Tuesday, March 9, 1954

Second Part of Crane Memorandum

In the Offices of Standard Oil

Mr. Crane's appointment in the New York Bank started with Fred Kent about 1918; at that time a regulation was issued under legislation known as "The Trading with the Enemy Act". The Board authorized the New York Bank to oversee Foreign Exchange.

A division of Foreign Exchange was set up in the Board at that time with Fred Kent as its first Director. About the same time Mr. Benjamin Strong got Mr. Kent loaned from the Bankers Trust on part-time. Mr. Crane was delegated to be Kent's assistant.

This makes it sound as though Mr. Kent was in a position of liaison between the Board and the bank in matters of Foreign Exchange. (Check this.)

The business with work under the Trading with the Enemy Act and Foreign Exchange Control did not last long at that time as the War did not last long beyond the passage of the Act. Mr. Kent then went back to the Bankers Trust. Mr. Crane continued in the New York Bank in the Foreign Department.

The Foreign business of the New York Bank developed under Mr. Strong's leadership. Out of it grew an increasing amount of business both ways. The Foreign Banks opened accounts here, and the New York Bank opened accounts with the Foreign Banks abroad.

In 19~~32~~23 or 1925, (check date) Mr. Crane went abroad for the first time. He went to study the Gold Markets and how they operated, and how the central banks functioned in regard to the Gold Markets. He visited London, Berlin, Paris, Berne, where the Swiss National Bank carried on its gold business. He also visited Amsterdam.

Asked about whether he helped to handle the loan to Poland. Mr. Crane said that his memory was that this loan originated with Jean Monnet, who dealt with Blair and Company; they revised the monetary structure of Poland and even set up a new currency. Mr. Broderick went over at that time to represent the bank. Dr. Kemmerer of Princeton went as head of the mission. What they worked out was the Stabilization Loan.

Mr. Crane recommends a book by Dr. Kemmerer which is a primer of the Federal Reserve System.

The fine phase lasted, according to Mr. Crane, well into the 1930's. When England went off the Gold standard in September, 1931, there was a credit arranged with J. P. Morgan, a loan against gold.

Mr. Crane was one of the men who helped to organize the Bank for International Settlement.

The European arrangement was that European countries belonging to the Bank for International Settlement had their central banks as owners of stock. This plan was not followed in the United States.

The organization meeting was held in Baden, Germany in October, 1929. It coincided with the crash in the stock market in New York and they were anxious and exciting days. Mr. Jackson Reynolds was chairman. The United States did not participate officially. Mr. Crane was there as unofficial representative of the New York Bank. Representatives of the private banks attended the meeting, such as Mr. Melvin Traylor, Chicago. Mr. Leon Fraser was Mr. Reynold's adviser.

Mr. Crane was eager to have the New York Federal Reserve Bank a member of that Bank for International Settlements, and he wrote in the clause saying that any country having a central bank system and desiring to be a member of the Bank for International Settlements should name the central bank in the major money market of the country to be that member. This clause was not adopted.

The result was that stock ~~of~~ the Bank for International Settlement~~s~~ ~~are~~ is located through the United States, sold to the Commercial banks. The First National Bank of New York, The First National Bank of Chicago and one or two others became members of the bank~~s~~.

The first president of the Bank for International Settlements was Mr. Gates McGarrah who resigned from his post as chairman of the New York Federal Reserve Bank to take that position. Mr. McGarrah did not stay in the position very long. He was followed by Mr. Leon Fraser, and later by Mr. Thomas McKittrick.

Asked in general what difference there was in central banking before World War II compared to the modern situation. Mr. Crane said that European Central banks were much more under the control of Governments and Treasuries than they were before the War. This, of course, has also been true very recently in the United States. He said that the period in the early part of this century and through the 1920's was one of great demand for independent central banks. Such banks were expected to exercise monetary policy by themselves, free from political influence and with the best interest of the whole people at heart. Central banks were to be great independent institutions in the seat of monetary policy and power.

