

John Skelton Williams on Administration of Federal Reserve Board

Richmond, Va., December 31, 1921.

Dear Editor:

I take the liberty of handing you with this a copy of my letter to Senator Overman of December 2, 1921, concerning the administration of the Federal Reserve Board, which on motion of the senator, and with the unanimous consent of the United States Senate, was printed in the Congressional Record of December 19, 1921.

In submitting this letter I invite your attention to the fact that the Federal Reserve Board, in its official report to the Senate in answer to the Overman resolution, asking for the official figures concerning the "amazing waste of public money," has confessed to things which prove that conditions are much worse than had been charged; that the banking palace at New York, instead of costing "\$16,000,000," is estimated to cost \$25,646,000, or 60 per cent more than the Capitol at Washington; and that the salaries of its "officers" aggregated about 14 per cent more than the amount charged, which had seemed incredible.

On the floor of the Senate December 19, 1921, Senator Overman in referring to the Board's report to the Senate said (p. 605 Congressional Record):

"I want to bring before the Senate the question as to the extravagant use of money. I asked for a report concerning the matter and a report has been submitted ADMITTING THE FACTS."

Senators, regardless of party affiliations, have joined in condemning the gross extravagance and "amazing waste of public money" which now stands revealed and established. I ask attention to the following statements which were made in the United States Senate on December 19, 1921, during a discussion of certain proposed amendments to the Federal Reserve Act intended to remedy existing abuses:

Senator Overman, Democrat, of North Carolina, said:

"Mr. President, I think the greatest piece of constructive legislation passed in a hundred years was the Federal Reserve Act. It has probably avoided many panics. It helped us to carry on the war. That bill was passed in the interest of the people.

"On account of certain charges made on the floor of the Senate and in the press throughout the country of an amazing waste of money and extravagance on the part of certain Federal reserve banks, I introduced a resolution asking the Federal Reserve Board whether those charges were true or not.

"Their report in reply to that resolution has come in, and I wish senators would read it. There are some of the most amazing statements contained in it. One statement is that they have spent more than \$17,000,000 for a bank building in New York—the finest, most extravagant bank building in the world, costing more than any public building in Washington; more than the Capitol in which we sit here, which cost \$15,000,000. They paid the architect and engineer more than \$1,000,000. They appropriated \$800,000 for furniture.

"In the last few years they have spent \$36,000,000 for public buildings in various places in the country. Besides that they have increased salaries since 1919 when everybody else was reducing salaries. In an amazing manner they have increased the salaries in the several districts in an amount in excess of \$7,000,000. * * They have been making so much profit after getting the law amended so they could retain 100 per cent surplus, that they did not know what to do with it, so they are wasting it by increasing salaries over \$7,000,000 since 1919, and by erecting these extravagant, magnificent buildings, one of which cost more than any public building in Washington, more than the Capitol itself."

Referring to the extravagant expenditures in connection with the New York Reserve Bank, Senator McLean, Republican, of Connecticut, said (p. 605 Congressional Record):

"I am told this expenditure was made under the authority of the board of directors of the Federal Reserve Banks."

To which Senator Overman replied:

"It was all under the control of the Federal Reserve Board, and if they did not disapprove it they ought to have done so.

"A similar situation seems to exist in every district, as I judge from Mr. Williams's analysis of the whole thing. I hope senators will read his analysis in order that they may familiarize

themselves with the amazing waste of money and the extravagance which has been apparent on the part of the Board." * * *

During the same discussion Senator Overman also said to the Senate:

"That is the question before the Senate, but I wanted to bring before the Senate the question as to the extravagant use of money. I asked for a report concerning the matter, and a report has been submitted admitting the facts. There should be some one on the Federal Reserve Board representing the farming interest. There has been just criticism of the Board, and I hope some good may come from it. I believe the Federal Reserve System is a great system; we could not do without it; but it is necessary that the Board should have the confidence of the people. If, however, they go on and continue spending money in the way they have done in the past they will lose the confidence of the people." * * *

"I trust that this criticism may bring about some reform. I think it is a just criticism."

Senator Norris, Republican, of Nebraska, who took part in the debate, declared very unequivocally:

"I should like to prevent the erection of any of these buildings without the consent of congress if I could and if the amendment is not worded properly it ought to be changed so that it would carry out the intent which we have in mind." (p. 615).

At the conclusion of Senator Overman's denunciation of the extravagance which has been disclosed, Senator Heflin, Democrat, of Alabama, made the following statement to the Senate:

"Mr. President, if my friend from North Carolina will permit me just a moment I desire to suggest that the senator from Connecticut a little while ago reminded the senator from North Carolina that the members of the Federal Reserve Board were Democrats—that is, that they were going under the name of Democrats at the time they were appointed, and I suppose they were Democrats at that time; but I read upon this floor an article from the Washington Times which was printed, I believe, in April of this year, stating that Governor Harding, who is holding his position at the head of that Board, had supported the Republican ticket last fall, and that it was understood that 'the powers that be' were very friendly to him. I do not care whether he is a Democrat or a Republican; that does not enter into this matter. Those who have been intrusted with power over the currency and credit of this country ought to be made to perform their duties, whether they are Democrats or Republicans. If men change their politics in order to suit the incoming administration, that is a reason why they should be removed more quickly, because if they will do that for that purpose, they will also change their policies to please some other powers in this country." * * *

In a speech in the Senate on October 3, 1921, prior to the introduction of the Overman resolution, Senator Heflin had called attention to the reports which were current concerning the gross extravagance and waste in connection with the Reserve Banks; especially in the matter of salaries. During the discussion on that day (p. 6646 Congressional Record) Senator Smoot, Republican, of Utah, said:

"Those salaries that are being paid in the city of New York were never made public until just the other day."

