

WILLIAM GIBBS McADOO

BY JAMES C. HEMPHILL

Nobody in the larger political world knew anything about William Gibbs McAdoo before he came to Washington as a member of the President's Cabinet. He had "done his bit," doubtless, in the local politics of New York City, if, forsooth, anything done in New York City could be described as "local," and he made an impression upon the workers at the Convention in Baltimore; but to the masters of assemblies he was an unknown quantity. And yet the President assigned him to the most important place in his Cabinet and he never made a better choice.

What are Mr. McAdoo's qualifications for the office which he holds? They are many. For example: A serious purpose to serve the country absolutely without thought of personal gain. Wise discretion in the administration of his Department, and a comprehensive grasp of the financial interests of the whole country without prejudice to the welfare of any particular class or section. Intimate touch with every banking and financial institution in the land, not by frequent so-called "hearings," but by confidential correspondence and personal interviews with the bankers themselves and the administrators of great trusts. Unrivalled courage in dealing with new and critical emergencies affecting private rights and the public credit; the protection of one being contingent upon the preservation of the other. A statesmanlike conception of the proper relations of the public treasury to the public welfare and the necessity of adequate legislation to meet the requirements of a steadily expanding commerce.

What has Mr. McAdoo accomplished? It is a long story, but well worth telling. By the Federal system of Banking and Currency, with the enactment of which he had a great deal to do,—more than he has ever claimed for himself and far more than he has been credited with,—he has made the

United States immune to financial panics. He has converted the Treasury from a passive or subservient factor in the affairs of the Nation to an active, forceful and potent agent in the public service. Practically all the great domestic reforms of the Democratic régime have been centered in his Department. He began with the revision of the tariff in 1913 and ended, so far as the present record goes, with the floating of the loan of seven billion dollars to the Allies of the United States in the war for democracy and freedom.

The adjustment of the country to the new banking system and the revenue requirements of the Government under the radical revision of the tariff would have been sufficient to test the metal of the strongest man. In the ordinary and natural course of business, however, the new conditions would have been settled without serious disturbance in the country at large. There would have been, inevitably, a re-formation of the industrial activities of the Nation, possibly a considerable loss to certain special enterprises long sustained by Government crutches; but there would have been evolved speedily from the confusion of change a new and better order of industrial and commercial independence. Within a year and a half after Mr. McAdoo had taken office the world was on fire. The whole complexion of the Government at Washington had been changed, untried men were in charge of every department, many of the "left overs" were distinctly unfriendly if not actively hostile to the Administration, the public mind was studiously inflamed against the policies of the party newly restored to power, nothing but disaster to all established industry would satisfy the political scavengers who proclaimed the failure of popular government, when suddenly one day in the month of August, 1914, the war drums were heard round the world. Apparently the end had come. Foreign exchange was disorganized, credit facilities were destroyed, shipping was practically suspended for a time, the United States was commercially isolated. This was McAdoo's opportunity and he met it like a man. Had he failed in this supreme test all else would have failed. Prominent bankers of New York appealed to him to save the country, saying that unless immediate measures were taken to relieve the situation the banks of New York would not be able to open their doors throughout the day of August 3, 1914. He did not hesitate a second, but immediately placed the resources of the Treasury at the

service of the country. Currency was needed to meet the demands of credit in the extraordinary circumstances. There was \$500,000,000 of emergency national bank notes in the vaults of the Treasury under the terms of the Aldrich-Vreeland Act, but it was available only to the extent of 40 per cent. of the capital of any bank secured by United States bonds. By the legerdemain of the highest statesmanship Mr. McAdoo obtained from Congress authority to issue to any national bank emergency circulation equal to 125 per cent. of its unimpaired capital and surplus. The situation was saved and the most stupendous panic ever known was averted. Specie payments were not suspended; there was sufficient currency for all the commercial needs of the country. On the Saturday preceding the 3rd of August, 1914, Mr. McAdoo shipped to New York from Washington by express \$40,000,000 of emergency currency to meet the very crisis the bankers had described, on the condition that they would pay it out over their counters upon demand not only of their depositors but of their correspondents throughout the country as well. In the first week of the war, emergency currency to the amount of \$386,444,215 was issued by the Treasury to all parts of the country needing it, and all of this currency has since been retired.

With the assistance of Mr. McAdoo and the Federal Reserve Board a fund of \$100,000,000 in gold was raised in 1914 for the purpose of enabling the business men and bankers of the United States to meet their obligations in gold without suffering from the high price of exchange which the outbreak of the war would have entailed.

