THE PROGRESSIVE MOVEMENT 1901-1917

Define and discuss the progressive movement. In your discussion list the problems which the Progressives faced and show what affect muckraking had on society in helping the Progressives solve these problems.

I. Concept number one: Define the progressive movement.

A. The years from the beginning of Theodore Roosevelt’s presidency in 1901 until 1917 when the United States became involved in World War I are generally known as the progressive years or era.

1. This was an age dominated by a passion for social progress and reform in politics, business, and morals.

2. As its name implies, progressivism was a movement founded on the notion that further progress toward social justice was necessary if democracy was to survive.

3. Progressives aimed to correct what they considered to be the most serious social faults of the American way of life which had accompanied the growth of big business in the post-Civil War period. The result was:

   a. Federal regulatory agencies were established in an effort to curb monopolies and restore competition.

   b. Trust-busting, not necessarily successful, was the order of the day.

   c. Tariff and banking reform.

   d. For labor, the improvements of working conditions were undertaken.

   e. Laws were passed protecting the consumer against abuses by meat packers and food and drug manufacturers.

4. Out of this progressive impulse arose both the "Square Deal" of Republican Theodore Roosevelt and the "New Freedom" of Democratic Woodrow Wilson.

5. The progressive movement laid the philosophic and some of the legislative foundations of the New Deal. Thus, the New Deal was not new at all.
II. **Concept number two:** Discuss the six problems which faced the progressives. The problems which the reformers had to deal with were many and complex; but six problems can be listed which embrace, in one form or another, practically all of the particular evils which the progressives hoped to eliminate.

A. The first problem was the **confusion of ethics**:

1. A confusion of ethics developed when society tried to take the moral code and values of a simple agrarian society (SAS) and tried to apply those moral values to a highly complex industrialized society (HCIS).

   a. In the Landed Frontier, man was **independent** and only vulnerable to elements of the environment. The "Big Six Values" and moral codes (Social Darwinism, laissez faire, rugged individual, etc.) worked well there.

   b. In HCIS man is **interdependent** upon certain elements within society for survival (upon the integrity of certain individuals and companies.) He is vulnerable to elements of complex society because he is dependent upon them for survival. The more complex society becomes the more vulnerable its people become; thus social sins are committed against society.

2. Social sins and responsibility in society:

   a. Man is a product of his environment and the environment advocated certain values. John D. Rockefeller and J.P. Morgan were only doing what society advocated. This created social sins or abuses and as more and more social sins were committed pressure was put on government for protection.

   (i) Simple agrarian society:

      (a) In simple agrarian society, social and personal morals are one and the same because you are doing business with your friends and neighbors.

      (b) Direct responsibility: in most cases, social sins were not committed on purpose.
(ii) In a highly complex industrialized society, there are **two sets of moral codes.** (1) In business, the moral code is the survival of the fittest or the end justifies the means. (2) In personal relationships, the general rule is to treat people honestly and as you would a friend.

(iii) In a complex industrialized society, there is also the diffusion of responsibility which makes social sins difficult to detect and difficult to stop.

(a) Diffusion of responsibility developed as a result of the **isolation** between the corporate producer, the marketing system, and the consumer. The complexity of corporate America made it easier for management and the worker to carry out the social sins. Hence, the **impersonality** of social sins, along with the complexity and diversity of the new industrial society, made it difficult to fix responsibility on any one group.

(iv) The Progressives had to educate the public to a new **morality** and to new values in order to make business more responsible and operate on personal morality, instead of business morality. In order to protect people, they had to do the following:

(a) Educate the Public to abuses. This was accomplished mainly by the muckrakers.

(b) Pass laws to make the social sins or abuses such as horizontal trusts, railroad rebates, and drawbacks illegal.

(c) Third, create an administrative bureaucracy (i.e. Pure Food and Drug Administration) to enforce the laws--to protect individual rights.

B. **Trust Regulation:** New social and economic problems within society developed when the "economic base" or organization of society changed from a simple agrarian society to a highly complex industrialized society. Trust regulations were Roosevelt's and Wilson's way of dealing with this change in the "economic base" caused by the rise of big business, the growth of trusts and monopolies.
C. Uneven Distribution of Wealth: The problem of an uneven distribution of wealth came about because a small percentage of people had a large percentage of the wealth which provided for an unhealthy economy. The corporation was the key tool used to create this situation along with the trickle-down theory or supply-side economic philosophy.

