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The Birth of the U.S. Federal Reserve

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Long before the Federal Reserve's existence, Clearing House Loan Certificates were the only things that kept the country afloat during a panic. They were highly touted by bankers as an effective means of thwarting economic disaster in times of crisis. The loan certificates lightened the load of a plummeting money supply, "like the emptying of barrels of oil from a storm distressed ship."¹ During a panic, people hoard their money and bank reserves empty out rapidly. So the banks were issued, by the New York Clearing House Board of Directors, these certificates in lieu of actual money.²

They had about a four-month redemption limit and enabled the banks to keep giving out money to panicked withdrawers, with the knowledge that they would be compensated through the redemption of these certificates.

The fear was that the money would eventually run out. The banks could not simply run out of currency to give employers, laborers, and business retailers. These certificates merely worked on credit. Gold had to be purchased to back the printing of new currency for banks to dole out. Bankers, especially more successful ones who could survive shrinking reserves, began to split or sell their certificates for a profit, leading to counterfeiting and a thinner confidence in the currency. However, the Clearing House Loan Certificate System held its ground, and although this entire process was technically illegal, the federal government knew that if these measures were not taken, a full-scale collapse of the monetary system could occur, and citizens would simply have no more money.³

Despite the effectiveness of the Loan Certificate program, it remained a power of the government, not the bankers or investment firms of the time. Bank reform forces soon

¹ J. Laurence Laughlin, The Federal Reserve Act: Its Origins and Problems (New York, 1933), 6.

² Laughlin, 6.

³ Laughlin, 7.

began to congeal and the 1902 Fowler Bill was created to centralize the country's banking system. This bill was strongly supported by then, U.S. Treasury Secretary Leslie M. Shaw, mostly because it instituted provisions to use the U.S. Treasury as a surrogate central bank. However, the bill was thwarted and never passed because many politicians and their constituents were still fearful of a central banking system, and wary of how much power the U.S. Treasury would have been given.

The bankers on Wall Street formed an alliance and envisioned a central bank for the country, with them at the helm, and they proved steadfast in their pursuit of making their idea a reality. In January 1906, Jacob H. Schiff, head of the Wall Street banking firm of Kuhn, Loeb and Company gave a speech to the New York Chamber of Commerce in which he warned that the country "needed money" and a more "elastic currency" that could not be obtained from the U.S. Treasury. He urged the Chamber of Commerce to draw up a comprehensive plan for a "new, modern banking system" - a central banking system.

The Chamber proved reluctant to directly attach its name to such a concept, so James Stillman, head of the National City Bank in New York secured his bank's president, Frank A. Vanderlip, to create a new five-man commission, set up through the New York Chamber of Commerce to draw up this report. The commission, loaded with Wall Street heavy hitters and New York businessmen in favor of a central bank, was made up of Frank Vanderlip himself; Isidore Straus, Director of R.H. Macy and Company, and close friend of Jacob Schiff; Dumont Clarke, President of the American Exchange National Bank, and a personal advisor to J.P. Morgan; Charles A. Conant,

Treasurer of Morton Trust Company, and also an advisor to J.P. Morgan; and finally, John Claflin of the massive dry goods wholesaling firm, H.B. Claflin and Company.⁴

In October of 1906 the commission delivered its currency report to the New York Chamber of Commerce, calling forcefully for the creation of a central bank. The report began to pour into the ears of politicians and bankers across the country, and when the Panic of 1907 hit (a U.S. economic phenomenon) less than a year later, the iron for their new system was hot to strike. The political leader of the charge for centralized banking was Senator Nelson W. Aldrich. He was the head of the Senate Finance Committee and also the father-in-law of John D. Rockefeller Jr.⁵

In the opinion of many banking moguls throughout the United States, the Clearing House Loan Certificate system was time-tested, reliable, carefully scrutinized and very successful in producing emergency funds in time of crisis. Unfortunately, with the effects of the Panic of 1907 still lingering, and thanks to a herculean propaganda push from Wall Street, on May 27, 1908 the Aldrich-Vreeland Emergency Currency Act was passed, under considerable opposition.⁶

The Emergency Currency Act was penned as a means for issuing hundreds of millions of dollars in emergency currency, and designed as a temporary fix in times of financial stress. At the time, clearing house certificates had been issued to the extent of \$255,536,300 – a great sum by turn of the century standards. The Aldrich-Vreeland Act could pump another \$500,000,000 into the economy; with many detractors claiming it would grossly inflate the currency if ever used.