The Federal Reserve system of banking was largely the result of Mr. McAdoo's efforts, and has been rightly described as the greatest piece of constructive legislation in the history of the United States. It was much discussed when it was on its passage and excited strong opposition on the part of financial leaders who had prospered amazingly under the old system which it displaced; yet immediately upon the enactment of the law one of the most pronounced of its opponents declared that it was "at least ninety per cent. good," and there are few, if any, who would go back now to the outgrown system which served its purposes very well for half a century but had lost touch with the growth of the country. The bankers and business men wanted a system that would make panics impossible—they have it. The

people wanted a system which would give them cheaper money and money when they most needed it—they have it. Without the credit facilities of the Federal Reserve system, the wonderful prosperity of the last two years would have been impossible. It has made commercial paper good security for Government deposits in the banks. It permits bankers to utilize the great liquid assets represented by commercial paper (the strongest possible security, and the security, in fact, upon which the larger part of the business of the country was done when the banking was not under Federal direction) for deposits of Government funds. Mr. McAdoo was behind the Federal Reserve legislation. He was chairman of the special committee which divided the country into twelve Federal Reserve Districts and selected the places where the twelve Federal Reserve Banks should be established. He is Chairman of the Federal Reserve Board, which supervises and directs the operation of the system, a system which will stand forever as a monument to the Administration of Woodrow Wilson. The new system was put into successful operation November 16, 1914, less than three years ago, and has proved so responsive to the credit needs of the country and has afforded such facilities to every line of business that a financial panic is now practically impossible; the resources of all the banks in the system being responsible for the security of each.

The Federal Farm Law, which was enacted as a complement of the Federal Reserve Act, is another of Mr. McAdoo's successes. This law is operated under the direction of the Federal Farm Loan Board, of which Mr. McAdoo is Chairman. The twelve Federal Land Banks created by this law are under the supervision of the Federal Farm Loan Bureau of the Treasury Department. The Federal Reserve Act affords short-time credit facilities to farmers and to all others who are engaged in legitimate business in the country. This has not been what the farmers have wanted and needed, however, and under the long-time credit provided by the farm loan system it is possible for the farmer to borrow at reasonable rates of interest for periods ranging from five to forty years; and this act may also be noted as one of the greatest pieces of constructive legislation of the Wilson Administration. There has been objection to it because it seemed to its critics to be inconsistent with the much advertised slogan of the Democratic party, "Special privileges for

none; equal rights for all." But it could not have come at a time when the country was so dependent upon the farmer, not only for the support of the armies in the field, but also for all the people of the world who are to be fed by America.

It was Mr. McAdoo also who realized clearly the prime necessity of building up the American merchant marine. With most of the ships of Germany sequestered in the harbors of the world and powerless to move, and a large part of the tonnage of England commandeered for the uses of naval warfare, he insisted that the American marine should be built up so that the products of this country might be moved expeditiously to foreign markets and the American flag restored to the seas. He proposed legislation that would have had this result. It was passed by the House of Representatives, but was filibustered to death in the Senate, with the result that the United States lost a great opportunity. Later the very thing Mr. McAdoo urged was the thing that had to be done if the foreign trade was to be built up, and the very thing in a somewhat different form that the Congress finally did do by creating the United States Shipping Board, providing for the construction, chartering, and operation of ships under the American flag.

With what now almost seems to have been an act of inspiration, when the war began Mr. McAdoo obtained the passage of an act by Congress creating a Bureau of War Risk Insurance in the Treasury Department for the purpose of insuring against war risks vessels flying the American flag. There was little insurance of the sort to be had and the rates charged were practically prohibitive. Without such insurance Mr. McAdoo saw that our foreign trade would quickly collapse without Government aid, and the law he recommended was passed. The day after its passage the Bureau of Insurance was established and it has been of immense value to all who are engaged in the export trade. With the approval of the President the powers of the Bureau are to be extended, if Congress shall keep its head, so that not only will the cargoes and ships be insured, but the lives of the men who go down to the sea in these ships will be insured, with certain indemnities for loss of limb and compensation during captivity.

Mr. McAdoo's activities have been as broad and varied as the business of the country. In the same spirit with which he hastened to the relief of the banking interests when panic

was impending in New York, he hastened also to the relief of shippers and exporters and wheat growers and cotton planters when their welfare was imperiled by a world out of joint. Grain was congested at the ports, on the railroads and in elevators. The conditions were so serious that he called the foreign exchange bankers, exporters and shippers into conference at the Treasury Department on August 14, 1914, for an exchange of views and counsel as to the best means of meeting a really desperate situation. Four days later another conference was held with bankers, business men, railroad men and planters to consider the cotton situation, at that time desperate, and with such effect that confidence was largely restored.

