

THE BANKING AND FINANCIAL POLICY OF THE WILSON GOVERNMENT

Kensaburo Shinkawa

When the Federal Reserve Act was enacted in 1913 by the Wilson government, it was generally considered that the act was a result of the anti-monopoly movement of the Progressives and intended for public control over the banking community. Though this understanding was proper in some respects, however, the banking policy of the Wilson government was in substance never contradictory to banking interests. Far from resisting any reform programs, the banking community took a positive part in the emergence of the Federal Reserve System. First, the necessity of banking reform was well recognized by bankers themselves, who in reality asked for some measures to reconstruct the banking system. Second, the banking community played an important role in working out reform plans and in the process of their legislation. Third, despite external public control, banking interests occupied a dominant position in the new banking system and managed to establish close connections with the government. No matter what critical opinions banking spokesmen expressed about details of the reform program, it was proper that the Federal Reserve System should meet much of bankers' demand, for the major aim of the Wilsonian policy lay in a sort of rationalization of the banking structure.

In addition, the Wilson government innovated an epoch making policy to stabilize American economy, that is, the utilization of government funds in favor of certain private interests. Having long suffered from shortage of capital, some of American industries and

agriculture asked for government financial aid. Though it did not mean that the whole financial basis of American economy had been in an emergency, the Wilson government decided to start financial intervention, which was thereafter to increase in importance to become a factor indispensable to the continued existence of American capitalist system. Of course, the financial role of government was not a new phenomenon in the Wilsonian era; state governments, for instance, played an important part in capital accumulation for such key industries as railroads in earlier years. But government financial function in the modern economy was different in character from the former one in the sense that it was made necessary, not due to the shortage of funds on the stage of capital accumulation, but as a result of maladjustment of economic structure notwithstanding capital abundance or a general crisis of the economic system itself.

From such a point of view, I made a brief survey of the Wilson government's banking and financial policy in this paper. Together with the measures to regulate industries, which I discussed in another paper, it formed the keynote of the Wilsonian economic policy and exerted a great influence on the subsequent development of institutionalized connections between government and business interests in American society.

I

Central banking and the concept of positive credit policy were so far essentially absent in the United States. The banking system, which issued part of the circulating currency as well as holding deposits, had been subject to intermittent crises and ensuing waves of liquidation and depression. In addition, a defective exchange and transfer system and insufficient banking machinery for the federal government had made the weakness of American banking structure more serious by the early 20th century.¹

Despite such a defective condition, banking interests grew to put many industries under their control. The concentration of power in a small group of financial community developed to such an extent that the Pujo committee, a Congressional committee which investigated the financial and monetary conditions in the early 1910's, insisted on the existence of a "money trust" whose lines of control ran out from New York and Boston to practically every major financial and industrial center in the country.² The power of a "money trust" was clearly shown on the occasion of the financial crisis of 1907, when the country was apparently saved from still more disastrous panic mainly by the pooled efforts of a few dominant private financiers headed by J. P. Morgan.

Another remarkable feature of the banking development was, however, the rapid growth of generally small state banks. While national banks increased from 2,239 to 6,893 in number and \$447 million to \$934 million in capital between 1882 and 1909, state banks increased from 973 to 11,319 and from \$94 million to \$322 million respectively during the same period.³ Such a great increase of weakly capitalized state banks and to a less extent national banks not merely caused the wide distribution of minor banking centers, but also formed a basis of weakness in the American banking structure. This trend of decentralization, which paradoxically developed parallel with the concentration of power in Wall Street, made necessary the establishment of some centralized banking system to control effectively the whole structure, but at the same time brought about politically strong banking groups which would take a negative attitude or oppose the centralization of a banking system controlled by a powerful "money trust," thus causing serious disunity in the financial community.

The panic of 1907 exposed the defects in the nation's banking structure, and bankers were more aware of the fact than anyone else. Though the majority of bankers regarded some type of centralization of decision-making and greater elasticity of currency

as necessary, their opinions were divided on concrete measures to the end. As a result of such a division of opinions and immaturity of concrete plans, some banking interests expressed their opposition to unsatisfactory legislative action, as the American Bankers Association did to the Aldrich bill and the Fowler bill amending the national banking law in 1908, effecting the failure of their passage in Congress.⁴ Such an opposition of banking interests toward Congressional bills might have given the impression to the public that the bills had been "progressive" in character, but it was the banking community itself that was most aware of the necessity of reforming the existing system and that exerted an influence on the legislature to attain favorable measures. Its success in opposing unfavorable bills rather showed how powerful organized banking interests had been or what effective pressure they could put on the political process.

The American Bankers Association, which was organized in 1876, had managed to consolidate its machineries for political action by that time. In 1902 the Association appointed a Currency Commission to study the need for greater elasticity in the currency system, and in 1905 the Federal Legislation Committee was created to give special attention to the analysis of the various bills before Congress with a view to defeat adverse banking legislation or to encourage passage of bills deemed satisfactory. Moreover, the Association directed the Currency Commission to investigate in cooperation with the New York City Chamber of Commerce all plans submitted for the enactment of a bill on currency problem. Through such committees or commissions, the Association kept contacts with Congressmen, keeping watch on political process and on some occasions even presenting its own proposals to the legislature.⁵

In response to the panic of 1907, Congress in the end adopted the Aldrich-Vreeland Act in 1908 as a sort of compromise measure among various opinions. While authorizing national banks, acting in groups, to issue additional bank notes in an emergency, the act established a National Monetary Commission which was expected to

conduct an extensive investigation of banking system and submit reform proposals for its further improvement. Senator Nelson W. Aldrich, the head of the Commission, remained the key figure in the politics of banking reform. After studying intensively the banking system in Europe, the Aldrich Commission offered its report and recommendations to Congress in 1911 and 1912.⁶ Banking interests and the business community in general had the unanimous view that financial reform was urgent, but the publication of the Aldrich report revealed a profound divergence about the character of the basic banking structure the country should adopt, particularly over the degree of concentration of power. There existed two main ideas, a regional banking scheme and a central banking system, both of which had widespread and influential supporters among banking groups.⁷ Regional banking centers were already implicit in the clearing house movement which had developed for the past years. A central banking system was also widely appreciated, though its advocates were conscious of the need to avoid the appearance of Wall Street domination. In any case it seemed necessary to find a compromise plan between these two schemes or to combine them in some form.

In working out his plan Aldrich had close contact with key New York bankers such as Paul M. Warburg of Kuhn, Loeb & Co., Frank A. Vanderlip of National City Bank, Henry P. Davison of the House of Morgan, and Charles Norton of First National Bank. Above all, Warburg was an influential figure as an advocate of a comprehensive reform plan. While recognizing the necessity of centralized banking structure, Warburg proposed to create twenty regional banking associations under a central bank board in Washington in due consideration of regional banking centers.⁸ Though the central bank board was expected to have broad authorities over regional banks and on such matters as discount rates and notes, his plan showed a concession to advocates of regional banking scheme with the proposal of creating regional associations.

The reform plan which Aldrich worked out through his conference with the above-mentioned bankers was in principle similar to Warburg's plan. It provided for one great central bank in Washington, the National Reserve Association, with fifteen branches in various regions. The branches were controlled by private banking interests and were to elect the majority of board members of the National Reserve Association. The number of representatives from each region was strictly limited in order to eliminate the possibility of Wall Street control over the central bank. The plan also provided for elastic currency and broad authority for the central bank.⁹ While correcting most defects of the existing banking structure on a basis of centralized system, the Aldrich plan appeared to embody a possible compromise between central and regional schemes, which would be vital to the success of any reform program.

Immediately after the publication of the Aldrich plan, a Business Men's Monetary Conference, sponsored by the National Board of Trade, gave it full endorsement. The backers of the plan moved to create the National Citizens' League for the Promotion of a Sound Banking System as a propaganda machinery for the proposed reform plan. The League was established at Chicago and, enjoying freedom from the Wall Street influence, set about a big campaign for enlightenment on banking reform under the leadership of J. Laurence Laughlin, a leading academic advocate of banking regulation, and such influential Chicago bankers as George M. Reynolds and James B. Forgan.¹⁰

After suggesting some amendments on details, which were later incorporated into Aldrich's revised plan, the Executive Council of the American Bankers Association supported the Aldrich plan, and in rapid succession 29 out of the 46 state bankers' associations passed resolutions endorsing it. Furthermore, in the fall of 1911, the Association membership gave in resolution form its unqualified approval to the plan as revised, calling for the establishment of a cooperative agency of all the banks to be known as the National

Reserve Association of the United States.¹¹

At least in the beginning, therefore, most reform-minded bankers endorsed the outlines of the Aldrich plan, and it seemed to have majority support from the banking community. In Congress, however, Democrats and "progressive" Republicans, who had the majority power, had cried out against privileged money interests by 1912. In such a climate it was impossible for any program associated with Aldrich and Wall Street financiers to pass Congress, and bills based upon the Aldrich plan died one by one in committee, though the plan did not propose the complete centralization of banking system nor the control of Wall Street interests over other regions. Consequently, a banking reform plan was to be remoulded under the Wilson government, whether it was really different from the Aldrich plan in its substance or not.