The following discussion then ensued:

Senator Heflin: Congress has the power to limit these salaries. How long since the senator knew that these salaries had been so greatly increased?

Senator Smoot: "I think it was about two weeks ago."

Senator Heflin: "Has the senator made any protest to the Federal Reserve Board?"

Senator Smoot: "I certainly have."

Senator Smoot closed his discussion of the subject that day with the following plain categorical statement (p. 6646):

"I do not think there is any dispute as to the salaries being paid; I have not heard of it, and I think there will be an effort made to see that these salaries are not paid in the future."

The following extracts are from statements made by Senator Heflin during the discussion in the Senate on December 19, 1921:

"For months and months prior to 1920, before a change came over the spirit of the dreams

of the Federal Reserve Board, the board functioned properly, and I wish to say a word of praise for it from the time it was appointed up to 1920. In 1920, however, it failed to function properly; it ceased to be of value to honest banking business in America, and, consciously or unconsciously, became the obedient servant of Wall Street." * * *

"The conduct of the Federal Reserve Board for several months past has been miserable, inexcusable, and indefensible. It has been criticized and condemned by farmers, merchants and bankers and others all over the country, and its conduct will go down in the history of this decade as a crime against agriculture, commerce and honest banking in the United States." * * *

"There can be no sound defense of that Board's deflation conduct, and I do not know why the President continues to hold it in power." * * *

"The cattle industry of the United States has been prone upon the ground by this policy. The cotton industry of the south is prostrate today, and cotton is selling below the cost of production; yet the Federal Reserve Board officers sit back and fan themselves in their comfort and put up a marble temple, a banking institution in one city costing nearly \$30,000,000. What right had they to raise the discount rate from 3 to 7 per cent and accumulate that money—take it away from the poor, struggling industries of the country and hold it, and then dish it out to build a marble banking temple in New York, with its bronze doors costing \$25,000 each, and increasing the salaries of that bank's officials? My good friend, the able senator from North Carolina (Mr. Overman) told you a little while ago of the enormous increase in those salaries." * * *

"This is such a serious question I do not intend to let any opportunity pass without bringing it the attention of congress, the President and the country. I hope that some time he will wake up to a full realization of just what is going on as a result of the destructive policy of the Federal Reserve Board. I do not know who is advising the President, but I know that the President must take the responsibility. He must bear it. We are entitled to lay it at his door. Speeches have been made in this body time and time again, and some in the other branch of congress, in criticism of the Board. NOBODY HAS EVER DEFENDED THE CONDUCT OF THIS BOARD; NOBODY CAN DEFEND IT."

COMPARISON WITH LORD BRYCE'S DESCRIPTION OF THE "TWEED RING"

A number of letters which I have received compare the extravagance and waste displayed in connection with the New York Reserve Bank's \$25,000,000 banking palace with the days of the Tweed scandal in New York City. One gentleman of exceptionally high standing, a man of affairs and large experience but whom I have never met, wrote as follows:

"If you think the Tweed Ring in their days and ways was any comparison with the Federal Reserve Board transaction, you misapprehend the size.

"I lived in those days, and I remember their sensations, which were tame when compared with these.

"If only the same men who got after Tweed could get after these, they would prove an ornament to the generation and have a life estate that would perpetuate the recollections.

"Then the sufferance was in one state, confined to the city of New York; now the dominion is vast, broadcast throughout the United States."

Upon receipt of his letter I looked up the history of the notorious case to which he referred. Viscount Bryce in "The American Commonwealth" gives a vivid and illuminating account of the operations of the so-called "Tweed Ring" in New York in 1870-1871. After giving instances of corruption, reckless prodigality and wild extravagance and waste, he says:

"But all the other financial achievements of the ring pale their ineffectual fires besides those connected with the erection and furnishing of the County Court House."

The amount which had been expended on that building, he says, "was variously estimated from \$8,000,000 to \$13,000,000."

The astounding fact has now been established that the Federal Reserve Board and the New York Reserve Bank have apparently sanctioned the expenditure for elaborate and costly banking quarters in New York of more than \$25,000,000, OR TWICE AS MUCH AS THE AMOUNT ALLEGED TO HAVE BEEN EXPENDED BY THE NOTORIOUS TWEED RING IN THEIR ORGY OF EXTRAVAGANCE FOR THE COUNTY COURT HOUSE IN NEW YORK CITY, and in comparison with which Lord Bryce said: "All