with corrections

MEETING OF THE

COMMITTEE ON THE HISTORY OF THE

FEDERAL RESERVE SYSTEM

SATURDAY, JANUARY 29, 1955

PRINCETON INN

PRINCETON NEW JERSEY

PRESENT:

ALLAN SPROUL, Chairman

W. RANDOLPH BURGESS

WALTER W. STEWART

F. CYRIL JAMES

WINFIELD W. RIEFLER

JOSEPH H. WILLITS

ROBERT D. CALKINS

ADVISORY SUBCOMMITTEE:

KARL R. BOPP

LESTER V. CHANDLER

ELMER WOOD

STAFF:

MILDRED ADAMS, Research Director

ELLEN C. SINGER, Research Assistant

CHAIRMAN SPROUL: Gentlemen, let us achieve such order as we can. The schedule for today is before you. We meet here with our consultants until twelve, following which there will be a twenty-minute break while this meeting room is converted into a dining room. At one-thirty we are going to take advantage of having most of our committee members together to hold a so-called business meeting of the committee for about an hour in another room, and we will reconvene here with the consultants at two-forty and plan to adjourn at four-thirty.

A one-year progress report has been distributed by Miss Adams. It covers the first four months of preparatory work, January to May, 1954, and six months of work under our five-year grant beginning July 1, 1954. It is largely a record of the accomplishments of our indefatigable research director, and I think it is noteworthy in terms of what has been done and almost unlimited in terms of what suggestions remain to be made. Unless Miss Adams has something to say, I don't think that we need do more than call it to your attention.

MISS ADAMS: No, I thought this would save taking the time to describe it here.

CHAIRMAN SPROUL: To get on to our job and to get on to the main problem of the history of the Federal Reserve System, we asked the aid and counsel of three eminent workers in the field. They met with us here November 21st during the first day of our first three-day meeting. They have since been collaborating on an elaboration of the views developed at that meeting, and they are meeting here again for three days to finish the job we asked them to do. A memorandum outline of their suggestions was sent to you a few days ago. It is intended to be provocative of further discussion, and that is what we are here for.

I will ask Dr. Bopp and his colleagues to make whatever oral comments they wish to make on the memorandum outline they have prepared, and then the meeting will be open for general discussion.

DR. BOPP: I think I can make this very brief statement so we can get to the hard core of the work. Our assignment, as we saw it, was to prepare a preliminary document which would serve first as a definition of what the committee means by a comprehensive history. That is part A of the document.

Second, to prepare an outline for writing this history. This outline is not intended to restrict the historian, and it is not considered that he will merely fill in the gaps to support the outline as we have presented it. As a matter of fact, if you secured the writer and told him that, he wouldn't accept the assignment under any condition.

What we hope would come out of the discussion today would be not a revised outline -- if that were the objective it seems to me that the historian would feel it was much too formal and established -- but rather that there would be comments on the outline, suggestions for additions to it, deletions from it, modifications of it, and so on, so that the historian, in a sense, would have two documents, the one which is before you and, second, the comments of the group on it, which two documents would have in common, as we see it, only the basic idea as to what the comprehensive history is to be like rather than any detailed thing for him, and that there would be sufficient differences in judgment as to emphasis, and so on, between the two documents, so that he would feel perfectly free to go ahead.

In preparing part B, or the specific topics and events that might be considered, if you have read this document, you may feel, and appropriately so, that particularly in the period following 1929 we seem to have come up with a lot of conclusions as to how this development actually took place, rather than in asking questions, leaving it to the historian to actually develop the ideas. I must confess that the reason for that is that this struck us as the quickest way in which we could indicate clearly what we had in mind in the nature of a history, and was easier in terms of time and effort than putting it in the form of questions. So we do not mean that this is the way ideas develop, but we do feel that the development of ideas is the important thing in the documentary history.

With that brief statement I think we might proceed then to the document you have before you directly, and I would propose that I go through this one step at a time and then open it for such comments and discussion as the committee members may wish to make.

First, as to the general nature of the history, is point A:

"Some of the major objectives of the Comprehensive History:

> 1. To gather and preserve all relevant information about the Federal Reserve System that could possibly bear on the evolution of the structure and functioning of the System.
>
> 2. To present a comprehensive analysis from an evolutionary point of view, tracing the development of ideas and showing the interrelationships of social attitudes, social and economic events, pressure groups, and personalities on the structure and functioning of the System."

We might stop at this point to consider 1 and 2 together.

DR. JAMES: I was going to ask a technical question. Is it envisaged as part of this that either the New York bank or the Federal Reserve Board might in fact establish an archives unit in their building? There will be a terrific amount of material that will be thoroughly studied in connection with this.

CHAIRMAN SPROUL: I can only speak for the New York bank. We have had in mind for a number of years the desirability of development of archives as distinguished from files and records, but nothing except scattered work has been done about it, and it was hoped and expected in connection with this project of the history of the Federal Reserve System that we would get the ideas and the impetus to go forward with it.

Can you say anything about the Board, Win?

MR. RIEFLER: I know nothing specific about this. On the other hand, the idea would be received in a spirit friendly to research. I don't know about space requirements.

MR. BURGESS: Of course, you've got the Library of Congress and you've got the regular governmental archives. I suppose both of them have sections which could include this thing, but much less effectively, I should think, than the Federal Reserve Board.

DR. JAMES: I was merely going to say that this committee might suggest to the two institutions that they explore immediately the possibility of doing this. It would go forward pari passu with the study.

MISS ADAMS: May I make one statement, Mr. Chairman.

A propos of the work which we have done thus far in going into what there was in the way of archives, we are constantly running into the difficulties imposed by the so-called Destruction Schedule, and I have been making efforts to come up with a suggestion which could reconcile the two. There is not basically any necessary contradiction between the Destruction Schedule and the archives that are needed for this, but in the process of work they sometimes get mixed. If a reconciliation in the form of a phrase or a directive, or something of that short, could be arrived at, I think it would be very helpful.

DR. STEWART: Is this Destruction Schedule common for the two institutions?

MISS ADAMS: It is something which evolved from the Presidents' Conference, and it is solely, as I understand it, a means of getting rid of unnecessary materials. It is only in the definitions of necessary and unnecessary that you begin to trip.

MR. BURGESS: There is a United States Government schedule too, isn't there?

CHAIRMAN SPROUL: Yes, there is. At least ours to a considerable extent is geared to the Treasury Destruction Schedule, and most of it relates to records of various sorts which would not conflict with what we are trying to do. But on the other hand there might be some overlap.

MISS ADAMS: I have run across a couple of instances where correspondence that seemed to be important was just saved at the last moment, and it is that that one fears.

MR. BURGESS: I suspect the Treasury has an even worse system than the Federal Reserve. They don't even have the central filing system.

CHAIRMAN SPROUL: We will take account of that suggestion.

Are there any comments with respect to No. 2?

DR. STEWART: No. 2, I like very much the breadth of that, from the standpoint of an author. It seems to be a very large assignment. Take the American background of this, while I think it is important, I would think it perhaps separable.

CHAIRMAN SPROUL: I had the same reaction to it, that it includes the main history plus the peripheral monographs we discussed. As a general statement concerning the whole field to be covered, I think it would be fine, but not to be included in the one comprehensive history. ok

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MR. RIEFLER: I don't quite understand the stress on the phrase, development of ideas. It would seem to me that the basic orientation of the history should be on facts and situations. What happened to the factual situation against which these ideas have to impinge. We have 15,000 banks being chartered just after the System started, and then collpasing, there is the whole postwar attempt in 1921 to get things on their feet again. I think it is on those factual situations and the response to them that the history ought to focus.

MR. BURGESS: I have the same thought, Win, in some ways that if you get at the reality of the history, the System only to a moderate extent reflected the impact of the general thinking upon the System. It was much more a curious chain of events, out of which ideas developed. Of course, the ideas are still the important part.

I was struck with that phrase. I think it is right that you have got to have some center, and the center of what ideology it represents as you go along. But you will have to recognize that a lot of that was from accident, from personalities, from the grinding of the wheels of operations. Then you try to find an idea in there.

DR. BOPP: I think we may not be too far apart. I will be subject to correction from Les* and Elmer*. Our concern was this. If one looks at what we term the facts, let us take a specific illustration, say the stock market, this dramatic development in October of 1929 would tend to be the focus -- if one looks at the facts. It seems to us, however, that in terms of history, the focus should be on how the stock market became a matter of concern for the System, so that it felt it has some responsibility with respect to it.

It is this development of ideas toward and reactions to these facts that struck us as being the more important thing. The facts tend to be dramatic, and we felt that greater attention should be given to this gradual development, from the germ of an idea to its fruition.

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* To identify see Appendix.

Was that it, Les?

DR. CHANDLER: Yes. And also it seems to me that there is a basic philosophy which does get modified by events. But take the early twenties. I am sure there were some people in the System who were thinking purely in domestic terms. There were others, however, who were internationalists at heart and allowed their actions and their responsibilities to events to be very much influenced by their concern about what was going on abroad, which as a matter of fact was somewhat out of the spirit that was being evidenced in the Government at that time.

MR. BURGESS: Yes.

DR. CHANDLER: The Federal Reserve policy was hardly in step with the Government of the twenties.

DR. JAMES: American banking and monetary history, down to the Aldrich Committee, was very much dominated by the currency theory as it was described in the early 19th century, and then you had this work of genius on the part of Carter Glass and the committee and his advisers, which wrote the Federal Reserve Act as I think the best legal document anywhere in the world expressing banking theory in terms of automatic gold standard. It was the last definitive statement of policy in a world that was believed to be semi-automatic in its monetary system, and it was believed to be completely integrated into a world economy.

Those ideas I think are tremendously important. Then you come at the end to a situation in which the gold standard has completely disappeared, where any idea of automaticity is completely lacking in the concept not only of the United States but every other country, and in which the United States has moved from an active peripheral point in the world economy to a nuclear position.

The history of the Federal Reserve is the history of the most significant institution in terms of the whole economic concept, from one that was devised to function at the periphery of an automatic monetary system, the tune of which was called from London, as Sir Henry Strakosch* put it, to the central institution in the determination of very largely, one can say, the extent to which the United States is able to call the tune in international affairs.

Now ideas in that sense, I think, have a very effective theme and make this one of the most important studies. But it isn't ideas just in picking up William Jennings Bryan and a host of other people. It is from a given point, the end of the old world, to another point, the beginning of the new world.

There isn't any other institution which is more important to the determination of the new pattern of ideas and theories in the political economy. In that sense, I think the ideas are virtually important, and that is the string or harp, if I can continue a musical simile, on which everyone of these little pressures begins to shape the tune. And I am firmly convinced that nobody thought all these things out, that they simply resulted from spontaneous reaction of these various pressures and problems and personalities that arose.

MR. BURGESS: Has somebody got all that down?

CHAIRMAN SPROUL: Is there any real conflict here except perhaps in wording? If we thought solely in terms of ideas, perhaps we'd get an ideal running account which was not in accord with the facts and the situations as they developed. On the other hand, if we dealt solely with facts and situations, we might lose track of these major themes and ideas.

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* To identify, see Appendix.

It seems to me if you put in facts and situations as well as ideas in your general outline of things to be included, there is no real difference of opinion here.

DR. STEWART: There is not in the usage of words, but there is in the size of the canvas. As Dr. James has just said, there is a different size canvas. I think this is worth keeping in mind, that the agreement doesn't go so far but what there is a difference of emphasis between the two approaches.

CHAIRMAN SPROUL: Yes, that's right.

MR. BURGESS: Somebody should put up a little flag and say we not only did not want complete abolition of automaticity, (Laughter) but we want to make sure that some measure of it continues and that there is still room for it in the operations of a semi-free market.

CHAIRMAN SPROUL: Is there anything further to be said on these first two general statements?

Go on, Karl.

DR. BOPP: Then we go to points 3 and 4, things to be given special consideration and things to be avoided. To be given special consideration:

> "a. One of the central interests of the entire study should be the methods and terms on which money has been made available to the banking system and the economy as a whole. This would include, of course, all major changes in the methods used, such as discounting and open market operations. But it would also give adequate attention to changes of policy represented by changes in methods of administration even though there was no change in the broad method of providing or extracting funds. (We had in mind there, for example, the administration of discounting rules, and so on.) This would require adequate attention to the whole question of location of control, the methods of administration, and the development of ideas by those who make policy."

Things to be avoided:

> "a. This should not in any sense be considered an official history and the writer should feel perfectly free to criticize, evaluate, and interpret.

"b. It should not be financial history in the narrow sense but should be a social history, giving due emphasis to intellectual and political, as well as the narrower economic and financial, philosophies and events."

MR. BURGESS: That 4a raises one question we are going to have to face all through this. You are quite right, I perfectly agree that the writer of this ought to interpret and express opinion. If it is to be usefully done, that needs to be reviewed by some group of his peers, who give their reaction on it, so that you have a judgment that isn't just an individual judgment, but is a judgment measured against what some of his peers may say -- that is an advisory group. You had it in the National Bureau.*

CHAIRMAN SPROUL: Perhaps Dr. Calkins could say something about the general idea of procedure.

DR. CALKINS: The ordinary procedure that we follow at Brookings is to appoint an advisory committee of recognized scholars in the field, and our own procedure with the Brookings publications is that that committee becomes a consulting committee to the author in the progress of the work, and at the end they become an advisory committee to me, where Brookings has the final determination on publication. That determination is in the hands of the president, and the committee becomes an advisory committee to him, making their recommendation as to whether the thing is a suitable study for publication.

If that same procedure, which is a matter we have not really fully settled here as the course we want to pursue, if that were pursued in this instance, I would assume that the procedure we would follow would be one of setting up at the time this study gets organized an advisory committee chosen

* To identify, see Appendix.

to consult with the author in the progress of his work, and probably use the same committee as the advisory committee on publication at the end.

But in addition there is no reason why we could not use another procedure as we do at Brookings, and which is used by the National Bureau, I believe, C. E. D. and others, namely, to circulate manuscripts, either in outline form or in first draft, or early draft, for criticisms of any group whose judgment and views they wish to get.

