered printed in the Record, minus the signatures thereto attached. 66

On June 15, 1933, Senator Borah asked that two articles, relative to Senator Glass and his activities, be printed in the Record. His request was granted. One article was taken from the Christian Science Monitor, and the other from The New York Herald Tribune of May 28, 1933. A quotation from the latter interests us. "In his Federal Reserve reform bill, he (Senator Glass) proposed and proposes to inflict almost violently drastic punishments upon any undue diversion of Federal credit into speculative channels." 67

From the general trend of the remainder of the article, it is given us to understand that Mr. Glass, a Democrat of the old

65. The Business Week, (May 24, 1933) p. 32.
school, was not in full accord with some of the ideas of President Roosevelt's new deal. In regard to the President's Emergency Banking Bill, "he supported it with all the loyalty that was consistent with a simultaneous savage assertion of its obnoxiousness to his principles." President Roosevelt wasn't particularly anxious to have the Glass-Steagall banking bill passed at the special session. He allowed it to be believed, that he was looking forward to the enactment of legislation, which would be more far-reaching, in the near future. Eventually agreement was reached, however, and the bill passed both Houses of Congress just prior to the adjournment of the special session. On June 16, 1933, at eleven o'clock that morning, President Roosevelt approved the bill which "supplements and strengthens" the Federal Reserve Law.

According to Bradford, the Banking Act of 1933 was about as satisfactory a bit of legislation as might have been expected under the circumstances. Said Guy Greer, Harpers Magazine,

"The Glass Bill...leaves the basic elements of weakness in our banking structure essentially the same as before. It does indeed strike...at some of the most spectacular abuses which have occurred in the employment

68. Ibid., Also Literary Digest, (July 22,1933) Vol. 116, p. 31.
69. Congressional Record, 73 Cong.1 Sess. Vol.77, part 6, p. 6071.
of bank credit for speculation... The most re-
assuring aspect... is that through the insurance
plan it holds the hope of eventual unification
of all commercial banking under federal control.
Possibly this will provide an opportunity for
the gradual development of a genuine national
system."73

The Nation through an editorial voiced the opinion that all
persons who have an interest in sound banking must approve some
of the provisions of the new Glass-Steagall Act, particularly the
provision which compels the separation of security affiliates
from commercial banks, and the one which forbids a bank to grant
any of its officers a loan. As to the provision which guarantees
bank deposits, there was some skepticism, particularly, since
states which had previously tried the guaranty plan had abandoned
it.74

Briefly stated, the Banking Act of 1933 (Glass-Steagall
Banking Reform Bill) is directed toward a,

"... unified banking system; provides a limi-
ted deposit guarantee; requires divorcement
of security affiliates from banks under gov-
ernment supervision; compels private banks
to give up either the deposit or security
business; requires stricter regulation of
national banks; forbids loans by banks to
their officers; seeks to limit the volume of
loans to be made on stocks obviously for the
purpose of speculation; and provided the
means for direct removal of bank officers who
are known to be guilty of undesirable conduct."75

73. Guy Greer, "Wanted: Real Banking Reform", Harpers, (Oct. 1933)
74. The Nation, (June 28, 1933) Vol. 136, pp. 709-10 ed.
75. The New York Times, June 17, 1933; Also H. Parker Willis,
"Are Bankers to Blame", Current History, (Jan. 1954) Vol. 39,
p. 390; Federal Reserve Act as Amended to October 1935,
pp. 155-64.
After the passage of the bill, the Federal Reserve Board announced that non-affiliated banks had already begun to make application for membership in the Federal Reserve System.\textsuperscript{76} It was still obvious, however, that even though enacted, the bill was not well received by the American Bankers Association. Its president, Francis H. Sisson, of New York, stated that the Glass-Steagall Banking Act was not a basically sound measure, and that it would eventually enforce its own repeal.\textsuperscript{77} He further stated that bankers regretted that Senator Glass and the members of the Banking Committee "have yielded to importunities and included a so-called insurance of deposits plan in the banking reform bill."\textsuperscript{78}