Banking interests thus had close connections with the architects of the Aldrich plan in the whole process of initiating, working out, and publicizing it. The conflict over banking structure, particularly over the degree of its centralization, was based upon division of opinion within the banking community itself rather than upon the public struggle against a dominant financial group. In attacking the plan as a Wall Street program despite its character of compromising divided opinions among bankers, there appeared a new problem. It was concerned with some form of governmental control over the banking system. On this point the Aldrich plan was designed to allow banking interests to control not merely regional banks but the central bank as well, but private control over the central bank was considered to mean the domination of "money trust." To achieve a successful banking reform in the "progressive" climate of opinion, state intervention in the form of governmental control over the central bank had to be incorporated into the scheme.

II

As Woodrow Wilson had practically no knowledge about the banking problem, Congressional committees and a group of men who had been connected with banking reform movement for the past years took a leadership on the matter.

The House Banking Committee had been divided into two subcommittees: one, headed by Carter Glass, was in charge of drafting a reform bill, and the other, headed by Arsene P. Pujo, was engaged in the sensational investigation of "money trust." These two subcommittees symbolically represented two factions within the Democratic Party. Though both of them expressed firm opposition to the Aldrich plan, Glass represented a conservative group which intended, if possible, to work out a compromise plan acceptable to banking interests, while the radical group stood by the Pujo Committee and took an offensive attitude against the money power, insisting on governmental control on banking. The problem for the Wilson government was thus of a dual character: to find some middle road between banking interests which appeared to have approved the Aldrich plan and anti-Aldrich Democrats in general, and to adjust the opinions of a conservative and a radical group within the party.¹

As an ardent foe of the centralized banking structure, Glass intended to establish such a loose and decentralized system of reserve banks that no regional banking group, particularly of Wall Street, could become dominant. Assuming that the creation of a central bank would bring about the perpetuation of Wall Street control of credit resources and money supply, he stood against any central scheme. Though the Aldrich plan was not a purely centralized system but a combination of central and regional schemes with the precautionary measure to avoid at least in form the dominance of any region, Glass was different from the architects of the plan in the sense that he opposed the idea of a central bank itself. As bankers themselves were divided between centralism and regionalism, this did

not mean that Glass's position was contrary to all banking interests. With regard to the problem of governmental control, however, Glass was in accord with the opinion of banking interests in general. He was opposed to government's complete control over banking, for bankers would be most experienced in conducting financial business and, even if any central board was created, they should be allowed to have representation in it. In short, Glass was partly against and partly for the idea of major bankers who promoted the Aldrich plan.²

Lacking technical knowledges of banking himself, Glass hired as assistant H. Parker Willis, an economist and J. L. Laughlin's former student, and through the channel of Willis he necessarily had close contact with Laughlin and the National Citizens' League's plan, which was a combination of central and regional associations and in substance parallel to the Aldrich plan, though.³ Meanwhile, frequently consulting with major bankers such as Forgan, Reynolds, and A. Barton Hepburn, Willis and Laughlin completed tentative drafts of a bill, which proposed a privately controlled banking system in many aspects similar to the Aldrich plan, but provided for a more decentralized structure without a central bank due to Glass's firm opposition to it. Even when Laughlin suggested in its place a central Treasury Board which would have the central bank's function and in which banking interests would have just minority representation, Glass did not allow the proposal to be incorporated in the final draft.⁴

When Glass and Willis met with Wilson on December 26, 1912, to discuss banking legislation, the draft presented by them included such provisions as "organization of a certain number of regional reserve banks of specific capital with a view to decentralizing credits, . . . the issuance by the regional banks of federal reserve notes based on a gold and liquid paper cover, . . . committing to the Comptroller of the Currency at Washington full supervisory power over the reserve system."⁵ This was a plan for a highly

decentralized reserve system, privately controlled yet publicly supervised without a central board. To Glass's surprise, however, Wilson wondered whether the Comptroller's supervision would provide sufficient coordination and control, and proposed the creation of a federal reserve board as the capstone of the whole system which was to perform the function of a central bank. In Wilson's view, a true central bank was probably the best solution, but he recognized that "such an organization was politically impossible even if economically desirable. . . ." ⁶ Probably this opinion of Wilson hit the point of the dilemma into which most "progressive" Democrats had fallen. The creation of a central board was, after all, the best possible solution. Though discontented with Wilson's unexpected proposal, Glass set to work with Willis to draft provisions for a central mechanism.

Without committing the incoming administration to any definite plan, Glass also held hearings before his subcommittee from January 7 to February 17, 1913. Outstanding bankers took advantage of the opportunity to express their views. The hearings plainly showed that it was the bankers themselves who needed some sort of reform of banking system and that they were willing to support almost any bill that would improve the existing situation, though they might criticize some technical details. For example, Hepburn assured the Congressmen that the American Bankers Association would cooperate on any measure to achieve an elastic currency based upon commercial paper. Warburg stressed that the Aldrich plan was not the only possible method to solve the banking problem. Reynolds also implied that he would accept the reserve system with regional branches and some central overseeing board, promising the cooperation of the American Bankers Association on any legislation to this end. A perfect bill would be impossible to draw up, but what they needed was something in the right direction that would improve the present situation. ⁷

In the meantime Glass and Willis completed a revised draft by

the end of January and presented it to Wilson. While much similar to the previous one, the new draft had one important innovation, that is, the creation of a Federal Reserve Commission to supervise the whole system, composed of six public members and three bankers elected by the regional banks. It was a combination of regional system and a central controlling board on the basis of Wilson's proposal. Banking interests were allowed to have minority representation in a central body, while regional banks held a large measure of authorities. Wilson approved this draft.⁸

Glass and his associates continued to maintain communication with key bankers, though they attempted to keep the details of the bill secret. The attitude of the banking community in general seemed to be favorable for the Glass plan. In addition, Colonel House, who had played a part of another major channel between Wilsonians and business society, met Vanderlip, Morgan and other bankers to discuss banking reform. The outline of the bill also leaked out to the financial community through House. Despite occasional complaints, many influential bankers appeared to support a regional reserve plan with a central controlling board.⁹ By the beginning of May, when Glass completed the final draft of his bill, he had become convinced of the banking interests' cooperation and support. Subsequent struggles concerning the reform measure were caused by division of opinions within the Democratic Party itself.

First, there emerged a confrontation between Glass and Secretary of the Treasury William G. McAdoo, when the latter came forward with an entirely new plan in mid-May. Influenced by the radical wing of the Democrats demanding outright governmental control over banking system, McAdoo proposed to organize the reserve system as an adjunct of the Treasury Department by creating a National Reserve Bank with far greater centralized power than the Glass bill provided for. Samuel Untermyer, who had been the attorney of the Pujo Committee, supported the plan.¹⁰ While the McAdoo proposal thoroughly frightened bankers, Glass on his part

appealed to his banker friends for support against the idea of a government bureau bank in the Treasury Department. The crisis over the plan was to end in defeat for McAdoo in early June mainly because such influential bankers as Reynolds, Forgan, Hepburn, and Edmund E. Hurbert stood behind Glass. Above all, Glass wrote a letter to Hubert, expressing his profound gratitude for the banker's comment on the plan Glass used in persuading Wilson to support him.¹¹

The second internal division was much more serious. It was concerned with the choice of members of the federal reserve board and bankers' power on money supply. In the Glass bill, essentially a decentralized version, control was balanced rather in favor of private bankers than the government, and regional banks were to issue Federal Reserve currency and be liable for it. The radical wing of the Democrats demanded exclusive public control of the system and government issue of and liability for the currency. Chairman Robert L. Owen of the Senate Banking Committee proposed what might be regarded as radical amendments, insisting that the government should choose all the directors of the Reserve Board and that the notes issued should be the obligation of the U. S. government. It meant a great increase of public control over the banking system, excluding bankers' representatives from the central body and taking control of the regional money supply out of the hands of private banks.¹² The Owen amendments seemed to throw into chaos the architects of the Glass bill and its banker supporters, whether the amendments might really have effects much different from the Glass plan or not.

The conflict coming to a deadlock, it fell on the President's shoulders to pass decision. On June 18 Wilson met with Glass, Owen and McAdoo, and this time Glass failed to secure Wilson on his side. Federal Reserve notes were decided to be the obligation of the government. Bankers' representation on the Board was also rejected. These revisions of the Glass plan, Wilson understood,

were the minimum that would satisfy the radical wing and therefore necessary to save the plan itself. Glass had no choice but to change his measure as Wilson directed.¹³ Despite the radicals' seeming victory, this solution was nothing more than an apparent compromise between them and banking interests represented by Glass. Though Wilson's decision on the membership of the Board fulfilled the desire of Owen and McAdoo, they won just a doubtful victory in the dispute over the more important aspect of the character of Federal Reserve currency and who was to control it.

