April 23, 1954

Internal Memorandum

With Shepard Morgan

Mr. Shepard Morgan came into the New York Bank in 1919 through Mr. Benjamin Strong and Arthur Anderson. His assignment was to clean up the Liberty Loan Accounts and to systematize and improve the reporting obligations of the Bank. He established the Monthly Review and mostly between 1919 and 1924 he wrote and edited. Other Banks had started Monthly Reviews and the New York Bank felt they had to have one.

Files which Mr. Morgan had of Federal Reserve material have disappeared. This he attributes to his own lack of interest in them at a time when they carried the connotation of personal unhappiness. Apparently he left them at the Chase Bank and in the course of time they disappeared. He believes that in an off-hand moment he told the Bank to throw them out if they wanted the space and that this was done.

Mr. Morgan was at the Federal Reserve Bank of New York from 1919 until September 23, 1923. At that time his wife believed him headed for a nervous breakdown and the family went abroad for a year. Officially his date of leaving the Bank is a year later and his Who's Who card lists him as having left in 1924. He is now retired. Owing to his wife's ill health he has been spending recent winters in Switzerland.

He plans, this summer of 1954, to write the story of starting the Bank of International Settlement. He has been dictating part of this to a wire recorder for Professor Nevin's history project at Columbia University. Mr. Morgan originated the Bank of International Settlement in 4 or 5 hours of rapid drafting work after arriving from Paris in 1929. He gives Mr. Owen Young, who is sometimes credited with having invented that Bank, no credit for this. He regards Mr. Young as a first-rate negotiator and a man always able to get agreement on whatever subject was at hand. He is somewhat skeptical, however, about the necessary value of the topic agreed upon and seemed to think that the fact of getting agreement was more important to Mr. Young than the thing agreed to.

I showed Mr. Morgan a memo which was written in 1919 on Rate Action, and which bore a comment from Professor Warren. He said that that memo had been written from correspondence between Mr. Strong and Mr. Leffingwell.

He also said that there was a companion document on the history of Mr. Strong's Money Committee of the early 1920's. This was a very secret Committee of which Mr. Robert Treman was Secretary. Its' meetings were highly confidential and the minutes of those meetings were kept in the vault. Mr. Strong asked Mr. Morgan to write a memorandum on it. (It later became evident that this memorandum had been written for the agricultural inquiry by Congress in 1921). The matters with which the Committee dealt was so secret that not only was the minute book kept in the vault, but Mr. Morgan was told that each evening when he finished using it to write his memorandum, it should go back to the vault.

When he got the black book containing the memorandum, he found that Mr. Treman, Secretary of the Committee, had been even more cautious than usual. The minutes day after day were confined to "the Committee met on such and such a date, those present were, pertinent problems were presented, adequate action was taken, the Committee adjourned at such and such an hour". Obviously it was impossible to write anything of history from such data. Mr. Morgan then went to the files of the New York Times and found that each day when the Committee had met the reporters had either obtained a release or had talked with someone on the Committee. The newspaper carried a full story of the Committee action and details as to the financial conditions of the moment. The memorandum which Mr. Strong desired was therefore written both from the Committee minutes and from the newspaper.

I asked Mr. Morgan about the possibility of finding papers of Mr. Parker Gilbert. We have tried Mr. Gilbert's widow, now Mrs. Harold Stanley, but have had no luck. Mr. Morgan said that Mr. Gilbert had a confidential man, Mr. Edward D. Norris still in the Morgan Bank, and that Mr. Norris might know about whatever papers Mr. Gilbert had left. Mr. Gilbert's secretary was named Mr. McGarry. (A telephone call to Mr. Norris illicited no information excepting that if there were papers Mrs. Stanley would know where they were. Thus far this has proved a vain hunt).

Mr. Morgan said that the special contribution of Mr. Paul Warburg to American central banking was the bringing in to American banking the bankers' acceptance and the popularizing of eligible paper in the New York market. Eligible paper is not as important as it use to be and neither are bankers' acceptances, but in the early years of this century they were new inventions to American banking and highly important. They were, in fact, made one of the cornerstones of the Federal Reserve System. Mr. Warburg was trained in the Reichsbank of Berlin and these lists emphasize on the importance of the bankers' acceptance and the eligible paper was a direct importation from pre-war German banking. Similar tools existed in Britain and there they were known as bankers' bills. We had nothing of this kind. We had commercial paper and bankers' loans, but that was all. These two constituted in their era a great contribution to American central banking.