If that was true in Europe in the early part of the century, the same idea survived in the United States through the 1920's and it was that idea which inspired Strong and set the pattern for the New York Bank. This is a dream that has died. It was followed by a long period of bondage under Morgenthau and a wide difference of opinion still obtains. Only recently Senator Douglas tried very hard to get Congress to support the Treasury to the Federal Reserve Bank, making the banking board independent. (?)

"Thanks to Mr. Burgess", said Mr. Crane, "the Federal Reserve System and the Treasury now work well together. A new phase is beginning and out of this cooperation may come things not yet known".

Mr. Crane says that events had a great deal to do with the swift change in attitude toward central banks. The decline and fall of England from the Gold standard was a terrible blow to Montagu Norman and represented a serious error on his part. In England the policy of a great central bank has come to an end in the Bank of England.

In the United States the boom and bust of the 1930's had a not dissimilar effect. The New Deal came in with very different ideas and a period of inflation got underway.

Mr. Crane believes that it is wishful thinking to hope that central banks could be as independent as they were before the war. Monetary policy has a great influence on the whole economy that no political administration could be left solely in the hands of a central bank.

Before World War I and when Mr. Strong was getting his first interest in international banking there was no such thing as a National Monetary Agency. Mr. Strong believed that the Europeans had had such an agency for years, and also that they had a central monetary policy. He was eager to pattern both the institution and the policy of the United States on the European pattern and particularly on the English pattern.

Mr. Strong foresaw the boom and thought that it was getting out of hand, but he failed to foresee the 1930's.

I asked whether Mr. Strong died with a sense of failure or whether perhaps he died at a fortunate moment, getting out of the picture when 29 came along. Mr. Crane said that he had been closer to Mr. Strong in the earlier days than he was later. Mr. Harrison was closest to him in the last year or two of his life. At least Mr. Strong knew that things were getting out of hand.

Early in the 1930's there was a phase of activity in the Bank's Foreign Department. Foreign Banks were intensely interested in the activities of the New Deal. Mr. Roosevelt started to buy gold in England to raise the value of the pound and lower the value of the dollar. At the time of the Bank Holiday the dollar dived; the pound on the other hand rose to eight dollars from four.

There was some question in Mr. Crane's mind about the date when the gold purchase started. He thought it was in 1933. (Check this). A meeting was called at the White House with Mr. Roosevelt telling the large collection of important bankers about his gold buying program. They were there not to discuss the matter, but merely as technicians to tell them what to do in order to achieve the program he had decided upon. (Much of this detail can be checked in publications of the period.)

Dean Acheson was at that time Under Secretary of the Treasury. He resigned in protest against the program.

The gold buying process was handled by the Foreign Department of the New York Bank under ~~the~~ instructions from the Treasury which then began the long domination which lasted in large degree until 1952. Crane left the Bank because he could not stand the contrast between the dominated system of the Bank and the free and active one he had known when he first came in.

Mr. Harrison bore the brunt of these changes. Not only did he have Morgenthau to work with, but he also had Mr. Eccles.

Mr. Crane listed several people who were active in the 20's and would know of the decade between the early twenties and the early thirties. He said that Mr. Knoke came in about 1930. Mr. Burgess was in the bank at that time. Mr. Sproul came in the late 1920's. John Williams is the person who would have much more knowledge of the interwar period than anyone else. Oliver

Sprague was very close to Mr. Strong and came in frequently during the 1920's. Mr. Sprague went with Mr. Strong to India and London to testify of the hearings on silver which were held under Montagu Norman. (There was some uncertainty of whether he went both to India and to London with Mr. Norman and Mr. Strong.)

Mr. Crane went with Mr. Harrison, Mr. Sprague and Mr. Warburg to the London Economic Conference. They had worked out a stabilization agreement when Mr. Roosevelt "pulled the rug out from under them". Mr. Crane is philosophic about the whole thing. He thinks it possible that the Economic Conference could not have done the things that it set out to do, but that is arguable. He thinks that things may have been so bad that nothing in a way of an agreement between nations would have helped. However, this is a question which may only be argued about and never settled.