

The *Nation* magazine

Editorial: “Ex-Senator Aldrich on the Banking Bill”

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NOTES by transcriber:

The “banking bill” refers to the bill that created the Federal Reserve system in 1913.

The Senator referred to is Nelson W. Aldrich, Rhode Island, U.S. Senator (Republican) 1881-1911.

Aldrich-Vreeland Act established National Monetary Commission to study the Panic of 1907.

Aldrich Plan: basis for Federal Reserve system

Aldrich sponsored the 16th amendment (federal income tax).

EX-SENATOR ALDRICH ON THE BANKING BILL

The speech of ex-Senator Aldrich to the Academy of Political Science, in this city, reviewing and criticizing the banking bill now pending in Congress, was an interesting contribution to the discussion. Not only as Mr. Aldrich, between 1908 and 1912, the acknowledged leader in the movement for banking and currency reform, but the pending bill is in very large measure based avowedly on the bill drawn up under his personal supervision. This is the first occasion on which he has publicly discussed the new proposals.

Mr. Aldrich’s hostile criticism took wide ground, but he rested it primarily on the assumption that the new note circulation is to be issued by the Government, and on the language of the bill describing the Federal reserve notes as “issued at the discretion of the Federal Board,” as designed “for the purpose of making advances to Federal reserve banks,” and as constituting “obligations of the United States.” Accepting this as a plan for issue of paper money by the Government, he assailed the theory of such governmental powers, reviewing forcibly such well-known arguments in the matter as the experience of revolutionary France, with its assignats, and citing the declarations against Government fiat money by Democratic statesmen and Democratic platforms, up to and since the unhappy Bryan episode of 1896. Bryan, in Mr. Aldrich’s view, has in the pending bill, as the price of factional support, won that victory for unsound money which he lost in his personal campaigns for the Presidency.

If this exposition of the nature and character of the bill were correct, then, obviously, other objections to the measure would be wholly superseded by it. There is undoubtedly this much of force in Mr. Aldrich’s contention—that the language above referred to, in describing the proposed new currency, is highly mischievous in its implications. It is also true that the language was inserted as a means of placating unsound thinkers of the Bryan stripe, whose opposition might otherwise have blocked the legislation. These facts the *Nation* has already pointed out as very grave blemishes in the bill. But we have also been at pains to show, what Mr. Aldrich did not recognize in his speech, that the bill’s own indirect references to Government paper money are meaningless when tested by its actual provision for issue of the notes.

Neither directly nor through the national supervisory board is any power over outstanding circulation proposed for the Government, except that the application for new notes, by a given regional reserve bank, may be limited or rejected, and that the tax on such circulation (again misleadingly called the "rate of interest") shall be fixed by the national board. The directors of a regional bank, acting in behalf of individual banks in its district membership, decide when new circulation is required and how much it should be, and through the regional banks that circulation is redeemed when no longer needed. The Government cannot of its own initiative, or through its national board, add a dollar to such circulation, and as for the mere fact of issue of the notes by the Government to the banks, the present National Bank act equally provides that, on the deposit of United States bonds with the Treasurer of the United States, national banks "shall be entitled to receive from the Controller of the Currency [a Government officer] circulating notes." The Government "issues" the notes, under such conditions, to exactly the extent that it would issue them under the pending bill.

We have gone into this matter in some detail, not because we in any respect approve of the language of the bill regarding the Government's function in these note issues, but because we think Mr. Aldrich has not correctly stated the true purport of the bill in this regard. A similar criticism, in our judgment, runs against his remarks of last week on the Federal Reserve Board. In many respects, his strictures on the powers conferred upon that board are entirely well founded. But his description of those provisions as "an attempt to give a Government board the right to manage a great business" hardly describes the real machinery of the bill.

Supervisory powers of large scope are proposed for this national board, but except for the three powers of "regulating" issue and retirement of the notes (whose actual significance we have already discussed), of suspending reserve requirements in a supposable emergency, and of requiring, in a similar emergency, the rediscount of one regional bank's paper by another, this national board would enjoy no powers of managing or conducting the country's banking business. The process of rediscounting paper for individual institutions is in the hands of the regional bank directorates, two-thirds of whose membership is chosen by the member banks. The rate of discount for such operations is to be fixed each week by the regional bank engaged in them, and not by the Federal board, which has only the general power of review.

Our readers are aware that the *Nation* believes even the above-named powers of the national board to be inadequately restricted. Whether by a minority of non-political appointees in that board's membership, or by granting to the proposed Advisory Council of banker appointees a voice in its deliberations, some definite restraining power we hold to be essential. But this is a very different line of objection from one which flatly assumes that the national board is asked to take over the conduct and management of the banking business.

In Mr. Aldrich's comments on what he regards as other serious defects in the proposed machinery, there is much useful and pungent criticism. But the immediately essential duty, in reviewing so important an arraignment of the measure as a whole, is to be sure that no erroneous impression of the measure's actual purport was conveyed.