The Reichsbank of Germany and the Bank of England were the models for the new American central banking. Mr. Strong himself, who became the most influential man of the new type, was schooled regularly by Mr. Montagu Norman of England. Therefore, the New York Bank in its operations took more from the Bank of England perhaps, than from the Reichsbank, though the Reichsbank influence came in as above, through Mr. Warburg.

Mr. Morgan was instrumental in bringing into the Bank two persons, who became extremely important in its' activities, Carl Snyder and Mr. Randolph Burgess. Carl Snyder was a man of extraordinary knowledge. At that time Mr. Morgan was trying to run the Monthly Review as one runs a newspaper. (He had had experience on the New York Sun.) That is, to say, on an assignment basis. His office was then staffed with one fat girl, one thin girl and an office boy; none of whom knew much about running a paper or writing a Monthly Review. Mr. Morgan had to write the Review himself. He was finding the process more than he could handle alone and getting fed up with the Research Department, which he tried to use both for material and for writers. They had the material but not the writers. In the process he finally tried finding people on the outside who would take on assignments. He tried a man from Moodys', but found him always more interested in the stock market than in banking. On the street he met George Mellon, a former reporter on the New York Sun and later in the Bankers' Trust, and asked him if he knew anyone who had some knowledge of economics and could write the English language. Mr. Mellon said yes he knew a man who had written a history of World War I and then found that he had been beaten to it by another author. This name was Carl Snyder.

Mr. Morgan then worried about what was happening to the foreign exchanges, had collected a variety of opinions. Mr. Kendall said it was all a matter of supply and demand. Other experts thought that it was speculation which had gone wrong. Mr. Morgan asked Mr. Snyder, who at once quoted Ricardo, on what had happened at the end of the Crimean War and drew the parallel between that happening and what had happened in the United States at the end of World War I. The comment was so illuminating that Mr. Snyder was hired.

The assignment system did not, however, work well with Mr. Snyder. Rather than write on the assignment suggested, he would come back with a new and different idea. Snyder thereupon brought in a man who had been working with the Russell Sage Foundation. This was Mr. Randolph Burgess.

Mr. Snyder wanted a salary which had to be approved by the Board of Governors. (Did salaries over a certain level have to be approved?) It was up to

Mr. Morgan to take the matter to the Board. In canvassing the possibilities, he knew that Mr. Albert Strauss, who had succeeded Mr. Warburg, would be sympathetic. Mr. Adolph C. Miller said no immediately and added "what you want is a statistician". Governor Harding said "come in and talk to the Board". Mr. Hamlin, who was always busy with his diary, was a man of no particular force who went with the majority. Mr. John Skelton Williams was not likely to do anything which Mr. Strong wanted for the reason that Mr. Strong as former head of the Bankers Trust, had insisted that the Seaboard Airline of which Mr. Williams was then President, should pay its debt to the Bankers Trust. This insistence forced the Seaboard Airline into receivership and left Mr. Williams very bitter at Mr. Strong.

? Strong?

When Mr. Morgan appeared before the Board, he found attitudes about as he had canvassed them. However, Governor Harding insisted that the Board should give a hearing to his presentation of Mr. Snyder. When he told them that Mr. Snyder's record was in Who's Who, Mr. Williams immediately showed great interest and astonishment. In reading down the list of works he found that Mr. Snyder had once translated something with a strange title in a foreign tongue. Mr. A. C. Miller leaned over and read it and the title was "Lebenslaus der Blume". (Presumably means love life of the flowers.) "What a wonderful man" said Mr. Williams. "His record is in Who's Who and he writes a foreign tongue. We must have him." He was hired. Mr. Morgan thought well of the name of Mr. Crissinger concerning whom we have had no favorable opinions hitherto. He said that he was a friend of President Harding and a member of what was known as the Ohio Gang, but, in the main he worked hard and he had a fund of common sense.

Mr. Morgan said that Mr. Strong and Mr. Pierre Jay worked extremely well together. They admired each other for their diverse qualities. Mr. Jay was truly a learned man, meticulously accurate, with a fine sense of words and a passionate honesty. (This is a direct quote from Mr. Morgan). He said that

Mr. Jay was a descendent of John Jay and almost the image of his ancestor. He was a shy fellow but extremely able.

