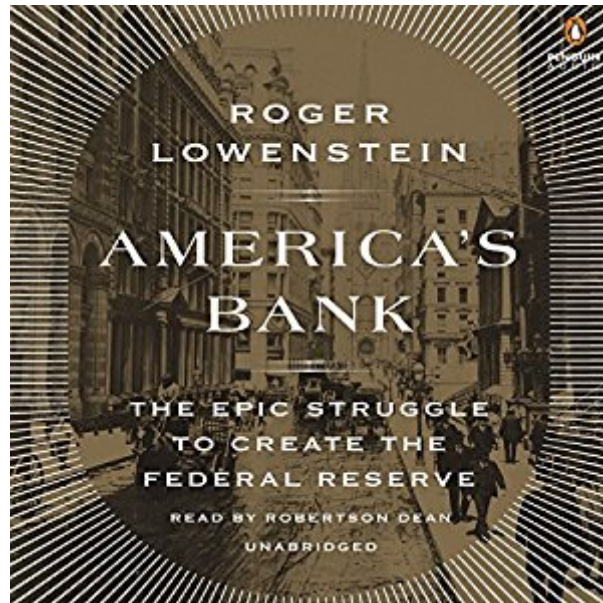


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# America's Bank: The Epic Struggle To Create The Federal Reserve



## Synopsis

The tumultuous era and remarkable personalities that unexpectedly birthed the Federal Reserve, from renowned financial writer Roger Lowenstein Until the election of Woodrow Wilson the United States - alone among developed nations - lacked a central bank. Ever since the Revolutionary War, Americans had desperately feared the consequences of centralizing the nation's finances under government control. However, in the aftermath of a disastrous financial panic, Congress was persuaded - by a confluence of populist unrest, widespread mistrust of bankers, ideological divisions, and secretive lobbying - to approve the landmark 1913 Federal Reserve Act. Writing in a rich and untapped historical vein, Roger Lowenstein - acclaimed financial journalist and best-selling author of *When Genius Failed* and *The End of Wall Street* - reveals the drama-filled, unlikely story of how America created the Federal Reserve, thereby taking its first steps onto the world stage as a global financial power. *America's Bank* showcases Lowenstein at his very finest: illuminating complex financial and political issues with striking clarity, infusing the debates of our past with all the gripping immediacy of today, and painting unforgettable portraits of Gilded Age bankers, presidents, and politicians. With *America's Bank*, Lowenstein focuses on the four men at the heart of the drama to create the Federal Reserve. These are Paul Warburg, a refined, German-born financier, recently relocated to New York, who was horrified at America's primitive finances; Rhode Island's Nelson W. Aldrich, the reigning power broker in the US Senate and an archetypal Gilded Age legislator; Carter Glass, the ambitious but little-known Virginia congressman who chaired the House Banking and Currency Committee at a crucial moment of political transition; and, of course, President Woodrow Wilson....

## Book Information

Audible Audio Edition

Listening Length: 9 hours and 39 minutes

Program Type: Audiobook

Version: Unabridged

Publisher: Penguin Audio

Audible.com Release Date: October 20, 2015

Whispersync for Voice: Ready

Language: English

ASIN: B015OYE7XC

Best Sellers Rank: #75 in Books > Audible Audiobooks > Biographies & Memoirs > Business

Leaders #90 in Books > Audible Audiobooks > Politics & Current Events > Political History & Theory #101 in Books > Business & Money > Processes & Infrastructure > Government & Business

## Customer Reviews

This is a much more substantive book than either "The Creature from Jekyll Island" or "Lords of Finance: The Bankers Who Broke the World" which won the Pulitzer Prize for History in 2010. However, I was very disappointed that it failed to mention the 1918 Amendment to the 1913 Federal Reserve Act. The 1918 Amendment was at least as important as the creation of the Federal Reserve since it was the genesis of the Federal Reserve's "Open Market Operations," and essentially converted the Federal Reserve from a banker of last resort to a policy-making body. And, how the Federal Reserve became a policy making body with the power to create money, yet not subject to the same checks and balances of power that apply to our three branches of government, is perhaps of far greater significance than the creation of the Federal Reserve as merely a lender of last resort. To put this into perspective, readers should consider the following that, in my view, should have been included in the Epilogue to Roger Lowenstein's otherwise excellent book. WWI broke out shortly after the Federal Reserve was created, and after the war the government found itself in debt. Although modest relative to the mountains of debt that have been accumulated since that time, the government was anxious to keep the interest rate on that debt as low as possible. Therefore, in 1918 it modified the Federal Reserve Act of 1913 to allow banks to also pledge government securities as collateral for the loans that they sought from the Federal Reserve. In addition, the banks would be permitted to borrow from the Federal Reserve at a lower rate if they pledged such government securities as collateral rather than commercial paper.

For a book that has been widely and favorably reviewed elsewhere, I found Roger Lowenstein's American's Bank: The Epic Struggle to Create the Federal Reserve, a bit of a letdown. For someone who writes about finance and economics professionally, Lowenstein seemed to focus much more on the personalities of the principal actors, Sen. Nelson Aldrich of Rhode Island; Paul Warburg, a member of the Warburg banking family from Hamburg, Germany; financier J.P. Morgan; Representative Carter Glass of Virginia; presidents Theodore Roosevelt, William Howard Taft, and Woodrow Wilson, and a laundry list of bankers, politicians, and various others who each had a hand in the creation of what is now the Federal Reserve. As Lowenstein makes clear, this was a hard-fought battle pitting the emerging need for a national banking system against Americans' long

antipathy towards bankers, specifically the powerful New York banks and the men that ran them. The book is a quick read, perhaps too quick given the subject matter, and the importance of the Federal Reserve in the national economy. Lowenstein makes some cryptic comparisons between the Panic of 1907 when systemic lack of liquidity cause numerous otherwise solvent banks to fail because they lacked cash on hand to respond to demands for immediate payment by panicky depositors who were responding to cascading business failures caused by lack of liquidity and freezing of credit. The central perspective of Lowenstein's narrative is the serpentine path that would-be financial reformers found themselves taking once they realized that continuing with the existing system of fiercely independent banks, each husbanding its own resources, could no longer be sustained.

“If men were angels, no government would be necessary,” James Madison famously wrote. The same could be said of bankers. If bankers were angels, there would be no need of a central bank. Creation of the nation's central bank—the Federal Reserve—is the subject of Robert Lowenstein's informative and highly readable book, but the underlying theme is of trust, as in, who do you trust? Since the beginning of the American republic, Americans trusted neither governments nor banks, particularly central governments and central banks, such as ruled the British Empire from London and governed the affairs of the American colonies—until ties were severed by the American Revolution. After the Revolution, the original 13 states struggled politically and financially until the enactment of the Federal government in 1789 and the establishment of the nation's first central bank in 1791, the Bank of the United States. Both worked exceedingly well, so much so that Thomas Jefferson feared a new monarchy in the making and ran for president determined to reduce the power of the federal government and do away with the bank altogether. In spite of Jefferson's antipathy, the central bank proved necessary as a lender of last resort and survived for another 36 years—until the presidency of Andrew Jackson. By then, the bank had become the object of intense hatred by Jackson as well as by working Americans. De Tocqueville, touring America at the time, was plainly bewildered. To him, as to most Frenchmen, the Bank of France seemed a natural outgrowth of the French national government. But in the U.S. the central bank reawakened Americans' primal anxieties, the colonials' fear that their hard-won liberties would be crushed by a far-off monarch and his scheming money men.

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