

I N N E W Y O R K

January 29, 1954.

Conversation with Mr. Leslie Rounds

The New York Federal Reserve Bank started business in November 1914 in small quarters on Cedar Street between Nassau and William.

In 1917 when Mr. Rounds first came to work for it the Bank occupied the southeast corner of the Equitable Building. It had the ground floor and a quarter of the fifth floor, with a private elevator connecting the two. All officers were on the ground floor and Mr. Benjamin Strong's desk was at the corner of Nassau and Pine.

When the war began and it became obvious that the Bank would play a great part in war financing they added space on the North side of the building then took the twenty-fourth and twenty-fifth floors. They also had the eleventh and the fourteenth floors. Liberty loan operations were handled on the twenty-fourth and twenty-fifth floors (?).

The Bank then began (date?) acquiring the property it now occupies. The land was then broken up into some thirty different plots occupied by old four and five story buildings. For the time being records were moved into these old buildings.

About the same time a plot at Gold Street and Maiden Lane was bought, two lots at 89 Maiden Lane with 10 Gold Street as protection. Plans were made to build there for the storage of records. A building eight stories high with two basements was erected with a floor strength of 800 pounds per square foot. The overflow from the old buildings was moved into this annex.

The old Liberty Street buildings were torn down in 1921 or 1922 (?) to make way for the present building <sup>finished</sup> financed in (?). This has five basement levels below the street and has its own power plant three stories high. Vaults planned for

the storing of gold occupy three basement levels on the Nassau Street side. Excavations go down to solid rock. Floors above the gold cages (which are 10 x 16 feet) were designed for the storing of currency including "Agents' cash" printed but not yet issued. (It was this storing of Agents' cash which made it possible to satisfy sudden public demand at the Bank holiday period of 1933. Much of it did not reach public circulation but went to satisfy bank reserves.)

Asked about the work of the Federal Reserve Agent. Mr. Rounds explained that he occupied a dual position between Washington and the Bank being named by Washington but accepted as a class "C" director in the Bank.

Up to 1935 the Federal Reserve Agent and the chairman was one and the same person. The dignity of his position was such that in certain instances a rivalry was set up between his post and that of bank president. This circumstance did not abstain in the New York bank but in Atlanta for example a Mr. Welden was first appointed chairman and then, finding himself under the president maneuvered to exchange jobs with the president.

In 1935 the new Bank Act made the chairmanship a purely honorary post which carries no salary. The function of the Agent is to hold the unissued currency and the collateral for the issued currency. To a certain extent he represents the Federal Reserve Board within the Bank. Pierre Jay was the first Agent in the New York Bank. He had previously been commissioner of banks in Massachusetts. He is responsible for the Research Department and also for examining Member Banks. Both functions have increased in importance as the Bank has grown. During the 1920's the Bank Examining Department was considerably enlarged as economic bad weather increased.

Mr. Rounds had great regard for Benjamin Strong's judgment on most things. He describes him as a Jekyll and Hyde personality, usually kind and polite but flying at time into towering rages. When he left the Bank on business he took it for granted that everything would immediately go wrong and when he returned he went through the place with a fine-toothed comb.

On policy matters Mr. Strong's influence was greater than was that of members of the Board. This was partly a matter of experience and partly of personality. It was increased by the fact that most directors came in knowing nothing about Central Banking. (This was even more pronounced then as it is now.) Competition between Mr. Strong and Dr. Adolf Miller of the Board was marked and had repercussions which are still felt. Dr. Miller had been Professor of Economics at the University of California, ~~or Stanford (?)~~. He married one of the Sprague sisters (the other, Lucy, was Dean of women at the University of California and married Wesley Mitchell distinguished economist). Dr. Miller thought that he knew how the new institution for central banking should be conducted. His theories and those of Mr. Strong frequently collided.

Dr. Miller's last service to the Board was the planning and building of the present Federal Reserve Board building in Washington. (Other memos add details on this.) He had the reputation of usually taking a position in opposition to the policies being pursued. Critics said that this was particularly notable if a policy seemed about approved. Then if it failed Dr. Miller could point to superior judgment whereas if it succeeded his position would be forgotten.

A man with Benjamin Strong's certainty that he knew what was right was exactly what the new institution needed in its early days. But though Mr. Strong always thought he was right <sup>time</sup> did not always uphold him. About 1921 Reserve Bank loans to member banks amounted to some 3 billion dollars. Mr. Strong told Mr. Rounds "now that we've got this great debt its going to take 35 years to take it off". As a matter of fact it only took about three years.

Asked about the transition from Mr. Strong to Mr. Harrison and the changes that that might have brought about. Mr. Rounds said that there was an interim period when Mr. McGarrah was in charge (get further information about Mr. McGarrah.) Late in the Strong regime after he had become ill and Mr. Jay had gone to become head of the reparations commission Mr. McGarrah insisted that the loans be changed so as to give him, as chairman of the Board, ~~authorities~~ in bank matters. At that time the Bank was raising the discount rate week after week every Thursday. Washington steadily refused to approve and thought it should be possible to keep loans down by "moral suasion". Strong did not believe this Board policy could succeed. He contended that once credit gets out it cannot be controlled.

Mr. McGarrah was appointed acting governor of the New York bank when Mr. Strong died. He held this post for two to three months. Later he was appointed to succeed Mr. Jay as reparations commissioner. He is now dead.

Mr. Strong, had himself, brought Mr. Harrison from Washington where he was the Board's General counsel and trained him in his ways. Mr. Harrison was here two or three years before Mr. Strong died and was generally recognized as Mr. Strong's heir.

The two men were very different. Where Mr. Strong lacked diplomacy Mr. Harrison had plenty of it. He thought first and talked afterward whereas Mr. Strong moved directly from thought to speech. Mr. Harrison had the reputation of playing his cards very close to his vest.

Mr. Strong was active in the early days of Federal Reserve planning with Mr. James Curtis, formerly Assistant Secretary of the Treasury and the Bank's first general counsel. He should get credit for the actual drafting of the Federal Reserve <sup>Act,</sup> Mr. Glass relied heavily on Mr. Strong's wisdom and experience. The latter had great imagination, drive, and integrity. He used to lecture to officers on the highest possible ethical standards. He would have no politics in the Bank or its

work and steadfastly kept Congressmen's patronage pleas out.

Mr. Strong's greatest weakness was in his judgment of people. Here Mr. Harrison was much wiser. Mr. Harrison was a good organization man and much more able and willing to delegate authority.