Banking Reform in a Hostile Climate: Paul M. Warburg and the National Citizens' League

Lucy D. Chen

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I. Introduction

On October 9, 1907, a failed attempt to manipulate the stock prices of the United Copper Company resulted in the business' bankruptcy, touching off a general run of depositors on banks across the country.[1] Before long, many banks even began refusing to loan out the money necessary to continue trading on the NYSE, causing stock prices to plummet and interest rates to surge. The Panic of 1907 had widespread economic ramifications. Bruner and Carr estimate that commodity prices fell by 21%, industrial production dropped by 11%, imports fell by 26% and unemployment rose from 2.8% to 8%.[2] The *Commercial and Financial Chronicle* succinctly summarized the extent of the consequences of the Panic of 1907, writing, "It is probably no exaggeration so say that the industrial paralysis and the prostration was the very worst ever experienced in the country's history."[3]

Just one month after the onset of the Panic, a partner of Kuhn, Loeb & Company, and prominent banker Paul M. Warburg, published a short piece entitled "Plan for a Modified Central Bank," in the *New York Times Annual Financial Review* as a response to the disastrous economic effects of the Panic of 1907. In the essay, he argued, "Nothing short of a modern central bank will effect a solution of the [currency] problem."[4] Warburg expanded upon these initial thoughts with the publication of "A United Reserve Bank of the United States" in 1910, where he presented a detailed banking scheme tailored to the conditions and peculiarities of the American

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[1] See Robert F. Bruner and Sean D. Carr, *The Panic of 1907: Lessons Learned from the Market's Perfect Storm* (Hoboken, NJ: John Wiley & Sons, 2007), 40, 43-49. United Copper's collapse sent owners of its stock (holders included institutions as diverse as the brokerage house Gross & Kleeberg and the State Savings Bank of Butte Montana) into insolvency. Furthermore, banks associated with the perpetrators of United Copper's attempted cornering, F. Augustus Heinze and Charles W. Morse, who together served on the boards of six national banks, ten state banks, five trust companies, and four insurance firms, suffered massive runs on their deposits throughout October 1907.

[2] Ibid, 141-142.

[3] As cited in Bruner and Carr, 142.

[4] Paul M. Warburg, "A Plan for a Modified Central Bank," in *The Federal Reserve System, Vol. 2* (New York: The MacMillan Company, 1930), 29.

country and government. Central to the banker's plan was the establishment of a United Reserve Bank governed by a board of directors arising from various regions across the country and whose "first duty is to see that a proper proportion is maintained between actual cash reserve and all demand obligations of the nation which are payable in cash at the option of the payee."[5] Long a staunch proponent of banking reform and reserve centralization, Warburg wrote widely in the years following the Panic about the weakness of the country's decentralized banking system and about troubles engendered by the absence of commercial paper, a discount market, and a central bank at which such paper could be converted when needed.

Warburg's reform efforts culminated with the 1911 creation of the Aldrich bill by Senator Nelson W. Aldrich to Congress, a plan that was largely based on the ideas proposed by Warburg in "A United Reserve Bank."[6] As Warburg wrote, "In its main principles and in many important details the Aldrich bill was closely akin to the plan proposed in the 'United Reserve Bank of the United States.'"[7] This paper is concerned with public attitudes towards banking and bank reform in the United States around the time that Aldrich's plan was introduced. It examines Warburg's consequent efforts to garner popular support for the bill, centered around his role in establishing the National Citizens' League, an organization that actively promoted

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[5] Paul M. Warburg, "A United Reserve Bank of the United States," in *The Federal Reserve System, Vol. 2*, 124. As the central reserve of the nation, the United Reserve Bank has two primary responsibilities: to protect the country's holdings of gold and to maintain a perfect system of credit.

[6] While the Aldrich Bill was ultimately defeated, the eventual Federal Reserve Act remained remarkably similar to Aldrich's original plan. See, for example, William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country* (New York: Simon & Schuster, 1987), 277. Greider writes, "The Bill drafted by Willis and his boss, Representative Carter Glass of Virginia, differed in detail but not in fundamentals from the Aldrich plan: a privately controlled network of regional reserve banks that would be given government powers." See also, The Federal Reserve Bank of Minneapolis Publications & Papers, "Born of a Panic: Forming the Fed System," The Federal Reserve Bank of Minneapolis, http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3816. The publication states, "The eventual Federal Reserve Act, which took shape by the fall of 1913, was similar to the earlier plan launched by Senator Aldrich." See also, Paul M. Warburg, *The Federal Reserve System, Vol. 1* ((New York: The MacMillan Company, 1930), 179-368, for a side-by-side juxtaposition of the texts of The National Reserve Association Bill (Aldrich Bill) and the Federal Reserve Act.