What the radicals really wanted was the issuance of paper money, backed only by the government's promise to pay, to be completely within the discretion of public officials. In this respect they failed to change the character of Federal Reserve money, for the notes still remained in essence bank money, which would be issued by the Board for the regional banks against commercial assets and gold, and which the regional banks would be able to redeem. Under this new system, therefore, initiative in determining the supply of Federal Reserve currency still rested with the regional reserve banks and their member banks, not with a public agency.¹⁴ Both Glass and Wilson understood well that it would be almost meaningless to make the Federal Reserve notes the obligation of the government in the revised bill. Glass pointed out that this "is not, in truth, any government obligation," but "would be a pretense on its face," for the notes were to be "based primarily on the property of banking institutions." The President agreed with Glass, maintaining that "the government liability is a mere thought," but he indicated to Glass the political meaning of this economic nonsense when he said, "if we can hold to the substance of the thing and give the other fellow the shadow, why not do it, if thereby we may save our bill?"¹⁵

From this standpoint, Glass clarified the real character of the new amendments before bankers and businessmen at the New York Economic Society in the following words:

To those who advocate government issue, it may be said we have it here in terms, with discretion in the Reserve Board to issue currency on application or to withhold. To those who contend for bank issues, as I do, we may say that, in the practical operation of the system, you have it here; because only upon application of a bank can the government issue.

Thus his conclusion was that "we have yielded to the sentiment for a government issue, but retained the substance of a bank issue."¹⁶ This was the outcome of the struggle between the Glass and the Owen groups.

Having settled the internal disagreement, Wilson went to Congress on June 23 to open the administration's campaign for banking legislation. After pointing out the necessity of elastic currency and a sound credit system, each of which was in accord with bankers' requests, the President emphasized the "progressive" aim of the reform program that "the control of the system of banking and of issue which our new laws are to set up must be public, not private, must be vested in the Government itself, so that the banks may be the instruments, not the masters of business."¹⁷

Meanwhile, Wilson, Glass, and Owen worked to prepare the final draft of the bill on a basis of their agreement. Under the pressure of banking interests, however, further concessions were made to them before completing it. Those three figures and McAdoo held a conference with such bankers as Reynolds, Festus J. Wade, Sol Wexler and John Perrin, who represented the Currency Commission of the American Bankers Association. In response to the bankers' suggestions, they changed the provisions of the bill concerning the retirement of national bank notes and the regional discount rates in favor of banking interests. But the major demand of the bankers was representation on the Federal Reserve Board. On this point Wilson flatly refused their request, though at least two of the

five appointed board members were required to have banking backgrounds. As compensation to the bankers for denial of representation on the central board, instead Wilson requested Glass to set up a Federal Advisory Council, to be composed exclusively of bankers and authorized to sit at times with the Federal Reserve Board in an advisory capacity. This was the largest concession Wilson would make. The Council was expected to serve as a liaison between the Board and the reserve banks. Following this conference with bankers, Glass and Owen introduced identical Federal Reserve bills in the two Houses on June 26, 1913.¹⁸

The proposed bill was thus a compromise plan in two ways, first, between the central and the regional schemes on a common basis of bankers holding strong power over the system, and, second, between the advocates of governmental control and private interests. The bill, therefore, necessarily suffered denunciation by both spokesmen of banking interests and by rank-and-file radicals in Congress. While the criticism from the former might have given the impression to the public that, contrary to the reality, the reform measure was designed for government control over banking in complete defiance of banking interests, the administration's rejection of the latter's demands indicated the plan's rather conservative character.

Ominous rumblings from radicals in Congress embarrassed Wilson much more than bankers' criticism. They attacked the Glass bill as virtually identical to the Aldrich plan and as in the interest of only the creditor classes. Their key demand was that the administration should attempt first to destroy the vast complex of interlocking financial and corporate directories before it set out to reform and intensify the banking system.¹⁹ In addition, the radicals denounced the proposed bill because it provided for private control of the regional banks and so would create a perfectly organized financial trust operating under governmental protection. The provision for asset currency also underwent severe attack, for it would make government's complete control over money supply impossible.

Besides these important criticisms, they complained that the bill did not make any explicit provision for rural credit and disregarded farmers' interests.²⁰

These radical demands of agrarians were not acceptable to the Wilson group. Faced with the radical revolt, the President and Glass used every possible manuever to save the bill. By promising the inclusion of a provision for interlocking directorates in any future antitrust law and by adopting rural credit only in very moderate terms, they managed to defeat most demands of the radicals. Furthermore, the establishment of a Federal Advisory Council was approved to make the bill more favorable for banking interests. After ardent discussion on the House floor, the bill passed the House on September 18.²¹ Neither the "class" character of the bill nor its provisions enabling bankers to create systematically financial oligarchy with government's approval, as the radicals considered, were revised at all. This round of the struggle was as serious defeat to the radicals as that which banking interests had suffered in the previous round.

As the discussion in Congress proceeded, to Glass' embarrassment, many spokesmen of banking interests set out to criticize the bill in order to gain more concessions or to regain what they had lost in the process of compromise. Of course, bankers were not opposed to the creation of the new reserve system itself; their criticism was concerned only with some specific aspects of the bill, whether important or not. Nevertheless, as government control was a key innovation, their critical attitude against the provision appeared to be a fundamental disagreement. Critical articles often appeared in journals of financial circles and even in leading newspapers. Above all, the American Bankers Association's failure to endorse the bill gave the impression of bankers' general disagreement. The Association held a meeting at Chicago together with representatives of all state bankers' associations and many clearing house associations. While rejecting total opposition to the Glass bill, the

conference endorsed amendments which were so sweeping in scope as to include the establishment of a central federal bank, the reduction of the number of regional banks to five, the representation of banking interests on the Federal Reserve Board, and bankers' control over the money supply.²²

Judging from subsequent developments, however, bankers' proposal of these amendments were largely intended as a maneuver to drive as many bankers as possible behind the reform plan, to establish a favorable position in gaining further concessions in the process of Congressional discussion, and to make it easier for Congress to pass the bill over the radical's criticism, for the more banking interests were forced in the end to give up their demands, the more the proposed bill would appear to be unfavorable to money power and so "progressive" in character. Despite all its apparent criticisms of the bill, the most significant fact was that the banking community was virtually unanimous in its belief in the need for banking reform and would be willing to accept any measure to improve the existing situation.

Under these circumstances the deliberation of the banking bill followed a thorny path in the final round of the Senate. Bankers as well as radicals continuing to criticize the bill, the hearings dragged on for nearly two months. What made the situation even more confused, Vanderlip proposed a plan providing for the establishment of a Federal Reserve Bank of the United States with twelve branches which would perform central banking functions and for the exclusive control by the government over both the central bank and its branches.²³ This was in a word the idea of creating a central banking system as proposed by the Aldrich plan while approving intensified public control even over regional banks as concession to the radicals. The Wilson administration of course stood firm against it. Yet some New York bankers appeared to prefer the Vanderlip plan to the Glass bill, and it might be possible for the banking community to split up between the two plans.

Faced with this depressed situation, Wilson and Glass again used every tactics possible to secure bankers' support to the Glass bill and defeat the central banking scheme under complete governmental control. In fact the Vanderlip plan was the very opposite of Glass' original plan as to both these two aspects. Glass plainly warned bankers at a meeting, "If legislation now is postponed until the public is goaded by another panic, you may rest assured that the resulting legislation will be more radical . . . than that contained in the present bill."²⁴ The logic of his argument was compelling and obvious. As Congressional discussion dragged on, important bankers stopped playing coy and aimed directly at a victory for the Glass bill. By the end of November, the direction of bankers' sentiment was thus overwhelmingly favorable for it. Under the pressure of the administration, the situation also changed rather suddenly in the Senate when, recognizing that Wilson would make no more concessions, the radical leaders yielded to him in early December. As a result the Senate passed the bill, and after the conference of the two Houses the President signed the banking reform measure on December 23, 1913.

III

In the process of establishing the Federal Reserve Act, banking interests almost constantly assumed a critical attitude, which gave Wilson the politically desirable effect of strengthening his "progressive" character in the public image. This was rather a natural phenomenon which would happen in almost any case when direct state intervention was newly introduced to the privately controlled system in the form of institution. Opposition to such state intervention might be caused by suspicion and fear of private interests on government's role, or by their intention of acquiring as favorable conditions as possible, or concerned with their sense of prestige. In any case

the most important factor would be probably a time lag before private interests understood the real character of state intervention through their experiences of profitable results owing to government's function. The case of banking reform was not an exception. Assuming that banking interests really intended to attain the amendments they had presented, the result of their struggle clearly meant a defeat. Nevertheless, bankers achieved their long entertained aim, for the new banking system would solve many problems which they had suffered. Moreover, the radicals, having failed to realize their plans to take even more power out of bankers' hands by providing for larger public control, left to banking interests a large scope of authority in conducting the Federal Reserve System.

What made bankers' opinions so critical and even antagonistic toward the bill was the style of state intervention. The original and most desirable plan of banking interests was to create a more or less centralized system, whether based upon the central or the regional scheme, with the help of governmental power but without governmental control in institutionalized form. In other words, banking interests needed state intervention on one point, but did not favor government's function on the other point, which appeared to them unnecessary or harmful without regard to its real effect. The main source of bankers' complaints was that, under pressure of strong public sentiment against money power, the government was forced to institutionalize state intervention by establishing a government board to control banking interests. In this respect, however, it was noteworthy that state intervention was never intended to break down money power or trust, despite the well publicized investigations of the Pujo Committee, but only to regulate it. The government was to exercise its new function merely to rationalize the banking structure within the framework of the existing system. From this standpoint, the realization of the reform plan meant, in the most fundamental sense, a victory of banking interests in general. The next object of bankers was how to make the most of

the newly established system of state intervention for the sake of their interests.