For many years there had been a scarcity of currency at the crop-moving season, and in the Spring of 1913 there was the usual cry of stringency in financial circles. It was an artificial condition, and Mr. McAdoo determined to meet it by placing at the command of the banks in the distressed regions the Government funds which by long usage had previously been deposited in the great money centers. He announced that he would deposit from \$25,000,000 to \$50,000,000 of Government funds with the National banks of the South and West where the seasonal demands were pressing for the movement and marketing of the crops. In accordance with this announcement \$46,550,000 was so deposited—in the South, \$22,550,000; in the Middle and Northwestern States, \$19,000,000, and in the Pacific and Rocky Mountain States, \$4,950,000. Confidence was so restored that it was necessary to distribute only \$37,386,000 of this large fund—in the South \$21,804,000 and in the Western States \$15,582,000. These deposits were placed in one hundred and thirty banks in forty cities in thirteen Southern States and the District of Columbia, and in sixty-three banks in twenty-three cities in fifteen Western States. The Government received \$267,844.51 as interest on these deposits at 2 per cent. annual interest, and as security for these deposits for crop-moving purposes Mr. McAdoo accepted high-class commercial paper at 65 per cent. of its face value. This was an unprecedented step in national finance, as commercial paper had never before been accepted as security for Government deposits. It was of the largest possible benefit to the business of the country as it enabled the banks to obtain the required funds upon the pledge of available paper already in their vaults,

and for the first time in history under the old law conferred a large degree of flexibility upon the credit resulting from the deposits. It was the application in advance of the enactment of the Federal Reserve Act of one of the fundamental principles of that law, permitting bankers to utilize their great liquid assets represented by commercial paper, the strongest possible security, to obtain Government deposits, a privilege that had been denied them in the past.

In 1914, Mr. McAdoo followed the policy which had worked so well and with profit to the Government the previous year and with like good results, with the difference that it was necessary to deposit only \$23,135,844, upon which the Government received \$189,584.20 as interest. Money for the movement of the crops is now taken care of by the Federal banks.

In the management of the Treasury Mr. McAdoo has made another very notable departure. He is the first Secretary of the Treasury who has required the national banks to pay interest on all Government deposits on the sound business principle of charging reasonable interest for the use of the money of the people. For years these banks received hundreds of millions of the Government funds, greatly increasing their working capital, without paying the Treasury one cent for its use in their business. In three years, from June 1, 1913, to June 30, 1916, Mr. McAdoo earned over \$3,500,000 for the Treasury by charging the banks interest at the rate of 2 per cent. per annum on all Government deposits, as compared with \$732,000 for the six years from 1908 to 1913, no interest whatever having been charged prior to 1908. If the policy of charging 2 per cent. interest per annum on public funds deposited in the banks had been followed from 1898 to 1913 the Treasury would have earned during the sixteen years \$30,700,000.

Mr. McAdoo has not confined himself to the mere routine work of his Department, but has taken a broad view of the duty and obligation of this country to the outside world. No pent-up Utica can contract his powers; the whole Western Hemisphere is his field, or will be if his efforts to strengthen the financial relations between the United States and Latin America shall succeed. He believes that the economic security of the American republics depends upon closer material relations and that the present is the opportune time for bringing about such relations. It was at his

instance, and with the hearty approval of the President, that the Pan-American Financial Conference was held in Washington two years ago. The object of the Conference was to make the men of leading and influence in the business, commercial, and political life of the several Americas better acquainted and to consider together with them the economic needs of the Western Hemisphere over which the United States had exercised a sort of paternal guardianship since the days of James Monroe, but without having caught the spirit of partnership. Ministers of finance, business men of South and Central America, were in attendance and for a full week were in close touch with the representatives of all great financial and industrial forces of the United States and of the Government at Washington. Problems of the largest economic importance to each of the Latin American Republics were considered as they related not only to the United States but as they related also to the development of closer relations between the countries of the New World. As the result of the Conference, an International High Commission was organized to transmute the ideals of the great gathering into practical form. This Commission consists of twenty national sections representing the twenty American Republics participating in the Conference at Washington, and each of these sections consists of nine jurists or financiers under the direction of the minister of finance of the country for which it stands. The High Commission is especially charged with the study of the best means of removing legal and administrative obstacles to closer financial and trade relations between the Americas. Its function is to prepare projects for more modern and uniform fiscal regulations, to undertake the essential uniformity, if not literal identity, of codes of commercial law; to strengthen the public finances of all the participating nations. Last year the Commission held a meeting at Buenos Aires and was attended by a delegation from the United States headed by Mr. McAdoo. At this meeting the organization was perfected and a series of practical resolutions was adopted that are now being carried out under the direction of a Central Executive Council, of which Mr. McAdoo is Chairman, and with him are associated John Bassett Moore, the highest authority on international law, and Dr. L. S. Rowe. A complete, constructive and co-operative policy of governmental action in the entire field of communications—water, rail and tele-

graph—is being worked out, and at the instance of Mr. McAdoo Congress has enacted a law regulating bills of lading which will greatly promote our foreign commerce by assuring the validity and negotiability of such instruments.