The one rule that we follow on that is that the author is not himself obliged to take any of these criticisms or to make adjustments in accordance with them, unless in his judgment they are warranted. On matters in dispute, he may want to get the views of his advisory committee as well as his own judgment.

DR. WILLITS: How about footnotes of dissent?

DR. CALKINS: We do not employ them at Brookings. We have provisions whereby they may be employed. The procedure at Brookings has shifted a little in recent years. Some years ago we provided that the advisory committee was listed in the foreword to the study, indicating who they were, and this tended to place them in a position of personal responsibility, and as long as their names were listed, we gave them freedom to write footnotes of dissent if they wished and these were published in the study. Actually I think there are very, very few footnotes of dissent in our publications. There have been really very few in C. E. D., though some. More recently we have not published the names of the advisory committee members. Consequently they have not felt obliged to record their own dissents. But there again it is a procedure which we need to work out and agree upon for this series of studies.

DR. WILLITS: Thinking perhaps chiefly of the Bureau, I always respected very much the means of escape from a false intellectual unity that the absence of footnotes connoted. When they come in, when there are issues of real difference, and when people who are entitled to authority, as are the members of this committee or an advisory committee, feel there are important differences they want to express, I think there is a lot of sense in letting them come out. That doesn't interfere at all with the freedom of the author. He is completely free. He writes what he accepted responsibility for. But the fact that a flag was up here or there, I always thought was a very good thing.

DR. CALKINS: I do too. As a matter of fact I was one of the people who urged this in the establishment of the C. E. D. I think it worked very well there, as in the Bureau. It has in our own case.

DR. WILLITS: Particularly in an area such as this, where you have a straight history, you have the documentation, put it in order, and find there are a number of issues that are going to be moot. If you assume that there is only one point of view, the point of view of the author, to me it seems to be an injustice.

CHAIRMAN SPROUL: I think you can be sure, having raised the question, that the Committee on the History will have that in mind as one of the things to be decided by that committee, and some procedure devised.

really rather than

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MR RIEFLER: Is it really implicit rather than explicit in these words under special attention; how money was made available. Not how much was made available; not how the Federal Reserve actually reacted to a series of economic and financial developments, but simply the methods. And under things to be avoided, it says this shouldn't be a financial history. When you finish, where is the stress on the actual facts and developments? It seems to be the outline lacks a concept of history. It may be implicit in the thinking of the outline, but at some place in the in the outline there should be an explicit recognition that we are writing a history, and not an interpretation of ideas. I don't see any place here for such a fundamental fact as the change of the United States from a debtor to a creditor nation.

DR. CHANDLER........ (see original)

MR. RIEFLER: There was a terrific impact arising out of financial developments. It is the job of a historian to build that whole picture.

~~about.~~

CHAIRMAN SPROUL: I had a somewhat similar question, not just how the money was made available, but why it was made available in terms of the economy and the relations of the banking system in general, and the Federal Reserve System in particular to the economy, and its development at that time.

DR. JAMES: And whether it was too much or too little in the judgment of the author.

DR. CHANDLER: I think we were probably guilty of just taking for granted these things.

MR. RIEFLER: Yes. I think it is implicit.

CHAIRMAN SPROUL: Is there anything more on 3 and 4?

Go ahead, Karl.

DR. BOPP: Then we come to the substance of the history itself in terms of history, and here I think you should feel free to suggest deletions and additions and amendments. First the background of the System, which really means the period prior to the establishment of the System itself.

"a. This should include a detailed analysis of all the conditions and thinking that led to the movement for financial reform and that influenced the form of the legislation finally enacted. This would include not only the legislative history and the conflicts in the Government accompanying the consideration of the legislation but should also include a consideration of the existing international monetary and financial relationships, the nature and structure of our own economy, the conflicts over broad economic policies, the structure and functioning of our banking system, the economic theories underlying the various proposals, and the personalities that were involved in the whole movement."

Cyril, on your point about the role of the United States, Beckhart* told me on Tuesday that in 1914, if an American ship or a U. S. Naval vessel were to call, let us say, at a South American port, and payday for the sailors came while they were in port, that they would be paid in sterling banknotes, Bank of England notes, not in U. S. dollars. It is just a dramatic little incident that gives reality to the changing role.

DR. JAMES: This whole section I agree with, because as I said a few minutes ago, I think this really is the picture of the world before all these revolutionary changes. This is where the difference between the Aldrich Plan and the Federal Reserve System fits into it. Actually, I don't know that anybody in any history of the United States, financial or otherwise, has really written that yet. This book breaks entirely new ground.

CHAIRMAN SPROUL: It does, I think, raise again the question which was mentioned in the beginning and may be implicit all the way through, as to how much of a particular subject and era, time period, can be gotten into the comprehensive history, in what detail, and how much will have to be in a separate study or monograph.

DR. JAMES: I do feel, Mr. Chairman, that this is the thing that has to get into the comprehensive history. I feel fairly strongly about that,

* To identify, see Appendix.

because in my judgment, very, very few people are going to read deeply in all of the technical points that come up. There will be a small limited interested audience. But from the beginning I have looked on the comprehensive history here as, if it is effectively done, one of the most important books dealing with the history of the world in the last thirty years, and putting into focus all these technical things, but writing about them as factors that are influencing the stream, and writing about them in a fashion that will make them clear to people that didn't know about them before. I grant you this is an extraordinarily difficult job, but I think it is one that can be done.

I would raise one point there that I am sure was in Karl Bopp's mind. The creation of the gold pool chiefly under the influence of the bankers in Chicago in August of 1914, and in the sending of it up to Ottawa, as you all know, is a magnificant demonstration, exactly like the payments in pound notes as he mentioned awhile ago. In fact the thinking as of that moment was still entirely along the lines of an earlier philosophy.

CHAIRMAN SPROUL: I am not sure but that if they had any gold in Chicago now they wouldn't send it to Ottawa again.

(Laughter)

DR. CHANDLER: There is another incident in history that has never been written out, and that is the gold pool that the Chicago bankers threatened to accumulate out of the System in March, 1933. I am not sure that is generally known.

DR. JAMES: On that particular point, there is a very dramatic letter that old James Forgan* wrote to his brother, because on Saturday, August 1, 1914, he received a telegram from Mr. McAdoo, Secretary of the Treasury, asking that a

* To identify, see Appendix.

committee of the Chicago Clearing House meet with him in Washington the following Monday. Mr. Forgan promptly arranged to go to New York the next day and some bankers in the president's clearing house went with him. They met at the station a few minutes before train time. They got on the train and carried on their discussions, and by the time they reached Englewood, which as you know isn't a very long journey, they all got off the train and went back to Chicago, because they felt they would get very much farther by forming their own gold pool and going on this basis than going down to New York. An extraordinarily interesting letter that almost marks a crisis in Chicago banking.

DR. CHANDLER: It begins to sound as though we ought to have two histories, one of the Federal Reserve System and one of Chicago.

MR. BURGESS: I don't know how many of you people knew that on the Friday night when the banks were closing, as they were closing, the New York Reserve Bank had reserves of about nineteen per cent against its note deposit liabilities because the outflow of money from Chicago had been very heavy. We attempted to get Chicago, as had been customary, to take its share of Government securities in the pool so that the reserves would be leveled out for the System and we would all close with a gold reserve above the legal minimum. The Chicago bankers said that if any attempt were made to do that, they would next morning withdraw their reserves from the Chicago Bank in gold. So the System closed with the New York reserve ratio of seventeen or nineteen, and Chicago's fifty or sixty. Had you heard that?

DR. JAMES: No.

MR. BURGESS: I happened to be one of the fellows that tried to do some of the negotiating. We tried to get the Board to order the Chicago Federal to discount, which the Board refused to do.

DR. WILLITS: This is very distressing to an outsider, who always assumed that everything went on in the Federal Reserve System from the point of view of high and farseeing statesmanship.

CHAIRMAN SPROUL: Maybe you shouldn't be on this committee.

(Laughter)

DR. STEWART: I think it is one of the functions of all history to prove that what you are talking about is not monolithic.

DR. WILLITS: That may become harder and harder to do.

DR. CHANDLER: I suspect this ought to be interred with their bones.

MR. RIEFLER: That is the kind of thing I think we ought to have in here. I think that is what this history or ~~is~~.

DR. WILLITS: You are not limiting your historian with that, are you?

DR. CHANDLER: No. We leave that to him.

DR. JAMES: I think it should go in, because the very significant thing in any history, and in this one, is how the impact of individual human beings, and individual motives, as of this 24 hours, do shape the whole development.

DR. CHANDLER: Some of those individual reactions in that period of about two weeks made extraordinary history. The group of bankers that went down after the bank closing, and the terms of the reopening, in my judgment, were tragic.

CHAIRMAN SPROUL: The next point.

DR. BOPP: "b. A similar study relating to the organization of the Federal Reserve Districts, of the Federal Reserve Board, and of the Federal Reserve Banks before the banks were actually opened for business."

There was a Congressional Committee on the question of the number of districts.

CHAIRMAN SPROUL: Any questions or comments on "b"?

DR. CALKINS: The only one I have is that it seems this presents one of the problems that we will encounter from time to time of trying to cover the 12 districts. This thing fans out in space so much that you face a very serious problem of selection; or possibly you ought to make a summary treatment of this thing here in the main volume and then let this kind of treatment go into a special monographic study, where you can do it greater justice than you can with the space that will be available in the main study.

DR. CHANDLER: I think that what we had in mind here, Bob, was not necessarily a detailed study of each of the 12 Federal Reserve Districts, but rather a description of the political process, and the decision-making process, even after the bill got through Congress and was signed by the President, when you had this tremendous controversy, not only in the original organization committee, but then in the Federal Reserve Board, as to whether the Board had power to change the number of districts, and so on, and whether it would be a good idea even if they did have power. It was quite a period of controversy, and had a tremendous effect.

DR. JAMES: Isn't that covered very largely in Paul Warburg's two volumes? I think one thing we have to remember in writing this is that we shouldn't duplicate something that has already been done.

MR. BURGESS: That whole period has very well been covered, more so than afterwards.

DR. CHANDLER: I think that's right, Cyril, but so much of those early volume were special pleading volumes, so that the emphasis needs to be changed in some of them.

DR. JAMES: Yes, but I was simply emphasizing the fact that I don't think it all ought to go in in detail.

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~~MR.~~ Chairman SPROUL: There is perhaps one thread in one of the underlying themes, and that is the regional system and the relation of the New York District and the New York Bank to the rest of the country, to the Middle West, the Far West, the attempts to bring down the New York district to the smallest possible size, beginning with the financial district, going up to Canal Street, and stopping there, and then to the City, and then to the State, and then finally what it is now.

what it is now.

But I think that has lost significance in terms of the general development of the System, and of banking and banking thinking in this country, just the contest about the size of the New York District.

DR. CHANDLER: No doubt Carter Glass thought he was putting New York in its place. He thought he was going to do away with this business of huge bank balances in New York, and the financial power that that represented.

CHAIRMAN SPROUL: Of course some aspects of that conflict persist and exist right down to the present day. We are in conflict, that is, the System, with the Reserve City bankers on a variety of questions because of their feeling that the System is still trying to take over the functions of the correspondent banking system.

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MR. RIEFLER: What place is there here for that area? I always find myself in a fog about it. What is the role of the Reserve City Bankers Association? You do run into its impingement on the System all the time. It would seem to me it ought to be treated somewhere in this history.

DR. JAMES: In fact it was Carter Glass's impression that he abolished the correspondent system. He thought he had done it effectively, and I think the persistence of the correspondent system is really one of important problems.

MR. BURGESS: That is the emotional impetus, in large measure, back of the Act of 1934.

DR. CHANDLER: I thought this ought to be a theme that would have to run through all the periods, Win. For example, in the discussion of the structure and function of the System, pre-Federal Reserve, this would be a very important aspect. And the whole question of the composition of Reserve banks in the original Federal Reserve Act, and the fighting over the changing of those in 1916, 1917, and then the attempt to revert to something like the original scheme in about 1921 or '22. Then the check clearing controversy was involved too. I should think it would be a theme that would have to be developed in various stages.

MR. RIEFLER: Yes. It might have a separate monograph also.

DR. STEWART: I think there is a myth and a reality about this which, when you watch just the operations, tends to obscure the myth. The operations, of course, are New York. But there is the political reality of the amount of protection and insulation that it has given the System. I think there have been several occasions when it would have been a question whether the System could survive if it had been centered in New York. So I am inclined to consider it as more than an illusion, like all myths. It has great value.

CHAIRMAN SPROUL: It is a myth that has an effect on the economy of this country, not only on the Federal Reserve System.

DR. STEWART: This country just doesn't like concentration of power, whether it is New York, Washington or somewhere else.

DR. CHANDLER: And you also have the nice paradox, Walter, the more you try to sectionalize, the more you may concentrate.

CHAIRMAN SPROUL: Go ahead with No. 2.

DR. BOPP: The next is the period of organization, from the opening of the banks, until the entry of the United States in the First World War.

"a. The whole process of determining the structure and organization of the Federal Reserve Banks, the selection of personnel for the Federal Reserve Banks, the division of control between the Federal Reserve Board and the Federal Reserve Banks, the location of control within the Federal Reserve Banks, the process of arriving at decisions as to the appropriate objectives of the Federal Reserve Banks for the longer run and for the existing situation, and the relationship between Federal Reserve operations and American foreign policy. Worthy of special consideration are not only longer term growth considerations, such as building of the prestige of the System, but the desirability of making earnings in order both to build prestige and to attract members."

DR. JAMES: May I ask another question of fact there, Mr. Chairman? Have we received from the various Federal Reserve Banks any undertaking that the author of this will be able to use the directors' minute books? If you don't have that, then it will be extraordinarily difficult to deal with this

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MR. RIEFLER: The authorization, from what I put up to the Board, was that there would be pretty frank disclosure of developments before 1933, and that it should stop there. I think the final letter we wrote was that we would have to judge on an ad hoc basis what was to be made available.