Once the bill was enacted, the response of the banking community during the formative period of the reserve system was overwhelmingly favorable, in striking contrast to its earlier criticism. Within one month after the enactment of the law, national banks accounting for three-quarters of their total capital applied for admission to the reserve system, including nearly all the large banks in major cities. A remarkably increasing number of state banks and trust companies applied for national charters in order to join the new system.¹ Such a phenomenon would tell more clearly where the real intention of banking interests lay than their numerous complaints for the past months.

Furthermore, bankers were aware that the character of the Federal Reserve System would depend to a great extent upon the policy of administrators. The Federal Reserve Board was to consist of seven members, two of whom were ex-officio members from the administration. At least two of the five appointees were to be persons experienced in banking or finance, though none could be a director or stockholder of a bank while in office. The selection of the Board members was left largely in the hands of Colonel House and, to a lesser degree, Secretary McAdoo; both of them sought the advice of influential members of the banking community. While McAdoo insisted upon the appointment of men who would work with him to check Wall Street control, House fought for the appointment of the members which would win the confidence and cooperation of banking interests.² President Wilson not only agreed in principle with House but suspected McAdoo's political ambition over the Federal Reserve System. To great disappointment and resentment of "progressives," the Board members were selected and appointed under the dominant influence of House and of banking interests after some turns and twists. The most important of them was Paul M. Warburg, who had been an ardent advocate of the Aldrich plan and

represented New York banking interests. Thomas D. Jones, a director of International Harvester, and Frederick A. Delano, a railroad administrator and former director of the National Citizens' League, also reflected the interests of the banking community. The other two were an economist and an attorney. Thus the banking community and those close to it succeeded in securing a powerful stronghold within the Federal Reserve Board.³

In the Federal Reserve Districts, influential bankers also obtained many crucial positions. Particularly in Chicago, Reynolds and Forgan, who had been both strong proponents of banking reform and closely connected with its realization, were elected as Class A directors. More important to the whole reserve system was the appointment of Benjamin Strong to the governorship of the New York Reserve Bank. He was the president of the Bankers Trust Company and a director of many banks. Though an advocate of the Aldrich plan, Strong determined like Warburg to make use of the new system, and took the leadership of the most important bank district due to the strong requests of Warburg and Davison. Strong's policy in New York was to have an almost decisive influence on the subsequent development of the whole Federal Reserve system.⁴ In addition, banking interests had another useful body to exert their influence upon the Federal Reserve policy. It was the Federal Advisory Council exclusively composed of representatives of bankers. Such key bankers as J. P. Morgan of New York, Forgan of Chicago, and D. C. Wing of Boston became members of the Council.⁵

The machinery of the Federal Reserve System was thus organized and started to function. Banking interests were generally satisfied with the results. State intervention would not mean outright control by the government over bankers, but its actual character would be formed through the relative relationship of power between government and banking interests. In this respect, the Wilson government failed to check the concentration of power in financial circles, and bankers not only had influential representatives inside

the governmental body but also maintained a large scope of authority in the regional banks, managing their own regulation under the aegis of the federal government. It might not be too much to say that state intervention was rather formal in its character, and that bankers held control in substance over the system, to the great advantage of banking interests. While bankers thought that "There will be no further panics due to a bad currency system. Business will not be stifled by a defective banking scheme,"⁶ however, the bankers' possession of dominant power actually was a serious weakness in the new system and proved to cause another financial crisis later, making it necessary to reconsider the degree of state intervention in the banking structure.

IV

In the Wilsonian era the government set about another important state capitalist undertaking to meet the demands of some economic interests, particularly under the impact of World War I. There existed a number of economic sections which had been troubled with a weak financial structure as a result of maladjustments in the capitalist economy, and the Wilson government resorted to "financial intervention" to cope with the situation.

As American agriculture became conducted on a large commercial scale, financing farmers necessarily constituted a major phase of the farm problem. Though agricultural difficulties which caused the Populist movement in the 1890's seemed to disappear under prosperous conditions thereafter, the problem of rural credit was never solved. On the contrary, the more agriculture was commercialized, the more farmers became dependent upon capital financing. The problem was brought out first by the Country Life Commission, appointed in 1908, which pointed out that agricultural difficulties were caused by "a lack of any adequate system of agricultural credit." A system of cooperative credit, it suggested, would prove

of great service. President Taft took interest in the problem and instructed American agencies in Europe to gather information of various rural credit systems there.¹ The findings and recommendations were published in 1912, and Taft expressed a favorable view, holding a special conference with the state governors on the subject.² By the Wilsonian era thus rural credit had been a matter of great concern and preliminary plans for a government-sponsored rural credit system had been presented.

Though Wilson at first did not have any defined program on this problem, he understood that the agricultural problem was essentially a matter of providing credit in rural areas and looked to banking and currency reform to solve it. When the Federal Reserve bill was under consideration, Wilson pointed to "the urgent necessity that special provision be made . . . for facilitating the credits needed by the farmers" so that they might "make their credit constantly and easily available."³ However, his rural credit program was different from the preliminary reform plans as proposed by the Taft administration, for Wilson attempted to solve the problem without establishing a cooperative credit system under government's sponsorship but simply by means of the institutional reform of banking system. With the doctrine of "special privileges to none," this might be as far as Wilson would go despite his awareness of the shortage of rural credits. Consequently the first result of Wilson's rural credit reform was incorporated into the Federal Reserve Act, which mitigated the terms of reserve banks' short-term rural credit.⁴ Thus avoiding direct state intervention in financing agriculture, this policy meant a retreat from the government sponsored credit plan.

Though Wilson boasted that "the Federal Reserve Act itself facilitates and enlarges agricultural credit in the extraordinary degree,"⁵ it was immediately shown that the banking reform did little to improve the situation, for, lacking federal financial aid to farmers, the Reserve System failed to dissolve the shortage of loan funds

and did not provide farmers with long-term credit on farm land. It was natural that agricultural interests should not be satisfied with such a rather nominal measure. Their chief objective was the establishment, underwriting and operation by the federal government of a long-term credit system.

In the meantime, reflecting the strong need and desire of agricultural interests for governmental aid, the preparation of cooperative credit system was under way at private and Congressional levels. An official "U. S. Rural Credits Commission" and another "American Commission" sponsored by the Southern Commercial Congress submitted reports embodying their conclusions and recommendations, which were incorporated into the Moss-Fletcher bill introduced into Congress in January, 1914.⁶ Yet they did not provide for governmental financial aid but for the establishment of land banks either as joint stock banks or as cooperative banks operating under the federal charter. While Secretary of Agriculture Houston and President Wilson endorsed the bill, therefore, agricultural spokesmen criticized vigorously it, insisting on direct loans by a government agency or utilization of government's postal saving bank deposits for farmers' sake without first passing through banking channels. As a result of the ensuing deadlock, a second plan was worked out as the Hollis-Bulkley bill. Making concession to the farmer's demand, it not only provided for cooperative credit associations but added a provision requesting the government to furnish the capital of the twelve federal land banks, to purchase their bonds if private interests did not, and to operate the system. This plan was in turn criticized by those who opposed government's intervention in financial business, while those who felt the bill did not go far enough in providing governmental aid threw their support to a third plan known as the Bathrich bill.⁷

The reporting of the Hollis-Bulkley bill set off a significant controversy in the administration, because it pointed up Wilson's limited view of the proper function, particularly the financial role,

of government. The root of the difficulty was that farm spokesmen were convinced any rural credit system without governmental support would never succeed in making farmers independent of private money lenders, while the President was just as strongly convinced the federal government should not engage in this kind of business, as he mentioned, "it is unwise and unjustifiable to extend the credit of the government to a single class of the community."⁸

Obviously threatening a veto of the bill, Wilson's opinion angered farm spokesmen who knew there could be no rural credit legislation at all until the President changed his mind. Far from abandoning the government-sponsored credit plan, they were about to renew their campaign with firmer determination.⁹ Reflecting increasing pressure from the rural sections, Congress made attempts to realize governmental aid program. Facing the President's critical attitude, however, Congressmen fell into confusion as to concrete measures. There were introduced more than forty rural credit bills and amendments, which were varied in the extreme, including government direct loans to farmers from funds obtained by the sale of bonds, organization of land banks by would-be lenders, and establishment of cooperative groups of farmer-borrowers who could secure loans from land banks capitalized by the government. Yet the outstanding common feature of most bills was the awareness that some form of governmental financial aid would be essential to the establishment of any successful rural credit system.¹⁰

