August 1, 1955

Internal Memorandum

Interviews with Owen D. Young at Van Hornesville, New York on Thursday and Friday, July 28th and 29th

I

Because of the circumstances under which these interviews were held and the richness of the material at hand, they will be divided into two parts - Owen Young in the Federal Reserve Bank of New York and Owen Young in Van Hornesville.

The material in these interviews was obtained on two successive days. The interviews were held in Mr. Young's office building in Van Hornesville at 10:00 in the morning and 3:00 in the afternoon. In between came lunch, and there was a good deal of walking around the town. The informality of the occasion contributed to its pleasure. It also made note-taking somewhat difficult.

The interviews were set up so that Mr. J. Herbert Case and his son, Mr. Everett Case, the latter assistant to Mr. Young from 1927 to 1933 and then married to Mr. Young's daughter, were present and participating. The fact is that Mr. Young's memory of these days is not as clear as it once was. It also should be remembered that he has participated in so many large enterprises, conferences, meetings, and so forth that to be asked to isolate the affairs of the Federal Reserve Bank and remember in detail the course and cause of events was not always easy. Mr. Case's memory is much more precise in many instances. The difference is that between the lawyer who takes the broad view and the operating man who remembers the detail. The third man, Mr. Everett Case, (now President of Colgate University) has been a student of the Federal Reserve System in addition to his years of service as Mr. Young's assistant. He was present in the Bank at the time of the Banking Holiday of 1933. With this background, he was able to illuminate the conversation from the theoretic point of view and atttimes to point up its meaning.

Mr. Young's service as director and honorary chairman of the board lasted in these various capacities from 1923 to 1940. He was Class B director

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from 1923 to 1927, Class C director from 1927 to 1935, deputy chairman from 1927 to 1938, chairman from 1938 to 1940. During the years of deputy and chairman he undoubtedly occupied the appropriate directorships.

His service in the Bank stemmed directly out of the sequence of his career, and a statement of that career becomes important at this moment. Mr. Young, who was born in Van Hornesville, got his degree of bachelor of laws and letters at Boston University in 1896. He entered immediately upon the practice of law in Boston, in C. H. Tyler's office and was a member of the firm of Tyler and Young from 1907 until 1913. (EC) In that capacity he had represented the then-young construction firm of Stone and Webster. He had also had experience with various old real estate trusts in Boston, including one called The Fifty Associates. One of these owned buildings was rented by Russians, and the rent was paid in "Russian sable iron." When World War I came and iron could no longer be imported in payment of this rent, the case went to the Supreme Court in an effort to get the payment in sable iron translated correctly into a more recognized and useable medium of exchange. These experiences formed an introduction to Mr. Young's interest in financial and monetary problems.

As a lawyer in Boston, Mr. Young won a case against the General Electric ? and was thereafter engaged by that firm and asked to go to New York. As counsel for the General Electric he had to do with holding company problems and the financing of public utilities. This led him into contact with bankers and banks. He became a director of the Bankers Trust and in that capacity met Benjamin Strong and learned a good deal about the financing of corporations.

Mr. Young says that he had no interest at that time in the new Federal Reserve Act. He was aware of its existence but paid no attention to it. He had, however, established contact with Woodrow Wilson and had spoken for him when Mr. Wilson ran in Boston in 1912.

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(When World War I ended in 1917, Mr. Benjamin Strong, then Governor of the Federal Reserve Bank of New York, went to Seward Prosser (then President of Bankers Trust) who thereafter called Mr. Young in and said that Mr. Strong wanted him, Mr. Young, to come onto the Federal Reserve Bank's board, but Mr. Prosser wanted him to stay on the board of the Bankers Trust. However, Mr. Young was interested in the public service, and the Bankers Trust board released him to go onto the board of the Federal Reserve Bank.) He is sure that Mr. Wilson remembered him sufficiently so that when his appointment came up, it was approved without difficulty.

Not until 1923 well after term expired. This appointment did not require approval by the President. (ES)

Mr. Young said that from 1913 to 1923 the problems of the Federal Reserve Bank and Board were mostly domestic. Even the financing of the war was largely a domestic matter. Correcting himself, he said that from 1913 to 1920 he would regard the period as one of the domestic childhood of the Bank. From 1920 to 1931 he regarded as the teen-age era, in which the Banks were growing, facing a multitude of new problems, and acting in a more or less awkward and sometimes rebellious fashion. From 1931 to 1940 the New York Bank had entered onto its maturity, being then a great central bank fully grown and occupied with international as well as national problems.