[7] Warburg, *The Federal Reserve System, Vol. 1*, 59-60.

banking reform by providing the population with a general understanding of the principles upon which monetary reform should be based.[8] The content of Warburg's personal correspondences and the pamphlets distributed by the newly created National Citizens' League suggest that the country's financial elite became increasingly conscious of the need to address the public's fears regarding capital and resource centralization.

II. Illustrations of Negative Attitudes Towards High Finance and Banking Reform

A small assemblage of the country's elite bankers—Warburg and Aldrich included—formulated the first drafts of the Aldrich bill at the duck-hunting clubhouse of J.P. Morgan, a colleague of Aldrich's and head of J.P. Morgan & Company, on Jekyll Island off the coast of Georgia.[9] The party had proceeded with their discussions with great caution; traveling in a private sealed railway car and making certain that the island's full-time servants were replaced with temporary workers unfamiliar with members of the island's club to ensure that the guests were not recognized. According to Frank A. Vanderlip, then-president of the National City Bank of New York and participant in the Jekyll Island conference, the assemblage had to maintain secrecy because "if it were to be exposed publicly that our particular group had gotten together and written a banking bill, that bill would have no chance whatever of passage by

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[8] See Warburg, *The Federal Reserve System, Vol. 1*, 68-69, and J. Lawrence Broz, *The International Origins of the Federal Reserve System* (Ithaca, NY: Cornell University Press, 1997), 185-186. The National Citizens' League for the Promotion of a Sound Banking System was organized in May of 1911 following the passing of the National Board of Trade's resolution, drafted by Warburg, in favor of creating a league of business men as a representative body of the interests of the country's citizens. The National Citizens' League will be explored in greater detail later on.

[9] See G. Edward Griffin, *The Creature from Jekyll Island: A Second Look at the Federal Reserve* (Westlake Village, CA: American Media, 1998), 3-13. See also Warburg, *The Federal Reserve System, Vol. 1*, 60. Warburg wrote, "The results of the conference were entirely confidential. Even the fact that there had been a meeting was not permitted to become public." Warburg also wrote, in a footnote, "Though eighteen years have since gone by, I do not feel free to give a description of this most interesting conference concerning which Senator Aldrich pledged all participants to secrecy."

Congress."[10] The measures taken by the Jekyll Island party to conceal the identities of the minds behind the Aldrich bill are, to some extent, an indication of the degree of public resentment towards the bankers considered to be responsible for the events of 1907.

In 1909, *The New York Times*' financial editor, Alexander Dana Noyes, published a book entitled *Forty Years of American Finance* as a second and extended edition of his *Thirty Years of American Finance*. Noyes was compelled to update his original publication "in order to cover the remarkable financial episodes of 1901 and afterward."[11] His work painted a clear picture of the country's economic climate leading up to the events of 1907. The young American economy of the early twentieth century was thriving; the nation's economy had been growing at an annual average of 7.3% since the late 1800's.[12] Noyes ascribed the spread of wealth to all citizens to the interconnectivity of the nation's financial system when he wrote,

> "The advance in commodity prices; the growth of industrial combinations, on a scale of magnitude beyond the imagination of the previous decade; the sensational speculation in securities and commodities; the overshadowing power acquired, through their bank and company affiliations, by a handful of wealthy capitalists—these were the typical phenomena of the day. They were dominant influences on financial markets; but they also touched closely the every-day life and habits of the ordinary citizen."[13]

Widespread belief in the maintenance of such national growth and prosperity fueled greater desire for speculation among bankers and the American public willingly threw its money into these risky ventures in hopes of continued high returns. But, at the same time, rising costs for essential commodities generated public displeasure towards the heads of the large and powerful trusts that were generally believed to have engaged in price control and manipulation. Noyes

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[10] Frank A. Vanderlip and Boyden Sparkes, *From Farm Boy to Financier* (New York: Appleton-Century Company, 1935), 214.
[11] Alexander Dana Noyes, *Forty Years of American Finance: A Short Financial History of the Government and People of the United States Since the Civil War, 1865-1907* (New York: G.P. Putnam's Sons, 1909), iii.
[12] Bruner and Carr, 7.
[13] Noyes, 331.

wrote, "It was declared, even by many eminent economic scholars, that the day of unrestrained competition was past, and that it was best that it should be."[14] Indeed, in the ten years between 1894 and 1904, over 1,800 companies were merged into just 93 corporations and most debt and equity financing for these corporations occurred in just a handful of New York financial institutions.[15]