So marked was the differences among concrete measures proposed that it was not until the spring of 1916 that Congress managed to secure a compromise plan, which was intended to enable "the farmer to obtain capital for production purposes, at low rates and the long term on the security of his farm." It was fully understood there that "modern farming requires capital in large amounts," and that commercial banks did not appear to be "suited to farmers' long term needs."¹¹ Under the strong pressure of agricultural interests, moreover, President Wilson had apparently changed his mind in favor

of the plan by that time. Particularly important in this respect was the impending presidential campaign. For instance, Frank G. Odell of the American Rural Credits Association plainly warned in early 1916 that "The support of the farmers, which would be engaged by rural credit legislation, is necessary to the Democratic Party" in the coming elections. In the end not doctrine but politics swayed Wilson's decision. Though denounced by "radicals" because it did not go far enough, and castigated by "conservatives" as a dangerous socialistic measure and as class legislation, the Rural Credit bill thus passed both Houses almost unanimously and received the President's approval.¹²

The Federal Farm Loan Act of 1916 took in substance the form of the original Hollis-Bulkley bill. It authorized the twelve federal land bank system with government's financial aid and the joint stock land bank system to be organized with private capital and for private profit. Therefore it was a combination of government and private funds to finance agriculture. The act also provided for the creation of a Federal Farm Loan Board, under whose supervision both land banks and joint stock banks were placed.¹³

The first units of the extensive federal credit system now in existence came into being. Nearly two and one half years had passed since the introduction of the initial bill, when the final measure was enacted. The long struggle to gain it showed not only the power of organized agricultural interests but also its epoch-making significance. The realization of the plan required a basic mental switch of the Wilson administration about government's economic function. Providing for state intervention to dissolve rural credit difficulties, the Farm Loan Act marked the beginning of government's financial role in modern sense. It started with the use of public fund to assist the weakest section of the whole economy with regard to financial structure. To cope with the capital maladjustment under the existing economic system, government's direct intervention in financing was needed, though at first not on a large scale.

The new rural credit system got under way slowly with a rather conservative policy. By 1920 nonetheless farm mortgage credits extended by federal land banks amounted to nearly \$300 million, while joint stock land banks made credits of \$60 million.¹⁴

In harmony with the general program for putting the credit resources available to farmers in more orderly form, Congress moreover passed in August, 1916, a measure known as the U. S. Warehouses Act. Though the measure avoided pulling the government directly into the warehousing business, those farmers who stored products to specially licenced warehouse operators were to get federal warehouse receipts which could be used and were generally acceptable as collateral for bank loans. Therefore, it was a sort of government's indirect assistance to rural financing by means of guaranteed warehouse receipts.¹⁵

Thus Wilson was able to boast his administration's policy of great advantage to agricultural interests. As a result of the Federal Credits Act, he stressed, farmers "now have the standing of other business men in the money market. . . By an intelligent Warehouse Act we have assisted to make the standard crops available as a security for loans from banks."¹⁶

V

The weak structure of rural credits paved the way for government's intervention in the new field of finance. Under the impact of World War I, moreover, the Wilson government was forced to set about financial business as for such transportation industries as shipping, highways and railroads.

Government financial aid to strengthen American merchant marine had been a long standing problem since the 1890's. With its various concessions to maritime interests, Congress always failed to agree to government's direct intervention in financing the business until

1916, when the epoch-making Shipping Act was enacted under the impact of the war. Therefore, the measure was not only an emergency policy for the war period, but had deep root in the weak financial structure of maritime industry, with which profit-seeking private capital could not deal sufficiently.

Confronting with the increasing demand of shipping caused by the war in Europe, it was natural that spokesmen of commercial interests should request more ardently than ever government financial aid to construct powerful merchant marine. They asked for "subsidies from the government sufficient to offset the differences in cost between the operations of American and foreign vessels," and "a subvention to establish regular mail and freight lines . . . to countries in which U. S. commercial interests are important." They also favored "the creation of the Federal Shipping Board" to supervise the industry. As John H. Fahey, ex-president of the national Chamber of Commerce stressed, "in the last analysis, only some system of subvention or subsidy fairly devised, will finally meet" the necessity of American maritime industry.¹

Though business interests were unanimous in demanding for government aid, they appeared to be divided in their opinion of government's purchasing, owning, and operating ships, or rather took a critical view against that type of state intervention. While the president of the national Chamber favored even government's conduct of maritime business, the majority of Chamber leaders expressed their opposition to it.² This complexity of the problem was concerned with the character of state intervention which business interests desired. They needed and requested government financial assistance, but were afraid of a federal enterprise which they could not put under their control.

With the primary intention of encouraging the creation of powerful merchant marine at government's expense, the Shipping Act of 1916 established the U. S. Shipping Board with powers to purchase, construct, lease, maintain and operate merchant vessels.

The act furthermore authorized the Board to establish whatever corporations it considered necessary.³ Accordingly, in 1917, there was created the U.S. Shipping Board Emergency Fleet Corporation, to which was delegated the ship construction program. Avoiding troublesome and controversial policy of subsidy to specific private interests, thus the government was to set about maritime business itself, not merely constructing but owning and operating vessels. During the fiscal years of 1917 to 1921, the Shipping Board and the Emergency Fleet Corporation spent more than \$3.3 billion for this undertaking.⁴

This policy met the most fundamental need of American merchant marine, but it was apparently contrary to the original intention of commercial interests, which did not favor government enterprise in competition with private business. In the long run, however, the measure did not go against private interests. On the contrary it proved of great advantage to them, for the principal task of the Shipping Board after the war was not to maintain government's merchant marines but to dispose of them to private enterprises at prices far below actual cost. "The first thing that we should do is," Edward N. Hurley, chairman of the Board, plainly mentioned, "to endeavor to have a permanent and an efficient merchant marine. And I therefore advocate private ownership." Representing official opinion, he added, "Under government's ownership we would not have a permanent and an efficient merchant marine."⁵

Administration leaders were well aware of the importance of powerful merchant marine in the postwar period. Secretary of Commerce William C. Redfield declared, "America's Freedom of the Sea depends upon her shipping." Bernard Baruch of the War Industries Board also regarded ships "as vitally essential . . . for the great part we are destined to play when the war is over."⁶ For this purpose, it seemed to them, the government ought to transfer ships into the hands of private enterprises. Reflecting such administration's opinion and under the pressure of maritime interests,

Congress enacted the Merchant Marine Act of 1920, which was devoted to the objective of promotion of a privately-owned merchant marine. The act provided for the sale of government's ships in effect at red figures, which enabled maritime interests to enjoy in substance the same benefit as direct subsidy. In addition, as a means of promoting the development of merchant marine under private ownership and operation, it authorized under the administration of the Shipping Board the setting up of a Construction Loan Fund.⁷ This marked another step forward to reinforce the weak capital structure of private industry through the use of the public fund.

Less spectacular yet influential was the federal government's investments in highways. Governmental action in highway development had traditionally been centered in state governments. Though this was not a problem of a "sick" industry, the federal government's commitment to highway construction was also made under strong pressure of the rapidly growing automobile industry. In order to obtain financial aid from the federal government, automobile interests promoted their pressure movement through the American Automobile Association, the American Road Builders Association, the American Road Congress, and the Lincoln Highway Association, whose organized propaganda had assumed an almost national dimension by the Wilsonian era.⁸

Their main contention was that the whole concept of highways must be revised in accordance with the wider use of automobiles, and that without federal cooperation at the top as to both control and financial responsibility any satisfactory highway system could not be accomplished. The growing pressure upon Washington incited Congress to take action, and fifty-odd bills concerning this matter had been in the files of various committees by 1913. But it was not until the summer of 1916 that Congress passed a Federal Aid Road Act. It authorized and appropriated \$75 million over a five-year period for the construction of highways in those states which possessed responsible highway departments. The share of federal

participation was not to exceed 50 percent of total construction costs.⁹ Though the amount of the federal aid approved was not so large, the act was the opening wedge which paved the way for subsequent steady development. Automobile interests attained their purpose.

The war turned the motor vehicle into a weapon which needed a good road and thereby connected automobile interests with the war mobilization. The U. S. Army took a hand in the promotion of the work, followed by the setting up of a Highway Transport Committee. The U. S. Highways Council, representing all the agencies concerned, was also organized.¹⁰ But it was clear that the federal aid to highway construction was intended not merely for the war effort, but the Road Act of 1916 marked the beginning of the new federal function.

Automobile interests actively sought extension of federal aid in the post-war period. A Joint Highway Congress was at work in Chicago, pooling the ideas of officials, industries, and automobile associations. The Chamber of Commerce was ready to endorse a federal highway commission, while the American Bankers Association gave approval to continuance of federal aid. The Southern Commercial Congress also presented a Memorial to Congress requesting an "Adequate Highway Program," insisting that the government should "convert the War Loan to the Allies into a Federal Highway Fund."¹¹ Their activities were rewarded when Congress passed the Federal Highway Act of 1921. The amount of the federal aid was considerably increased to \$75 million a year. Various conditions on which federal aid was given to states were mitigated, making it easier for them to work out extensive highway program.¹²

This new financial role of the federal government had two important implications. First, different from the case of the merchant marine, federal aid was requested not by a "sick" industry but a rapidly developing industry. The government was expected to play a role to meet the need caused by the transportation revolution

in the most capital-consuming enterprise, to which profit-seeking private capital or state governments could not afford to provide sufficient funds. This was certainly different from subsidy to specific private interests, but yet to an extent it had the same effect, for the undertaking had particularly close connections with some industrial interests. Second, financial intervention in road construction offered the federal government a broad field to conduct public works to cope with economic depression, though Congress did not aim at unemployment relief for the main objective of the road acts. Immediately after the end of the war, in fact, a Labor Department official suggested "immediate projection of a National System of Highways as a means of facilitating immediate readjustment of labor conditions." Thus the administration was quick to recognize the feasibility of "highway construction for absorbing labor power."¹³

As the subsequent development of highway projects showed, a large part of road construction under the federal aid was connected with public works to stimulate business recovery.¹⁴ In this sense, providing the government with an important instrument to deal with business fluctuations, the federal financial intervention in this field had a great influence on governmental economic role in the modern capitalist society.