CHAIRMAN SPROUL: I think that's right.

MR. RIEFLER: It is a friendly disposition to make things available, but there is no commitment.

DR. JAMES: But that friendly disposition does cover all the banks?

CHAIRMAN SPROUL: It covers the Board and the New York Bank, and it hasn't been put up to the other banks in that way, although it had been put to the other banks to make available what they had in their records and files, but not going to the minute books.

DR. JAMES: You can't make this hard and fast, but I do think it is tremendously important to choose your person, someone who has discretion, and you don't bring out current personalities. But I don't think really you can write this sort of a thing unless the individual is going to have that access.

MR. BURGESS: I don't believe your minute books are going to reveal this particular thing as much as one might think. They are pretty cautious of what goes into the minutes. I am thinking of the records of the Open Market Committee. I remember very distinctly in the middle twenties arguments in the Committee about the necessity for buying Government securities to keep up earnings. They didn't get into the minutes of the Open Market Committee. They didn't get into any of the records. The final thing was authorization to buy or sell, or something or other.

DR. STEWART: Chicago again too.

MR. BURGESS: Now, if you had the memoranda that McDougal* brought to those meetings, they would be very revealing. But they said, "To hell with all this fancy stuff that Strong is talking about. We have got to earn a living." You get some in the correspondence between Parker Gilbert* and the Board at that time, when the Treasury practically ordered the Federal to sell their Government securities.

DR. WILLITS: Perhaps you can guarantee access to this historian to the things that were carefully deleted from the minutes.

MR. BURGESS: We never even thought of putting them in.

DR. WILLITS: It would be well if the Board and the banks would go just as far as they could toward complete accessibility, because, "Yes, we will be sympathetic provided you don't go too far," is after all an extremely important limitation. I don't know the nuances and customs and the things that determine, but it seems to me that if this is going to be a history, you pick a

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* To identify, see Appendix.

man whom you trust, and a man whom you trust is entitled to access to a very high degree. On that, I can't judge the considerations that limit that access.

CHAIRMAN SPROUL: I think if it were put up formally to the Federal Reserve Banks, at least at this stage, to make their minute books available to the Committee or the historian selected by the Committee, we would cool off the sympathetic attitude toward access to all other available information, in terms of memoranda, comments and discussions outside of the minutes. It may be that as we go along we will find some things that have to be gotten from the minutes that we might then ask for.

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MR. RIEFLER: I think the attitude is extremely sympathetic, but a guarantee just can't be made.

DR. BOPP: Minutes of the Governors' Conferences, though, would be more revealing.

MR. BURGESS: Yes.

DR. BOPP: At one time they had stenographic minutes in the early twenties.

CHAIRMAN SPROUL: The Chairmen's Conference?

MR. BURGESS: The Chairmen's Conference doesn't appear until a good many years later than that.

CHAIRMAN SPROUL: In the twenties they had conferences and stenographic transcripts.

DR. BOPP: At one time they had conferences of the members of the Board, the Governors of the banks, and the chairmen. This famous May 1920 conference, which became a Government document, that is complete.

Then No. 3, War and inflation:

"a. A comprehensive analysis of the entire war financing program and of ideas relating to it and the relationship of the Federal Reserve to the whole process. The effect of the prevailing economic theory on the types of assistance given by the Federal Reserve to both public and private financing.

"b. In addition, adequate attention should be paid to such things as the effect of the war period on membership in the Federal Reserve System, the prestige of the Federal Reserve System, the relationship between the Treasury and the Federal Reserve, the tendency to concentrate power in the Federal Reserve Bank of New York, the subordination of the Federal Reserve Board in dealing with monetary problems, the growth of relations with foreign central banks and governments, the impact of this experience on the earlier philosophy of the Federal Reserve Act and of Federal Reserve policy, and contemporary ideas as to later developments."

DR. JAMES: I think there it is important to mention the position of J. P. Morgan and Company in that whole picture. They were the fiscal agent of the United Kingdom Government, playing a part that seems completely incredible in terms of the Second World War.

MR. RIEFLER: 1917-1919. The periods seem to be wrong here. 1918-1920 had a special character.

MR. BURGESS: The inflation broke in the middle of '20.

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MR. RIEFLER: The problem of the shift to fighting inflation started in 1919, didn't it? The shift from war financing to fighting the inflation really occurred during 1919.

DR. CHANDLER:..... (see original)

MR. RIEFLER: I would think the break would come somewhere in the first half of 1919

... really have a separate period, 1918 and 1920.

DR. CHANDLER: This could well be, 1917-18, and then another period, November 1918 to the break of the inflation in 1920. It might have been much better to split it up.

MR. BURGESS: In terms of economic swing, you can swing it through to '20.

DR. STEWART: I have always felt that the freeing of sterling was greatly underestimated. As a force, it has been obscured by the magnitude of domestic events. In looking back now, I don't think many people realized then

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MR. RIEFLER: The content here is correctly done. The content of No. 3 relates to the structure and organization of the Federal Reserve System in relation to financing the war and the huge war debt that resulted. From the end of 1918, on, we began to face an economic problem.

DR. STEWART: I think that's right, shift of emphasis.

DR. JAMES: During this period too, to take the terrific increase in bond portfolio of the Reserve System, which was one of the basic policies that made possible the open market development.

DR. CHANDLER: As I look back on this, Karl, I think we left out one very important series of things, and that is the whole change in the structure of debt, and of bank portfolios, and the financial positions of the public, of the banks and the Federal Reserve banks.

MR. RIEFLER: Yes.

DR. BOPP: I personally inferred that in the entire war financing program and ideas relating to it, as contrasted with the Second World War where the financing was public financing. The First World War was private financing. But it could be spelled out.

MR. BURGESS: In "b", I think if one were revising this, the wording "the tendency to concentrate power in the New York Federal" sounds as though people were trying to concentrate. It was a growth in power, which was done against resistance.

MR. RIEFLER: Its scope, its prestige.

CHAIRMAN SPROUL: Influence.

MR. BURGESS: The growth of influence of the Federal Reserve Bank of New York. Then it isn't the subordination of the Federal Reserve. Nobody said "we will subordinate the Federal Reserve".

DR. STEWART: Nobody?

(Laughter)

MR. BURGESS: I don't think they ever said that. They did it. But the choice of language suggests something a little different from what happened.

DR. CHANDLER: It makes it sound too conscious and deliberate.

MR. BURGESS: Yes.

DR. BOPP: This grew out of the circumstances. New York was the area in which the funds were raised, and with which the Secretary had the direct dealings.

DR. CHANDLER: I had never realized until I went back to this period the extent to which it was difficult to separate the role of say the Governor of the Federal Reserve Bank of New York as manager of monetary policy on the one hand, and as fiscal agent on the other. He just didn't know when he was acting as fiscal agent and when he was acting as Governor.

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MR. RIEFLER: How do you plan to bring that into the outline, the whole fiscal agency function?

Board, the New York Bank worked so closely with the Treasury day by day, that it built that up. The Board functioned in approving the discount rates and sat there. If they had had any ideas about what should be done, they might have been a little more forceful. But it was a thing that grew out of the situation rather than anything deliberate. The New York Bank I think went ahead and did things and pushed ahead and didn't want to be bothered.

DR. JAMES: I don't know the date at which J. P. Morgan ceased to be the fiscal agent of England and France, and their actions were taken up directly with the New York Bank.

DR. STEWART: Have they ever ceased?

MR. BURGESS: They still are the fiscal agents. I don't think there ever was any date. But when they ceased doing their financing, the fiscal agency didn't mean so much, when it came to the handling of assets in World War II.

DR. JAMES: I was thinking rather of the change between 1918, for instance, and the period of 1923-24, when Norman and Strong were just short-circuiting Morgan entirely, and the fiscal agency had become a formal trust company business.

CHAIRMAN SPROUL: I don't think they short circuited them entirely.

MR. BURGESS: No, the kind of activity changed.

CHAIRMAN SPROUL: Change in emphasis of arrangements, but no date when one was cut off and the other took over.

DR. STEWART: I believe the real crevice between past and present practice -- the real break -- comes when the United States Treasury established direct contact with the British Treasury. Both in practice and tradition, the two Treasuries had had very little contact. The Federal Reserve Bank of New York and the Bank of England dealt directly with each other, and the British Treasury used Morgan's as its fiscal agent in the United States. During New Deal days, however, the House of Morgan ceased to be welcome in Washington, and the Federal Reserve Board increasingly took over from the New York Bank its foreign activities. After the arrival of war, the activities of the United States Treasury in monetary and credit matters reached such a magnitude that the Treasury became a center of decisions, and the Federal Reserve merely part of an operating mechanism. Soon the relations between the two Treasuries became so continuous and unquestioned that our Secretary of the Treasury hardly knew that any other system had ever existed.

MR. BURGESS: The Banking Act of 1933 had to do with that. I think when the Treasury walked in and took the gold from the New York Bank, that was kind of a punctuation of it. That is a very interesting little incident that could be described in very dramatic terms, when the Assistant Secretary of the Treasury, a long-haired foreigner, came in and told us what was going to be done.

DR. CHANDLER: I would like a record of what was said at the Chicago Bank. (Laughter)

CHAIRMAN SPROUL: You don't want whatever comes out of the final work of the consultants to give a vicious slant to the New York Bank's assumption of power and influence? (Laughter)

MR. BURGESS: No, it wasn't just that. This was really going back to Win's point, that nobody, and I say literally nobody, looked all over there and decided, "Now we are going to do this this way." The things happened step by step.

DR. STEWART: I think I should comment on that. There is a difference of emphasis. I think Ben Strong deliberately built himself a political machine, consisting in part of the Governors of all the banks. He was perfectly aware of what the issues between the banking system and the Board were. I think he proceeded with intent to do this. I think he believed it was the right way to do it.

CHAIRMAN SPROUL: He was the man to do it.

DR. STEWART: He was the man to do it. So I don't know how much a matter of the conscious you want this whole thing to be. (Laughter)

CHAIRMAN SPROUL: He spent a good deal of time in Washington, living there. He had living quarters there.

DR. STEWART: And made a great point of cultivating Mr. Mellon, and not cultivating Mr. Crissinger.

DR. CHANDLER: I think also to go back to a point that Cyril James made earlier, there were at least some instances in which these things were planned out deliberately far in advance, and where the decisions weren't just sort of forced on by events. For example, on many of these things Strong was looking years and years into the future, and taking step after step to achieve this objective, such as, for example, the one of getting the rest of the world in debt to New York so that they could then run their monetary policy by regulating the inflow and outflow of short term credit to New York. This wasn't by any means unplanned, as far as he was concerned. It didn't occur as rapidly as he wanted.

CHAIRMAN SPROUL: We are still working on it.

(Laughter)

DR. BOPP: The next period is the Federal Reserve and deflation.

> "Analysis of events during the period and of Federal Reserve policies. A satisfactory treatment would include not only actual Federal Reserve actions but a close scrutiny of the changing role of Treasury financing, of basic philosophy and theory of the public at that time, and of the Federal Reserve officials. It would also include a detailed analysis of the process of decision-making and of the theories and objectives, explicit and implicit, of those who engage in the process."

CHAIRMAN SPROUL: Any comments or questions on that?

MR. RIEFLER: That ought to be pretty broad. That could include the War Finance Corporation.

CHAIRMAN SPROUL: That whole Congressional inquiry?

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MR. RIEFLER: Yes. That is the experience that Gene Meyer* comes over to tell me about twice a year.

CHAIRMAN SPROUL: And he was always right.

MR. RIEFLER: How he bailed out the banks that were in debt to the Federal. I suspect it is true.

DR. BOPP: Then No. 5:

"The search for appropriate peacetime organizations and policies - 1921 to 1929. This period will have a number of themes and subthemes which are sometimes woven together and sometimes not. Among the major problems were the following:

"a. The struggle toward a basic philosophy of central banking: the conflict between the old commercial loan theory which would have prescribed a passive approach and the theory of positive control which would often require actions directly in conflict with those appropriate to the commercial loan theory.

"b. Changes in the methods of business financing and their impact upon the character of commercial-bank earning assets and upon the volume of brokers' loans. The need for secondary reserve assets as a factor in the growth of loans from non-banking lenders to the market.

"c. The role of gold in the System: the continued allegiance to the international gold standard as an ultimate ideal, coupled with actions that were, at least in the short run, in direct violation of the rules of the gold standard game but sometimes with the intent to reestablish the gold standard internationally.

"d. The frequent conflict of more immediate guides or objectives: the objective of reestablishing an international gold standard and of promoting recovery abroad, the accommodation of commerce, industry and agriculture at reasonable interest rates, a positive policy of stabilizing business conditions, price stabilization, the development of New York as an international financial center, the control of speculation on the stock exchange."

DR. STEWART: I am not quite certain that I know what the function of the outline is here. I recognize the peg on which this is hung: guidance to the Committee and thinking about the nature of the history, I take it, more than guidance to the author. And therefore the things listed are not intended to be inclusive of everything, but suggestive of the range of things.

DR. BOPP: Yes.

emphasis

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MR. RIEFLER: The heading, "Search for appropriate peacetime organizations," I don't think that is really quite the true emphasis. I think what really happened that period was the discovery of effective operating techniques on the basis of actual experiences.

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The role of open market in relation to discount operations, was worked out. We found it in this period relationships we hadn't known existed during the war.

DR. JAMES: It isn't really peacetime organizations and practices, it is the assumption of the responsibility for conducting the entire national monetary orchestra. Really the impact in this period partly resulted in changing domestic finance, but it is continuously to be comprehended by the fact that the Federal Reserve System finds itself suddenly, partly from Strong's desire, and partly from deterministic forces, at the center of the whole international pattern.

DR. STEWART: That ideologically is true, and in terms of operating technique it is true for I should think part of the period. But you see it is that period that you break more or less in the middle, before you get England's return to the gold standard, and you don't deal with the French until later. And while discussion was taking place, and preparations perhaps being made in that sense, the actual operating function of the System as an international monetary machine was only something envisaged. It was not in operation.