Public frustration towards high finance reached a boiling point in 1905 with the uncovering of the Equitable Life Assurance scandal. An editorial published on April 7, 1905, in *The New York Times* indicated that Equitable owned a surplus of $80,000,000 although "as to the origin and nature of an insurance company's surplus, its ownership, and its destined use, the man in the street, we presume, possesses only vague general information."[16] An investigation by the New York Legislature later that year revealed that much of the company's funds had been invested in organizations in which the trustees had personal interests, executives had received outrageously high salaries, and that dividends paid out to policyholders had actually decreased in spite of the company's massive surplus.[17] In reference to the notoriety of the inquiry, Noyes wrote, "This investigation, publicly conducted during four successive months, and reported in every newspaper, had an influence on public sentiment which was difficult to measure," and that the feeling that the Americans adopted towards high finance was "a mixture of misgiving, exasperation and helplessness."[18]

Given the connectivity of the American financial system at the time, the ramifications of the events of 1907 were felt by citizens across the country. The sociopolitical environment in the

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[14] Ibid, 333.
[15] Bruner and Carr, 9. These financial institutions included the likes of J.P. Morgan & Company; Kuhn, Loeb & Company; the First National Bank; the National City Bank; Kidder, Peabody & Company; and Lee, Higgison & Company.
[16] "An Insurance Surplus," *The New York Times*, April 7, 1905, p. 8.
[17] As cited in Noyes, 338-339.
[18] Noyes, 340-341.

U.S. following the Panic of 1907 can be illustrated by the writings of Alfred Owen Crozier, a prominent attorney from the Midwest who wrote extensively in opposition to the power and influence exerted by Wall Street bankers. In 1908, Crozier published a fictional paperback about the love of a beautiful young daughter of a reverend for a Yale graduate "more inclined to plant and harvest dollars [than] wild oats" entitled, *The Magnet*, a book intended to be read by ordinary American citizens.[19] But *The Magnet* was less about the romance between Helen Morton and Morley Sterling, Jr. than it was about Sterling's revelations to her (and the reader) of the "hidden springs that move the world of rapid finance, and the methods by which the wealth and power of the people are concentrated and confiscated by the daring few."[20] In one particular conversation, Sterling revealed to Morton,

> "The Wall Street machine is the embodiment of that inscrutable and mysterious power which executes the financial will of its invisible master, undetected, with predetermination and with infallible accuracy. The essence of this power is associated mental affinities bound together by the common desire to get rich quickly—at the expense of others if they can, but of each other if they must."[21]

While Crozier's writing likely overstated the malicious motivations and intentions of Wall Street bankers, the fundamental sentiments behind his sensationalized words were not uncommon in the years following the Panic, particularly in light of Noyes' broader commentary regarding the country's feelings towards high finance.

Crozier launched another attack at the country's banking class in the year following the introduction of the Aldrich bill in January of 1911 with the publication of *U.S. Money vs.*

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[19] Alfred Owen Crozier, *The Magnet* (New York: Funk & Wagnalls Company, 1908), 32. See Alfred Owen Crozier, *U.S. Money vs. Corporation Currency* (Cincinnati: The Magnet Company, 1912), 391-401, for press releases regarding *The Magnet*. It was written, "*The Magnet* is full of fun, thrilling situations, adventures and tender romance. The Women particularly enjoy it. The characters are pat, entertaining and almost recognizable. Every patriotic man should read it because of the startling and true revelations and exposure in detail of the precise methods being used by Wall Street High Finance in its rapid and dangerous conquest of the American Republic."
[20] Ibid, 36.
[21] Ibid, 44.

Corporation Currency, in which he sought to "lay bare the defects and evils of the present financial and banking systems."[22] In the book, Crozier characterized the Aldrich bill as being opposed to small, independent banks and as a "private grab at the public currency" orchestrated by Wall Street financiers to create a great banking monopoly that would enslave the country.[23] In critiquing the plan's proposal to create a centralized pool of reserves, Crozier wrote,

> "The fact is the banks hope that by getting control of the public currency they can print enough money to protect the banks in emergencies without taking the reserves away from Wall Street. Instead of using their own capital and consolidating their reserves for mutual protection, they are going to keep their own money busy making profits in Wall Street and let the private central reservoir be filled with a billion dollars of public currency furnished free by act of Congress."[24]

Crozier was perhaps most critical of the Aldrich plan's proposal to create a National Reserve Association that he felt would completely surrender the Administration and Congress to Wall Street banks, and consequently the steel, insurance, and railroad trusts that hold their money there.[25] As a result, Crozier warned, "All American business is in the hollow of the bank hand, and can be aided or squeezed according to the will of the big interests that in recent years have acquired control over the banking system."[26]