⁴ Rothbard, Murray N. *The Case Against the Fed*. Auburn: Ludwig von Mises Institute, (2012), 58-59.

⁵ Rothbard, 60.

⁶ Laughlin, 8-9.

The time period of the act's effectiveness was from its approval date, May 27, 1908, to June 30, 1914. The future proved to be serendipitous for the Act, for the newly passed Federal Reserve Act, at that time, had not gone into full effect until November 16th, 1914. With the outbreak of WWI on July 28th, 1914 the Aldrich-Vreeland Act was brought back and extended until June 30th, 1915, and its emergency currency began to flow.⁷

The act placed Senator Aldrich on the map as a politician with great interest in the country's economy and currency, and having heavy ties to its banking industry. Even more important than its later economic affects, the Aldrich-Vreeland Act's most influential and widely overlooked provision was its establishment of the National Monetary Commission (NMC), with Aldrich at its helm. This entity was set up to investigate the currency issues of the country and suggest proposals for comprehensive banking reform.

The NMC consisted of an equal number of Senators and Representatives; however, it was the advisors to the Commission that had the country's brow collectively furrowed. Aldrich chose as his top advisor, Henry P. Davidson, the partner of J.P. Morgan. Urged by Jacob Schiff, Aldrich chose Harvard University President Charles Eliot for his technical economic expert and Director of Research. Then, Harvard economist Abram Piatt Andrew was appointed as well as Charles A. Conant for public relations, along with Frank Vanderlip and Paul M. Warburg, Schiff's protégé, as Aldrich's personal advisors.

Long before Aldrich appointed Warburg as one of his personal advisors, he urged Warburg to educate the public on central banking through speeches and interviews because of his extensive knowledge of European central banking. By the time he began

⁷ Homer Joseph Dodge, "The Aldrich-Vreeland Emergency Currency" Annals of the American Academy of Political and social Science, (January, 1922), 49-50.

working as a member of the NMC, Warburg had been lecturing for years. During his intensive campaign for a central bank, he gave a famous speech to the New York YMCA on March 23, 1910 on “A United Reserve Bank for the United States.” It was during this speech he outlined the first structure of his central banking plan, mimicking the German, Reichsbank, and insisting it “not be controlled by Wall Street or any monopolistic interest.” He was even clever enough to call the system the “Federal Reserve System” and not a “central bank” so as to falsely suggest to naysayers that it would be government-run and government-controlled.⁸ Of course, it was not and remains, to this day, completely private.

Opposition to a central bank was huge, especially among Midwestern bankers – uninfluenced by Wall St., many insisted upon a revamping of the Clearing House System instead, which would enable troubled banks to “meet a temporary paroxysm of credit by getting more reserves and by increasing their lending power through the deposit of first-class collateral.” Local and national boards were to be established within the banking community to act as mediation and communication centers for the smaller local banks and the larger national banks. This system, unlike the proposed central banking system by Senator Aldrich and the outspoken Paul Warburg, “does not propose a money-making institution, or a financial ‘octopus,’ but a simple, direct method of enabling the borrowing public to get aid from banks in time of distress.”⁹

Undiscouraged by the popular demand that did not support their plan, the interests of top Wall Street bankers, Senator Aldrich, and his National Monetary Commission were represented in a nine-day, secret meeting on Jekyll Island, Georgia, at the Jekyll

⁸ Dodge, 61-62.

⁹ Laughlin, 14.

Island Hunt Club in December of 1910 to create the blueprint for their central banking scheme. The cloak and dagger delegation left the Hoboken, New Jersey Railway Station in a sealed railway car, with blinds drawn.

Accompanying Senator Aldrich on this most enigmatic meeting were his private secretary, Mr. Shelton; A. Piatt Andrew, Assistant secretary of the Treasury; Frank Vanderlip, President of the National City Bank of New York (headed by James Stillman); Henry P. Davidson, senior partner of J.P. Morgan Company (regarded as Morgan's personal emissary); Charles D. Norton, President of the First National Bank of New York (thoroughly dominated by the J.P. Morgan Company); Benjamin Strong Jr., known as the "lieutenant" of J.P. Morgan; and Paul M. Warburg, partner in the banking house of Kuhn, Loeb and Company.