DR. JAMES: I am thinking rather of short term balances before the --

DR. STEWART: Short term balances in London.

MR. BURGESS: There was a lot said about the acceptance market, a lot of boloney, and a strong effort to develop that. There was certainly beginning in '23 or '24, I think '24 really, a desire to lean to easy money here to facilitate the recovery abroad. But aside from those, the major determinants were the discovery that open market operations didn't directly raise or lower the total volume of credit but affected the discounts. This is a whole mass of development of domestic monetary policy.

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MR. RIEFLER: Doesn't it take in two or three things? First, this would be the coming of age of the Federal Reserve. There is one theme that runs through, namely the appropriate role of the Federal Reserve in relation to domestic stabilization. Then there is the theme of promoting the reconstruction of the world economy. The Federal Reserve was a key participant in that. It is comparable to the role of the Marshall Plan in the postwar world this time.

DR. JAMES:....

MR. RIEFLER: It is hard to get all the threads together. It has always seemed to me that one of the developments that happened during that period, the obsolescence of intellectual respect for the commercial loan theory, was a deterioration of the quality of bank assets. The surprising or shocking event of 1930 was to find that as small a contraction in the economy as was experienced by 1930 was accompanied by a sharp rise in bank failures all over the country. Something happened to bank assets in that time that ought to be noted if you are going to lay any base for understanding the troubles of the thirties.

the thirties.

DR. STEWART: I think that may be the key. The nature of the thinking that was taking place, in contrast with the events that were occurring, was developing a gap. The thinking officially about the acceptance money. There was an isolationist attitude politically, but actually New York, from the standpoint of its financial activity, was about as far from being isolationist as you can think of: the advent of the Dawes Plan, the Young Plan, the partners of Morgan being represented in it, and then the Federal Reserve not being able to take membership in the institution that was created. So that underneath some kind of thinking, and therefore somewhat obscure, was the great major fact of the capitalization of the corporate securities at higher levels and larger amounts of credit.

So that the very thought of stabilization of business was itself a deterrent for exercising control over the securities market. There were two or three years there where people said, "Oh, My God, you mustn't do this because you will hurt business." Somewhere in there lies an extremely interesting set of conflicting intellectual ideological notions and ideas.

DR. CHANDLER: Right along with that too, as you develop the stabilization practices in the Federal Reserve System, and they were thinking more and more in terms of national control, there was still this hope, at least on the part of some people, that before long you would get back to an international gold standard where you could rely on automatic factors. So there is definitely a conflict there.

DR. STEWART: A wonderful period.

DR. BOPP: Meanwhile, that led into such activities as paying off gold certificates in order to reduce the reserve rates so the public wouldn't press too hard for inflation.

CHAIRMAN SPROUL: I think this discussion has indicated that in the main heading under 5, the search should be about the development, not the development for appropriate peacetime organizations and policies, but taking into account these broader questions of domestic and international import.

DR. CHANDLER: I think the reason that we put that word "search" in there was because we had a feeling that although much was accomplished, that they were still searching in 1929 for some sort of an ultimate method of operation.

CHAIRMAN SPROUL: Still are.

(Laughter)

MR. RIEFLER: When you take this up in relation to the broader setting of international stabilization, the broad idea, as I understand it, was that central banks and investment bankers like Morgan and Comapny could get finance in shape (1) by getting budgets balanced, and (2) by getting the Treasuries out of the central banks by refinancing their loans, at the central banks in the market, both at home and in N.Y. These maneuvers could get the currency stable, and eliminate part of the chaos in the international economy.

Then the other part of the program was -- I think it was the general concensus-- that with financial stability, the government could move, parippassu, toward reduction of trade barriers, reduction of tariffs. That was the ideology back of that whole program.

Just from memory, I remember how sick I felt in 1927, when Norman gave out a statement about it being the time to drop tariffs, and Coolidge immediately went out and met the press and said, "The United States is not going to touch the tariff."

I think you have to get those threads into this to paint the whole picture. That is a much broader concept than just the concept of the restoration of a gold standard. It is a much more basic concept.

CHAIRMAN SPROUL: As between search and development, it had always seemed to me that there was a signal post in the development of ideas in the 1923 annual report of the Federal Reserve Board, which went beyond search and was development.

MR. RIEFLER: Yes.

DR. JAMES: In fact there wasn't too much searching, because in each stage through this there was a confidence that it had been found.

(Laughter)

DR. STEWART: A perfect rationalization.

CHAIRMAN SPROUL: Do you want to take up "e" and "f", Karl?

DR. BOPP: "e. The evolution of instruments of Federal Reserve policy: changes in both the techniques and relative importance of instruments such as the discount rate, moral suasion of various types, open market operations, international stabilization credits, development of the "factor analysis" of the money market - member bank reserves and related items. This investigation will necessarily involve the procedures for arriving at decisions and the location of control.

"f. The process of decision-making and the location of control: this analysis will highlight the fact that the original theory of the Act - that there would be at least the possibility of separate credit policies for the various regions -- came under closer scrutiny and was accompanied by many conflicts between the Federal Reserve Board and the regional Banks, but also the question as to whether and to what extent a centralized control should be exercised by the Federal Reserve Board or by centralized associations formed by the regional Banks. The weakening of the influence of the Federal Reserve Bank of New York and the increase of the influence of the Federal Reserve Board following the death of Strong."

CHAIRMAN SPROUL: Any comments or questions on that?

Go ahead with 6, Karl.

DR. BOPP: It is from here on that some of this may seem more in the form of conclusions than in the form of questions.

"Federal Reserve actions in a period of deflation and breakdown - 1929 to 1933.

"In analyzing this period the following important things should be stressed and interrelated:

"a. The prevailing philosophy of the public at large, the Government, and Federal Reserve officials as to the responsibility of the central bank and of the Government in dealing with conditions in such a period.

"b. 'Sound money' beliefs carried over from the pre-1914 days that 'currency manipulation' should not be used in an attempt to bring about revival, overlooking the fact that a currency must necessarily be managed with respect to some criteria of stability when it is no longer managed with respect to the gold reserves.

"c. Lack of grasp of America's place in the world financial structure. Belief that the United States must adjust to world monetary conditions and could do little to determine them.

"d. The persistence of the belief that the United States could take no positive action to halt deflation even after the international gold standard had ceased to exist and most countries of the world had adopted national currency policies. International developments such as the cessation of foreign loans, international financial panics, breakdown of gold standards, wide changes in exchange rates, etc.

"e. Business cycle indoctrination which stressed the idea that the forces of depression were fundamentally non-monetary and that monetary measures could play little part in bringing about recovery.

"f. On the other hand, there was a latent tradition, sometimes referred to as Bryanism, that monetary action <u>was</u> vital in restoring prosperity. But the monetary procedure contemplated was not primarily central banking procedure.

"g. The tradition of business cycle theory that depression was healing and beneficent and not degenerative and leading to crack-up. This tradition regarded deliberate monetary expansion to shorten the 'recuperative' period as harmful.

"h. But with the deepening of the depression, the growing popularity of the belief that there were inherent forces in a capitalistic society making for stagnation and blocking the technical possibilities for much higher living standards. This point of view looked toward fundamental changes in the rules in the economic organization for the most part rather than monetary procedures.

"i. The decline in availability of bankable assets as the depression deepened, indicating the vulnerability to contraction of a monetary system that issues money against debts. The vicious circle of monetary contraction and the decline in the safety of debts and the willingness to go into debt except by distress borrowers, proneness of American banking structure to failure, role of restrictive legislation, such as the collateral requirements behind Federal Reserve notes and restrictions of eligibility of paper for discount. The resulting lack of responsiveness of the economy to central banking measures for expansion.

"j. The diminishing tolerance of the economy for severe liquidation."

DR. STEWART: It would like to say for my part I think that is less satisfactory than the preceding sections. I don't believe it is just because you have stated them as conclusions. I find it difficult in some of these to attach datelines. They seem to be true, but I don't see why they should fall particularly in this period. There are so many things in '29, '30 and '31, even before you get to "h", deep in the depression, which seem to me not to be things that were learned, observed, experienced, that we felt the impact of, which I don't see described in "a" to "g". "a" to "g", I agree with, I don't quite see the timing factor in it.

reference to

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MR. RIEFLER: "B-1" is much more appropriate in reference to 1921. That is just what Strong expressed in Congress.

MR. BURGESS:....

MR. RIEFLER: Letter "c", I think Mr. Hoover had something to do with that. It wasn't at all prevalent within the System.

that. It wasn't at all prevalent within the System.

DR. STEWART: I think there needs to be more sense of struggle there. I think inside the System there wasn't this lack of recognition of these problems. It was a constant struggle to try to perfect them.

DR. JAMES: Isn't the watershed of '33 really as you say, within the System, and to a certain extent within the White House? Up to 1933, there was a real struggle to meet this deepening depression by traditional central banking means, and after '33, the balance swung over to meeting it by political means.

MR. RIEFLER: Well, the Reconstruction Finance Corporation was organized in October, '31, and it was put up to Hoover long before then.

MR. BURGESS: I think the failure of the R. F. C. to appreciate the size of the job had its impact.

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...ited about that: I remember going over

MR. RIEFLER: I was awfully excited about that; I remember going over it in a closed meeting of the Senate, when Meyer presented the legislation to set up the R. F. C.

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Senator Couzens* immediately said, "you don't propose to lend on bad assets, do you, Mr. Meyer?" He responded, "Of course not, everything has to be sound." And I remember registering it. It came to me through a remark that Walter once made that commitments made at Committee hearings seriously impair effective action later. I had a sneaking feeling at the time that he couldn't take that commitment, but he had to get that bill through. Certainly one basic reason for the inability of the R. F. C. subsequently was the fact that they were sucking the sound assets out of the banks and leaving the remaining deposits with no sound assets back of them. That came right out of those hearings.

DR. STEWART: I don't believe we have anywhere a proper appraisal of this period in terms of the effort or the growth of ideas. That is why it is so important to grow something up out of this, so that you have a sense of its coming right up.

DR. JAMES: I have always had a feeling too that by the summer of 1932 the effort had very largely succeeded, and if it hadn't been for the admixture of political things in the election campaign at the end of that year, the result might have been different.

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MR. RIEFLER: You have got to trace the development of ideas running parallel with those of the Federal Reserve with respect to its monetary policies, ideal as to the role of the examination system and to its procedures. The theory at the time was that the examiners examined banks, and if they were in difficulty, ~~the~~ closed them to protect depositors before the capital was eroded.

MR. BURGESS:....(see original)

MR. RIEFLER: And what happened was that that very fixed and rigid procedure kept clumping the money market to pieces. You should trace the evolution of the idea that the proper procedure was to keep the bank open and in being, not to close it and sell it

MR. BURGESS: Who wrote it?

DR. CHANDLER: I don't know who wrote it, but it was signed by the Governor of the bank and sent to the Board.

DR. BOPP: Then there was an attempt during this period to in a sense keep the Federal Reserve pure and clean. For example, the early Hoover proposals which were to organize other institutions to take over sound assets of banks, etc., but not have them eligible for collateral loans at the Federal Reserve Banks, and so on. The suggestion of some slight modification in eligibility requirements.

, involved

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MR. RIEFLER : No, that isn't the right interpretation. I remember that theory quite well. It was that if your problem involved losses in bailing out risk situations, then those losses should fall on the Treasury with its taxing power and not on the central bank. And so the R. F. C. was organized and operated in coordination with the central bank. It is a quite different theory.

DR. WOOD: Was there not a general idea in the financial and business world at that time that you didn't deal with a depression by tinkering with the currency by monetary expansion?

MR. BURGESS: I don't think so. There was a strong feeling that the budget should be balanced, the argument that even at the bottom you should try to balance your budget.

MR. RIEFLER: Yes, but they took the R. F. C. out of the budget.

CHAIRMAN SPROUL: I think there was some idea in business and banking circles of the healthy characteristic of a depression, but I don't think that should be pinned on the Federal Reserve System as an idea to which it had adhered in considering its responsibilities during that period.

authorities

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, either by putting in money through the F. R. C. loans, or through purchases of preferred stock or something else. The authorities had to think through, crucially, a new idea.

DR. WOOD: I am the one who wrote a good deal of this here. I was thinking broadly that we did have a liquidity of crisis in '32 and '33. Some of these sound money beliefs; for instance, A. C. Miller's* testimony that you shouldn't use open market operations when you had declining business. I think there was quite a little evidence given that to expand credit, or we might call it now, to cause the creation of money, in an unsound business situation might simply make an unsound situation more unsound. I think you had quite a revolution of ideas down to '33 and then after '33.

MR. BURGESS: Of course, Miller at that time was fighting his old battle against the New York Bank, because the New York Bank was partly in the lead in getting the new legislation in February, 1932, to change the status of the Government securities as collateral. That opened the way for the buying of a billion dollars of Government securities from March to June, a very vigorous operation. Miller didn't like that because it was done over his protest, in a sense. But the System was solidly behind the use of open market operations to meet a crisis of that sort.

DR. CHANDLER: Only last week I saw a memorandum written in the New York Bank in early 1930 to the effect that the System ought to engage in the purchase of approximately $50,000,000 worth of Government securities every week until all the banks were out of debt and even had some excess reserves. And it was approximately two years later that the policy was adopted. So that I think this kind of thing would be a useful addition to the outline, indicating that there was differences of opinion in the System and some were moving in that direction more rapidly than others.

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* To identify, see Appendix.

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MR. RIEFLER: There was the idea that the central bank needed utmost public confidence in the soundness of its assets, and that the Treasury should carry the risks.

Government securities and the Treasury taking risk.