State intervention went further in the railroad industry than in any other field during the war period. By the Wilsonian era the railroad industry had become involved in serious financial difficulty as the natural corollary of unprogrammed growth of facilities. In attempt to establish reasonable rates and wages of railroads, the Interstate Commerce Commission was authorized even to evaluate the carriers' property by the Valuation Act of 1913. However, the measure had nothing to do with the improvement of the financial structure of railroads itself. Recognizing the need of exercising control over railway capitalization, the I. C. C. repeated in vain its recommendations on this point.¹⁵ Railroad credit was so badly impaired and the outlook for recovery so unpromising that at last

President Wilson asked for a Congressional investigation of the entire railroad situation in December, 1915, but it failed to bring forth a countermeasure.¹⁶

American participation in the World War made it an urgent matter to devise an effective railroad policy. To the financial difficulties of the railroads was added the more imperative problem of directing their operation in such a manner that they could effectively meet the tremendous demand for service. Confronting with the shaky condition of railroads, the government was forced not only to change its basic policy line in the railroad regulation, but finally to resort to the most drastic action of government operation.¹⁷

First, a Railroads' War Board was organized for the purpose of bringing about the coordination of all the railroads, submerging competitive differences and operating all the lines as one great continental railway system. This was a remarkable departure from past policy. Though the plan was meritorious and doubtless represented the desires of railway management, it failed miserably of accomplishment. Having been so long put in the competitive structure, it was natural that the carriers should fail to turn abruptly to collective effort, however grave the emergency was. No company was willing to abandon business to a rival line nor to surrender any strategic advantage. By the winter of 1917 private railroad operation had been out of order. Accordingly, establishing the Railroad Administration, the government assumed control of the railroad system and secured unified operation by arbitrary action.¹⁸

But this did not mean in any sense the socialization of the railroad industry, but embodied a typical case of the government undertaking for the emergency purpose on a basis of the capitalist system. While executive control and financial administration were centralized at Washington, operations were directed from regional offices, presided over by railroad executives. Besides, under the terms of the Railroad Control Act of March, 1918, each railroad company whose lines were taken over by the government was

guaranteed an annual rental payment, while the government paid all operating expenses and agreed to return the property in good repair. The Railroad Administration advanced to the railroads such sums as having been necessary for the payment of authorized dividends and the redemption of maturing obligations that could not be otherwise met or satisfactory refinanced. The net loss for two years of government control amounted to nearly a billion dollars, which the taxpaying public had to make good.¹⁹ The reinforcement of railroads continued to be the imperative problem in the post-war period.

In December, 1918, William G. McAdoo, Director-General of the Railroad Administration, proposed to extend Federal Control for a period of five years. His proposal not only evoked widespread disapproval among railroad interests, but led to a vast flow of plans for the reconstruction of the railroad regulation system. Wilson asked that Congress undertake at once a study of the railroad problem, suggesting that the policy of "restraint without development" should be abandoned.²⁰ Insisting on the return of the industry to private control, railroads interests clearly manifested what type of state intervention they favored. They needed federal financial aid and new regulatory policy which would approve railroad consolidations and intensify the capitalization of the industry. For this purpose various plans were presented to the Congressional committee by the Association of Railway Executives, the National Association of Owners of Railroad Securities, the Investors' Protective Association, and the National Transportation Conference.²¹ Under their strong pressure it would be almost impossible for the government to maintain its control over the industry.

As Congress failed to arrive at an agreement, the President announced in December, 1919, to conclude the work, that he would return the railroads to private control on March 1, 1920.²² Thus he accepted the claim of railroad interests. The objective of the Congressional work was now to prepare the measure to strengthen

the whole structure of the industry through the government's financial and institutional regulation. Congress managed to pass the Transportation Act of 1920 immediately before the transfer of the industry to private control.²³

As for the federal financial aid to railroads, the act provided for three schemes. First, carriers were permitted within two years after the transfer to make application to the I. C. C. for loans from the government to meet their maturing indebtedness or to provide equipment or other additions and improvement. For this purpose, a revolving fund of \$300 million was appropriated. After all the total of loans amounting to \$350 million was made to 77 carriers. Though not a subsidy, this meant the outright federal aid to the industry through the use of government funds. In addition, the act provided for the guaranty of carriers' earnings during the transition period following the end of Federal Control. According to the guaranty provision, 526 carriers received payment from the government, and the amount reached as much as \$527 million. This was in effect a federal subsidy to private interests by means of guaranteeing their earnings. A third use of federal funds was in reimbursement of deficits incurred by the carriers whose lines were not taken over by the government during the federal control period. This benevolent policy was based upon the assumption that those private lines suffered from a disadvantage in competing with carriers under Federal Control. Under this provision 261 claims were accepted by the government, and a little more than \$10 million was paid to them. This was also the government subsidy to railroads in the form of compensation. In addition to a large sum of government expense during the federal control period, thus the government offered in all nearly \$900 million to railroad interests as loans or subsidies.²⁴

Furthermore, Congress in the end authorized the I. C. C. to control the capitalization of railroads in order to stabilize their financial structure. The Transportation Act of 1920 made it

unlawful for carriers to issue securities or assume obligations on securities except upon application to and investigation and approval by the I. C. C. While the government set to work out a consolidation program for railroads, carriers were thus put under the really comprehensive regulation of the administrative body.²⁵

In addition, the federal government established during the war the Inland Waterways Corporation, the Sugar Equalization Board, Inc., the U. S. Housing Corporation, and the U. S. Grain Corporation, spending more than \$570 million from 1917 to 1920.²⁶ Though they were nothing but war emergency corporations except the waterways one, the measures were of significance in implying that "government corporations" were no longer foreign to the American government and that it was now ready to set about various undertakings by organizing its own corporations, if they were needed in a state of emergency.

VI

Still more significant financial undertaking of the Wilson government was the creation of the War Finance Corporation. As the first outright "government bank" in modern American economic society, it made an epoch in the development of the government's economic function. Though the W. F. C. was only an emergency body, its significance could not be overemphasized, particularly when one considers the federal lending agencies from the Great Depression period onward. It played a role as the precedent for those financial agencies. Furthermore, different from other financial undertakings of the government during the war, the W. F. C. was directly concerned with the financial structure itself of the American economy, extending loans to banks as well as industries.

Under the impact of war mobilization, there appeared a great strain on banking resources by war-loan financing and expanded

industrial activity to the point where banks were reluctant to make any more loans not eligible for rediscount. Financial interests suffering the shortage of credit resources as well as government officials started to request federal government's direct intervention in financing business, and expressed their support to the proposed finance corporation. The W.F.C. was regarded "primarily as a measure to enable the banks . . . to continue to furnish essential credits for industries and enterprises which are necessary or contributing to the prosecution of the war."¹ In Europe central banks were permitted to grant loans to banks upon stocks and bonds on certain terms. But the Federal Reserve System did not provide such a measure, lacking a real central bank. As an agency to fulfill the function of a central bank in this respect, the W.F.C. was expected to lend money to banks which were making loans to enterprises engaged in the war effort.²

William P. G. Harding, Governor of the Federal Reserve Board, agreed that "legislation providing for Government's aid is absolutely essential" to the safeguarding of the nation's financial structure.³ As once an ardent advocate of a centralized banking system, P. M. Warburg, Vice-president of the Federal Reserve Board, was also "heartily in accord with the objects and aims" of the proposed W. F. C., because "there was no doubt but that some organ as here proposed is imperatively required at this time." He was well aware of the shortcoming of the Federal Reserve System, and saw in the government's financial scheme a means "to remedy in part this defect."⁴ Representing favorable opinions of the banking community, Benjamin Strong, Governor of the New York Federal Reserve Bank, declared, "It has become increasingly apparent that there is need for financial relief, particularly in the matter of furnishing of capital, to the corporations." As he noted, short-term loans might be obtained principally from banks, but it was difficult to provide "the credit as new capital on long-term obligations or the issue of stock in the investment market."⁵

It might be amazing that, far from opposing, bankers favored government direct intervention in the financial field. But they fully understood that the W.F.C. would not attempt to control the financial circles against their interests, but would simply meet bankers' need and help them reinforce the financial structure through the use of public funds.