Many reporters were there to try to find out why some of the mightiest financial titans of New York City were gathering on a train and secretly heading off together. Financial writer Bertie Charles Forbes (Founder of *Forbes Magazine*) described the scene:

Picture a party of the nation's greatest bankers stealing out of New York on a private railroad car, in the cover of darkness, stealthily hoeing hundreds of miles South, embarking on a mysterious launch, sneaking onto an island deserted by all but a few servants, living there for two weeks under such ridged secrecy that the names of not one of them was once mentioned, lest the servants learned the identity, and disclosed to the world this strangest, most secret expedition in the history of American finance.¹⁰

J.P. Morgan bought the island and founded the Jekyll Island Hunt Club there, with an exclusive group of multi-millionaires he associated with. Future membership was by inheritance only. The club was comprised of splendid mansions called "cottages" where

¹⁰ Eustace Mullins, Secrets of the Federal Reserve: The London Connection (Staunton, 1984), 1-2.

the members would stay, gather, socialize and conduct business. The club's membership was so immensely exclusive and steeped in such astounding amounts of international wealth, that after one of its members, George F. Baker, a very close associate of Morgan's, died in 1931, *The New York Times* noted, "...the Jekyll Island Club has lost one of its most distinguished members. One-sixth of the total wealth of the world is represented by the members of the Jekyll Island Club."¹¹

The preparations for the meeting were so elaborate that men could not speak to or acknowledge each other on the train. They could not meet or dine together for days before the trip, and as an added precaution, they were only to address each other by their first names. Strong was "Mr. Benjamin," Warburg was "Mr. Paul," Abram Piat Andrew was "Mr. Abram," and Davidson and Vanderlip adopted the pseudonyms "Wilber" and "Orville" in honor of the Wright brothers' first engine-powered aircraft flight a few years earlier in late 1903. Many years later the group would jokingly refer to themselves as the "First Name Club."¹² The meeting was cloaked in such secrecy so that the public would not surmise that the central banking scheme was an instrument of Wall Street, and if passed, the organization would be in their ultimate control.¹³

Paul Warburg was the real mastermind behind the plan. He was the most technically proficient in the ways of banking, and with his experience as a banker in Europe, in which almost every major European country had a central banking system, he did most of the drafting of the plan. Warburg was familiar with the politics and the social ramifications of the system that he and his colleagues were trying to construct. He reiterated his theory that the name of the plan was as important as the plan itself, for it to

¹¹ Mullins, 3.

¹² Liaquat Ahmed, *Lords of Finance: The bankers Who Broke the World* (New York, 2009), 55.

¹³ Laughlin, 16.

be accepted by the public and the Congress. Avoiding the term “central bank” was the key. So, in one of his final drafts he coined the name “Federal Reserve System,” as he did in his speech to the New York YMCA nine months earlier.¹⁴

The United States had a long history of struggle with central banking systems. Thomas Jefferson fought tirelessly to stop Alexander Hamilton from executing his plan for a central bank; First Bank of the United States began the arduous process of central banking controversy and embroiled debate. The German banker with the familiar name, James Rothschild, who was the most powerful banker in France at the time, financially backed it. Later, President Andrew Jackson battled central banking as well, this time over the formation of the Second Bank of the United States, in which James Rothschild used Philadelphia banker and financier Nicholas Biddle to bid for the bank’s existence. Jackson won the battle, but lost the war. Biddle ended up forming the Second Bank of the United States, became its first president, and helped to create the Independent Sub-Treasury System; another arm of central banking.¹⁵

Since the charter for the Second Bank of the United States expired in 1836, the country had been without a central banking organization. With the Civil War of the 1860s, the Long Depression of the late 1800s and two silver panics, the country was arguably in need of an economic upgrade. Although central banking was still seen as an unconstitutional taboo, American citizens and most of their representatives in the Senate and Congress felt a gradual and controlled redirection toward a central banking system early into the new century was a necessity.¹⁶

¹⁴ Laughlin, 18.

¹⁵ Mullins, 4-5.