MR. BURGESS: Of course that whole question came up after the opening of the banks in March, '33, as to how you filled that capital gap, and the mechanism of doing it. The battle was to get that done. Finally it was the R. F. C. with its capital notes and so on. The Federal Reserve after all at

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MR. RIEFLER: I remember very well in 1931 when the Anschluss came, and Luther was flying around Europe to borrow $500,000,000. This was a much bigger credit than the capital of the Federal Reserve Banks, and there was the idea that therefore it was not proper for the reserve banks to underwrite the credit. I think it was an erroneous idea but there was that kind of an idea with respect to the capital structure of the reserve banks.

and March, '33, and by covering the whole thing we make the stock market break sound as if it were the persistent fact. The main characteristic of the period is that we were always behind the event. The event was moving faster than men were able to move, and that in part was because they underrated the basic illness of the community. They thought it was the stock market break, and therefore it ought to be able to readjust itself, and the over-extensions had worked their way down much more seriously. So the tragedy is the '31 to '33 period.

MR. BURGESS: The one interesting point to hinge that on was the increase in discount rate at the end of September, 1931, where the debate was, now should we at this stage of terrific deflation and loss of gold take the traditional action of raising the discount rate, or should we discount freely

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* To identify, see Appendix.

and pour out money and offset it? The limiting factor there was the fact that you couldn't buy government securities because you were right up against the security of the margin of collateral of the Federal Reserve notes. But the decision as to whether to raise that discount rate had to be made and the dominating idea there was, well, England went off the gold standard with a discount rate of 2 per cent. Now should we be forced off here, with a low discount rate, when tradition calls for a higher rate?

DR. STEWART: With the French taking gold.

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MR. RIEFLER:: I have always thought that if the authorities had known how to handle the failure of the Bank of Kentuck and the Bank of the United States, there would have been a turning point in the fall of 1930. I wouldn't put it in '32. The failure to handle those two situations set the pattern of the credit liquidation that [illegible]nt on subsequently and eventually brought down everything.

York Banking community that it would be a very helpful thing if these two banks could be liquidated out and "draw a circle around them and save the soundness of the structure" a thing that many of us fought as hard as we could.

Now that isn't an instance of the theory about money. That was that these banks were bad banks and this is an opportunity to cut them out of the structure. And they were bad banks.

DR. CHANDLER: Maybe the language here isn't exactly appropriate, but when I tried to imagine what we would do today if we had a repetition of 1929, 1930 and '31, the contrast between what was done then and what we would do today makes it seem like another age completely.

MR. BURGESS: That's right.

DR. CHANDLER: Something has happened that has revolutionized ideas and policy.

DR. STEWART: We could handle 1929 and '31 most effectively today. I am not sure we could handle 1956 as effectively.

DR. JAMES: You have put your finger on the point I have been thinking about. 1931 is a stronger division of these two periods than 1929. That is really the time, as Walter said, when events started racing ahead as we never quite caught up.

MR. BURGESS: Remember that Herbert Hoover got together the utility companies in 1930 and urged upon them a big expansion program, which they to some degree adopted.

DR. JAMES: I would go along with '30, but it isn't '29.

DR. STEWART: This is more important than the period we spoke of, of the Federal Reserve coming of age. This we need to know.

DR. CHANDLER: In a list of incidents and controversies and that kind of thing in this period that might be dealt with.

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MR. RIEFLER: Exactly what were the incidents, what were the propositions made? Meyer* tells the story about how he went to Hoover in 1930 and said, "You have got to cancel the Allied war debts." And Hoover refused. Then he went bakk and put a motion that if the if the proposal came later to bail them out, he would refuse. He tells that story.

MR. BURGESS: What about Mr. Mellon going around

the people, "There is a hell of a storm coming, you'd better get liquid."

(Laughter)

I know a specific instance of that. We got in the bank and said, "By God, there is a storm coming and you better get yourself liquid."

DR. CHANDLER: That indicates that there was at least one man who might be tagged with the attitudes described here.

(Laughter)

Meyer

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MR. RIEFLER: Meyer had a broader view. He was the one that was desperately trying to adjust the debts.

MR. BURGESS: Of course, the one turning point there was what would be the character of the approach of the R. F. C. to its problem. You find a memorandum that says the R. F. C. should practically draw a line, we are not going to let the R. F. C. go beyond this. At the time they were lending a dollar for every two dollars of assets.

I mentioned earlier.

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MR. RIEFLER: That was the commitment to Couzens* I mentioned earlier. That is where they got committed to that conservative banking committee.

DR. CHANDLER:...(see original)

MR. RIEFLER: It is full of them if you would study that period, and really cull it for factual history. Miller* attempted to change the R. F. C. procedure from a lending operation on sound assets to a preferred stock subscription operation, but Ogden Mills* turned it down. That seems to me one of the crucial wrong decisions.

DR. CHANDLER: As I look at this period, it seems to me there was also a failure to see that assistance to banks was really assistance to the whole economy too. Today I think there would be an attitude that we don't save banks as banks, but you save them because the whole economy will go to pieces if you don't.

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MR RIEFLER: There wasn't a failure to see that. The problem was a moral problem, how much do you bail out stockholders and take losses for bad loans they should not have made. That was the moral problem that the authorities were trying to see their way through. And that is why Traylor* and Miller* came up with the idea that

* To identify, see Appendix.

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the R.F.C. subscribed to preferred stock in a weak bank, it would keep the bank in operation as a going concern, keep the mon ey supply available to the economy, and still let the losses from bad lending, whatever they were, fall on the stockholders who were really responsible.

MR. BURGESS: Then there was a terrific argument just after the bank closing in connection with the bank opening, of the formula to be used in opening, whether you open them all, or 50 per cent, immediately have deposits to work on, and then determine as you go along how much of the deposits have good assets back of them, or whether you open up just the good banks. And the thought was, we will just open the good banks. That meant three or four thousand banks closed; the effect on the community was terrific. You just cut off that much volume of credit. I don't know what it was, whether it was 15 or 20 per cent of the country's total volume of available credit. That accounted, in my mind, for the slowness of the recovery.

DR. CHANDLER: It is this kind of thing that I have in mind, because my guess is that faced with the same kind of thing today, there would be a tendency to open all the banks, not because of consideration for the bankers, but because of consideration for the public as a whole.

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MR. RIEFLER: It was really the absence of a technique, it was not a gap in the thinking. Take the situation in October, 1930, when the Bank of Kentucky and the Bank of the United States began to go under. They were rotten banks, rife with dirt, indulging in security manipulations and real estate manipulations. In those situations there was a direct moral reaction: that we ought not to bail out all those lousy stockholders; that they ought to bear the losses.

CHAIRMAN SPROUL: Combined with the theory of banking supervision, which persists somewhat to the present day, that if a bank becomes insolvent on the basis of quotations on various boards and markets, you close it.

It seems to me two thoughts or ideas have come out of this discussion of this particular section from this group. One is that the period ought to be divided into one that would take account more clearly of the development of events. And second that both were periods of struggle of ideas as between old methods, orthodox methods, and new methods of dealing with inflation and depression, and that it was not all what might be implied here, what Major Angas* referred to as paralysis in a blizzard.

MR. RIEFLER: You certainly want to know the whole history of the war debt controversies, and who put up what propositions.

CHAIRMAN SPROUL: That is the conflict of ideas of various things. It wasn't all one way.

MR. RIEFLER: Don't you need a detailed search for facts? The credit Anstalt, and the Anschluss, and the Luther story.

DR. STEWART: I was wondering whether this period might not lend itself to commissions and studies which would be of help to the author, because it is so inadequately studied that it would be conceivable that somebody could lay out maybe half a dozen studies here, where under some editorial guidance, it could deal with this period. A single man taking on this, and then having to work with the basic job, would have a large assignment.

MR. RIEFLER: There can be a number of participants, with someone becoming the key participant.

DR. STEWART: One of the preliminaries of the development of a scandal nearly always is the ominous character of the scandal, something that is first heard of, then is quiet for awhile, then grows. The other is a political change that happens at the end. It is a common mistake to treat these as if they were not part of the story. I think they are perfectly genuine parts.

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* To identify, see Appendix.

If you find a major scandal in the field of finance, you ought to be put on notice that maybe underneath this there are a lot of other things that you ought to give attention to. Then you won't ride off on a moral high horse.

CHAIRMAN SPROUL: Maybe like the crash in silk in Japan in 1920 and the Credit Anstalt in Austria?

DR. STEWART: Yes. The financial crisis in London.

DR. WILLITS: Walter, I have no right to speak on a subject about which I am not only behind the events but the events are so far beyond me, outside of my sphere. But sitting here, the sense of your statement that it would be almost an impossible task for one individual, especially if he be an individual who hasn't lived through it, to try to grasp it all, is just beyond question. He can't do it. I remember sitting with Henry Clay just about a year ago. He had the diary of Montagu Norman, and Henry would turn over a page, during this same period, 1929-33, and he would give me a lecture on all the things back of it, all based on a little note in Norman's handwriting. But Henry knew it all. To do it all with that kind of intimacy and knowledge is necessary. It seems to me it has to be broken down somewhere, at least looking at it as an outsider, and then that breakdown needs to be reviewed by the kind of awareness of events and the meaning of things that is here in this Committee.

That is purely an outside reaction, and a uninformed reaction.

CHAIRMAN SPROUL: I think you will have to quit taking cover under that "outside and uninformed." You are inside and informed.

DR. WILLITS: Pretty soon you will call me a banker. I think I need a little more input before I engage in any more output.

CHAIRMAN SPROUL: I think this is a convenient point to break up while they rearrange this room for luncheon.

(Luncheon recess at 12:00 noon.)

(Afternoon sesssion to commence at 2:40 P.M.)

AFTERNOON SESSION

CHAIRMAN SPROUL: Resuming our discussion with our consultants, I think we had gotten down to 7, on page 5, Karl.

DR. BOPP: That's correct. I might say that although we were in a sense a bit apologetic about No. 6, I think in retrospect I wouldn't apologize at all.

CHAIRMAN SPROUL: Did it take you two hours to think up that rebuttal?

(Laughter)

DR. BOPP: I am rather hopeful that we will be able to continue in that fashion on No. 7, which concerns Federal Reserve policy from the banking crisis of '33 to our entry into World War II.

"Federal Reserve policy from the banking crisis of 1933 to our entry into World War II - 1933 to 1941.

"The treatment of this period should trace the disillusion of the public and the despair that existing thinking and institutions could provide an adequate solution. It would combine a discussion of actual Federal Reserve policies with a description and analysis of the very important changes in the legislation relating to the Federal Reserve System. It would try to trace out all the lines of development that culminated in actual or proposed changes in the basic law and in the actual structure and operation of the System.

"Early Recovery Period"

"a. Belief that monetary measures must be mainly outside central banking procedures. (Preparation for the issue of script an extreme instance of blindness to central banking possibilities.) Due partly to lack of understanding of central banking; partly to the loss of prestige of the Federal Reserve during the crisis; and to the historical traditions regarding money or leading groups sponsoring monetary expansion. (For instance, looking back to bimetallism and to greenbacks in the Thomas Amendment.) Establishment of new institutions and procedures, such as deposit insurance, R. F. C., and so on.

"b. The loss of confidence in business leaders which came with the collapse resulted in greater receptiveness to reform legislation. The popular attitude that greed and dishonesty were in great part responsible for the collapse emphasized the necessity of "driving the money changers from the temples" and diverted attention from the monetary aspects of the collapse.

"c. Closely related was the idea that the failure to curb speculation by denying credit to speculators specifically was an important cause of the collapse. This belief led not only to reform legislation, but to the search for selective monetary controls; and it made central banking policy very sensitive to a rise of stock prices down to the present day.

"d. The continued misunderstanding of the place of the United States in the world financial structure was evidenced by some attempt at competitive devaluation. The problem of providing dollars was complicated by the protectionism of strong pressure groups."

CHAIRMAN SPROUL: Any comments, suggestions or questions? We have the word of our consultants that we are a very stimulating group, and we all expect some more stimulation.

MR. BURGESS: I wonder how much of this was really due to this change in public thinking, and how much of it was politics, which rationalized itself by the first of the very important changes in the Reserve System. I wonder if they were as important as they seemed. The big change, it seems to me, was one of thinking; that is, the Banking Acts of '33 and '35 actually made less difference in the operation of the System than they are given credit for. It already had changed in 1932, which freed open market operations by limitations of collateral on notes, which made Lombards* possible. There was, of course, the F. D. I. C., and the Securities and Exchange Act, and the control of margin requirements. Politics exaggerated all those things.

DR. JAMES: Isn't this really a period in which the old idea of economics and business was something separate from government, and about to give place to the modern world where the government is completely intermingled with business? So there is really a change in philosophy, which as you say is partially politics.

* To identify, see Appendix.

put the main

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MR. RIEFLER: Actually we are making a terrible mistake, to put the main stress on the early recovery period in terms of ideas. It was a period of milling action. You had all the banks to open, you had to get things in shape. You had to get those deposits in the closed banks freed again so that they could perform their money function. I would think that that period ought to be dealt with in terms of feverish activity, not in terms of shifts of ideas about the Government staying out, or the Government getting in; that is almost peripheral. It was a busy period, people working all over the place. There wasn't any question about the Government XXXXXXXXXXX being in, it was in to the hilt. It was the problem of deciding what was going to be done.

CHAIRMAN SPROUL: We have to remember we are talking here primarily about a history of the Federal Reserve System, then think of treating some of the other things as collateral.

MR. RIEFLER: Getting the banks opened, getting the deposits freed.

CHAIRMAN SPROUL: Getting the banking system to working again.

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MR. RIEFLER: You had that weird period of changing the price of gold.

DR. JAMES: Yes, and you had the gold block coming out of the London Economic Conference.

CHAIRMAN SPROUL: The most important underlying theme here is the growing acceptance of the idea of Government participation in the economic sphere, and I think that ties in quite closely with any history of the Federal Reserve System, because I look on it as a successful example of Government and private collaboration in a primarily Government function, with the Government having the dominant voice, but with some private influence and interest being heard and giving counsel and making their contribution. I think the underlying idea is the acceptance of Government as the prime mover in economic affairs.

DR. JAMES: And isn't this the period when a lot of emphasis shifts back from the banks to the Board?