Mr. Morgan said that the Agricultural Inquiry of 1921 was highly important in the history of Federal Reserve banking. New York was at that time, on the verge of a banking crisis. The firm of Gaston, Williams and Wigmore had collapsed. A bank with the name of the Industrial Bank of Americas (?) had collapsed. The latter was a bank with many branches and it did much lending. Matters grew so grave that banks of greater fame were on the edge. Mr. Morgan was with Mr. Strong going over some manuscript when a phone call came in. What he heard Mr. Strong say was "hm...that bad...tell him he can't...they can't let the Guaranty go". It was that close. The end of the Industrial Bank meant a heavy blow to Mr. Charles Sabin, who was then also Chairman of the Board of the Guaranty. Under Mr. Strong's urging, other bankers passed the hat. The New York Clearing House took at least unofficial action and the Guaranty was saved by the other New York banks.

In 1933 the Chase was the strongest of the New York banks. It did not have to buy "reconstruction finance bonds," after the Banking Holiday, but it do so in order that the New York banks should present a united front to the world after the Banking Holiday and none of them should lose faith.

April 27, 1954

Second Visit from Mr. Shepard Morgan

In the meantime Miss Dillistin in the File Department had searched for the second memorandum which Mr. Shepard Morgan had written, the twin to the memorandum on Rate Action which she had found earlier. She had sent up six files concerning the matter of Call Money and the Money Committee, but while there were Shepard Morgan letters in these, the memorandum did not appear. This was found by Miss Dillistin later in the day and sent up.

Discussing the 1920's, particularly in the early phases, Mr. Morgan said that the pressure came from agriculture, a field in which prices were very low and business was very difficult. In reality, however, the trouble was a reaction from the war.

"Few people understood then and few more understand now what the effect of government spending is and what effect the end of government spending has".

The Leffingwell-Strong correspondence of this period discusses this matter and sheds a very clear light on the two most prominent points of view held by the respective men. (Mr. Leffingwell was a lawyer. His training was in precedent and he found it very difficult to think outside of precedent and in any progressive fashion). The final payoff to the troubles engendered by war was the Panic of 1929.

The Agricultural Inquiry hearings of August, 1921, were, said Mr. Morgan, the bible of the Federal Reserve System, although they are not customarily given that credit. They contain a long and informed body of testimony from Mr. Strong among other people. This was worked on here in the Bank and had as base certain memoranda written by Mr. Morgan including the memorandum on the Money Committee which was mentioned earlier in this report of conversation.

At that time the Federal Reserve System was heavily criticized and charged with the responsibility for a fall in prices. Mr. Morgan states that he has been recently studying the history of Jackson's charge against the Second Bank of the United States in the early part of the nineteenth century. He finds that the criticisms leveled at the Second Bank, which in those days destroyed the Second Bank, were very similar to the criticisms leveled against the Federal Reserve System in the early 1920's. At that later date the Federal Reserve managed to survive the criticisms.

In 1935 another set of hearings threatened to upset the System. Carter Glass was then Chairman of the Senate Finance Committee where these hearings were held. The House Bill, as first presented, was appalling. Mr. Winthrop Aldrich took it apart on the basis of a memorandum written by Mr. Morgan. His recommendations were accepted by Mr. Glass and made into law. Mr. Morgan's memorandum, which formed the basis for Mr. Aldrich's testimony, was read by Mr. Burgess before it was accepted and incorporated in testimony. The only important point which Mr. Morgan lost was the function of the Federal Reserve agent. This he regards as a weak point and important chiefly for the caliber of men who were Federal agents in the service at that time. These included Mr. William Martin, Sr., then Federal Reserve agent in St. Louis.

Asked whether Mr. Strong had known Montagu Norman before he came to the New York Bank. Mr. Morgan was uncertain. He recalled that Sir Charles Addis, Mr. Baldwin (was this Stanley Baldwin?) and Montagu Norman came over in regard to the settlement of the British debt. They spent three months in New York and most of it at the Federal Reserve Bank then lodged in the old Equitable building. Food was sent in from the Bankers' Club and the men lunched daily. Conversations were wonderful. At one of these luncheons Carl Snyder that the price level was too high and that the British should reduce the gold content of the pound. Sir Charles Addis was shocked and stated that what Mr. Snyder had in mind was a pound composed only of 19 shillings which would be a steal from the British people. Mr. Snyder did not agree with the latter judgment.

Mr. Morgan stated with much emphasis that he hoped we would be clear on the fact that the world-wide extension of the Banking Crisis of 1931 through 1933 and on to 1939 should not be attributed to the stock market collapse of October, 1929. This is an erroneous view held by a great many people. In Mr. Morgan's opinion the catastrophe was not the collapse but the boom which preceded and made possible the collapse. This, in his mind, was the thing which should not have happened. He said that the American banks had been putting money into the German banks in the form of call deposits early in the 1920's. For these call deposits they got 6% which was a good, but not an exciting return. