The Senate Passes the Federal Reserve Act

December 23, 1913

It took many months and nearly straight party-line voting, but on December 23, 1913, the Senate passed and President Woodrow Wilson signed the Federal Reserve Act. The need for a central bank became painfully evident during the financial panic of 1907, when the stock market collapsed, banks failed, and credit evaporated. Because the federal government lacked the tools to respond, it had to depend on private bankers, such as J. P. Morgan, to provide an infusion of capital to sustain the banking system. To correct the problem of an "inelastic currency," Congress created a National Monetary Commission, chaired by Rhode Island Republican senator Nelson Aldrich. Aldrich proposed a system that would be run by private bankers who would act as federal agents. Progressives adamantly opposed what they called a surrender to the "Money Trust" and blocked its passage.

In 1912 Democrats won the White House and majorities in both houses of Congress. Even before his inauguration, President-elect Woodrow Wilson began encouraging congressional leaders to enact banking and currency reform. In March 1913 the Democratic Senate created its first Banking and Currency Committee, chaired by Oklahoma senator Robert D. Owen. The House Banking Committee was chaired by Virginia representative (and future senator) Carter Glass. In June President Wilson formally proposed creation of a government-run Federal Reserve system. The House took up the issue first and passed a bill in September, after which the Senate Banking committee began holding hearings.

By December the Senate was debating and voting on its version of the bill. When all of the Senate Republicans voted for a substitute measure, Senate Democrats opted to make the banking and currency bill a "party question." At that time, the Democratic Conference had a "binding caucus" rule, by which whenever two-thirds of the conference voted in favor of a bill, all of its members agreed to support it and not to offer amendments on the floor. The Senate therefore passed the Federal Reserve Act by an almost party-line vote. The bill then went to a conference committee, which forged the necessary compromises and reported it back on December 22, when it was accepted by the House.

On December 23, 1913, the Senate adopted the conference report by a vote of 43 to 25, with every Democrat present voting for the measure and all but four Republicans voting against it. (Twenty-seven senators were "paired" or chose not to vote.) Most senators immediately rushed to Union Station to catch trains home for the holidays, while the chief sponsors went to the White House. President Wilson signed the Glass-Owens Act at 6:00 p.m. He used four pens, then gave one to each of the leading sponsors. Wilson commented that he was not accustomed to using a series of pens. The Democratic whip, Senator J. Hamilton Lewis of Illinois, responded, "The bill itself was made in installments, Mr. President." "Yes," said Wilson, "and very slowly." The Oval Office filled with cheers for what became the most lasting legislative accomplishment of the Wilson administration.