He thought that the childhood of the Bank had been greatly accelerated by World War I and the vast Federal financing problem. There were enormous personnel problems, and from 1917 to 1920 the New York Bank grew from a staff of 500 to a staff of 5,000 and faced all the problems which one would expect from such enormous expansion.

Speaking of the financing of World War I, Mr. Young said that the slogan was then "Buy and borrow War Bonds." The discount rate was 4 1/2%. Mr. Strong raised it to 6% in 1919. There was a good deal of stress and strain that followed. The government wanted to borrow, but ~~first~~ without? paying 6% on a one-year certificate. The Treasury said that that was impossible.

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In an effort to find out more about international financing and how Mr. Young's work in that field had touched edges with his work as a director of the Federal Reserve Bank, I asked whether he had had anything to do with the Dawes Plan. The question evoked considerable mirth from all three men, as it was Mr. Young who wrote the Dawes Plan.

The progression was as follows, and here too the line of development of Mr. Young's own life is a direct and related factor:

The distinguished attorney, Mr. Charles Hughes, was run for the Presidency of the United States in 1916 and was defeated. He then opened a law office in New York. At that time the General Electric was under threat of indictment for breaking the Anti-Trust Laws. Indictment in those days was apparently a much more serious word than it is now. The assumption was that once you were indicted, you certainly were guilty. The tension in the General Electric board of directors was so great that one member (from Pittsburgh) committed suicide, regarding his career ruined and himself come down to shame at the end of an honorable life. Mr. Young went to Mr. Hughes and retained him as ~~prosecuting~~ counsel for the General Electric. (I did not find out what happened to the case.)

EC + JYC think ODY's memory or sense of the dramatic was at play. [Note not clear last line.] EC

Mr. Hughes then became Secretary of State under Mr. Coolidge, and the high opinion which he had formed of Mr. Young was a factor in his appointment to the Dawes Committee.

Mr. Young also had had a long connection with Mr. Coolidge, who was in Boston as ~~Governor of Massachusetts~~ a state legislator at the time that Mr. Young was there with Tyler and Young law firm. General Dawes was made head of the Dawes Committee. Dwight Morrow suggested Young as the other American member. (Mr. Coolidge and Mr. Hughes both assented.) Mr. Dawes was always interested in the drama of the situation, but it was Mr. Young who did the hard work. Not only was he the author of the Plan, but he was apparently the counsel to the committee during the whole of the negotiations. The group working on the Dawes Plan included Mr. Schacht of Germany,

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NB. the Central Bankers were consulted, but were not members of the Dawes Com. (EC)

Governor Norman of the Bank of England, Governor Strong of the New York Federal Reserve Bank, Emile Moreau of the Bank of France, Emile Franqui of Belgium who was known popularly as "the J. P. Morgan of Europe."

Mr. Young said that France played approximately the same role at the Dawes conferences as she has recently played at Geneva, and history repeats itself in the public appearance of this country. (?)

This activity of Mr. Young and the fact of Mr. Strong being ~~on the committee~~ consulted by them (EC) actively tied in the New York Bank with the Dawes Committee and the whole reparations problem. This connection has been something of a puzzle, and it certainly deserves a more detailed study than has yet been given it.

Mr. Young said that the Bank of France was a very different from either the Bank of England or the Federal Reserve Bank of New York. The Governor, Mr. Moreau lived in an apartment in the Bank of France. The building had a great ballroom, and at one time the Moreaus gave a great party for Mr. and Mrs. J. Herbert Case at which champagne was brought up from the vaults of the Bank where it was regularly stored and provided for the guests.

Going back to the beginning of the Dawes Commission, Mr. Young said that the Reparations Commission appointed after World War I had wrestled with the financial problem from a political point of view, and that they were getting no place with it. Mr. Hughes suggested in a speech ~~at a Yale commencement~~ in New Haven (for the American Historical Assn.) (EC) that the Reparations Commission get in financiers and business men to grapple with these financial problems and get them in a state which the German economy could absorb. Late in 1923 Mr. Young and Mr. Dawes were called to Washington to get advice from President Coolidge before they set off on their mission. After lunch in the White House dining room, they went upstairs to Mr. Coolidge's office, which was at that time on the second floor (this was before the big executive wing had been thought of). Mr. Dawes and Mr. Coolidge discussed politics and the political implications of the trip. Mr.