George V. McLaughlin, president of New York State Bankers Association, felt that the Act was the "fruit of much careful study and honest thought." He felt, too, that there had been no desire to penalize banks, but an aim to strengthen the country's banking system.\textsuperscript{79}

Winthrop W. Aldrich, Chairman Governing Board and President of Chase National Bank, New York City, was entirely in sympathy with the "divorcing by law of security affiliates from commercial banks."\textsuperscript{80} Mr. A. A. Berle Jr., a member of President Roosevelt's so-called "brain trust", stated that the Act was a "transitional

\textsuperscript{76} The New York Times, June 17, 1933.
measure and that more new banking legislation should be expected.\textsuperscript{81}

It was therefore in accordance with the provisions of the Banking Act of 1933 that bankers, either willingly or unwillingly, began to set their houses in order, so that their reorganization might be completed. Further legislation, such as was predicted by Mr. Berle, culminated in the Banking Act of 1935. We shall not, however, concern ourselves with this legislation.

That the banking situation throughout the country was on the upgrade was indicated in a broadcast interview on June 18, 1933, during which Louis McHenry Howe, secretary to President Franklin Delano Roosevelt, stated that of the 4887 banks which closed, only 1005 had so remained.\textsuperscript{82} It was Walter Lippmann, who very adequately said, "A year ago, men were living from hour to hour, in the midst of a crisis of enormous proportions, and all they could think about was how they could survive it." Then speaking as of February 27, 1934, he said, "The mass of people have recovered their courage and their hope. They are no longer hysterically anxious about the immediate present. They have recovered not only some small part of their standard of life, but also their self-possession."\textsuperscript{83}

\begin{footnotes}
\textsuperscript{81} The \textit{New York Times}, June 27, 1933.
\textsuperscript{82} The \textit{New York Times}, June 19, 1933.
\textsuperscript{83} Lippmann, \textit{Interpretations 1933-1935}, p. 249.
\end{footnotes}
CHAPTER VII.

1907-08 VERSUS 1929-33----------
Comparative study of the causes, effects, results, similarities and dissimilarities.
CHAPTER VII.

1907-08 VERSUS 1929-33

It is the purpose of this chapter to serve as a comparative digest of the two crises. Most statements herein have been accounted for in previous chapters; therefore footnotes shall be made only for additional citations.

Our two crises had the appearance of having come out of a clear sky; but events show that each had been years in the making. (There were some features of similarity in each, for fundamentally each was the result of too great activity in the fields open to speculation.

The word speculation generally causes one to visualize an activity which is associated with persons of huge income, and an accompanying amount of leisure, which may be spent in a form of luxurious living, provided by the returns of their speculative ventures. In part, the above is true.

In 1907 and 1929, the symptoms of the approaching crises were almost identical. Wages had reached an unprecedented high; luxuries were everywhere; and speculation was rampant. In the earlier panic the speculative movement was confined to the moneyed people. Whereas, in the latter, men and women of moderate means, who saw a chance to get something through the least
expenditure of labor or effort, floundered about with those of wealth, in the whirlpool of speculation.

Just as many had placed the blame for the panic of 1907 upon President Theodore Roosevelt, so, the Hoover Administration was similarly charged for the depressing conditions of 1929-33. In the latter instance, it was said, that the Republicans had taken the reins of the Government at a time when America was looked upon as the strongest nation in the world; but that they left her a weakened and divided America, whose faith in God and in herself had waned. 1

The breakdown, in the earlier crisis, was precipitated by the combat between the monarchs of Wall Street, and F. Augustus Heinze and his affiliates. The heels of the recognized powers had come down upon the heads of the would-be usurpers, because of their interests in copper.

In the more recent catastrophe, the depression was ushered in by the stock market crash of October 1929. Such had come about because of the failure of banking heads to heed warnings against the granting of doubtful loans, and against wild speculation.