¹⁶ Ellen S. Dykes and Michael Whitehouse, “The Establishment and Evolution of the Federal Reserve Board: 1913-1923” Federal Reserve Bulletin, (April, 1989), 227.

Thus, the infamous Jekyll Island plan for monetary reform had to take on the form of a purely policy-driven bill, and the completed work of the National Monetary Commission. No Congressman would even consider a bill with the scent of Wall Street on it. So the real authors of the bill remained hidden, and the final plan was presented as a cogent response to the panic of 1907 and Senator Aldrich signed his name to it.

The Aldrich Bill, which was in essence the first draft of the Federal Reserve Act, was met with massive criticism. Despite the smoke and mirrors used to disguise the bill's drafters and its private banking constructs, the bill seemed to blatantly favor Wall Street interests and the New York bankers who proposed its inception. Its main focus was on administration and control, rather than banking principles or economic and monetary protection and security. James B. Forgan, President of the First National Bank of Chicago, asked noted U.S. economist J. Laurence Laughlin, after both of whom were asked to review the bill by Aldrich, himself: "Laughlin, did you ever see such a mess for a banking bill?"¹⁷

Many other "Western" bankers and economists were invited to Washington D.C. and asked, by Aldrich, to review his bill. The famous *New York Commercial Bulletin* correspondent, H. Parker Willis, known for his columns on the banking and investment industry, noted:

The conference was so largely composed of Western men...Aldrich has shown a disposition to get the views of the most careful thinkers on the subject, and at the same time to avoid the criticism to which he has laid himself open in the past of working too closely with local financial interest.¹⁸

¹⁷ Laughlin, 16.

¹⁸ Laughlin, 18.

Willis crystalized not only the key features of the Aldrich-Vreeland Bill, but also the opinion of small bankers, small business, and the entire conference of non-Eastern bankers and economists when he further wrote,

It will be impossible to make the scheme successful if it simply consists of a plan for enabling one part of the country to throw its bonds and other securities into liquid form, and then lend the notes representing them to banks in other parts of the country with, of course, an additional rate of interest.¹⁹

On the other hand, Paul Warburg was, not surprisingly, quoted as saying he was, “delighted with Senator Aldrich’s plan as published today from Washington.”²⁰ Warburg knew this would be a very difficult bill to push through, but he was determined to do so, along with his fellow supporters and drafters of the bill. He knew the public would never get behind a bill so heavily weighted by Eastern banking and investment interests. So he sought ways to “educate” the public in favor of the plan. He devised a scheme to appoint a committee, through the National Board of Trade and the National Monetary Commission by the political influence of Senator Aldrich, to organize a league for the purposes of swaying Representatives and the general public to supporting the bill through media propaganda and marketing.

He knew none of this could come from New York or Washington, so, very skillfully, he and the other Aldrich supporters met with thirty hand-picked Chicago businessmen through the Chicago Association of Commerce and its chief, Harry A. Wheeler, on April 26, 1911 and formed the National Citizens’ League for the Promotion of a Sound Banking System. Since the League was made up of Chicago business interests, it was adeptly veiled as an entity that could not be a part of any one particular

¹⁹ Laughlin, 18.

²⁰ Laughlin, 35.

political machine or bill. However, promises were made and palms were pressed, and Chicago businessmen and bankers were convinced that what was good for New York was good for Chicago.²¹

However, the ruse didn't work for long. By January 1912, the American Bankers' Association proved that the League was "engaged in enacting a banking law" and not "educating the country," therefore their aim was political in nature and could not commit itself to the Aldrich bill. What followed was a rift between those in favor of a purely centralized banking system, and those who supported a system of regional banks. The Aldrich Bill was scrapped.²²

President Woodrow Wilson was then in office, and another year of arduous planning for banking reform continued. By January, 1913 Democratic Congressman Carter Glass, then Chairman of the House Banking and Currency Sub-Committee, and soon-to-be Secretary of the Treasury under President Wilson, submitted the first draft of the Glass Bill on Banking Reform to the president for review and polish before it was seen by the public or the Congress. By June, members of the Banking Committee, old and new, had reviewed it and the partisan disagreements began. Glass's bill was reminiscent of the Aldrich plan. Although changes were significant, like the implementation of a multi-regional reserve system, with many cities having their own reserve bank to regulate the progress of their own local banks, the Glass Bill still basically read like the creation of a financial oligarchy made up of heads of a few large city banks making the decisions and structuring policy for countless smaller institutions.

