

Williams' Terrific Indictment of Reserve Board

In Address on "What Congress Should Do" Tells What Should Be Done to Correct Abuses of Power and Make the Administration of the Federal Reserve Law a Real Benefit to All Sections of the Country

(Address of John Skelton Williams, formerly First Assistant Secretary of the Treasury, Comptroller of the Currency, and Ex-officio member of the Federal Reserve Board, and Director of Finance and Purchases of the United States Railroad Administration, before the convention of the Peoples Reconstruction League at Washington, D. C., April 15th, 1921.)

Mr. Chairman and Members of the Peoples Reconstruction League:

It is no mere form of words when I tell you that I thank you for inviting me here to speak. I am glad of the opportunity, because eight years of experience and observation behind the scenes in the financial department of our government have taught me much and formed for me thoughts and opinions which, if time allowed—fortunately for you it does not—I could pour out here before you through many hours. I venture to hope that some of these thoughts, results of what may be called expert training, may be useful, at least so far as to suggest further thought among my fellow-citizens.

I am asked to speak on "What Congress Should Do." There is a Federal law which REQUIRES the Comptroller of the Currency to include in his annual reports to the congress such recommendations as he may think desirable for the improvement of our banking and currency system, or to increase the safety of the depositors and holders of national bank notes and other creditors of our national banks; and in obedience to that law I have had the honor of submitting, in my annual reports as Comptroller, for the past seven years, many such recommendations, some of which have been enacted into law and others are still waiting.

I shall begin my address by adding in advance one declaration of what I think congress should NOT do. As I am out of office and desire to stay out, you will acquit me of selfish motive when I express my strong belief that congress should not abolish the office of the Comptroller of the Currency, as it is asked to do. Having held that post from February, 1914, to March, 1921, I am peculiarly well qualified to judge of its importance in our banking system, on the integrity and ability of which our stability and general prosperity so greatly depend. But more of that presently.

Secretary of Agriculture Should Be ex-Officio Member of Federal Reserve Board.

One of the things that in my opinion congress SHOULD do is to make the Secretary of Agriculture, ex-officio, a member of the Federal Reserve Board, and I would give him authority to depute an Assistant Secretary of Agriculture to represent him at meetings of the board which he may be unable to attend. This I believe to be desirable, even though it involve a reduction in the number of appointed members. The Honorable E. T. Meredith, of Iowa, was one of the ablest and most useful Directors of the Federal Reserve Bank of Chicago until he resigned to enter President Wilson's Cabinet, as Secretary of Agriculture. If he had been a member, ex-officio, of the Federal Reserve Board, during the past critical year, while he was Secretary of Agriculture, his services on the board would have been invaluable. The Secretary of Agriculture is, or should be, a man who knows closely and thoroughly the needs and condition of the farmers, the original producers, the real main-springs of our activities and sources of our strength. We are at a moment of reaction—reaction in this case, in the right direction. "Back to the farm" has meaning far wider than the return of individuals from the cities to the furrows and fields. It means that the strongest and most earnest intellect of the country is being directed to the farm, and the farmer, and their requirements, and has been aroused to the truth that unless there is fair opportunity and reward for the investment, intelligence and labor of the man and woman on the farm, the halting of our progress and the collapse of our power are inevitable.

The agricultural interests—quiet, generally steady, inarticulate, scattered and unorganized and sometimes wasting strength, and losing cause by misdirected outbreak and protest vain-

ly vehement—has not had the power, or the consideration to which its importance entitles it. That unhappy fact is being realized now as never before in three-fourths of a century. We see the curious and apparently contradictory condition that now when the city and town population, the first time in our history, outnumber the country population, the welfare of the farmer is studied more zealously and its promotion sought more diligently than when the farmers outnumbered the urban residents five to one. The cities have been taught by strokes of adversity that they can not fatten and thrive while there is starvation and poverty on the farms. Therefore the presence of a direct representative of the farming people in the supreme council of the nation's financial management would be in exact accord with the trend of present-day political philosophy and economic doctrine.

Men Entitled to Main Credit for Federal Reserve Act, Which Is Described as "the Greatest Product of Financial and Political Genius the World Has Known."

If a real farmer or a man in real sympathy with farmers, and having practical knowledge of their situation, had been on the Federal Reserve Board, perhaps his influence and representations might have saved that body from some of the errors into which, in my opinion, it has been led, or has strayed. As you know, the Reserve Board forms and directs the policies and management of the Federal Reserve System. That system, I believe, to be the greatest product of financial and political genius the world has known, and the men who had the largest part in its creation and development were: President Woodrow Wilson, William G. McAdoo, Secretary of the Treasury, Carter Glass, later Secretary of the Treasury, and at the time of the passage of the Federal Reserve Act, Chairman of the Banking and Currency Committee of the House of Representatives, and Senator Robert L. Owen, then Chairman of the Banking and Currency Committee of the United States Senate.