CHAIRMAN SPROUL: I think both growing out of legislation and changes in personalities, there was a shift of influence from the banks to the Board. There was also a shift of influence from the banks and the Board beginning then ~~with~~ to the Federal Open Market Committee.

MR. RIEFLER: And also the Treasury.

DR. STEWART: The period that Bob Warren* used to refer to as the time when there were no involuntary muscles.

(Laughter)

The sense of emergency was so dominant, something had to be done always -- action. It does fall on action, emergency. This was the period when the Treasury took over foreign exchange, isn't it?

CHAIRMAN SPROUL: This is when they began to, yes.

MR. RIEFLER: I would think that with the jigglings of the price of gold --

CHAIRMAN SPROUL: Beginning in '33.

MR. RIEFLER: The Treasury moved in.

MR. BURGESS: The Government moving in, in an area that had been more private, and acting without too much thought, seizing the gold thing, one thing after another. It wasn't a change in public thinking so much as an emergency rushing in, taking over the gold from the Federal Reserve. I think the amazing thing really is that we were able to survive that period in the System with as modest changes in the structure as there were. It could well have been a complete change in the Reserve System, or a taking over of private banking. The number of changes made in the banking system were pretty modest. There were few actual changes made. There was tremendous sound and fury about bringing

* To identify, see Appendix.

to the bar of justice, and we are fortunate that there were as few structural changes as there were. But the specific things that were done, again I agree, were a good deal a matter of seizing on the immediate things that turned up. Some pressure group gets hold of an idea.

DR. JAMES: You really need to divide the period at about '36. This terrific rush to '36, then it begins to settle down.

MR. BURGESS: Yes. Of course, there is the episode in which President Roosevelt threatened the Reserve System that if they didn't buy in the open market in '33 he would use the power of the Thomas Amendment to dissolve them. That was symptomatic. They regarded it, of course, as revolutionary change.

DR. STEWART: I saw something of the Treasury during those days, and I became convinced that they were literally frightened of the banks. This wasn't something they were working up. The first question they always asked was, has it any connection with Morgan? And I thought it was exclusively politics.

I think it is going to be hard to write this and give a proper allowance for Treasury view, or for Federal Reserve history.

MR. RIEFLER: Jack Viner* would be able to cover that.

DR. STEWART: Yes, indeed. And certainly there is the Treasury and the Federal Reserve in that period, I think, rather than primarily the New York Bank and the Board.

MR. RIEFLER: The tri-partite activity was almost entirely Treasury;

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MR. RIEFLER: The tri-partite activity was almost entirely Treasury; Merle Cochran* can tell about those operations.

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* To identify, see Appendix.

DR. STEWART: Merle is someone who would have some correspondence and notes on this.

MR. RIEFLER: ..... the avalanche of gold.

DR. STEWART: When was the avalanche of gold? When does the big movement set in?

MR. RIEFLER: '36.

DR. STEWART: And it runs all through?

MR. RIEFLER: Then you have the Treasury starting to sterilize.

CHAIRMAN SPROUL: I think you are right about your timing on the Treasury. I think you are quite right, Mr. Stewart, about it being as much personalities as politics, and it being the Treasury versus the System rather than versus the New York Bank or the Board separately. An attempt was made to establish relationships with the new Secretary of the Treasury, Mr. Morgenthau, up in New York, which he interpreted as holding a gun to his head to try to subordinate the Treasury to the System in general, and the New York Bank in particular, and he never forgot it and referred to it from time to time, and always had questions in his mind about anything connected with banks.

MR. BURGESS: The symbol of this moving in of Treasury on the Federal was the taking over of the gold by the Treasury.

MR. RIEFLER: But the jiggling of the price of gold was much earlier without notification to the System.

CHAIRMAN SPROUL: But just notification, that was all.

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MR. RIEFLER: I remember Gene Black,* and others, saying what can we do to stop them? I came up with the idea to try to divert it by concentrating on getting the deposits in closed banks freed. Everybody had been neglecting that, so we thought....

* To identify, see Appendix.

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it was a fine idea. We got Mort Buckner* down and organized the operation. When it was taken tot the President for approval, he said in effect, that's fine, but we are still going to jiggle the price of gold.

in effect

(Laughter)

CHAIRMAN SPROUL: We have had perhaps three general ideas with respect to this section 1, that an earlier section might be split between 1923-26; second, 1931, the merging of the Government and business in economic terms; and third, most important from the standpoint of our specific subject, this shift of responsibility and authority as between the System and the Treasury, and the emphasis on actions which resulted in some of these developments.

DR. BOPP: Then the later recovery period:

"a. Abandonment by the Administration of monetary action as an important means of increasing general demand, and greater emphasis upon fiscal policy, increase of farm income, and upon raising wages and other labor income by nonmonetary means."

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MR. RIEFLER: What does that mean, abandonment of monetary action? It wasn't abandoned. Easy money didn't take hold partly because of lack of confidence.

DR. WOOD: I put that in, Mr. Riefler, and I was thinking of a conversation I had with Harvey Rogers,* I can't remember the precise year, but it was along in there, just after the middle of the thirties. He told me that the administration was not thinking of recovery in monetary terms.

MR. RIEFLER: If you have excess reserves equal to required reserves, you can't call that abandonment of monetary action. The monetary action is there in super-abundant quantity. There was a set of circumstances which required that other forms be brought into play.

DR. WOOD: Well, it was a

had in mind, say in getting the Thomas Amendment through, I would think.

* To identify, see Appendix.

CHAIRMAN SPROUL: The piling up of those reserves was not an act of conscious policy. It was a result of the gold inflow which the Government and the monetary authorities accepted but didn't do anything to control or effect.

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MR. RIEFLER: But if they were going to use monetary action, what they would do would be to create excess reserves.

CHAIRMAN SPROUL: It was there.

MR. RIEFLER: They were there. So it seems to me there wasn't a theory of abandonment. There was a loss of faith in the effectiveness of excess reserves because such reserves were present in a very high degree, and they weren't doing the job.

DR. CHANDLER: I wonder, Win, if your point would be [illegible] if "c" came first, and the word "abandonment" under "a" had substituted for it "supplementation"?

MR. RIEFLER: Supplementation, that's the point.

DR. BOPP: I might read "c".

> "c. Drop in interest rates to low level as the result of historical accident rather than deliberate action. The drop in long-term rates welcomed by the Federal Reserve. But the large excess reserves, which were mainly responsible for the drop, regarded as a potential danger of inflation. This fear of inflation in the midst of semidepression characterized the attitude of the Federal Reserve until Pearl Harbor."

MR. RIEFLER: Well, the drop in interest rate from 1929 to 1930 was deliberate.

DR. BOPP: This was the later recovery period.

MR. RIEFLER: Yes.

MR. BURGESS: I don't know about that last sentence. They thought that having all those reserves kicking around was going to get undesirable usage -- I guess six billion dollars of excess reserves and the money rate down to one tenth of one per cent.

DR. BOPP: Then this drop in rates at that time was a significant drop, but in terms of more recent experience -- well, ... that height is a relative matter.

MR. BURGESS: I think you would say that the focus of administration recovery instruments was on other policies than monetary, partly because the monetary thing wasn't working. You could throw any amount of money out, and it didn't go to work. Partly because the bank credit had been destroyed by the method of reopening the banks, in which billions of dollars of deposits had been destroyed, and partially because there were so many other aspects of the economy which were prostrate that had to be dealt with directly -- the housing, the farm situation, the Federal Farm Mortgage job. The emphasis had to be elsewhere because the situation wasn't in that balance where the monetary policy proved stimulating.

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M RIEFLER: The only effectiveness, it seems to me, was creating a market for U. S. securities which made it easier to finance the deficit. Those deficit expenditures were stimulating.

MR. BURGESS: Part of that was due to the contradictory policies, the combination of reform and recovery. They rushed in and scared every businessman so that he didn't want to go to work on anything, and put these regulations on the security market and the stock market. All these reform measures combined to hold back recovery, along with extinguishment of bank credit.

But I think that wasn't a deliberate policy; it was events again, a whole wave of events.

DR. JAMES: Isn't it probably the influx of Keynes' theory too, which at the time was a lot talked about, that once you got easy money conditions, then you begin using your money in these various policies? I don't mean in the sense of spending it, but your wage policy, price policy, was an attempt to get it in circulation.

DR. BOPP: You have to put in active money in a sense.

DR. JAMES: Yes. It was activating the fund which was there.

MR. BURGESS: But it was true that the things which the right hand was doing were checkmated by the things which the left hand was doing. Business confidence was thoroughly destroyed, so that no matter how easy you made money, business didn't pick up. It had been destroyed by nature, but they helped nature by giving it another blow under the jaw.

DR. JAMES: I think psychologically you could almost believe in that period that you didn't need business confidence. Government would just press the button and business would respond.

MR. BURGESS: And it was a favorite sport to make fun of businessmen.

CHAIRMAN SPROUL: By increasing consumer purchasing power by governmental action, business would soon get confidence because they would have markets.

DR. STEWART: I think the trick here was to keep the Federal Reserve from going into cold storage. There was this large reserve. The Treasury moves in, and yet it can't really be said to take over the functions of central banking, and it looks a little to me as if Federal Reserve functions were not very active in the period. Just how does one, then, tell the story from Federal Reserve activity to a period in which Treasury is so dominant and influential, and sketch in the outline of a business period? The whole relation of credit and banking in that period is not self-evident.

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MR. RIEFLER: If you are going into this on the basis of a history of ideas, it would seem to me the most important idea was the general loss of feeling that interest rates mattered. That was the big thing. The community gradually got to the point where it felt that interest rates didn't matter. I talked to Les about that in '48. It was just baffling. Good people would get up and even if they didn't want to peg rates, they always would say that interest ~~X~~ rates didn't matter.

MR. BURGESS: The discount rates ceased to be of value.

DR. WILLITS: I remember in '35, a group of large retailers, sparked by Beardsley Ruml, came to the "Social Science Research Council" and wanted to have financed a commission that was to inquire into the then incipient recovery, and really to pronounce on the fact that a new system of going out of depressions had now been proven. Later, in '37, I met with the chief person and asked him, wouldn't it be nice to have the record come out just at this point?

(Laughter)

DR. BOPP: "d. The shift in influence over monetary policy toward the Treasury. In part this was due to the new powers of the Treasury over reserves directly, but mainly it was due to the influence acquired by the Administration during the crisis and to the loss of prestige by the Federal Reserve during the depression and crisis.

"e. The policy of maintaining 'orderly markets' in government securities materialized during the restriction of 1937. Though this did not imply pegging of rates, it marked a definite change from the ideas of the twenties, when short rates were supposed to be varied with respect to business conditions. After 1937 the Federal Reserve realized they would allow rates to drift within wide limits and would intervene only to prevent sudden changes. The Federal Reserve seemed by many to have become merely a check collection agency. This policy of drift was partly the consequence of the unfortunate events following the experiment in tightening in 1936-37.

"f. Pegging the Market: The policy of maintaining 'orderly markets', though not at all contemplating the pegging of rates, prepared the way psychologically and developed a procedure for pegging. (The market became accustomed to the Federal Reserve's interventions for the purpose of affecting security prices as such.) The Treasury had decided on pegging many months before Pearl Harbor. The Federal Reserve did not object to the 2 1/2 per cent ceiling on the long-term rate, but objected to the rigidity of the pattern. The Federal Reserve Bank of New York would have preferred a higher long-term rate, but did not advocate raising the ceiling in the situation existing when the rate was pegged."

MR. BURGESS: What do you mean by new powers of the Treasury over reserves? The Thomas Amendment, and the Agricultural Bill?

MR. RIEFLER: The gold devaluation.

MR. BURGESS: The changing of the price of gold?

DR. WOOD: For instance, I believe that after some of those meetings where credit policy was affected, they had public announcement that this was made by the Treasury and the Federal Reserve together at a joint meeting. I think there were two such occasions.

CHAIRMAN SPROUL: It was a question of sterilization of gold, and desterilization of gold.

DR. CHANDLER: They had the Thomas Amendment powers, sterilization and desterilization, and then the operations of the exchange stabilization fund.

DR. BOPP: Was it earlier where the President was given authority, on recommendation of the Treasury, to change reserve requirements?

MR. RIEFLER: That was the first Thomas Amendment.

DR. CHANDLER: May I ask about this last point here? I must have been guilty of writing of the pegging of rates during the war as just a sort of evolutionary result of the policy from 1937, on, but I am not at all sure of that interpretation. The next question is, would you have had probably a pegging of rates during the war, inflexibly, even if you hadn't had this background of 1937 to '41 orderly markets?

CHAIRMAN SPROUL: I think we might have had and probably would have had without the background, although the background eased us into it.

DR. BOPP: Of course the basic issue was, are you going to finance it on rising rates as in the First World War?

CHAIRMAN SPROUL: I remember a conversation with the Secretary in which I used the phrase, "We can't finance this war by throwing dice with the market as to what the interest rate is going to be." It can't be financed with rising rates of interest in the market, which is continuously assuming that the next issue will be at a higher rate so we will subscribe to this, sell out when we can, and wait for the next one.

MR. BURGESS: That really happened just after the outbreak of the war. That is, there had been plenty of manipulating the market, but not a peg.

CHAIRMAN SPROUL: No, that had not been, and the range of support was determined in large part by the existing rates at the time they went into the war. The short rate was brought up a little from zero, or one-tenth of one per cent, to three-eighths of one per cent, and the latest issue, the last previous issue of relatively long-term bonds, had been at two-and-a-half per cent.

MR. BURGESS: I wonder if you should say that after '37 the Federal Reserve realized that they would allow rates to drift within wide limits? It seemed to me we were in there. There was a fluctuation of rates at the outbreak of war abroad in '39, in which they held back from intervening. Finally, I was at the Treasury then, the Federal Reserve Board went in to peg rates before the Treasury was prepared to do it. It was a curious twist. But I don't think the Federal ever said they were going to allow them to drift within wide limits.

DR. BOPP: I think these discussions at the time of the 1937 operations were that the System does not undertake to determine what the level of rates should be, but that the movement should not be disorderly, to get from one general level to another level. As I recall, there was no notion of any limit to the level of change.