²¹ Laughlin, 59-61.

²² Laughlin, 133.

The largest disparity of fair play for the smaller banks was the fact that none of them would have representation on the Federal Reserve Board. The battle continued.

At the same time Carter Glass's bill remained under great consideration and scrutiny, half of the House Banking and Currency Sub-Committee, chaired by Democratic Representative from Louisiana, Arsène Pujo began an investigation into the big bankers and Wall Street men that would benefit the most by the passing of the Glass Bill, or other bills like it. The basis of the investigation was the concept of a "money trust." The main belief behind a money trust is that the majority of the world's financial wealth and political power could be controlled by a powerful few. Attorney Samuel Untermyer, who headed the Committee to investigate them, defined a money trust as:

... an established identity and community of interest between a few leaders of finance, which has been created and is held together through stock-holding, interlocking directorates, and other forms of domination over banks, trust companies, railroads, public service and industrial corporations, and which has resulted in vast and growing concentration and control of money and credits in the hands of a few men.²³

The Pujo Committee findings were astounding. They unanimously determined that a small cartel of financiers, namely J.P. Morgan and other of New York's most powerful bankers, had created a "money trust" by gaining consolidated control of numerous industries and monopolizing them through the abuse of the public trust. The committee issued a scathing report on the banking trade, and found that 341 officers of J.P. Morgan & Co. also sat on the boards of directors of 112 corporations with a market capitalization of \$22.5 billion (the total capitalization of the New York Stock Exchange at the time was

²³ *New York Times*, "Say Money Trust is Now Disclosed," *New York Times*, January 12, 1913. <http://www.query.nytimes.com/mem/archive-free/pdf> (accessed March 5, 2013).

an estimated at \$26.5 billion).²⁴ In other words, Morgan had influence or outright control over so many corporations' boards of directors, that they represented over four-fifths of the value of every corporation on the entire New York Stock Exchange.

The Pujo Committee Report also concluded that Morgan, and a handful of similarly ominous titans of American and international banking and industry, had gained control of major manufacturing, transportation, mining, telecommunications and financial markets throughout the United States. The report revealed that no less than eighteen different major financial corporations were under the complete control of a cabal led by J.P Morgan, George F. Baker and James J. Stillman. Just these three men, personally, represented the control of over \$2.1 billion through the resources of seven banks and trust companies: Banker's Trust Co., Guaranty Trust Co., Astor Trust Co., the National Bank of Commerce, Liberty National Bank, Chase National Bank, and Farmer's Loan and Trust Co.

The Pujo Report also named individual bankers including Paul M. Warburg, his brother, Felix M. Warburg, Jacob H. Schiff, Frank E. Peabody, William Rockefeller and Benjamin Strong, Jr. The report revealed that this handful of men held the New York Stock Exchange hostage, and attempted to evade interstate trade laws.²⁵ There is no evidence that any of these men named in the Pujo Report were ever arrested, prosecuted, or fined for any crime, and no group or investigative committee had ever proven the Pujo Committee Report inaccurate in any way.

²⁴ Robert F. Bruner and Sean D. Carr, The Panic of 1907: Lessons Learned from the Market's Perfect Storm (Hoboken, 2007), 31-32.

²⁵ Pujo Committee Report, February 28, 1913. "Report of the Committee Appointed Pursuant to House Resolutions 429 and 504 to Investigate the Concentration of Control of Money and Credit;" <http://www.scribd.com>. (accessed March 5, 2013).