Enjoying the favorable opinion of banking interests, Congress created by the Act of April 5, 1918, the War Finance Corporation with the capitalization of \$500 million. The gap aimed at by the W.F.C. was "quantitative, not qualitative." The W.F.C. was to supply credit beyond the limits of banking resources but not to compete with private banking institutions.⁶

As an agency mainly to assist banks in furnishing essential credits, the W.F.C. at first attempted to avoid, if possible, direct loans to industries. Notwithstanding such an original intention to use direct loans only in emergencies, it received a flood of applications for government loans from industries, particularly from public utility companies which, as a group, were considered hazardous by banks. As a result, the W.F.C. under its war powers made direct loans amounting to \$301.5 million; two-thirds of the loans went to railroads under Federal Control, and public utilities and industrial corporations received \$40 million and \$24 million respectively.⁷ An outstanding feature was that 80 percent of the industrial loans went to the Bethlehem Steel Corporation, which achieved remarkable growth during the war period.⁸ These actions of the W.F.C. were full of meaning. The government touched the most fundamental aspect of the capitalist economy by providing business interests with capital resources. This lending policy might be just an "emergency" measure to deal with the critical moment of the national economy, but, if such an economic crisis became constant and lasting because of some more serious factor than the war such as depression, the government lending function might be necessarily normal and even essential to the economic structure of the country.

In fact, the activity of the W.F.C. was not discontinued simultaneously with the end of the war, but it was revived as a sort of counter-depression measure. First, the W.F.C. loans were continually utilized to sustain American exports so that the post-war American economy might avert serious recession. By the Act of March, 1919, amending the W.F.C. Act, Congress authorized the W.F.C. to extend credits to European buyers of American products for periods ranging up to five years. This was handled by making loans to American exporters or to banks which in turn loaned to exporters. The policy was principally designed to aid in preventing a sharp decline in American exports rather than to help European reconstruction. Up to November, 1920, the W.F.C. made this type of loans amounting to \$46 million.⁹

But the Secretary of the Treasury Houston halted this practice on the ground that exports could be adequately financed by private bankers and that further lending by the W.F.C. would force it to withdraw funds from the Treasury or sell bonds to the public. Despite considerable pressure to reverse his stand, he held fast to this view. Nevertheless, Congress adopted overwhelmingly a joint resolution ordering reactivation of the W.F.C. in December, 1920, and again passed it over the President's veto early next year.¹⁰ By this time, however, the chief motive for the revival of the W.F.C. had undergone a change. Now that banking interests regained power enough to finance American exports, it was mainly agitated by agricultural interests, which had been thrown into a serious depression. Therefore, the revived W.F.C. did not pay attention so much to the promotion of American exports with the exception of agricultural exports, but played a role in dealing with financial difficulties in the farm area. The W.F.C. took over frozen assets of country banks to enable these banks to overcome the crisis and thereby allow the farm borrowers to have time in which to reduce their indebtedness.¹¹ The W.F.C. thus demonstrated various possibilities of the roles that a government lending agency might play in

the face of general or specific critical situation.

Under the Wilson government, particularly due to the impact of war mobilization, the government in this way set about financial business in a number of fields on a small but yet influential scale. During the last two years of the 1910's, the federal agencies extended loans of \$1,119 million in all, and the loans outstanding at the end of 1920 amounted to \$1,034 million, of which the outstanding business loans or investments by the federal agencies counted for about \$680 million, that is, nearly 66 percent of the total.¹² It marked the significant introduction of the government's financial function into the modern capitalist economy. In addition to industrial and banking regulation, the Wilson government paved the way for the new field of state intervention in financing American economy with public funds.

NOTES

I

1. See Edwin W. Kemmerer, *The ABC of the Federal Reserve System*, 8th ed. (Princeton, 1929), chaps. II-V.
2. House Committee on Banking and Currency, *The Investigation of Financial and Monetary Conditions in the United States*, 3 vols. (Washington, 1913).
3. George E. Barnett, "The Growth of State Banks and Trust Companies," *The Annals of the American Academy of Political and Social Science*, XXXVI (1910), pp. 613-614.
4. Wilbert M. Schneider, *The American Bankers Association* (Washington, 1956), p. 25.
5. *Ibid.*, pp. 22-23, 105-106.
6. U. S. Congress, Senate, *National Monetary Commission*, Sen. Doc. 243, 62d Cong. 2d Sess. (Washington, 1912). 62d Cong.
7. See Robert H. Wiebe, "Business Disunity and the Progressive Movement, 1901-1914," *Mississippi Valley Historical Review*, XLIV (1958), pp. 664-75.
8. Paul M. Warburg, *The Federal Reserve System, Its Origins and Growth* (New York, 1930), pp. 50-61.

9. U. S. Congress, Senate, *Suggested Plan for Monetary Legislation Submitted to the National Monetary Commission by Hon. Nelson W. Aldrich*. Sen. Doc. 784, 61st Cong. 3rd Sess. (Washington, 1911).
10. Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York, 1963), pp. 184-88; J. Laurence Laughlin, *The Federal Reserve Act: Its Origins and Problems* (New York, 1933), pp. 43-80.
11. Schneider, *op. cit.*, p. 26.

II

1. Kolko, *op. cit.*, pp. 217-22; Arthur S. Link, *Wilson: the New Freedom* (Princeton, 1956), pp. 201-2.
2. Carter Glass, *An Adventure in Constructive Finance* (Garden City, 1927), chaps. IV-VI; Kolko, *op. cit.*, pp. 218-19; Link, *op. cit.*, p. 202.
3. Glass, *op. cit.*, pp. 69-70; J. Laurence Laughlin, ed., *Banking Reform* (Chicago, 1912), chaps. XII & XIII.
4. Kolko, *op. cit.*, pp. 223-24; H. Parker Willis, *The Federal Reserve System; Legislation, Organization and Operation* (New York, 1923), pp. 142-44; Laughlin, *Federal Reserve Act*, pp. 115-22.
5. Glass, *op. cit.*, p. 83.
6. *Ibid.*, pp. 82-84; Willis, *op. cit.*, p. 146.
7. House Subcommittee of the Committee on Banking and Currency, *Banking and Currency Reform*, Hearings, 62d Cong. 3rd Sess. (1913), pp. 4-9, 69-75, 354-77.
8. "First Complete Draft of Glass Bill," printed in Willis, *op. cit.*, pp. 1531-53; Glass, *op. cit.*, pp. 91-92.
9. Charles Seymour, *The Intimate Papers of Colonel House* (Boston, 1926), I, p. 161; Willis, *op. cit.*, pp. 169-93; Rixey Smith & Norman Beasley, *Carter Glass: A Biography* (New York, 1939), pp. 103-4.
10. Glass, *op. cit.*, pp. 95-99; Kolko, *op. cit.*, pp. 229-30.
11. William G. McAdoo, *Crowded Years* (Boston, 1931), pp. 242-45; Glass, *op. cit.*, pp. 99-109.
12. Kolko, *op. cit.*, pp. 230-31; Link, *op. cit.*, pp. 207-12; The Owen bill was reprinted in Willis, *op. cit.*, pp. 1697-1706.
13. Glass, *op. cit.*, pp. 113-14. As for the Federal Reserve bill as modified after the White House conference, see Willis, *op. cit.*, pp. 1577-94.
14. Link, *op. cit.*, p. 213.
15. Glass, *op. cit.*, pp. 124-25.
16. *Ibid.*, pp. 125-26.

17. Woodrow Wilson, *The Public Papers of Woodrow Wilson*, ed. by Ray S. Baker & William E. Dodd, III (*The New Democracy, I*), (New York, 1926), pp. 37-40.
18. Glass, *op. cit.*, pp. 115-16; Kolko, *op. cit.*, pp. 231-32. For the Glass-Owen bill as introduced to Congress, see Willis, *op. cit.*, pp. 1595-1613.
19. Glass, *op. cit.*, pp. 133-36; Link, *op. cit.*, pp. 218-19.
20. Glass, *op. cit.*, pp. 134-36; Link, *op. cit.*, pp. 219-21.
21. *Congressional Record*, vol. L, 63rd Cong. 1st Sess. (1913), pp. 4638-4706, 4721-75, 4825-58, 4860-4936, 5127-35. Glass, *op. cit.*, pp. 137-61. House Committee on Banking and Currency, *Changes in Banking and Currency System of the United States*, House Report 69, 63d Cong. 1st Sess., pp. 3-31.
22. *Journal of the American Bankers Association*, VI, pp. 133-44; Kolko, *op. cit.*, pp. 235-36; Link, *op. cit.*, p. 226.
23. Frank A. Vanderlip, "How to Amend the Currency Bill," *North American Review*, CXCVIII (November, 1913), pp. 698-707; Glass, *op. cit.*, p. 167.
24. Carter Glass, "The Opposition to the Federal Reserve Bank Bill," *Proceedings of the Academy of Political Science*, IV (1913), p. 19.

III

1. Kolko, *op. cit.*, p. 247; Federal Reserve Board, *The First Annual Report of the Federal Reserve Board*, 1914 (1915), pp. 19-20, 145-46.
2. Seymour, *op. cit.*, pp. 167-73; McAdoo, *op. cit.*, pp. 278-83. Link, *op. cit.*, 450-51.
3. Kolko, *op. cit.*, pp. 248-49; Link, *op. cit.*, pp. 451-56.
4. Federal Reserve Board, *op. cit.*, pp. 186-89; Lawrence E. Clark, *Central Banking under the Federal Reserve System* (New York, 1935), pp. 37-82; Lester V. Chandler, *Benjamin Strong: Central Banker* (Washington, 1958), pp. 37-48; Kolko, *op. cit.*, pp. 249-50.
5. Federal Reserve Board, *op. cit.*, pp. 20-21, 185.
6. *Journal of the American Bankers Association*. VIII (1915), p. 467.