Without Federal Reserve Act the War Would Have Been Lost.

The theory, conception and purpose of the Federal Reserve System are as near perfection as the human mind can produce. I am earnestly sincere in declaring that it was one of the most potent means for saving this country, and the world during the war, and that without it hideous disaster would have come upon us. I can recall numerous occasions during these past few fateful years when without the aid of the Federal Reserve System ruin would have been inevitable.

But no machinery can operate successfully indefinitely without intelligent supervision and direction. The finest watch must be examined, corrected, oiled and cleaned sometimes. I think one mistake of the Federal Reserve Board, of which I, officially, was a member, was in leaving the Federal Reserve machine to operate to too great an extent automatically, regardless of special and exceptional circumstances and changing conditions. By that mistake farming communities and farmers and business men and others in all parts of the country have suffered in my opinion. I am jealous as any conservative business man must be of intrusive interference by congress, or any political power, in commercial or financial affairs. Yet it seems to me some wrongs have been done and some unnecessary hardships inflicted by lack of regulation of the machinery, such as congress could require and enforce, and by some changes make certain.

How Money Rates in New York Are Artificially Made and Maintained.

A primary purpose of the Reserve System is to provide for the ebb, flow and distribution of the country's supply of money to meet the legitimate needs of the people and of commerce. Generally, that purpose has been fulfilled admirably. Sometimes it has been impeded or prevented and troubles have ensued in consequence. For instance, when abnormally high rates for money for speculative or other purposes have been made and maintained in New York, the natural result has been to draw money

from sections where it was needed for productive and constructive work to where it could earn extraordinary profits from the necessities of speculators and promoters. The farmer, merchant, or manufacturer in the west and south, and also elsewhere found money scarce at the 6 per cent, 7 per cent and 8 per cent rates he could afford to pay, because New York was offering from 10 per cent to 30 per cent. This tends to defeat the wise and beneficent purpose of the system.

I used my official powers to investigate this subject as thoroughly as possible and made some astounding discoveries. The daily rates for call money, meaning money loaned on stock and bond collateral, to be called at will, are fixed daily by from five to eight members of the New York Stock Exchange, men also actively concerned in the purchase and sale of stock, meeting informally at the exchange or consulting over telephones. They are responsible to nobody, under no direction. Their casual, hasty decision not only affect the prices of money and stocks there—frequently meaning disaster or gain to hundreds of individuals and interests—but tend strongly to determine the movement and prices of money and incidentally, to a greater or less extent, of wheat and other commodities—for more than a hundred million people.

Perhaps it may be difficult to prevent this fixing of the daily money rate, and adoption of it, by all the banks in the financial capital of the country. The state of New York makes the sky the limit for interest on demand collateral loans for \$5,000 or more. I respectfully suggest to the congress that these burdensome and sometimes destructive rates could be largely, if not entirely, prevented by an amendment to the Federal Reserve Act which should provide that no Federal Reserve Bank shall loan money to a member bank which charges its customers as interest on any of its loans a rate in excess of what congress may regard as a reasonable maximum rate. Many of the most successful banks in the country—both large and small—adhere closely to the interest rates fixed by law, and prosper while doing so. It has been suggested that the passage of such an amendment would result in the withdrawal from the Federal Reserve System of many state banks and trust companies, which would refuse to accept such restrictions, but my answer is that I believe the system would be stronger and better off WITHOUT those banks which think they can not exist or prosper without exacting usurious and unconscionable rates for money. I also believe that even without such a law, active, vigilant, intelligent administration of the Federal Reserve System machinery could prevent or limit such conditions and methods, which so greatly impair its usefulness and diminish its value.

"Bureaumania" and the "Circumlocution Office."

Talking on this subject I shall be forced to speak bluntly. I do not know that it is necessary for me to follow the recent example of another Comptroller of the Currency to regale and entertain you with colloquial conversations quite as vivid and picturesque as those he employed so brilliantly, so successfully. But it is proper for a man talking to, and for, men who dig their livings from the ground to call a spade a spade when necessary.

I believe congress should so amend the Federal Reserve Act as to make it not only fool-proof and crook-proof, but immune from the disease which I coin a word to describe as "bureaumania." That is the mania so prevalent here in Washington, and at every other seat of government, for trusting the official machinery to work automatically, insisting on inflexible routine, refusing to recognize or imagine that the shifting and changing of conditions may require departure from established rules and precedents. It is not a new trouble. Dickens' description of the "Circumlocution office" in London, written seventy years ago, reads like a photograph of one of our departments. Every civilized government has been and is hampered in every emergency by "bureaumania." Victims of it lose initiative, human sympathy and the capacity for human interest in any event or person. Their thought is compressed in fixed