In the years leading up to the introduction of the Aldrich plan, there appeared to be a high degree of public antagonism and mistrust towards Wall Street financiers. Scandals highlighted in the media regarding the financial behavior of "money trusts" such as Equitable Life followed by the highly public fallout of the Panic of 1907 caused banks on Wall Street to be perceived in

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[22] Alfred Owen Crozier, *U.S. Money vs. Corporation Currency* (Cincinnati: The Magnet Company, 1912), 14. Although the National Citizens' League was established prior to the publication of this book, Crozier's strong resentment towards financiers in *U.S. Money vs. Corporation Currency* was a feeling likely shared by many. Consequently, the book still paints an accurate illustration of the sociopolitical climate that Warburg had to navigate in his campaign to champion the Aldrich Bill.
[23] Ibid, 72. See Images section.
[24] Ibid, 71.
[25] See Images section (photograph).
[26] Crozier, 350.

an increasingly negative light. Such was the environment in which Warburg endeavored to put his writings into action and institute banking reform.

III. Paul M. Warburg and the Establishment of the National Citizens' League

Warburg strongly believed that the weakness of the country's system lay in the decentralization of bank resources and the lack of a sense of responsibility that banks had for each other in times of emergency (as in 1907). Accordingly, Warburg became one of the country's biggest champions for the Aldrich plan, which aimed to centralize reserves in a National Reserve Association and to divide the country into fifteen different banking regions. In a letter written in 1910, Chairman of the Merchants' Association of New York Irving T. Bush suggested,

> "With such an institution in existence as the United Reserve Bank [Warburg] proposes, a currency famine and money panic would become impossible, the monetary reserve would be efficiently utilized, the National Treasury relieved of all responsibility for the money market and international exchanges and movements of gold easily regulated with immense benefit to all producers, distributors and consumers alike, in every station of life."[27]

Despite the apparent benefits—at least to the banking class—of having a central bank, the pragmatic Warburg was also conscious of the political realities of the time. He recognized early on that widespread antipathy towards Wall Street at the time meant that the Aldrich bill, with its Jekyll Island origins and its close ties to banking, would be summarily defeated without making some concessions and without a national educational campaign. As a result, Warburg set about gathering mass support for banking reform. In 1911, Warburg proposed the formation of a Business Men's Monetary Reform League with the object of "carry[ing] on an active campaign

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[27] Irving T. Bush, 27 July 1910, The Merchants' Association of New York, Correspondence 1904-March1911, Paul Moritz Warburg Papers, Manuscripts and Archives of Yale University Library, New Haven, Connecticut. Though Bush was writing with regard to Warburg's plan for a United Reserve, his thoughts are still applicable to the National Reserve Association proposed under the Aldrich plan as it was shown earlier the degree of similarity between the two proposals.

of education and propaganda for monetary reform, on the principles, without endorsing every detail of a reserve association with branches in the business centers of the country as outlined in Senator Aldrich's plan."[28] Warburg recognized the campaign's fundamental need to represent national interests—at least in the eyes of the public—and his subsequent actions in forming and promoting this organization can be seen as determined attempts to alter the public's perception towards Wall Street. In a letter to James B. Forgan, Esq., of First National Bank dated February 13, 1908, Warburg wrote, "It is unfortunate that the general attitude of the country towards New York and Wall Street is such that any measure proposed from here would be doomed from the start. For this reason it looks to me as if the situation would have to come from the West."[29]

Indeed, the first set of the officers of the League was entirely made up of Chicago businessmen and politicians, led by President John V. Farwell and Chairman of the Executive Committee J. Laurence Laughlin.[30] As a matter of fact, the League's original "Constitution and By-Laws" stipulated that the eighteen members of the Executive Committee must be residents of or do business in Cook, County, Illinois.[31] With respect to its management and organization, the League committed itself to creating a distinct separation between its leadership and the immorality associated with Wall Street. On April 19, 1911, Warburg received a personal letter from A. Piatt Andrew, a member of the Jekyll Island party and then-Assistant Secretary to the Treasury, who, suggested that Warburg hire a man by the name of Thornton Cooke as the

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[28] "Report of Delegates from the New York State Chamber of Commerce to the Monetary Conference in Washington, January 18, 1911," *The Federal Reserve System, Vol. 1*, 569. The name of the organization, "Business Men's Monetary Reform League," was later changed to the National Citizens' League for the Promotion of a Sound Banking System.

[29] Warburg, Letter to James B. Forgan, Esq., 31 February 1908, Correspondence 1904-March 1911, Paul Moritz Warburg Papers.

[30] See Warburg, *The Federal Reserve System, Vol. 1*, 69. At the time, Farwell was head of John V. Farwell & Co., one of the country's leading dry goods wholesalers and J. Laurence Laughlin was the head of the newly created Department of Economics at the University of Chicago.