MR. BURGESS: I think that was an interpretation of what had been done for some months. I don't think there was a change in '37.

DR. JAMES: Isn't the theme of this period really developing out of what Walter Stewart said a minute ago, that Government having decided to dominate monetary policy, using the Treasury, threatening these various things that this is the period in which monetary policy is temporarily lost to the System and in which the System gradually becomes the instrument for working it out again in collaboration with Government, instead of seeming to be fighting with Government.

CHAIRMAN SPROUL: I like Walter Stewart's phrase. This was the period when the System had to fight to stay out of cold storage. Monetary policy had been put in abeyance, not only through the emerging Treasury, but by the fact that the gold inflow had created the monetary policy for the period. There it was. Nobody had to do anything about it.

DR. JAMES: But the Treasury decided how much of that gold was going to be monetized.

CHAIRMAN SPROUL: There they did it very gingerly, and in consultation, until the '36-'37 period when Morganthau said, "You will support Government securities, or else."

DR. BOPP: During this period, I remember something Marriner Eccles* once said. He said, "They consider me a controversial figure. I am the only person who is able to keep the Federal Reserve System's name in the newspapers."

CHAIRMAN SPROUL: I think carrying out this idea that has just been mentioned, that your key should be continued shift of influence toward monetary policy of the Treasury, then bringing out this idea of the System's struggle to stay in the picture at all.

DR. STEWART: I think a new theme is beginning to be reflected before you enter the war period. The question Les asked about whether there would have been experience with the government's pegging of rates if you had not had this preliminary is part of it. But quite apart from that, the focus of attention begins to be the government market. So the Federal Reserve is beginning to address itself to that question, and this continues until it reaches full drama and then it continues to grow. So that you want to catch it in transition, to

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* To identify, see Appendix.

catch that as early as you can. Then it lasts a good, long time, and is, I think, evidence that it is the relation between the Treasury and the bank and the Government, and the whole growth of this Government market.

MR. RIEFLER: Starting with the Thomas Amendment and going through

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MR. RIEFLER: Starting with the Thomas Amendment and going through the Accord, there wasX a gradual acceptance everywhere that raising reserve requirements was a way to stop inflation.

DR. STEWART: That's right.

MR. RIEFLER: In '48 and '49, when I came back, everybody was talking about reserve requirements as a way of escaping from inflation.

CHAIRMAN SPROUL: Not everybody.

(Laughter)

MR. RIEFLER: I mean it was general throughout the country, and in the international community. Yet Australia, with 100 per cent reserves, had the biggest inflation of all.

DR. BOPP: I was just going to say that one of the most interesting aspects was the academicians, the people in academic life, who failed to see this.

DR. WOOD: I wonder if anyone would help me here again, by establishing a little closer the date when the Treasury made up its mind, to what extent the Treasury made up its mind, independently, that two-and-a-half per cent would be the maximum for the duration. My first point would be the maximum for the duration. My first point would be the summer of '41, so far as I would know, but it seemed to have been already decided by that time, I don't know how long before.

MR. BURGESS: I think it came very close on Pearl Harbor. I don't think it had been decided before Pearl Harbor. I remember a conversation about that time.

DR. BOPP: Hadn't there been earlier consideration of possible announcements in the event of America's entry into the war?

MR. BURGESS: No, I don't think we talked about that in '39.

MR. RIEFLER: I don't remember it at all in '39.

DR. STEWART: Isn't there a memory of Governments at par? I think that is the date. I don't think it is the two-and-a-half per cent.

MR. RIEFLER: He is merely saying why didn't they go lower.

CHAIRMAN SPROUL: Governments at par was the two-and-a-half per cent rate.

DR. STEWART: I think that is what sets the period.

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MR. RIEFLER: Can't you date it from the time of the discussion with the insurance companies, when they said that they needed a living rate? Wasn't it about that time that the idea of tailoring securities became prevalent?

MR. BURGESS: The first 67-72's, the first loan drive was May, '42, wasn't it? Didn't they try to make it 2 3/4's?

MR. RIEFLER: I think I remember a discussion earlier than that of paying a higher rate than necessary, because you had to allow the insurance companies a living rate. Wasn't there some discussion along that line?

DR. CHANDLER: Probably another element that should be put into this period as a continuation from the earlier one is the rise of various kinds of Government credit institutions, which would act as retailers of credit or insurers of credit.

MR. BURGESS: Of course, you had in the immediate post-depression period the Home Loan Banks, the Federal Farm Mortgage Banks, Commodity Credit Corporation, the R. F. C. and F. H. A. developed further, that whole battery of things that goes into the immediate post-depression period. I think this period first is the revolution which in effect takes over the Reserve System and everything else under Government direction. Then there is the gradual recovery by the System of some of its functions. First it begins to operate again with reserve requirements, and with open market operations, and so forth. Then it gets frozen in position, but nevertheless it is a great service institution by the Government, in which it only emerges at the conclusion of the war. But it is a gradual regaining of an operating position.

CHAIRMAN SPROUL: You have also that theme with the great growth in the Government debt, the great growth in the Government securities market, the Government securities market coming to be the market through which all elements of the short money market make their ~~judgments~~ adjustments, and the Federal Reserve System moving from orderly markets to war finance, and pegging, and then back out of pegging, to the final course. You have those two things going on together really conditioning the whole experience of the Federal Reserve System during that period.

Anything more on 7?

Will you take up 8, Karl.

DR. BOPP: "Federal Reserve policy during World War II - 1941 to 1945.

"a. A thorough description and analysis of the role of the Federal Reserve in World War II finance should stress the contrast with World War I. The contrast should include differences in basic philosophies as to the function of the Federal Reserve, differing techniques of supplying necessary money, differing philosophies as to the proper behavior of interest rates, differing reliances on monetary policy, fiscal policy, and direct controls, and differing estimates as to the nature of the problems which would have to be faced after the culmination of war.

"b. Some important changes arising out of this period: the tremendous increase in the national debt, the practice of pegging the price of Government securities, the shift of policy-making to the Treasury, the proof that a central bank can control interest rates, changes in the law to facilitate Treasury financing.

"c. The Federal Reserve position was that credit expansion was inevitable during the War and that it was inflationary, but that raising rates would do little to prevent the expansion."

DR. JAMES: There should be emphasis there also on the difference in financing Allies and Associated Powers, which is very significant.

DR. BOPP: That is quite right, particularly in view of the war debt.

MR. BURGESS: I think also you ought to point out the influence of the Federal Reserve in trying to get the financing done, as far as possible, outside the banks, in as little as inflationary manner as possible. War loan drives included these long-term bonds, and the tremendous effort to sell bonds outside of banks.

DR. JAMES: I think even the pay-as-you-earn income tax changes is significant in this.

MR. BURGESS: I think the shift in policy making of the Treasury happened before that, and the Federal Reserve in this period was regaining gradually some of its individuality, largely because of its extreme utility as a service organization in the whole war effort. It had demonstrated its capacity for doing a lot of things that had to be done, like exchange controls, and handling the inter-war loan drives, and so on.

CHAIRMAN SPROUL: We had a nice row about that too.

(Laughter)

I missed in here the continuance of the theme of the Treasury's becoming more and more dominant in international affairs. This was the period when that was institutionalized in the form of the International Monetary Fund, and the World Bank, with the Treasury having the final say, and representatives abroad. The inter-war idea of central bank cooperation was out the window, and these new international institutions were now set up as institutions with the treasuries dominant in them.

DR. BOPP: In a sense the discussion of the differing reliances on monetary policy, fiscal policy, and direct controls, World War I versus World War II, summarize how almost complete the shift was.

MR. BURGESS: Of course the war lasted longer this time and gave you a chance. You take the actual timing. Wouldn't you find the direct controls in terms of months come in as soon in World War I as in World War II? They had them in 1918. It took a little while to do it in this war.

MR. RIEFLER: My feeling about this war is that in this country we never did come to the theory of direct control. England did. But this country in the end did not. We accepted inflation instead. We had not started with allocation of manpower, and control of production. We had those machineries going along, but they weren't in control.

MR. BURGESS: We financed a larger percentage through taxes than we did in World War I. Second, we did make a tremendous effort to do our war financing in as non-inflationary a way as possible. The banks and everybody cooperated in a very great drive to do that. The Federal Reserve was leading the way in that, which certainly has a very important place here. But we did tie the rates down as we didn't in World War I, and we did finance by direct purchases of Government securities, and this is an important point, rather than by borrowing. Unwinding it afterwards was much more arduous, and much less automatic. Maybe that is one of the reasons why we had a sharper deflation after World War I. It wound up with the banks holding three billion dollars in the Federal Reserve which they proceeded to repay. This time there was no such mechanism, and we went on to inflate after the war.

Of course as to foreign aid, the major factor in there was that after World War I we cut off foreign aid within about six months, and this time we kept on in one way or another.

CHAIRMAN SPROUL: Before we go on, I might say perhaps we ought to get it decided just how far in terms of periods we will be able to carry these studies in detail, but I think for purposes of your work and your advice and counsel to us, we might as well go right on through.

DR. BOPP: This is very short, as you notice, in No. 9.

"The search for appropriate peacetime organizations and policies - 1945 to 1954.

"This should include a contrast between the search which grew out of depression and the search which grew out of inflation. Very important background materials for a consideration of this period would include the continued fear of depression in the midst of inflation, the general demand that all the powers of Government be employed to prevent the recurrence of serious depression, the emerging popularity of fiscal policy as an instrument of economic stabilization, the widespread disillusionment as to the power of monetary policy to deal with unemployment and inflation, the greater tolerance of the public for direct controls as a means of obtaining objectives and its equal willingness to see their abolition at the earliest possible moment, a search for extension of powers to reconcile expanding money supply with control of inflation, support of the securities market with control of inflation, development of the concepts of rigidly controlled markets, free markets, and flexibly controlled markets."

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MR. RIEFLER: It seems to me this raises again the problem of shifting prestige. By the time of the Accord, the System was taking a very strong position on one side, while the White House was taking opposing positions, partly through the Treasury, and partly through the Council of Economic Advisers. The Council of Economic Advisers advocated a complete theory of pegged rates, plus a bureaucrat sitting in each bank governing every loan at the loan window. The Treasury rejected that but insisted on a pegged rate. In each case, the Administration was insisting on giving up monetary policy.

CHAIRMAN SPROUL: There was one stage there where I was afraid that the Council of Economic Advisers was going to take over both from the Treasury and the Federal Reserve System, which I thought was about the worst possible thing that could happen. Of course that was a different Council.

DR. JAMES: Isn't there one significant thing left out of this aim, and that is the effort to establish an international economy? First the international institutions and the whole policy of supplying credits abroad.

CHAIRMAN SPROUL: Yes, I think so. Then I think there is also left out, which would come in certainly in 1953 and 1954, the international re-emergence of monetary policy.

MR. BURGESS: The whole period '45-'54 was a gradual regaining of the freedom and dignity of the central banking system. It started right in in '45, in an effort to get a little more freedom of rates in the market gradually. The first thing was the bill rate. It was pegged at three-eighths until it worked up to seven-eighths, and so on. Then a little more freedom was gained inch after inch. All the time the Council of Economic Advisers battling on the one side, and the Federal Reserve on the other, and all those episodes, with the President trying to intervene, and the Douglas Sub-Committee. I think that is a great chapter.

Paralleling that is the international effort to re-establishment of monetary sanity, and as Allan said, the monetary policy was amazingly successful after that.

DR. STEWART: Two terms used in this paragraph which recur in other places in the document, that is, fiscal policy and its increasing popularity and monetary policy and disillusionment with it. I would like those to be very carefully inspected as terms before they get widely used. I take it fiscal policy means deficit financing, and monetary policy means credit controls, and excess reserves and so on. I am extremely doubtful whether these are separable as logical intimates. You can have a Treasury pursuing a fiscal policy which is dependent upon either the collaboration or the domination over central banking, but it doesn't cease to be monetary policy, it doesn't cease to be a credit factor. Even if it is known as fiscal financing, it has to have credit conditions. I think that because there were differences of approach emotionally between those people who felt that the way you dealt with a depression was to have a budgetary deficit, and those who believed that you should have monetary controls. We have made it appear that the two are separate to a greater extent than they are through experience. So I am not persuaded that history can make as much of a separation as logic is inclined to suggest.

DR. BOPP: Would it be fair to say that in a sense fiscal policy grew out of an attempt to extend open market operations to, in a sense, put active money into the market, and so on, so that the dividing line becomes really very thin.

MR. BURGESS: Isn't there a distinction here between what the economists were debating about in their meetings, in which the contrast between fiscal and monetary policy was prominent, that the discount rate no longer mattered, and you can't have monetary policy, and so, and what the Council of Economic Advisers was talking about. But as far as Treasury and Federal Reserve and actual action, I don't believe this was a real issue. The Treasury under Snyder*was just as eager to get the budget balanced. The fiscal policy was never really used by any administration in this country as an instrument of policy. I say that with a little hesitation, but I don't think it really was. But this issue as stated here is what economists were talking about in their annual meetings and not what was really happening in the country.

DR. CHANDLER: I think you could be made formally right, when you include Keyserling as an adviser, but certainly Keyserling made a distinction.

DR. STEWART: He believed that the Federal Reserve had no influence of any kind anyway.

* To identify, see Appendix.

Eccles

MR. RIEFLER: Marriner certainly was explicit in those things.

MR. BURGESS: Nevertheless, at the same time he was talking about it, he was trying to get the bill rate up. He was trying to make monetary policy work in a limited way.

DR. JAMES: Isn't it a matter of semantics, with fiscal policy by the Treasury and monetary by the Federal Reserve?

DR. CHANDLER: I seem to remember Mr. Snyder, while saying that a rise of interest rates would do no good in fighting inflation, said that we will take care of this by taxation.

MR. RIEFLER: Yes, all the time.

MR. BURGESS: I think it would be hard to find a clean-cut statement. It is fair to say that they did, on the outbreak of Korea, go out for a heavy tax program.