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Young asked, "Mr. President, have you any specific instructions for us?" Mr. Coolidge considered in silence for a while and then said, "Well, if you're going to Paris, I think you'd better take your wives along." So far as Mr. Young remembers, those were the only instructions which the President of the United States gave the Dawes Commission at that time.

The story had a second chapter in Paris when work was well along, and Mr. Young and Mr. Dawes proposed to seek relegation from the work of the Commission. One of them (Dawes) said, "If we're going to save civilization, I think perhaps we'd better investigate it," and proposed that they go to the Follies. Three hours later, emerging from the Follies, Mr. Dawes said to Mr. Young, "Young, by God, I don't think it's worth saving." (see second interview for 3d act.)

→ for 3d chapter see p.

One other colorful phrase was remembered. When Mr. Francqui of Belgium, who spoke English with considerable difficulty, was very skeptical of Germany's convenient protests that she could not pay, his retort was in his own queer English, "How much you pay at the Ritz last night, you tell your grandmother, she drop dead." (for longer quote see Tarbell biography p.198)

Mr. Young said that the sessions of the Dawes Committee were held behind closed doors with no press and only a small group. Mr. Dawes himself handled the reporters after the meetings were over. The sessions were never boring, and the personal relations were such that no irritations entered in to confuse the arguments. He mentioned Mr. Dawes as the most colorful character there, also Stamp of England, (EC) Perelli of Italy, and Parmentier of France ~~who must have been accompanying Moreau.~~

In August of 1924 a conference was called in London of twenty prime ministers with MacDonald, the British Labor premier presiding. Mr. Young was asked to attend in order to answer questions as to the details of the Plan in order to see if the twenty prime ministers could come to agreement. It was this meeting which made it possible to put the Plan into effect.

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It was recognized from the beginning that the Dawes Plan must be administered in Berlin, and by unanimous request Mr. Young was asked to set up the administrative machinery. Parker Gilbert was picked to administer the Plan and made Agent General for Reparations. He ran it until the Young Committee was appointed to review the progress, success or failure of the Plan. Mr. Gilbert himself wanted this reviewing done, and it was then that the so-called Young Plan was set up. Mr. Young himself was chairman, Mr. J. P. Morgan was a member, ~~and so also was~~ with Mr. Thomas Lamont as his alternate. (EC)

Meetings under the Young Plan included a much larger group and were far more difficult to handle. Results were several. Mr. Jackson Reynolds took Mr. ~~Parker Gilbert's place.~~ Parker Gilbert's post was abolished. Jackson Reynolds headed the Committee to organize the Bank of Int'l Settlements. Gates McGarrah went from the chairmanship of the New York Bank to be president of the ~~Reparations~~ B.I.S. Committee. (Parker Gilbert had asked Mr. Case to go over in 1926 as his assistant, but the Board refused to hold Mr. Case's job for him, and he did not feel he could or wanted to resign from the System. Instead Mr. Pierre Jay went over.) The Bank ~~of~~ for International Settlements was set up under the Young Plan. At that time Mr. Shepard Morgan was on Parker Gilbert's staff. The Young Plan ended for all practical purposes with the Hoover Moratorium of ~~1932~~ 1931. (EC) (EC) (EC) (EC)

(It will be seen that none of these memories went into the actual working of the financial end of the Dawes and Young Plans or their connection with the New York Federal Reserve Bank. What the Bank loaned and how and why and the relationship between Strong's frequent visits to Europe and the working of these two plans must all be left for other types of research.)