When business activities were slowed down by bank runs and hoarded currency in 1907 premiums were offered for currency, and

Clearing House certificates were resorted to as a means of aiding the return of normal conditions. The use of Clearing House certificates was anticipated in the latter crisis. Although they were printed and made ready for circulation, they did not come into use, for in the Emergency Banking Bill, a provision was made for the issuance of additional currency.

The outstanding difference in the two disturbances was that the latter, with its epidemic of bank failures, was more widespread and generally more disastrous because it continued longer. In the latter, too, the average man suffered most. Funds which he had deposited in the local bank against a rainy day were wiped away.

In the wake of the panic of 1907 came the reforms in banking. The first of these, the Postal Savings System, provided for Postal Savings banks to encourage thrift by providing safe depositories for those who had lost faith in ordinary banking institutions. In Government depositories there was safety for, as we recall, payment of deposits was solemnly pledged by the Government. The second, the Federal Reserve System, was established under the Act which not only made for the establishment of Federal Reserve banks, but which would furnish an elastic currency, and a more adequate supervision of banking in the United States.
With these reforms, it was felt that future sailing, as far as banking was concerned, would be smooth sailing. Thus protected, the country was soon calm and undisturbed. Years passed, and then broke the recent storm. Strange as it may seem, it was found that the Federal Reserve System, which had been inaugurated to make impossible the recurrence of conditions such as characterized the financial breakdown in 1907, had been, to a certain extent, an aid to those who were to a large degree responsible for the 1929 crash.

To block further abuse of the system, remedial legislation was again sought. In the meantime, many bewildered depositors withdrew their funds, and redeposited them in the Postal Savings institutions, the banking haven of those timid individuals who had faith only in the Government.

In Congress, political views, constitutional privileges, and personal convictions regarding adequate banking legislation, were for the time being put aside to speed up such action as the President deemed necessary to bring the country out of chaos. In so doing, Congress was most certainly expressing the desires of a panic stricken populace.

In due season, two acts of legislation amended the Federal Reserve Act. As these have been discussed at length in chapters five and six, your attention is merely directed to the Glass-
Steagall Act of February 27, 1932, enacted during the Hoover Administration, and the new Glass-Steagall Bill commonly known as the Banking Act of 1933, enacted during the Administration of President F. D. Roosevelt.

In 1907-08 no great part was played by President Theodore Roosevelt in stabilizing the financial structure of the country. Contrarywise, in 1929-32, efforts were made by President Herbert Hoover to bring about some adjustment of conditions. His attempts were followed by the very unusual but effective measures of President Franklin D. Roosevelt. Remedial legislation, in the earlier instance, was enacted in the two succeeding administrations. In the latter case, such legislation began in the stricken administration and was completed in the following one.

It may be reasonably concluded that there was nothing in the earlier crisis which was in any way comparable to: the Reconstruction Finance Corporation; the banking moratoria; the Emergency Banking Act; the loyalty of a political party to a President; and the unprecedented precision with which a program, aimed at banking rehabilitation, was legislated.

According to Lippmann, "the president had the insight to see that the crisis was fundamentally political in the sense that the people had become confused and frightened because the government and their institutions were paralyzed and impotent. Seeing
this, he took the decision to ask Congress for a concentration of power in the executive. That was what broke the panic, opened the banks, restored the morale of the nation..."²

Speaking of the President's success, Fay attributed it to his boldness, shrewdness, and knowledge; and classified him as being the "greatest living politician."³

Having been severely dealt with, it may be some time before the average American citizen dares to risk his all, as in 1929. Those whose financial status enables them to tempt the gods of speculation will find that recent banking legislation has enabled loans to be made which would supplement their funds for such purposes, less easily obtained.