1. For example, the first half of the nineteenth century saw the rise of only a few large fortunes. Most of these came from off the land or in shipping.

2. The industrial revolution changed all of that. An estimate in 1890 indicated that 12.5% of the people owned 87.5% of the property. It should be noted these people used their economic power to avoid just taxation and regulation of their property.

3. The great fortunes of the late nineteenth and early twentieth centuries came not from the land, but from the exploitation of workers, as well as natural resources, manufacturing, banking, and speculation.
   a. In 1892, the New York Tribune compiled figures on the millionaires of the country.
   b. There were 1,000 millionaires from merchandising, 600 in manufacturing, 300 in banking, 200 in transportation, and 26 farmers had made the grade.

D. The Rise of the American Cities: American cities had a rapid unregulated growth during the late 1800's as a result of people moving in at a faster rate than the cities could adjust. This growth created problems such as housing, health and sanitation and crime.

1. The number of prison inmates in the United States increased by 50% in the 1880's and the homicide rate nearly tripled, with most of the rise occurring in the cities.

2. People were moving to the cities because they saw new opportunities which were no longer available to them in the landed frontier.

E. Political Corruption: Whether working within the framework of the city, state, or federal government, the reformers frequently confronted the fifth major problem: the prevalence of political corruption. The progressive movement in politics started in the cities, spread to the state, and ultimately reached the federal government. The reasons for the breakdown of the political system were that the administrative organization, inherited from a simpler day, could not function
under the weight of its new duties as it lacked the financial ability and administrative structure to solve its own problems. Also, the legitimate financial rewards of politics were so meager that able men preferred business and political offices became good only for the extra-legal benefits they brought.

F. Race Relations: With the Compromise of 1877, the position of the black man deteriorated. From 1877 to 1901, the Supreme Court decisions basically undermined their position in society.

1. In the Civil Rights Cases of 1883, the Supreme Court ruled that the federal government had no jurisdiction over such matters as social discrimination directed by private persons or organizations against persons of a different race or color.

2. In 1896 the Court held in Plessy v. Ferguson the separate but equal facilities satisfied the 14th amendment’s requirement that the states give “equal protection of the law.”

3. Williams v. Mississippi, 1898: Williams a black man was tried in Mississippi for the murder of a white, convicted by an all-white jury, and sentenced to death. He alleged that he had been denied the equal protection of the laws guaranteed by the 14th amendment, because the laws of the state were rigged in such a way as to exclude members of his race from jury service. In Mississippi, to be eligible for jury service one must be qualified to vote. To be a voter one must have paid his poll tax and have satisfied registration officials the he could not only pass a literacy test but also could understand or reasonable interpret any clause of the state constitution; registration officials had sole discretion to decide whether an applicant had the requisite understanding. In Mississippi at that time, a black graduate of Harvard Law School could not satisfy white officials. The state convention of 1890 clearly adopted new qualifications on the right to vote in order to insure white supremacy by disfranchising black voters. Under prior laws there were 190,000 black voters; by 1892 only 8,600 remained, and these were soon eliminated. Blacks disappeared from jury lists after 1892. In Williams v. Mississippi, the Supreme Court that the state constitution and laws passed under it, prescribing the qualifications of voters and jurors, did not on their face discriminate racially.

4. The black man was left to fend for himself and with the help of some white sympathizers in the progressive movement tried to gain his rights in society through two different approaches.
5. Booker T. Washington was a black leader in the 1890's who was looked upon as a spokesman for the majority of the black people. He felt the black man should remain quiet, not be a social or political disturber, and try to improve his **economic worth** with education and new skills. If the black man improved, then society would reward him by giving him social and political equality.

6. W.E.B. DuBois was involved in the Niagara movement which eventually became the NAACP (DuBois was the only black; he was Director of Publicity). DuBois felt the only way a black man could get equality in society was to gain his **political rights**. Blacks needed to get laws changed and get their political and civil rights guaranteed before they could enjoy economic and social benefits from whites.