[31] See "Constitution and By-Laws," p. 7, Pamphlet distributed by The National Citizens' League for the Promotion of a Sound Banking System, Baker Library Historical Collections, Cambridge, Massachusetts.

League's secretary. In addition to being a Harvard graduate trained in the methods of theoretical banking, Cooke was seen as a worthy candidate for the position because of his Kansas roots. Andrew wrote, "[Cooke] is thoroughly qualified I should say to fill the place, and being a native of the Middle West would be a particularly appropriate person…He could doubtless help in organizing the League, and in propagating an interest in his region."[32] Furthermore, the League sought to represent itself as promoting the interests of the ordinary American businessman and citizen in the media. In a statement made to the *New York Times* in July of 1911, Laughlin said, "The National Citizens' League is not an organization of bankers. On the contrary, it is an organization of the general business and commercial public. It represents the borrowers rather than the lenders of the country. It represents those who have realized the stress and banking constriction during the panic of 1907."[33] The overrepresentation of Midwesterners in the national organization of the League combined with the group's repeated declarations that it stood for business and commercial interests reflected a strong belief that banking reform needed to originate from—or at least, appear to—interests separate from those of Wall Street.

For this reason, Warburg—and the bankers associated with the construction of the Aldrich plan—could not be openly affiliated with the League. Despite this obstacle, however, Wall Street managed to stay actively involved in banking reform and the promotion of the Aldrich bill. As Warburg noted, "Among the most liberal contributors [to the League] were the banks."[34] Furthermore, Warburg's personal correspondences indicate that he, in particular, was heavily involved in shaping the general trajectory of the League as well as the selection of its

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[32] See A. Piatt Andrew, Letter to Paul M. Warburg, Esq., 19 April 1911, Correspondence April-December 1911, Paul Moritz Warburg Papers.
[33] "Action Promised on Monetary Board," *The New York Times*, 7 July 1911, p. 3. See also, "Currency Reform: Its Popular Side," *The New York Times*, 26 July 1911, p. 8.
[34] Warburg, *The Federal Reserve System, Vol. 1*, 70.

visible leadership well beyond its initial organization. In a letter dated June 15, 1911, Warburg wrote to Senator Aldrich that despite his difficulties in trying to find the time to organize local committees of the League in New York, Philadelphia, and Boston, he "hope[d] to make some headway anyhow."[35] In another letter to Aldrich dated December 7, 1911, Warburg spoke specifically of his concern regarding the leadership of the New Jersey branch of the League, as he wrote,

> "I am informed to-day that Governor Murphy is again wavering to accept the Chairmanship of the Jersey League. Our people are very much disturbed about this, since they say they need his support, and even if he would serve only in a nominal way, leaving others to do the actual work, they say they cannot afford to lose the use of his name."[36]

These private statements of Warburg indicate that he was heavily engaged in the League's administration and operation even though his name was not formally associated with the organization's public campaign. Warburg's deliberate steps to select "proper" leadership for the organization and to separate himself from the image of the National Citizens' League for the promotion of Sound Banking Reform appear have been necessitated by the hostile attitudes many Americans had towards Wall Street bankers at the time. But even though the League was, in the mind of the media and the public, "not an organization of bankers," Warburg's personal correspondences demonstrate that bankers were certainly involved in running the activities of the League.

IV. The Issue of Reserve Centralization

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[35] See Warburg, Letter to Hon. Nelson W. Aldrich, 15 June 1911, Correspondence April-December 1911, Paul Moritz Warburg Papers.

[36] See Warburg, Letter to Hon. Nelson W. Aldrich, 7 December 1911, Correspondence April-December 1911, Paul Moritz Warburg Papers.

The League emphasized its Midwestern origins and separation from Wall Street in order to appeal to and reach out to the average American citizen who held bankers responsible for the panic of 1907 and who did not necessarily understand the intricacies of banking reform. Consequently, the publicity campaign of the League may be understood as an outcome of the criticisms launched at Wall Street following the events of 1907. In order to connect with and mobilize these voters so that banking reform could be instituted, the League initiated a massive movement in 1912 with a blitz of addresses and pamphlets written in non-technical jargon. The organization depended on this constituency to then go forth and spread the League's message to other citizens. The League hoped that in due time, there would be a large enough population to champion their beliefs—and those of the League—to their representatives. In a statement directed to the members of the National Citizens' League, General Secretary A. D. Welton wrote,

> "By joining the League, you proved your interest in the cause of banking reform. Every member of the League should prove again that interest by doing active missionary work. It is necessary to spread the gospel of a sound, panic-proof banking system…One way is for League members to write direct to their Representatives and Senators, urging action and giving the reasons for it. Another way is to urge your interested friends to do the same."[37]