A most fitting statement with which to bring our contrasts to a close, comes from an editorial in the June 8, 1933, The Business Week. It informs us that the leather seats of the brokers' offices are again being occupied by the momentary millionaires of 1929. Too, the average man is watching the market quotations. There is, however, something different in their emotions. Formerly, as they watched, they had a conviction that prices would continue to rise; but, said the writer, "experience has shown that the most amiable stock may turn and bite its

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² Lippmann, p. 263.
³ Fay, p. 344.
owner. We may, as long as this attitude continues, be reasonably secure against a crisis of such inception in the near future. But, we must keep in mind Thomas Jefferson's philosophical remark, as quoted by Charles Warren in Bankruptcy in the United States,

"No man of reflections who had ever applied the lessons of the past to the present time, could fail to foresee the issue though he might not calculate the moment at which it would happen...All that stuff called scrip, of whatever description, was folly or roguery, and under a resemblance to genuine public paper it buoyed itself up to a par with that. It has been a severe lesson; yet such is the public gullibility in the hands of cunning and unprincipled men, that it is doomed by nature to receive these lessons once in an age at least."

4. The Business Week, (July 8, 1933) p. 18.
BIBLIOGRAPHICAL ESSAY

While engaged in research, the writer came upon much material pertinent to the thesis. These materials may be listed under four specific headings, namely: Government Documents, Periodicals, Newspapers, and Books. Each type had an especial value. Government documents were the authentic records of remedial legislation, Newspapers and periodicals provided all contemporary discussions of events which had a direct bearing upon our topic. Worthwhile books were few in number, but these were helpful in supplying some background data, and some current information.

To expedite the use of this bibliography, divisions have been made which correspond to the chapter divisions. Each of these is, in turn, arranged according to types of articles used.

HISTORY OF BANKING PRIOR TO 1907

Some exceedingly fine material, relative to the earlier period, is found in Frederick A. Bradford, Money and Banking, Longmans Green and Co., N. Y., 1936. Its bibliography is most excellent. On a whole, however, this publication is more useful for the latter part of the thesis. A few brief statements pertinent to the controversy over the establishment of the First and Second United States Banks, may be obtained from Harold R. Bruce,
Charles A. Conant, A History of Modern Banks of Issue, G. P.
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of the United States, Longmans Green and Co., N. Y., 1928, is
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made for and against the chartering of the United States Banks.
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BANKING CRISIS IN THE PANIC OF 1907

Material dealing with the panic of 1907 is of varying degrees of value. The Heinze affair which is the nucleus of the catastrophe, is discussed in Charles A. Collman, Our Mysterious Panics
Glassock, *The War of the Copper Kings*, Builders of Butte and Wolves of Wall Street, The Bobbs-Merrill Co., N. Y. 1935. Mr. Glassock used newspaper files, magazines, and mader personal interviews, while in quest of his material. This book is most enlightening. It deals with the activities of F. Augustus Heinze, first as a miner, then as a man of Wall Street.


PAMPHLETS which, when checked against other factual materials do not savor of a biased viewpoint, and which therefore are of value, are: *Panics and Depressions*, issued by State Title and Mortgage Company, New York, 1935; N. Johannsen, *The Coming Crisis and How to Meet It*, N. Y. 1906, which is a plea for currency reform; Harriet Heald, *History of Industrial Depressions*, published by the Cleveland Trust Co., 1912, attempts to show that the financial difficulties of the depression of 1907-08 paved the way for the Federal Reserve System.
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THE POSTAL SAVINGS SYSTEM

For material on the Postal Savings Banks, one may consult Edwin W. Kemmerer, Postal Savings, Princeton Univ. Press, 1917. This is a very detailed explanation of the system, accompanied by an appendix which contained the full text of the Postal Savings Act.

PERIODICALS: Vols. 90, 91, 92 and 94 of Outlook, contain editorials on the Postal Savings Banks. In Vol. 91, (Jan. 1909) is an article written by John Harsen Rhoades, "Postal Savings Banks." It is very informative. In The Independent, published


DOCUMENTS too are splendid sources. Remarks by Senator Bourne, advocating the establishment of Postal Savings Deposits,

**THE FEDERAL RESERVE SYSTEM**

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DOCUMENTARY sources are again, Congressional Record 73 Congress, I Sess. Vol. 77, of which parts 1, 3 and 6, were very helpful for material on the Banking Act of 1933; and The Federal Reserve Act As Amended to October, 1935. The latter was used for the text of the Banking Act of 1933.