Two years before the Pujo Committee was formed, testifying before the Committee on Rules, December 15, 1911, when Senator Aldrich's bill was on the table for consideration, Congressman Charles Lindbergh Sr. made this striking protest in his speech:

The Aldrich plan is the Wall Street plan. It is a broad challenge to the government by the champion of the Money Trust. It means another panic, if necessary, to intimidate the people, and proposes a plan for the Trusts instead. It was by a very clever move that the National Monetary Commission was created. In 1907 nature responded most beautifully and gave this country the most bountiful crops it ever had. Other industries were busy too, and from a natural standpoint all the conditions were right for a most prosperous year. Instead, a panic entailed enormous losses upon us. Wall Street knew the American people were demanding a remedy against the recurrence of such a ridiculous, unnatural condition. Most senators and representatives fell into the Wall Street trap and passed the Aldrich-Vreeland Emergency Currency Bill. But the real purpose was to get a monetary commission which would frame a proposition for amendments to our currency and banking laws which would suit the Money Trust. The interests are now busy everywhere, educating the people in favor of the Aldrich plan. It is reported that a large sum of money has been raised for this purpose. Wall Street speculation brought on the Panic of 1907. The depositors' funds were loaned to gamblers and anybody the Money Trust wanted to favor. Then when the depositors wanted their money, the banks did not have it. That made the panic.²⁶

The secrecy of the Glass Bill remained of the utmost importance. No one outside the House Committee had seen the bill. So to obtain a copy, at this stage, was the first aim of the "conspirators" who wanted to control it. President Wilson obtained a digest of the bill, and although there is no proof he was in on the conspiracy, he put it in the hands of his top presidential advisor, Edward M. "Colonel" House. He was awarded the title "Colonel" despite having no military background. House, notorious for wanting to impress New York bankers with his influence over President Wilson, passed the digest of

²⁶ Mullins, 11-12.

the bill on to Mr. Paul M. Warburg, and then expeditiously left for Europe. Warburg revealed the digest to his New York banking group, left for Switzerland, and then penned a harsh criticism of the bill to Treasury Secretary William Gibbs McAdoo as well as to a number of bankers. Warburg was not in favor of the bill's multi-regional implementations and the other New York bankers would not be pleased with that either. Wall Street bankers wanted total control. That is what made the covert publicity of the bill so important. Wall Street was forewarned by Warburg's bill-leak, so they could then become forearmed to fight it²⁷

The big bankers were not the only ones who scorned the bill. Secretary McAdoo penned his own plan for reform, backed by Samuel Untermyer and Colonel House. The partisan battle lines were drawn and the special interests went full-bore for getting their own needs met. More liberal politicians such as Secretary of State William Jennings Bryan denigrated the bill on the basis of its prodigious credit system. Bryan had an army of followers in political circles and in the general public. He backed "Free Silver," "Trust Busting" and had a complete disdain for "elitism," all of which he was very vocal about in his presidential campaigns. Bryan urged for a much stronger governmental influence over banking, its regulation, and the issuance of notes and credit for banks. He also demanded that these new bills being drafted in favor of a central banking system for the country contain much more restriction and government regulation, and much less freedom for big bankers. Bryan stated with fervor,

You tell those gentlemen that no change whatever, not one jot or tittle, will be made in the provisions allowing the Government issues. The bankers have had too many privileges given to them in the past. The issue of notes by the Government has, for years, been pure Democratic doctrine.²⁸

²⁷ Laughlin, 157-158.

²⁸ Laughlin, 156.

In July of 1913 Paul Warburg announced to the Banking Committee, “Both parties are thus in agreements to the ends to be striven for; more than that, they are in agreement even as to the technical means by which they must be attained.”²⁹ Publically, this could not be further from the truth. However, despite the actual maelstrom of opposition and disagreement, President Wilson surprisingly supported the Glass Bill. The Democratic Caucus made some minor changes; the Banking Committee modified it (this was the fourth draft of the bill thus far and the first draft that was presented to the public). The bill passed the Caucus by a party vote of 168-9. Despite major objections regarding the powers granted to the Federal Reserve Board, the mandatory and coercive membership of the national banks, and the transfer of reserves, the bill passed the House September 18, 1913, by a vote of 287-85. Only 3 Democrats voted against it, 48 Republicans for it and 82 against.³⁰

The framers of the Federal Reserve left the system’s architecture in the hands of Paul Warburg. Since his ideologies on central banking were based on his experience with his native German central banking system, his concepts were quite literally foreign to many of the voters. It was this lack of understanding of Warburg’s vision, coupled with the natural suspicion many voters of the bill had regarding Wall Street interests controlling the nation’s banks that was the focus of much of the debate during this stage of the bill’s reconstruction. Weighing the government’s power with the bankers’ power remained the battle throughout the process – and to this day, that battle still exists in many ways.