And to this constituency, the League emphasized, above all other principles, its commitment against a completely *centralized* banking system. In a pamphlet entitled, "Origins of the League," it was written, "Co-operation, not dominant centralization, of all banks by an evolution out of our clearing-house experience."[38] In various brochures addressed to audiences as diverse as small business owners and Southern cotton planters, the League continuously discussed the

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[37] See Exhibit 13, *Report of the League's Work and of the Prospects for Satisfactory Banking Reform Legislation* (Chicago: The National Citizens' League, 1912), 3.
[38] "Origins of the League," p. 6, Pamphlet distributed by The National Citizens' League for the Promotion of a Sound Banking System, Baker Library Historical Collections, Cambridge, Massachusetts.

benefits American citizens would derive from a banking system that facilitated coordination among a system of regional banks free from the influence of Wall Street.

While this position appears to directly oppose Warburg's previous statement that nothing short of a modern central bank would be able to solve potential currency crises, the League simply desired to highlight very prominently those aspects of its banking reform platform that it felt would appeal to its target audience. The League still ultimately aspired to a plan that would centralize bank reserves, but this design was embedded within a larger discussion of a system of banks cooperating under a National Reserve Association. As Laughlin wrote in a pamphlet entitled, "Banking Reform and the National Reserve Association, "A Central Bank in the United States is undesirable and unsuited to our conditions. What we need is not *centralization* but *cooperation*, entered into by all of our independent banks, both national and state. For this reason, we must favor the National Reserve Association as opposed to a Central Bank."[39] Laughlin argued that the currency shortage of 1907 occurred when each individual bank only looked after its own interests and what the country needed was union in the face of potential panics. In order to avert future such liquidity crises, the scheme proposed by the League would divide the country into fifteen self-governing districts with local reserves that would federate themselves to form a National Reserve Association. The design stipulated that each of the districts would elect one director to the board of the National Reserve Association and also that one-third of that board would come from industries unrelated to banking. Finally, the plan also included a suggestion to create a central reserve association with an initial capital of about $300,000,000 to be obtained from the government. Under such an arrangement, Laughlin wrote,

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[39] "Banking Reform and the National Reserve Association," p. 10, Pamphlet distributed by The National Citizens' League for the Promotion of a Sound Banking System, Baker Library Historical Collections, Cambridge, Massachusetts.

"No centralized power could dominate an organism whose life is drawn from functions local to each community. The individual bank is put into helpful relations with its nearest neighbors, and not under the control of a dominating Central Bank."[40] Although these statements made by the League in their public pamphlets appeared to disagree with the earlier words of its creators in favor of centralization, the League was merely specifying in its publications that a central bank in the European sense—one that lacked the local associations proposed by the League—would be regarded with great distrust. In general, the League sought to highlight for the American public those aspects of the Aldrich bill that de-emphasized Wall Street control over the financial system and curbed the power of the central institution.

The call for instituting a system of cooperating regional banks was a theme that continued throughout the subsequent pamphlets distributed by the National Citizens' League. But, it is interesting to note that the League also tailored its message about banking reform to different audiences by exploring the differing points of emphasis in the pamphlets it distributed that targeted certain groups. The following discussion of the two differing appeals made by the League—one to the small business owners and the other to Southern merchants—regarding the creation of a National Reserve Association helps to elucidate the League's answers to the public's two primary concerns regarding reserve centralization: Wall Street control and the efficiency of the financial system.

In an address to small businessmen about the National Reserve Association that was later published in a pamphlet, Farwell was particularly critical of New York bankers, as he said, "If any one had tried to construct a banking system which he wished to have controlled by, and centered in, Wall Street, he could not possibly have accomplished his object better than by

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[40] Ibid, 11.

formulating our present plan of doing business."[41] Farwell also introduced his discussion of the function of a National Reserve Association by saying that the new plan was formulated "in order to deliver ourselves from this 'sword of Damocles' and get the whole system as far away from Wall Street as possible."[42] The use of such disparaging language towards New York and the amount of time Farwell spent in his speech on discussing the role of Wall Street in the 1907 panic indicates that he likely appealed to his audience's dislike of bankers to turn them towards the National Reserve Association plan, which he presented as the best alternative. To these businessmen, Farwell also emphasized the fact that the National Reserve Association was not, in fact, to be a central bank held in the hands of Wall Street. Rather, it would be a "cooperatively owned machine for rendering liquid the good current commercial paper of all banks and, also, through mobilization of the reserves, a steadfast bulwark against any possibility of lack of confidence in the system."[43] Thus, Farwell, in discussing the aims of the League to these small business owners, sought to portray the National Reserve Association as an entity separated from Wall Street.