Mr. McGarrah, who, up to the present time, ~~is~~ has been to me something of a mystery man in the history of the Federal Reserve Bank of New York, was described by Mr. Case and Mr. Young as president of the Mechanics and Metals National Bank of New York, which was absorbed into the Chase Bank. Mr. McGarrah was chairman of the Mechanics and Metals at the time of the merger. He then went to the Federal Reserve Bank as chairman, succeeding Pierre Jay. He was a very good operating official, had the confidence of Wall Street, was a steady sound operator, by no means an emotional man. Mr. Young apparently had great confidence in him, and so did Mr. Case. (EC)

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By 1927, when Mr. Young had been on the board of the Federal Reserve Bank of New York for four years which included the setting up and creation of the Dawes Plan, Mr. Strong was relying heavily on him. In the fall of 1928, when Mr. Strong ~~he~~ was to go back to the hospital for the last time, he phoned Mr. Young from the Ritz and asked him to come over. The two men talked until 2 a.m., and Mr. Strong laid all the things on his mind concerning the Bank before the younger man. Mr. Strong knew that he was not going to come out of the hospital, and he told Mr. Young, "This is my last will and testament so far as the Federal Reserve Bank of New York is concerned." (Mr. Young told this story twice - the second time his quotation was, "This is my testamentary disposition.") Mr. Young was to see that Mr. Harrison was put in as governor, and Mr. Harrison was to quiet things with Washington. There had been too much friction and too much quarreling between the Board and the Bank, and Mr. Strong knew that this must not continue. # Of the possible governors, Mr. Burgess was too much the academic and ~~the~~ professorial type, Mr. J. Herbert Case who had been ~~chair-~~ acting governor (EC) ~~man~~ from time to time was too much the operating man and not enough a policy man, Mr. Harrison combined both. His judgment was steady, but he could not build up contacts in Europe as Strong had done. (In conversation Mr. Young did not mention the fact that he had queried Parker Gilbert as to whether he, that is Mr. Gilbert, would take the governorship of the Bank. It is something on which he might be queried at a moment when Mr. Case was not present. (See later interview) He may have forgotten, or he may simply have decided it was not a good moment to mention it. At any rate, Mr. Gilbert refused, but the existence of a cablegram in Mr. Young's files indicates a lack of complete confidence in Mr. Harrison which is interesting.*)

Mr. Strong's summary of his last will and testament for the Federal Reserve Bank included policy questions, personnel questions - it was not orderly, it was a conversation concerned with all the things which he might have done better, an over-all review of his years in the Bank and the plans which he had for the Bank for

* See second set of interviews for Young's comment on this.

the future. It must have been an extremely moving interview, and the impression it made was obvious in Mr. Young's clear memory of the time, the occasion, and the things said. Mr. Strong had been incapacitated for six months to a year ahead of his death. It must have been an extraordinarily difficult post for anyone to step into. Even during the last half of 1927 Mr. Strong was not up to normal.

After consideration of Mr. Strong's death and its effect, the conversation churned about as conversations always do after this point. Mr. Young said that this was a moment when things were changing in the international sphere, and there was doubt as to whether Mr. Strong could have continued to carry on as he had been doing. Montagu Norman was getting weaker in England. He had been in office for 10 to 12 years, though traditionally the English elected a new governor of the Bank of England every two years.

Mr. Young said that Mr. Schacht was an extraordinary person and that his relations with him were always good, though you never knew exactly where you'd find Mr. Schacht. Of all the people in the central banking field, he regarded Mr. Schacht as the most competent. His was a peculiarly German skill. This assessment was by no means a criticism of Mr. Norman. It was clear that in Mr. Young's mind Mr. Norman was the only person who could have occupied his post both within the bank and as the bank's representative. He was "Mr. Bank of England." (See p. 10 - more on Schacht)

Mr. Case has always been of the opinion that had Benjamin Strong not died, the stock market crash might have been averted. The other man in command at that time was Mr. Andrew Mellon who had gone into the Treasury as Secretary in 1921 and stayed through until 1929. Mr. Mellon kept saying that "all is well." He had operated all his life on a tremendous faith in letting the future take care of itself. The future had, and Mr. Mellon had profited. He had the art of getting good men, and he had the magic touch, but obviously this situation was too much for him. It is of course problematical as to whether it would have been too much for Mr. Strong.

Speaking of 1929, the men said that ~~until~~ in the crash things were complicated by corporations calling in their loans. A great deal of loaning to brokers had been made on very advantageous rates. As the corporations called their loans and things got tighter, the Federal Reserve Bank put $100,000,000 into the market by means of Open Market operations, but it was not enough to stem the tide.*

Mr. Young had previously gone down to Washington in an effort to persuade the Federal Reserve Board to raise the discount rate. He had no luck.