7. Both of these views have merit, but must be done simultaneously to be effective as a solution for the black man. It is also necessary to try to modify the white's attitudes and behavior towards black people in society.

III. **Concept number three**: Define and discuss "Muckraking" and show how it was an effective tool used by the progressives to solve society's problems.

   A. Muckraking, which suggests "digging up dirt," got its name from a speech made by President Theodore Roosevelt in 1906 about the journalists who were exposing corruption in American society. The time period during which much of this muckraking took place was from 1902-1912.

   B. The term "muckraker" was reserved for the journalists and novelists of the Progressive era, but the literature of protest began some two decades earlier and was the work of philosophers and social scientists like Lester Ward and Henry George.

      1. Historians date the start of muckraking with Lincoln Steffen's "Tweed Days in St. Louis" in the October, 1902, issue of McClure's, for it was not until then that such writing captivated the nation.

      2. Muckraking arose, not because Americans fell in love with honesty, but because of the radical changes which society had just undergone.

      3. Muckraking flared up at about the time when land was no longer freely available and large scale industry had begun to make clear that success was no longer easily possible for everyone.

   C. The muckrakers did the work that no one else was prepared to do.
1. They exposed the particular inequities that afflicted American life, stirred public opinion to the point where it was willing to support men like Roosevelt and Wilson in their reform programs, and planted the seeds of progressivism which the politicians were to harvest.

2. Muckraking was primarily a magazine phenomenon made possible by the development of the inexpensive periodical (McClure's, Everybody's, Cosmopolitan, and Collier's) with mass circulation willing to deal with controversial questions.

D. Examples of muckraking:

1. The January, 1903, issue of McClure's Magazine was sold out and the people clamored for more when it published Ida Tarbell's series on Standard Oil and the method by which the company had been built.

   Tarbell published a wealth of statistical data showing how Rockefeller had crushed his competitors, seized control of natural resources, and purchased legislative favors.

2. Tarbell was paid $4,000 an article and Lincoln Steffens's essays on corruption in American cities brought $2,000 an article.

   a. With backing like this, the journalists were able to search court records, locate witnesses, and dig up mountains of facts.

   b. Earlier social critics like Lester Ward and Henry George relied partly on the public record and partly on guesswork, but the new muckrakers named names and recounted misdeeds in sensational detail.

3. Perhaps the most famous accomplishment of the muckrakers was a series by Lincoln Steffens, who investigated Philadelphia, Pittsburgh, Minneapolis, St. Louis, and a host of other American cities and found them all suffering from the same ills: political corruption.

   a. In Minneapolis, Steffens achieved one of the great coups in the history of reporting.

      (i) Steffens obtained the ledger in which graft collectors had entered their accounts and the names of the persons to whom money was paid, and photographed its pages.

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Steffens published the names (in McClure's Magazine) of public officials on the take and told how, under a mayor (Dr. Ames) who had been elected twice by the Republicans and twice by the Democrats, the chief of detectives (an ex-gambler--Norman King) had invited criminals to Minneapolis, fired 107 honest policemen, and freed prisoners to collect revenues for the gang.

b. Steffens received many letters from other cities after his articles were released asking him to come to their cities and expose the graft that existed there.

4. It is said that this phase of the progressive movement must be understood as a version of the old Protestant revivals. It was a revival for the sins of society, the seeking of salvation for society.

5. Upton Sinclair wrote a novel, The Jungle, which revealed filthy conditions in the Chicago meat-packing industry. Sinclair wrote: "There would be meat stored in great piles in rooms, and the water from leaky roofs would drip over it, and thousands of rats would race about on it. It was too dark in these storage places to see well, but a man could run his hand over these piles of meat and sweep off handfuls of the dried dung of rats. These rats were nuisances, and the packers would put poisoned bread out for them. They would die, and then rats, bread, and meat would go into the hoppers together. This is no fairy story and no joke. The meat would be shoveled into carts, and the man who did the shoveling would not trouble to lift out a rat even when he saw one. There were things that went into the sausage in comparison with which a poisoned rat was a tidbit."