Perhaps an even clearer example of the lengths the League went to in tailoring its argument to appeal to different audiences is in the writing in a pamphlet entitled, "A National Reserve Association and the Movement of Cotton in the South." In the piece, Laughlin described the import of coffee and bananas and the export of cotton through Southern ports and how these processes would be made smoother with a National Reserve Association. The principal argument being made to Southern merchants was that of efficiency. Because these

[41] "An Address to Businessmen on a National Reserve Association," p. 6, Pamphlet distributed by The National Citizens' League for the Promotion of a Sound Banking System, Baker Library Historical Collections, Cambridge, Massachusetts.
[42] Ibid, 6.
[43] Ibid, 8.

merchants dealt with various bills of exchange (including foreign bills) and required a greater amount of currency during the crop-moving period, it was extremely unwieldy to have to rely on New York banks to discount the bills and ship currency to the South. Laughlin maintained, "Such a cooperative agency as a National Reserve Association…is, by its very nature and operation, adapted to meet the peculiar difficulties which confront the South during the movement of the cotton crop."[44] The presence of Southern branches of the National Reserve Association would allow the South to be relatively freer from New York influence. Laughlin wrote, "By such a cooperative association the South would be enabled to coin its own cotton into notes through its own local associations; and there would be no reason for the expensive shipment of cash to and from New York. Moreover, by making the south dependent on only itself, it would be free from its present dependence on New York."[45] The case Laughlin made to the Southern merchants on the benefits of having a National Reserve Association emphasizes that the proposed scheme would make the economy run more smoothly, addressing the common fear that the institution of a central bank would only benefit the banking class.

Taking the League's appeal to small business owners and Southern merchants together illuminates the manner in which the League dealt with the country's two main concerns with regard to banking reform. First, the issue of Wall Street dominance was addressed by emphasizing the marked separation between the interests of the League and those of New York and with repeated declarations that the proposed system would free the financial system from the influence of banks. Second, the League appealed to the fear of another credit crisis similar to the Panic of 1907 and addressed the public need for currency, particularly in times of stress on the

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[44] "A National Reserve Association and the Movement of Cotton in the South," p. 10, Pamphlet distributed by The National Citizens' League for the Promotion of a Sound Banking System, Baker Library Historical Collections, Cambridge, Massachusetts.
[45] Ibid, 11.

banking system, by arguing that the proposed system would be much more efficient. As a whole, the main issue at stake was that of reserve centralization. The League downplayed the notions that the National Reserve Association would function as a single, all-powerful, central institution and instead stressed the aspects of the plan that called for coordination, rather than centralization, among a system of local associations.

Perhaps as a result of this large-scale publicity and educational campaign, the press was remarkably favorable towards the Aldrich plan and the aims of the National Citizens' League. An editorial published in *The New York Times* on October 21, 1911, discussing a minor change in the composition of the executive committee of the proposed National Reserve Association began with the line, "The amendments to the tentative plan proposed by Senator Aldrich for the adoption of the Monetary Commission indicate a praiseworthy stubbornness to principle and an equally praiseworthy openmindedness in detail."[46] The editorial then later affirmed statements made by Laughlin and Farwell in the Citizens' League pamphlets, as it read, "It is clear at once that New York cannot secure representation in proportion to its predominance in the banking world."[47] Such a statement indicates that the movement was successful in establishing itself as independent of Wall Street influence and that the proposed Aldrich plan had the best interests of the public at heart. The editorial finished by stating, "The proposal now enters upon its critical stage. It meets the demand for details when it was becoming insistent…Let those who are criticizing for the sake of criticism ponder the risk they run in weakening the only plan which has received and deserved praise."[48] Such praise in the popular media was also engineered, in part,

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[46] "The Revised Aldrich Plan," *The New York Times*, 21 October 1911, p.12. The change was to elect an additional 12 members to the Committee who would represent "the industrial, commercial, agricultural, and other interests of the country, and who shall not be officers of banks."
[47] Ibid.
[48] Ibid.

by the League. From July 1911 until January 1912, numerous speeches and the letters of leaders of various branches of the League that emphasized the fact that the Aldrich plan would benefit all Americans and that it would greatly weaken Wall Street's hold on the financial system were published in the *Times*.[49]