DR. STEWART: Well, a taxing program is an attempt to recover back into the Treasury a liquidity that has been created by monetary means. I don't think they are as inseparable as we like to make them appear. Anyway, all I am doing is to give a warning that words don't always convey the full meaning.

DR. CHANDLER: I think generally speaking, the comments that have been made here about the academic economists being the ones that use those distinctions are quite right. For example, many of the so-called fiscal theorists would simply talk about the income effects of taxation and expenditures by the Government, losing sight completely of the liquidity effects.

MR. BURGESS: We have had built up a whole religion, a whole theology, by the economists of fiscal policy, so-called, which was far, far away from any active practice. It was not practicable. Congress would have had to pass a bill.

DR. BOPP: And even when it was, when we ran with very large cash surpluses, inflation went merrily on its way, because we simply shifted from an increase in public debt to an increase in private debt. Certainly the rediscovery of monetary policy in its various aspects, and the inadequacies of fiscal policy alone should be developed.

CHAIRMAN SPROUL: Remembering Walter's warning that you can't separate the two.

Now we have completed the section of the outline memorandum prepared by our consultants. What do we now wish them to do? In the light of this discussion, if they are willing, to prepare a new revised draft of their outlined memoranda and their discussion memoranda, which will be for our use and the use of whoever is selected as the historian in terms of carrying out this project?

DR. JAMES: I think that would be very useful, to bring together all the things that have been said here.

DR. WOOD: Karl made a suggestion earlier that we might take the transcript of comments that were made today and that would give the future historian a pretty good picture of the Committee's ideas.

DR. BOPP: I think there is an important danger in having a revision of this. The danger is that the historian would feel more constrained by a document that had been developed as that revision would be. It would carry the impression of being official and definitive. Whereas this clearly is something just for discussion. The transcript would show that there are differences of opinion.

MR. RIEFLER: You don't see much sense in trying to winnow the discussion down and incorporating it?

DR. BOPP: No.

DR. CHANDLER: I think if I were the person who might be considering writing the comprehensive history I would find the most valuable combination would be the document from which the discussion started, plus the verbatim transcript of the comments that have been made about it. Even a condensation of the comments made today might in a sense be misleading, because they wouldn't show the richness of the suggestions that have been made, in fact, the fairly wide difference of opinions among some of the commentators.

MR. BURGESS: I think it is probably unfair to ask people to re-write this. I think it has been enormously useful and helpful and very interesting.

DR. JAMES: I think it might be useful if we could all get a copy of the transcript to stir our thinking. I think that would help a lot.

DR. STEWART: One rather odd thing about this strikes me. If you look at the periods that have been set up, they look like relatively short periods. Nearly every time we have discussed it, we have said every period ought to be broken down. This is undoubtedly true, but the question is, could they also be combined into larger periods, which would be the other question. I haven't any doubt that analysis does require the breaking of it down, but are there any segments of larger experience overlaying the whole thing, which would make combinations, perhaps not of these datelines, but of other datelines? I would rather like to see the history contemplated as a longer sequence of time, with things moving in a slower arc, and not each one a series of separate experiences. I don't know what would happen, but it is conceivable, don't you think?

DR. CHANDLER: A fascinating way to do this would be to write say the description of the Federal Reserve System, thinking, and operations, in 1915, and then jump to 1954, and say how did we get there.

DR. STEWART: I am so poor a historian that I know no other way in my thinking except to think backwards. William James once said that all philosophies beg the question at some point. I beg it at the beginning. I feel that way about history. The things that interest me are the things of the going present, and I would therefore like to back into the past, instead of starting with this very early period, and sources, and so on.

You might take some of these things and say, what is the long arc that reaches from some past into some present? That makes it all relative and interesting and probably as ultimate as we can get.

MR. BURGESS: There is one very interesting cross-section that could be taken here, after doing this whole thing and going back. Say let's compare the domestic recovery after World War I and after World War II, and then the international situation and how that was dealt with after World War I, and this period, and contrast it. In a sense that is doing what you are saying. You take the present and say, now let's reach into the past.

DR. JAMES: The only thing that you miss if you do that is all the things which were very seriously tried and which didn't dominate men's minds at a certain point.

DR. WILLITS: Mr. Chairman, may I express a reflection on this task in which you are engaged? I don't know whether I stated when I was here at your last meeting an incident that I often used. I just mentioned it to Walter a bit ago.

Fred Keppel* was conducting a session in the early stages of the last war at the American Philosophical Society on the American Future, and Alfred Kidder*, an archaeologist of the Carnegie Institution, was discussing the question of, as he looked back, a grave digger by profession, as he called himself, trying to find some common key on some simpler basis than Mr. Toynbee. He said, "I find it in this. Whenever a culture, whatever degree of culture it

* To identify, see Appendix.

acquires, has reached a point where it has grown too complex for itself to comprehend, guide and control, it devolves out of the laws of its own inner being, and it winds up in a ditch."

He was in a sense describing our present culture. Your statements do not diminish that thought when you talk about the fact that events are far ahead of the human mind. Of course, that is true not merely in the field in which you are concerned, it is true in so many fields. The thing that this drives home to me more and more is the degree to which it is impossible within Government to perform any adequate and systematic appraisal, or digesting of experience, and what an immensely difficult and complicated task it is. It seems to me that in this attempt to go back and to re-apparise what was done, and learn from that experience, you aren't merely doing it in this field, you are giving a demonstration of what might be done, and how it might be done far outside, in many other places, to the very great advantage of understanding ourselves and our problems.

This would make me incline at this moment toward this conclusion, that you aren't making a five-year study, you are initiating a process that ought to go on, and to continue to go on, perhaps.

The other point that bears on the meaningfulness of what you are doing is what this means to all the people who are teaching economics, not merely central banking theory and international economics, but all the rest, and how impossible their task is, and how difficult it is to get their reality in the compass of their experience, and how much a thing like this assists the process. You might even be influencing Seymour Harris.*

(Laughter)

But I think those two things make the venture enormously important and significant.

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* To identify, see Appendix.

CHAIRMAN SPROUL: At our last meeting there was something relating to what you said, Walter. It was the consensus that in the choice of the two ways to squeeze what is relevant out of the historical data, the Committee proposes to use both a chronological approach geared carefully to time and a problem approach which demands exploration of topic and problems through time. That might also relate to the division of responsibility between the historian and the separate monographs relating to separate periods and times.

DR. STEWART: That is exactly what I mean.

CHAIRMAN SPROUL: Is it the general agreement of the Committee here that we discharge our group of consultants with many thanks for their labor in our behalf, and in behalf of this great undertaking which Mr. Willits has put in its proper frame, and use this document, plus the transcript, as the basis for our further consideration?

MR. BURGESS: May I amend by putting in the words, for the time being. (Laughter)

CHAIRMAN SPROUL: We always may call them back.

MR. BURGESS: I think they have done some extraordinarily useful work, and I think that we ought to in some way and at some time reassociate them with this project.

DR. STEWART: I think the Committee ought to write the next outline and invite the consultants to come and criticize it.

CHAIRMAN SPROUL: A sadistic proposal.

MR. BURGESS: I never knew there was as much in this topic until they got into it and laid it out.

DR. BOPP: May I say, Mr. Chairman, on behalf of the three of us that it has been a terrifically stimulating experience for us. We have enjoyed every minute we have put in on it. This is a grand session today, and it makes us feel good to see that you tore into it, as we fully intended that you should.

CHAIRMAN SPROUL: Is there anything else that anyone wants to bring up today?

We will adjourn a little ahead of schedule.

(Adjournment at 4:00 P. M.)

APPENDIX

ANGAS, Lawrence Lee Bazley (p. 47) - Investment economist. Born in Australia in 1893. Author: THE COMING AMERICAN BOOM (1934); THE PROBLEMS OF FOREIGN EXCHANGES (1935); INVESTMENT FOR APPRECIATION (1936). Radio speaker and lecturer.

BECKHART, B. Haggott (p. 15) - Professor of Banking, Columbia University. Born in Colorado in 1897. Author: BANKING SYSTEMS (1954); and numerous articles and books on banking.

BLACK, Eugene R. (p. 54) - Banker. Born in Georgia. Governor, Federal Reserve Bank of Atlanta, January 13, 1938 to May 19, 1933. Governor, Federal Reserve Board, 1933 to August 15, 1934. Reappointed Governor of Atlanta Federal Reserve Bank until death. Died 1934.

BUCKNER, Mortimer N. (p. 55) - President, New York Trust Company, 1916 to 1921; Chairman of the Board, 1921 to death. Died 1942.

CHANDLER, Lester V. (p. 7) - Consultant to this Committee.

COCHRAN, H. Merle (p. 53) - Deputy Managing Director, International Monetary Fund. Born in Indiana in 1892.

COUZENS, James (pp. 39, 45) - Republican Senator from Michigan. Born in Ontario, Canada in 1872. On Senate Banking and Currency Committee, 1932-36. Died 1936 while in office.

ECCLES, Marriner (p. 62) - Chairman, Board of Governors of the Federal Reserve System, November 15, 1938 to January 31, 1948; Vice Chairman, January 31, 1948 to July 14, 1951. Born in Utah in 1890.

FORGAN, James B. (p. 16) - President, First National Bank of Chicago, 1900 to 1916; Chairman of the Board, 1916 to 1924. President, Federal Advisory Council, Federal Reserve Board, 1914 to 1920. Born in Scotland in 1852. Died 1924.

GILBERT, Seymour Parker (p. 23) - Assistant Secretary of the Treasury, in charge of fiscal affairs, June 1920 to June 1921. Under Secretary of the Treasury, in charge of fiscal affairs, July 1921 to November 1923. Born in New Jersey, 1892. Died 1938.

HARRIS, Seymour E. (p. 75) - Professor of Economics, Harvard. Born in New York in 1897. Author: ECONOMICS OF MOBILIZATION AND INFLATION (1951); ECONOMICS OF NEW ENGLAND (1952); and others.

KEPPEL, Frederick (p. 74) - Senior member of Frederick Keppel & Company, dealers in and importers of pictures. Born in Ireland in 1845. Lecturer on art subjects, Yale, Columbia, Johns Hopkins. Died 1912.

KEYNES, John Maynard (p. 57) - Economist. Born in Cambridge, England in 1883. Author: THE GENERAL THEORY OF EMPLOYMENT, INTEREST, AND MONEY (1936); MONETARY REFORM (1924); and others. Died April 21, 1946.

KIDDER, Alfred V. (p. 74) - Archeologist. Born in Michigan in 1885. On faculty, Peabody Museum, Harvard.

LOMBARDS (p. 50) - Loans on Government securities.

LUTHER, Hans (p. 42) - Minister of Finance, Chancellor of Reich. Later succeeded Dr. Schacht as Governor of Reichsbank, resigned in March, 1933. German ambassador to Washington, 1933 to 1937.

McDOUGAL, James Barton (p. 23) - Governor, Federal Reserve Bank of Chicago, 1914-1934. Born in Illinois in 1866. Organized department of examination of Chicago Clearing House and was its official head until 1914. Died c. 1935.

MELLON, Andrew W. (p. 38) - Secretary of the United States Treasury, 1931 to 1932. Born in Pittsburgh in 1855. Died 1937.

MEYER, Eugene (p. 30) - Governor, Federal Reserve Board, September 16, 1930 to May 10, 1933. Born in California, 1875. Chairman of the Board, The Washington Post.

MILLER, Adolph Caspar (pp. 40, 45) - Member, Federal Reserve Board, August 10, 1914 to February 3, 1936. Born in California in 1866. Author of papers on finance and banking published in economic and financial journals. Died 1953.

MILLS, Ogden (p. 45) - Secretary of the Treasury and Chairman of the Federal Reserve Board, 1932 to 1935. Born in California in 1856. Died 1929.

NATIONAL BUREAU OF ECONOMIC RESEARCH, INC. (p. 11) - 261 Madison Avenue, New York 16, New York.

ROGERS, James Harvey (p. 55) - Professor of Economics, University of Missouri, 1923 to 1930; Yale, 1930 to death. Born in South Carolina in 1886. Author: STOCK SPECULATION AND THE MONEY MARKET (1927); THE PROCESS OF INFLATION IN FRANCE, 1914 - 1927 (1929). Died 1939.

SNYDER, John Wesley (p. 70) - Secretary of the United States Treasury, 1946 - 1953. Born in Arkansas in 1895.

STRAKOSCH, Sir Henry (p. 9) - Born 1871. Author: ROAD TO RECOVERY; WITH SPECIAL REFERENCE TO THE PROBLEM OF EXCHANGE STABILITY AND THE RESTORATION OF THE INTERNATIONAL GOLD STANDARD (1935).

TRAYLOR, Melvin Alvah (p. 45) - Member and Vice President, Federal Advisory Council, September 1930 to 1933; Member, 1933 to 1934. Born in Kentucky in 1878. President, First Trust and Savings Bank, Chicago, 1919 to 1925. President, First National Bank, Chicago, 1925 to death. Died 1934.

VINER, Jacob (p. 53) - Professor of Economics, Princeton. Born in Montreal in 1892. Special assistant to the Secretary of the Treasury, parts of 1934, 1939, 1942. Consultant to U. S. Treasury, 1935 - 1939. Consultant, U. S. Department of State, 1943-52. Author: TRADE RELATIONS BETWEEN FREE MARKET AND CONTROLLED ECONOMIES (1943); and others.

WARREN, Robert Beach (p. 52) - Professor of Economics, Institute for Advanced Study, Princeton, 1939 - death. Born in New York in 1891. Economist, Division of Research, Federal Reserve Board, Washington, D. C., 1922 - 1926. Economist, Foreign Department, Federal Reserve Bank of New York, 1926 - 1927. Author: THE STATE IN SOCIETY (with Henry Clay of U. K. and Leo Wollman, 1939); THE SEARCH FOR FINANCIAL SECURITY (1940). Died c. 1951.

WOOD, Elmer (p. 7) - Consultant to this Committee.