a. Roosevelt read Sinclair's account of these conditions and dispatched two agents to confirm all that he wrote. The agents' report read, in part, as follows: "We saw meat shoveled from filthy wooden floors, piled on tables rarely washed, pushed from room to room in rotten box carts, in all of which processes it was in the way of gathering dirt, splinters, floor filth, and the expectoration of tuberculosis and other diseased workers."

b. As a result of Sinclair's muckraking, the Meat Inspection Act of June 30, 1906, required federal inspection of meats destined for interstate commerce and empowered officials in the Agriculture Department to impose standards of sanitation. Also enacted on that day was the Pure Food and Drug Act, which placed restrictions on the makers of prepared foods and patent medicines, and forbade the manufacture, sale, or transportation of adulterated, misbranded, or harmful foods, drugs, and liquors.

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c. Although there were federal inspections for meat that was destined for interstate transportation, there was not such legislation for meat that was to be transported within its origin state. As recently as 1967, twenty-two states did not require mandatory inspection of livestock before and after slaughter; and eight states had no meat inspection at all.

d. These state plants were often peddling what was known in the industry as "4-D meat." This stood for dead, dying, diseased, and disabled, and this meat obviously could not pass federal inspections. Large meat packers, such as Armor, Swift, and Wilson and Company, claimed that they were forced into operating these non-federally inspected interstate plants by competition from unregulated establishments.

E. A great many important and valuable reforms were in part adopted as the result of muckraking. What the muckrakers tried to do was necessary. The evils were there and there was no hope of removing them until the public was aroused to recognition of their existence.

F. The decline of muckraking

1. Muckraking was no longer needed because the conditions against which it was directed had been abolished.

2. However, it would be wrong to suggest that the muckrakers ceased their efforts of their own accord, because they believed their work was finished.

   a. A number of muckraking magazines were forced out of existence or compelled to change their policies.

   b. There is considerable evidence to show that financial interests did manage to suppress more than one magazine that had been antagonistic to Big Business.

3. Finally, it is quite evident other magazines gave up muckraking not because their existence was threatened by the financiers and industrialists, but because articles devoted to exposure did not serve to keep circulation high. It appeared the American people became tired of them.

IV. **Concept number four/ Essay question number 10:** Give examples of the progressive movement in action by comparing and contrasting Theodore Roosevelt's "Square Deal Philosophy" with Woodrow Wilson's "New Freedom."
A. On September 6, 1901, six months after his second inauguration, President McKinley was shot by an anarchist and Theodore Roosevelt became President.

B. The Square Deal

1. As President, Roosevelt believed he had two important functions:
   a. The first was to serve as the moral leader of the American people, and
   b. Second was to enforce the national interest against special interest.

2. Roosevelt thought the country faced two great dangers:
   a. the mob, which could be whipped up by demagogues to overthrow existing institutions, and
   b. the plutocracy, which lacked the necessary virtues for leadership and by its excessive greed incited the mob.

(i) Roosevelt's role as the moral leader of the people was to balance out the differences of the two interests and give everyone a "Square Deal."
(ii) He believed in change, but gradual change, within established institutions.

C. Roosevelt's interest in reform was always qualified by his distaste for most progressives.

1. His own program was based upon his own moral principles and was general rather than specific.

2. Roosevelt advocated "trust-busting," but his moral sense led him to distinguish between "good trusts" and "bad trusts." Actually, the trusts were more powerfully entrenched when he left than when he entered office.
3. "Our aim is not to do away with corporations; on the contrary, these big aggregations are an inevitable development of modern industrialism. We are not hostile to them; we are merely determined that they shall be so handled as to subserve the public good."

4. It is important to keep in mind Roosevelt came to power at a time when the country was ready for action. His philosophy was:

   a. to regulate all aspects of society to provide stability (stability served the national interest; the regulation was based on Roosevelt's moral principles,) and

   b. to assure to each individual unfettered opportunity for realizing the dignity and the satisfaction of honest work--"Square Deal."

5. Consequently, Roosevelt's conception of the presidency was different from that of his recently passed predecessors who had been willing to follow the leadership of Congress.

6. The presidents from the 1870's to the 1890's had been content to let well enough alone in business and politics, but Roosevelt was discontented with existing practices in both and demanded reform with the use of executive leadership.