Although the League sought to allay the public's fears that proposed banking reform measures inherently called for greater centralization of reserves and power on Wall Street by underscoring the League's preference for a federation of local banking associations under a National Reserve Association, a letter from Warburg to Laughlin dated April 22, 1912, indicates that an independent central reserve was still very much a concern and priority for Warburg. Despite the League's numerous assertions that the National Reserve Association would be free from the influence of Wall Street and that it would be impossible for any one interest to dominate the organization, it is clear that even after the defeat of the Aldrich Bill, Warburg still felt that centralization of reserves was necessary in the country's banking reforms. Moreover, Warburg felt that it was necessary for men with experience in finance to be involved in the operations of the proposed institution. In response to a plan that would lessen the amount of reserves to be held at the central reserve institution, Warburg wrote, "I am worried about [Willis'] articles in the Journal of Commerce. He writes against centralization of reserves, and I believe he has the Fowler idea in mind of federating 7% and leaving the balance alone."[50]

Warburg further stated,

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[49] Titles of the articles included, "New Monetary Plan: Edward D. Fisher Points Out Discriminations in Favor of Agriculture and Business, Nothing for Stock Deals, Recent Changes in Provisions Takes Away Possibility of Any Power Controlling Banking Facilities," and "Aldrich Plan Gives New York No Power: Banks Here will Control Less than 10 Per Cent of Central Association, Security in 15 Branches, Ex-Senator Says Balance of Power is Distributed Over the Country, Not in Financial Centers."

[50] Warburg, Letter to Prof. J. Laurence Laughlin, 22 April 1912, Correspondence 1912, Paul Moritz Warburg Papers.

> "I am writing thus fully about Fowler, because I feel the necessity of killing the prestige which he might possibly enjoy with the committee, which might otherwise be too willing to listen to his plan of scattered reserves and scattered note issue. Fowler has never been a banker, and never been successful, and I am astounded by his courage to advocate a new and untried scheme approved by no practical banker, against a plan which has been carefully developed on the well established European principles by the combined banking and business-brains of the country."[51]

Warburg's strong criticism here of a competing plan that sought to further decentralize reserves in the country may shine a light on his real feelings towards reserve centralization. His statement reflects a distinct fear of decentralized reserves and note issue, indicating that the National Citizens' League's repeated statements that the National Reserve Association was essentially decentralized system of federated local associations were likely just statements meant to rouse public support for the Aldrich bill. Furthermore, Warburg's harsh criticism that the opposing plan did not originate from the mind of a banker is yet another sign of his actual feelings towards a plan free from the ideas of bankers.

The arguments raised by the pamphlets of the National Citizens' League combined, the organization's favorable press coverage regarding its willingness to take public criticism, and ultimately the statements made by Warburg in a private letter to Laughlin all suggest that the League may not have represented the plan for a National Reserve Association completely faithfully to the public with its repeated emphasis on the decentralized nature of the proposed system. Under the direction and leadership of Warburg, the League placed tremendous importance on its Midwestern origins and frequently denounced Wall Street in its pamphlets in order to sever ties with the banking class. But it appears from Warburg's own writings from that time that these aspects of the League were publically highlighted while others, in particular the identities of the organization's actual leadership and its commitment to having a centralized

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[51] Ibid.

reserve system, were obscured for the sake of drawing public support to the cause of banking reform. This is not to say that the League was purposefully dishonest in concealing these aspects of its organization to the American public. Rather the country's financial elite, led by Warburg, was cognizant of the difficult political realities of the time and was forced to garner the public support needed to pass the banking reform bill it felt the country needed.

V. Conclusion

In January of 1912, the Aldrich bill was introduced to the Senate, where it was quickly defeated. Though the plan was in this original form and under Aldrich's name was unsuccessful, the Aldrich plan had an enduring impact on the course that banking reform would take, and consequently, on the country's entire financial future. As Warburg wrote,

> "While the Aldrich Bill thus failed to become law, it would nevertheless be a great injustice to deny its author credit for the invaluable service he rendered by boldly cutting loose from the antiquated principles on which American banking legislation had until then been resting and in proposing a plan which was recognized as constituting so great an advance that even its defeat made it inevitable that any substitute plan would have to adopt many of its principles and essential features…He showed extraordinary courage and vision for which the country owes him an everlasting debt of gratitude."[52]

But in this statement, Warburg fails to recognize his own part in formulating the Aldrich Bill, and perhaps even more importantly, his role in the creation of the National Citizens' League, an organization that succeeded in educating thousands of ordinary Americans on the principles upon which sound banking reform should be based. Although the League was not wholly forthright with the public regarding its origins and positions, the organization, as a whole, appears to have been critical in laying the foundations for mobilizing the populace for banking reform. By addressing public fears regarding reserve centralization and Wall Street control head on, the

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[52] Warburg, *The Federal Reserve System, Vol. 1*, 79-80

League made substantial inroads in creating popular acceptance for the bill among average businessmen and merchants. Furthermore, the bill that was eventually passed as the Federal Reserve Act in 1913 was remarkably similar to the original Aldrich plan, undeniably a reflection of the efforts of the National Citizens' League.

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