The men said that one had to remember that 1928 was the end of the Coolidge regime. Strong died in October, ~~and~~ Herbert Hoover was elected in November. Andrew Mellon carried over for another year or so. No one wanted to go against the tide. The country seemed prosperous and the Republicans wanted to stay in power. This, combined with the fact that Mr. Mellon kept saying that all was well and would continue to be well, along with the optimistic remarks of the new President, soothed the country even though men in high financial positions and accustomed to making their own judgments were beginning to worry.

Speaking of the difficult situation at the time of the Young Plan, when the group was far larger and harder to handle, partly because it included Japanese and Germans as well as the allied powers, Mr. Young said that on a day Mr. Schacht "blew his top." He was staying at Versailles, and gossip had it that he spent too much time with some woman friend there. Mr. Young went to him after this blow-out and suggested that he take a week off on a promise that there should be no action against the interests of Germany during that week. He did so and came back beaming and relaxed. Mr. Young had great admiration for Schacht's ability but none at all for his character. When it came to dealings with the Bank of International Settlements, Schacht was very helpful. He had learned his English in Brooklyn, and it was a good help in moments both formal and informal. (See Schacht biography)

Mr. Young said that at tense moments he insisted on complete cancellation of everything that had been said. He found that this was a very useful device for

* There is a table of the G.E. putting Mellon into the market to help — May be in case interview earlier?

giving men time to cool off and time to think as to whether or not they wanted what they had said to go on the permanent record.

Speaking of the banking holiday, Mr. Case said that because ~~he~~ Mr. Young had come from upstate New York, he was regarded as the representative of the upstate banks. By 1933 every bank had a lot of "slow stuff." In many small towns there were two banks where there should have only been one. The banking holiday made it possible to pick the better of the two banks and for the surviving bank to take over the assets of the weak one. He said that for example the Herkimer Bank got substantial help from the R.F.C. and that part of the preferred stock taken by the R.F.C. is still outstanding. It was sold to an insurance company in Iowa.

Mr. Case said that there were about 30,000 banks in the United States before 1929, a number which included a great many "sick babies." The banking holiday cut this number practically in two. Asked whether the stockholders objected to the mergers, he said that on the contrary the stockholders were chiefly interested in escaping their liability. According to the law they had what is known as double liabilities, and they were glad enough to enter into a combination with another bank which would make their responsibilities more viable. ~~voluble.~~ Going back to the Herkimer Bank, he said that the merger nearly ruined the good bank because they had to take over so many assets that could not be liquidated. The result was that Mr. Young himself emerged the largest stockholder in the Herkimer Bank, a fact which undoubtedly represents money which he put in in aid of the bank.

Mr. Case regards the failure of the Bank of the United States as a punctuation point in the whole process of liquidating the weak banks in the country. This failure made it clear that a member of the Federal Reserve System could fail. Previously, it was thought that member banks would escape. The resulting action was the creation of the F.D.I.C., and now it is very difficult to do banking business unless a bank belongs to the F.D.I.C.

Mr. Everett Case said that, thinking of his own memories of those days,

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he felt that the least that could come out of the banking holiday would be a unified System — perhaps with branch banking encouraged. He worked during the holiday with the staff of the New York Bank and the process of getting word from Washington to the local banks. Hour after hour a roll call of upstate banks came into New York, and he had a picture of men who'd been leading citizens waiting at the telephone to see if their lives lay ~~were~~ in ruin around their feet. He also had a picture of the degree to which local initiative had made these banks possible and would save them if possible. This aroused a question in his mind on the value of ~~unified~~ branch banking, ~~and the importance of his question as to whether a unified System might come out of the experience.~~ especially if membership in the FRS were made compulsory for state banks too.

EC

All three men agreed that the restoration of the banking system and the return of public confidence took place in remarkably short time.

Mr. Everett Case interpolated a story concerning Mr. Young and his father (Case) which he had from Mr. William Woodin. It seems that Mr. Young was at that moment more optimistic than Mr. Case, and he bet Mr. Case that when the stock market reopened on a Monday, having been closed for a week, it would open at twice the closing prices. General Electric's stock (Mr. Young was at that time chairman of the board of General Electric) had closed the previous Friday at 12. Instead of opening at twice 12, it opened at 16, whereupon Mr. Case sent Mr. Young 100 shares of General Electric and got a check back for $2400. Mr. Young's retort to this story was that, "But I won in the long run."