D. Examples of Theodore Roosevelt's "Square Deal" philosophy in action.

1. The Northern Securities Case of 1902

   a. In 1902, Roosevelt shocked Wall Street when he initiated a suit against a giant railroad combination, the Northern Securities Company, which led to its dissolution in 1904.

   (i) The Northern Securities Company was created in 1901, when James J. Hill and J. P. Morgan (who owned the Great Northern and Northern Pacific railroads) were competing with E. H. Harriman (who was associated with the Rockefeller interest and owned the Union Pacific and Southern Pacific railroads) for control of the Chicago Burlington and Quincy Railroads. The Chicago Burlington had control of the best connections from Chicago to the West.

   (ii) When Hill gained control of the Chicago Burlington railroad; Harriman launched a counterattack by seeking control of Hill's Northern Pacific stock on the New York Exchange.
(iii) The rivals forced the value of the stock up to $1,000 a share, ruining many speculators and threatening to cause a major panic.

(iv) Since neither side could win a clear-cut victory, they decided to put their stock into a holding company owned by the two groups (the Northern Securities Company). The significance was that a virtual monopoly of western transportation facilities was created.

b. As mentioned earlier, the Supreme Court ordered the dissolution of the Northern Securities Company in 1904. Although actual ownership of the railroads was not affected, this decision had extremely important results.

c. It made further prosecutions possible. Roosevelt soon ordered suits against the meat packers, the Standard Oil Trust, and the American Tobacco Company. It also served notice on all the great corporations that they could no longer ignore the Sherman Act.

d. Roosevelt also instituted suits against 44 corporations and won a reputation as a trust-buster. It must be remembered Roosevelt was not opposed to bigness in business, but believed in federal action only in cases of serious misbehavior.

2. Roosevelt considered the extension of government regulation over the railroads his most important program.

a. "The question of transportation lies at the root of all industrial success, and the revolution in transportation which has taken place during the last half-century has been the most important factor in the growth of the new industrial conditions... At present the railway is (the highway of commerce)...and we must do our best to see that it is kept open to all on equal terms... It is far better that it should be managed by private individuals than by the government. But it can only be so managed on condition that justice is done the public..."

b. As mentioned earlier, the Interstate Commerce Act of 1887 was abandoned by Congress and emasculated by court decisions to the point where by 1900 it was useless.
c. Concentration of control by a few major railroads continued to grow until, by 1903, six major railway systems, representing a combination of almost 800 independent railroads and a capitalization of over $9 billion, controlled 3/4 of the mileage in the country.

d. After the Spanish American War, freight charges had increased sharply without any corresponding increase in wages or improvement in service, while rebates, discrimination and favoritism forbidden by the 1887 act continued unabated.

(i) The result: in February, 1903, Roosevelt signed the Elkins Act into law. The Elkins Act redefined and outlawed rebates and provided for punishment of those receiving as well as giving rebates.

(ii) However, the Elkins Act was continually violated as the offenders could usually obscure the violations by bookkeeping methods over which the Interstate Commerce Commission had no control.

e. In 1904, Roosevelt pronounced railway regulation, the "paramount issue."

(i) Roosevelt asked Congress to confer on the Interstate Commerce Commission the power to regulate the railroads.

(ii) After an investigation, Congress responded with the Hepburn Act of 1906.

(a) The Hepburn Act made federal regulation possible for the first time.

(b) The act extended federal regulation to include storage, refrigeration and terminal facilities.

(c) The railroads could appeal, but the burden of proof was now on the railroads and not on the commission.

(d) The Hepburn Act represented a substantial advance in railway regulation. Within two years, the Interstate Commerce Commission had heard almost
twice as many complaints as in its previous 19 years. By 1911, the commission had reduced over 200,000 rates, some by as much as 50%.

3. Federal regulation was further extended in 1910 under the Mann-Elkins Act to include telephone and telegraph companies.