IV

1. Murray R. Benedict, *Farm Policies of the United States, 1790-1950* (New York, 1953), pp. 145-46; William I. Myers, *Cooperative Farm Mortgage Credit, 1916-1936* (Washington, 1936), pp. 5-6.
2. U.S. Congress, Senate, *Preliminary Report on Land and Agricultural*

- Credit in Europe, Including the letter of President William H. Taft to the Governors of States and the Recommendations of Ambassador Myron T. Herrick in connection with the proposal of President Taft to introduce Cooperative Credit in the United States*, Sen.Doc. 967, 62d Cong. 3rd Sess. (1912); Benedict, *op. cit.*, p. 146.
3. Wilson, *Public Papers*, II, pp. 468-69, III, pp. 73-74.
 4. The Federal Reserve Act, Section 24.
 5. Wilson, *Public Papers*, III, p. 192.
 6. U.S. Congress, Senate, *Agricultural Cooperation and Rural Credit in Europe, Report of the American Commission*, Sen.Doc. 261, Part I; *Agricultural Credit, Land-Mortgage or Long-term Credit, Report of the U.S. Commission*, Sen.Doc. 280, 63rd Cong. 2d Sess. (1914). "To provide for establishment, operation, and supervision in U.S.A. of National Farm-Land Bank System," S. 4246, 63rd Cong. 2d Sess. (1914).
 7. *Congressional Record*, vol. LI, 63rd Cong. 2d Sess. (1914), pp. 1956, 2486-99, 2499-2503, 8426, 15614. The Hollis-Bulkley bill, S. 5542, 63rd Cong. 2d Sess., "To provide capital for agricultural development, to create a standard form of investment based upon farm mortgages, . . . ;" the Bathrich bill, H.R. 11897, "To encourage agriculture and ownership of farm homes, to reduce the rate of interest and extend the term of farm mortgages, . . . and to create Farm Credit Bureau in the Department of Agriculture."
 8. Wilson to Carter Glass, May 12, 1914, Wilson Papers.
 9. Link, *op. cit.*, pp. 262-64.
 10. Senate bills, S. 590, 1106, 1791, 2986, 3951, 5085, 6851, 6852, 6853; House bills, H.R. 206, 263, 391, 404, 492, 595, 619, 4697, 4714, 4809, 6039, etc., 64th Cong. 1st Sess. (1916). *Congressional Record*, vol. LIII 64th Cong. 1st Sess., pp. 6690-6701, 6785-6804, 6946-70, 7020-37, 7342-7412.
 11. Senate Committee on Banking and Currency, *To Establish System of Rural Credits*, Sen. Report 144, 64th Cong. 1st Sess. (1916), pp. 1-5.
 12. *Congressional Record*, vol. LIII, pp. 7495, 7701-51, 7811-38, 7964-8015, 8016-17, 11151.
 13. Senate Document 472; House Report 844, 64th Cong. 1st Sess. (1916).
 14. Department of Agriculture, *Farm-Mortgage Credit Facilities in the United States*, Miscellaneous Publication 478 (Washington, 1942), p. 12.
 15. John H. Frederick, *Public Warehousing, Its Organization, Economic Services and Legal Aspects* (New York, 1940), pp. 228-237.
 16. Wilson, *Public Papers*, IV, p. 279.

V

1. House Committee on Merchant Marine and Fisheries, *Creating a Shipping Board, a Naval Auxiliary, and a Merchant Marine*, Hearings on H.R. 10500, 64th Cong. 1st Sess. (1916), pp. 458-59, 462-63. As for the Referendum conducted by the U. S. Chamber of Commerce, dated July 9, 1915, concerning "the Upbuilding of the Merchant Marine," see *ibid.*, pp. 472-85.
2. *Ibid.*, pp. 458, 494.
3. 39 Stat. 728, approved September 7, 1916.
4. W. F. Willoughby, *Financial Condition and Operations of the National Government, 1921-1930* (Washington, 1931), p. 222.
5. "Statement of Edward N. Hurley, Chairman of the U.S. Shipping Board," March 27, 1919, Department of Labor, Records of Staff Officials, W. B. Wilson Mss.
6. "Symposium - Shipping," Walter S. Meriwether to W. B. Wilson, Aug. 23, 1918, Dept. of Labor, Records of Staff Officials, W. B. Wilson Mss.
7. 41 Stat. 988, approved June 5, 1920.
8. Frederic L. Paxson, "The Highway Movement, 1916-1935," in Joseph T. Lambie & Richard V. Clemence, eds., *Economic Change in America* (Harrisburg, 1954), pp. 82-85.
9. 39 Stat. 355. Charles L. Dearing & Wilfred Owen, *National Transportation Policy* (Washington, 1949), p. 105.
10. Paxson, *op. cit.*, p. 86.
11. *Ibid.*, p. 87. "The Southern Commercial Congress," March 3, 1921, Department of Labor, Records Dealing with General Labor Subjects, 1912-42, File 20-139.
12. 42 Stat. 212.
13. "For the Secretary of Labor from the Assistant Secretary of Labor," Dec. 5, 1918, Department of Labor, Records Dealing with General Labor Subjects, File 20-139.
14. During the period of 30 years from 1917, the federal government contributed about \$10 billion for road construction, of which more than \$4 billion was spent in connection with work relief program. Dearing & Owen, *op. cit.*, p. 107.
15. Interstate Commerce Commission, *Interstate Commerce Commission Activities, 1887-1937* (Washington, 1937), pp. 141-48, 164; I. L. Sharfman, *The Interstate Commerce Commission, A Study in Administrative Law and Procedure* (New York, 1931-37), part I, pp. 119-26.
16. Wilson, *Public Papers*, III, pp. 427-28. The Joint Subcommittee, known as the Newlands Committee, was created by a resolution of July 20, 1916. It held hearings for a month from November 20, 1916, which were later

incorporated in the Senate Committee on Interstate Commerce, *Hearings on Extension of Tenure of Government Control of Railroads*, vols. II & III, 65th Cong. 3rd Sess. (1919).

17. For the war structure of the railroads, see Sharfman, *op. cit.*, chap. IV.
18. *Ibid.*, pp. 139-43, 144-45, 148-50.
19. *Idid.*, pp. 153-70. William G. McAdoo, "Report to the President of the Work of the U. S. Railroad Administration for the First Seven Months of Its Existence, Ending July 31, 1918," Sept. 3, 1918, War Labor Policies Board Mss.
20. Wilson, *Public Papers*, V, pp. 319-21.
21. Senate Committee on Interstate Commerce, *Hearings on Extension of Tenure of Government Control of Railroads*, 65th Cong. 3rd Sess. (1919), pp. 305-37, 789-815, 1139-61, 1163-82, 1201-52; House Committee on Interstate and Foreign Commerce, *Hearings on Return of the Railroads to Private Operation*, 66th Cong. 1st Sess. (1919), pp. 176 et seq.
22. Wilson, *Public Papers*, VI, pp. 451-52.
23. For the Transportation Act of 1920, see Interstate Commerce Commission, *op. cit.*, pp. 44-45. Its character and scope were fully analyzed in Sharfman, *op. cit.*, pp. 177-244.
24. Interstate Commerce Commission, *op. cit.*, pp. 175-86.
25. *Ibid.*, p. 164.
26. William J. Hull & Robert W. Hull, *The Origin and Development of the Waterways Policy of the United States* (Washington, 1967), p. 33; Dearing & Owen, *op. cit.*, p. 114; Willoughby, *op. cit.*, p. 222.

VI

1. Senate Committee on Finance, *Establishment of a War Finance Corporation*, Hearings, 65th Cong. 2d Sess. on S. 3714 (1918), p. 8.
2. *Idid.*
3. *Ibid.*, p. 38.
4. *Ibid.*, p. 43.
5. *Ibid.*, pp. 137-38.
6. Donald R. Fuller, *Government Financing of Private Enterprise* (Stanford, 1948), pp. 38-39.
7. *Ibid.*, p. 41.
8. *Ibid.*
9. H. R. 16136, 65th Cong. 3rd Sess. (1919). *Congressional Record*, vol. LVII, 65th Cong. 3rd Sess., pp. 4267-99, 4335-44, 4718-56, 5084. House Report 1131; Senate Report 786, 65th Cong. 3rd Sess. Benedict, *op. cit.*,

- p. 179.
10. S. J. Res. 212, 66th Cong. 3rd Sess. *Congressional Record*, vol. LX, 66th Cong. 3rd Sess. (1921), pp. 157, 206, 253, 282, 524, 543, 876, 915, 948, Senate Doc. 350, 66th Cong. 3rd Sess.
 11. Fuller, *op. cit.*, pp. 42-43; Benedict, *op. cit.*, p. 179.
 12. R. J. Saulnier, H. G. Halcrow, & N. H. Jacoby, *Federal Lending and Loan Insurance* (Princeton, 1958), pp.18, 32