One other story told by Mr. Young himself illustrated the public reaction to this time of storm in banks. Mr. Young said that in 1903, when he was a young and struggling lawyer, a widow named Meg came in and said, "Owen Young, you've got to buy my farm." Mr. Young protested that he was in no mood and no financial condition to buy a farm, but the widow persisted. She wanted to sell her farm and she had chosen Mr. Young, whose father owned the next farm, as the buyer. She went on

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to explain her case saying, "And I don't want no money for it, I want a mortgage. Abe and I, we agreed that we'd never have any money, we didn't trust it. We'd have a mortgage." Mr. Young commented on this faith in the mortgage rather than the money by saying that it was a fact that the wealthy country people of that day were the ones who held mortgages on other men's farms, not necessarily the ones who had big bank accounts in banks that might fail.

All three men thought that the Banking Act of 1933 was a logical move after Strong's death 7 years previously and the determination of the Board that never again should the New York Bank have the power which it had had during Strong's lifetime. The demotion of the governors to being mere presidents was phychologically an important matter. The Banking Act of 1935 incidentally robbed Mr. J. H. Case of a job paying $50,000 a year. He had been chairman of the Bank, and the chairman henceforth ~~was~~ held an honorary title only with a director's payments for attending meetings. (Check this detail.) (EC)

Mr. Everett Case, going back to the beginning, said that he felt that competition between New York and Washington was inevitable from the start of the System. It was his opinion that the central Board in Washington with supervisory powers over the banks was Woodrow Wilson's idea and a talking point with William Jennings Bryan. Bryan had opposed the Aldrich Plan, and in order to persuade him as a leading Democrat to back some kind of central banking, it was necessary to present a palateable idea. This form of centralization which did not completely centralize was the answer. But prescribed federal supervision of regional banks. (EC)

It was Strong and the New York financing of World War I which put New York into the lead in the picture. Mr. Strong set up what in actuality was not too far from the Aldrich Plan, and it was his constant aim to make New York the great central bank of this country.

Mr. Eccles, who came in with the Banking Act of 1935, or who was at

least its strongest proponent, represented the anti-New York attitude in the country. Mr. Roosevelt could not have picked a man from New York for that position, nor one from Chicago nor from any other financial center with any Wall Street connection, or Wall Street rivalry. The Mormons were considered good financiers, Utah was a long way from Wall Street.

All three men agreed that the Open Market Committee ~~was~~ is really the nub of the financial situation at the present time. There was a very interesting discussion of its place as a bridge between the 12 decentralized banks and the Washington supervisory Committee which has in itself no banking function. It was agreed that this Committee has a function far in excess of its legal powers and that it may prove that it may be on its way to growing into something which no one can foresee.

Mr. Young said in answer to a question that the present situation was very different from that of 1929 in regard to great corporations and their use of their money. He said that few of them now loan money "on call," as they did in 1929 and that many of them now largely finance themselves, leaving banking to the medium sized corporations and to the individuals. They spoke of the lessening of seasonal demands which were so important in the earlier days of banking and said that, thanks to the Federal Reserve System, the member banks no longer feel the stringency of autumn demands as they used to in the old days. when harvests had an over-riding importance -

Mr. Case is very concerned about the present lack of use of the discount rate. He is afraid it is going to be left out of use until the Board has to use it. Then it will make an impression far greater than is healthy. He regards it as by no means an obsolete tool, although little used at the present time, but a signal which has import to the country. (The question is whether the country has not seen it for so long that it has lost its importance even as a signal.)*

Mr. Young, speaking of the discount rate or the Federal Reserve Board's

* 11/4/55 Period between Aug. & Nov., with rise in discount rate and "topping off" of market has partly answered this Q.

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raising of stock exchange margin requirements, said, "Anything that will startle people when too many people are running too fast, anything that will slow them down, is good and is needed." *

Mr. Everett Case produced one phrase which he credited to Walter Wyatt. Speaking of the conditions before the banking holiday, he said there had been "competition in laxity."

MA:IB

* The discount rate was raised within 2 weeks (?) of this discussion. MA

I.e., on the part of state and federal regulatory authorities, who were bidding against each other to hold their respective banks or to induce transfers. (EC)