4. The Anthracite Strike: May, 1902 to March, 1903
   a. The strike started when the United Mine Workers under president John Mitchell struck on May 12, 1902, for (1) higher wages, (2) union recognition, and (3) an eight-hour day.
      (i) The mine operators were dead set against concessions. When the miners went out, the operators shut down their properties and prepared to starve the strikers into submission.
      (ii) Throughout the summer and early fall, the miners held firm. They conducted themselves well, avoiding violence and expressing full willingness to submit their claims to arbitration. As the price of anthracite soared with the approach of winter, sentiment in their behalf mounted rapidly.
   b. Roosevelt shared the public's sympathy for the miners and the threat of a coal famine naturally alarmed him.
      (i) On October 3, 1902, Roosevelt called a conference of operators and miners and appointed a commission to mediate their differences, as a result of which, Mitchell called off the strike on October 21, 1902.
      (ii) In March, 1903, the commission awarded the union a 10% wage increase, a nine-hour day, but no union recognition.
   c. Since Roosevelt had not intervened on the side of the owners, he established a pro-labor reputation for himself, but he was always suspicious of labor's radicalism.
   d. The strike indicated Roosevelt's "Square Deal" philosophy as he stated himself, "...everyone received a Square Deal."

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E. Woodrow Wilson. The Republican dynasty which had been entrenched in the White House since 1897 was broken in 1913 after the Roosevelt-Taft feud had split the party wide open in the election of 1912.

F. Wilson and Roosevelt were closer in political philosophy than the campaign rhetoric suggested as they both had the interest of the common man at heart.

1. In the campaign, Roosevelt with his New Nationalism welcomed big business and asked only for a powerful federal government to regulate it. Roosevelt's New Nationalism included not only the old Roosevelt policies of honesty in government, regulation of big business, and conservation of natural resources, but a relatively new insistence on social justice. Also included in the New Nationalism was his criticism of recent Supreme Court decisions, which had nullified social legislation in the states. Roosevelt felt the Chief Executive was "the steward of the public welfare," and asserted the rights of the community over "lawbreakers of great wealth."


G. The New Freedom

1. Wilson's New Freedom consisted of a three-point program designed to foster the interest of the small capitalist.

   a. A lowered tariff to deny the trusts an unfair advantage.

   b. A changed banking structure to make credit more available to the small business.

   c. New trust legislation to prevent big business from squeezing out the small competitor.

2. The Underwood-Simmons Tariff

   a. Wilson was determined to seize the initiative in law making and on the very first day in office, he summoned Congress to a special session to revise the country's old tariff system.

   b. Wilson stated, "The tariff duties must be altered and we must abolish everything that bears even the semblance of privilege, or any kind of artificial advantage, and put our businessmen and
producers under the stimulation of a constant necessity to be efficient, economical, and enterprising."

c. The tariff lowered average duties from 39% to 25%, but more important, it added a number of consumer goods to the free list, making them cheaper to the common man, and eliminated the protection of iron, steel, and various other products of the trusts.

(i) Duties were decreased on 958 articles and raised on only 86.

(ii) To make up for the loss in revenue, the tariff levied a 1% tax on all incomes above $4,000, with additional surtaxes for incomes above $20,000.

(ii) This was made possible by the ratification of the 16th Amendment to the Constitution in February, 1913.

3. Banking and Currency Reform

a. While Congress was still wrestling with the Underwood Tariff, Wilson presented a proposal to reorganize the banking system. The need for an overhauling of our banking and currency system was almost universally recognized, particularly after the Panic of 1907.

(i) The panic suggested financial power was concentrated in the hands of a small group of eastern bankers who controlled the nation's credit and interest rate.

(ii) The Morgan and Rockefeller interests held 341 directorships of 112 corporations with a capitalization of $22,245,000,000.

b. All within Congress agreed to the necessity of reform, but they disagreed vigorously about what form it should take.

(i) The conservatives

(a) The conservatives wanted a central bank to be authorized by the government, but privately controlled like the former Bank of the United States, which was 80% privately owned.
(b) They also wanted the government to issue currency which would back it, but would be privately controlled.

(ii) The liberals insisted that the power to issue notes and control of the new banking system should be exclusively governmental.

c. The liberals won out, and under Wilson’s leadership, the Democrats passed the Federal Reserve Act of December 23, 1913.

(i) Under the act, the country was divided into 12 districts, each with a Federal Reserve Bank owned by the member banks (commercial banks).

(ii) Upon joining the Federal Reserve System commercial banks are required to purchase shares of stock in the Federal Reserve bank in their district.

FEDERAL RESERVE SYSTEM

FEDERAL OPEN MARKET-------BOARD OF GOVERNORS-------FEDERAL ADVISORY COMMITTEE [ 7 Members appointed by the President / confirmation by the Senate ]
[ 12 Members--7 from the Board, Plus 5 of the presidents of the Federal Reserve Banks]

[ 12 prominent commercial bankers one selected annually by each of the 12 Fed R. Banks]

12 FEDERAL RESERVE BANKS

COMMERCIAL BANKS (Member Banks)

PUBLIC

Board of Governors--The seven members of the Board are appointed by the President with the confirmation of the Senate. The terms are 14 years--and staggered so that one member is replaced every two years. The Board is staffed by appointment rather than elections in an attempt to divorce monetary policy from partisan politics.
4. The Board of Governors has the responsibility of exercising general supervision and control over the operation of the money and banking system of the nation.

   a. **The Board’s actions which are to be in the public interest and designed to promote the general economic welfare, determine the basic policies which the commercial banking system is to follow.** The major task of the Federal Reserve authorities is to manage the money supply in accordance with the needs of the economy as a whole.

   b. **The Federal Open Market Committee** sets the banking system’s policy with respect to the purchase and sale of government bonds in the open market. The **Federal Advisory Council** is purely advisory; it has no policy-making powers.

5. The Federal Reserve System changed the American banking system from **privately owned and privately controlled to privately owned, but publicly controlled.**

6. The best definition of the Federal Reserve System is that it is a **bankers bank.** Everything an average person does at a bank, a bank does at its Federal Reserve Bank. There are **TWO** major ways in which the Federal Reserve System can exercise control over a member bank (commercial bank).

   a. **The first is through the reserve requirement.** The member banks were required to subscribe six percent of their capital to the Federal Reserve Bank, which would be their reserve. This percentage could be raised or lowered. When in need of currency, the commercial banks can, within limits, draw upon these reserves.

   b. **The second method of control is through the discount rate.** The discount rate is the interest rate that banks are charged by the Federal Reserve to barrow money from its system. For example, if the discount rate the Federal Reserve charges banks is six percent, then the banks would have to charge the consumer nine or ten percent.

   c. **An important function of Federal Reserve banks is to provide facilities for the collection of checks or “clearing checks” for its member banks.** Checks received by individuals or businesses and cashed at their banks are “cleared” through the Federal Reserve bank in their District.
d. The law authorized a new type of currency: Federal Reserve Notes. A function of Federal Reserve banks is to put into circulation Federal Reserve notes, which constitute the bulk of the economy's paper money supply.

7. The Regulation of Business

a. As soon as the tariff and banking reform bills were disposed of, Wilson appeared before Congress to ask for legislation on trust and monopolies in January, 1914.

b. Congress responded with two bills.

(i) The first bill, the Clayton Act, was designed to prevent the development of monopolies. The act prohibited discrimination in prices which might tend to lessen competition and/or create a monopoly.

(a) The act aimed at plugging the worst loopholes in the Sherman Antitrust Act.

(b) The law attempted to state definitely what practices and conditions would be considered interference with free competition.

(ii) The second bill was the Federal Trade Commission Act which established the Federal Trade Commission.

(a) The commission was designed to investigate violations of the anti-trust laws.

(b) The basic objective of the F.T.C. was the maintenance of free competition, which Wilson felt was the keystone to the American economy.

(c) "With this legislation," said Wilson optimistically, "there is clear and sufficient laws to check and destroy the growth of a monopoly in its infancy."

(d) But during World War I, the country needed bigness in business and consequently, judicial rulings became increasingly conservative.
(e) Twenty years after the enactment of the Wilson anti-trust legislation, when Franklin Roosevelt came into office, the trusts were as numerous and monopolies as powerful as ever, and the whole problem had to be studied afresh.

H. In pushing through his three-point program, Wilson had demonstrated that he was a great leader of his party, of Congress, and of the nation.

1. Wilson had asserted presidential leadership.
   
a. He had converted a states rights party to enlightened nationalism.
   
b. He convinced the average citizen the government was at last his servant.

2. He made it clear progressivism transcended party lines.