²⁹ Livingston, 216.

³⁰ Laughlin, 160

Senator Robert L. Owen structured another bill. Now, the Glass bill, the McAdoo Bill, and the Owen bill were to be reviewed by the president for submission to the Senate for a vote. Wilson passed on the Owen Bill, decided against the McAdoo bill, and went with the heavily democratic Congressional-favored Glass Bill. Since business and banking interests, especially in New York, had much influence in the Congress and the Senate, the Glass Bill was attacked. Disposal of the Glass Bill was of utmost importance to its many detractors. A central bank measure was prepared by banking giant Frank A. Vanderlip. The American Bankers' Association and the United States Chamber of Commerce were heard from in the Senate. Sixty-eight bankers and eight "experts" were heard supporting a central bank plan, and the propaganda started throughout the country led by the still active, yet formerly deemed illegal, Citizens' League.

Paul M. Warburg was now heard loud and clear. A strong central banking package, with regional reserve banks under it, and the ability for that central bank to use government notes as legal reserves for member banks were penned in as amendments to the Owen Bill on December 18, 1913; the Senate passed it the next day by a vote of 54-34, with only three Republicans voting for the bill. What was of such scrutiny and interest was the fact that many members of Congress and the Senate at that time had left for their allotted Christmas vacation. It was so strange to so many that this bill was being voted on with such a great number of representatives and senators gone.

After eight drafts, in record time, the Owen Bill and the Glass Bill were finally integrated, forming the Owen-Glass Bill, voted in by the House, 298-60 (16 not voting) and the Senate, 43-25 (27 not voting) and signed by President Wilson on December 23,

1913.³¹ The bill was signed into law as the Federal Reserve Act, and went into full effect after almost a year of organization on November 16, 1914.

Wilson's signature of the bill proved to be quite the antithesis of his original stance on the concept of central banking. Many of his supporters and the public in general were both dumbfounded and nonplussed by his decision. During his 1912 run for election, only two years before he signed the Federal Reserve Act into law, on behalf of the Democratic Party's platform, Woodrow Wilson proclaimed to the American people:

We oppose the so-called Aldrich Bill or the establishment of a central bank... Banks exist for the accommodation of the public... All legislation on the subject of banking and currency should have for its purpose of securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of power that wealth gives to those who possess it.³²

Any competent businessman would agree that whoever owns the stock of a corporation ultimately controls that corporation. About a decade after its formation, democratic Congressman from Texas, Wright Patman, one of the Federal Reserve System's leading critics, tried to find out whom, actually, owned the stock in the original Federal Reserve banks. He found that most of the stock in the regional banks of the twelve districts was purchased by national banks in those corresponding regions.

Patman knew that the Federal Reserve Bank of New York proved to be the hub of the rest of the regions by possessing powers like setting interest rates, and directing open market operations, which is equivalent to controlling the daily supply and the price of money throughout the country. With this, the stockholders of the New York branch of the

³¹ Laughlin, 161-170.

³² Mayer, Martin. *The Fed: The Inside Story of How the World's Most Powerful Financial Institution Drives the Markets*. New York: The Free Press, (2001), 68.

Federal Reserve Bank would be in the most powerful position of anyone in the entire banking system.

The original organization certificates of the Federal Reserve Bank of New York, filed with the Comptroller of Currency on May 19th, 1914, state that that branch issued 203,053 shares of stock. Of those shares, the largest blocks purchased were the following: 30,000 shares purchased by National City Bank (headed by James Stillman, with Frank Vanderlip as its President). J.P. Morgan's First National Bank acquired 15,000 shares.³³ In 1955, these two banks merged to form the largest, most powerful and influential stockholding bank in the entire Federal Reserve System. Known as First National City Bank, its ultimate moniker became, Citigroup.³⁴ The National Bank of Commerce of New York City (later known as Morgan Guaranty Trust Company) took 21,000 shares. Chase National Bank owned 6,000 shares, and the Marine National Bank of Buffalo, later known as Marine Midland Bank, bought 6,000 shares.³⁵

³³ Mullins, 34-35.

³⁴ Wikipedia. "List of Bank Mergers in the United States;" <http://www.wikipedia.org> (accessed December 13, 2012).

³⁵ Mullins, 34-35.

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