In 1915, immediately following the declaration of the British Government and its Allies placing cotton on the contraband list, Mr. McAdoo made the announcement that he would, if necessary, deposit \$50,000,000 in gold in the Federal Reserve banks in Atlanta, Dallas and Richmond to enable these banks by increased resources to rediscount loans made by National banks or member State banks on cotton secured by warehouse receipts. There was an immediate restoration of confidence and the value of cotton was increased three cents the pound. The action of Mr. McAdoo in this case so relieved the situation that he was not called upon for more than \$15,000,000. Ten days after he had determined on his course in this matter the Federal Reserve Board further relieved the agricultural situation by regulating commodity paper so that borrowers everywhere in the country were able to obtain credit at six per cent. or less. Under the regulations of the Board the Federal member banks were authorized to extend accommodation to borrowers on non-perishable staples, agricultural products, properly warehoused and insured, at a time when such accommodation was most needed, at six per cent. or less, and to obtain from the Federal Reserve banks, if necessary, money at three per cent. The regulations did not apply to cotton alone, but covered all non-perishable commodities in all parts of the country.

Mr. McAdoo is now engaged in the most exhausting labor ever required of any man employed in the public service. He has been charged by Congress with the responsibility of lending \$3,000,000,000 to the Allies, now the Allies of the United States, in the most stupendous war of all time. In addition, he must provide \$2,000,000,000 for the war purposes of the United States. Under the law, and with the approval of the President, he is authorized to make such arrangements with the foreign nations as may be necessary in connection with the purchase of their securities. The larger part of the \$3,000,000,000 lent to the Allies will be expended in the United States for munitions, clothing and food, and in order that the buyers may get the most for their money and that there may be the least possible disturbance

of the markets, Mr. McAdoo has planned the appointment of a special commission or commissioner whose business it will be to regulate and control the purchase of supplies in an orderly and scientific manner to meet the needs of the Allies as they may appear.

Instead of "a billion-dollar Congress," against which all true economists inveighed bitterly a few years ago, before the United States became a World Power, there is now a seven-billion or a ten-billion-dollar Congress, or whatever multiple may be required as the war goes on, and it is Mr. McAdoo's task in large measure to devise the ways and means of meeting the situation however it may develop. Some idea of the gigantic burden resting upon him may possibly be gained by the citation of a few comparative figures. The seven-billion-dollar war proposition is equal to very nearly the entire assessed value of all the property in the New England States, which is reported by the Secretary of Commerce to amount in the aggregate to \$7,599,586,847. It amounts to more than the half the assessed value of all the property in New York, State and City. It is nearly equal to the entire amount expended by the United States for war purposes from 1789 to 1916, and exceeds the amount paid by the United States on account of the Navy during the same period by nearly four billion dollars. It exceeds by two billion dollars the cost of the Civil War to the United States. It amounts to two billion dollars more than the United States has paid out in pensions for military service from the foundation of the Government.

The British and French missions recently visiting the United States were profoundly impressed with the Secretary's grasp of the financial problems he is solving and must solve; with his indifference to censorious criticism, with his mastery of large questions, with his contempt of those who misrepresent and threaten, with his hearty response to those who stand ready to help, with his clear vision of the public ends to be served; and wherever he has gone to present the financial side of the war the people have heard him gladly, the bankers and men of large affairs have responded to his call with enthusiasm; and with something of the spirit of invincible France the hidden stores of wealth are pouring out for the defense of "the land we love."

JAMES C. HEMPHILL.

THE SEPARATION OF POWERS IN OUR GOVERNMENT

BY EDGAR DAWSON

A Defense of the Constitution, contributed by Dr. David Jayne Hill to the March number of the REVIEW, seems to group those who have lost confidence in the efficacy of the separation of powers as a bulwark of liberty with those who advocate the extended use of the initiative, referendum and recall. Dr. Hill's long and distinguished public service, the soundness of his political philosophy, and his convincing argument in defense of the best in our system of government, give to his statements an authority which carries conviction. Unless a word of protest is uttered, this classification will tend to weaken those who would eliminate the theory of the separation of powers from our system and to alienate from their support some who are coming to see that the theory is destructive.

He mentions as the four corner-stones on which our constitutions have been erected: 1, Representative Government; 2, Division of Public Powers; 3, Guarantee of Personal Immunities; and 4, Judicial Protection of Constitutional Guarantees; and he rightly argues that the public press is neglecting its duty to combat the tendency of the day to try political experiments and to neglect experience. His arguments for representative institutions, however, are weakened by the fact that he associates with them the theory of separation of powers, which, while it is one of the corner-stones of our political system, has proved to be a crumbling support,—one that has so weakened the structure that there is danger of collapse. It is impossible to show that representative institutions are in any essential respect dependent upon the separation of powers or bulwarked by acceptance of the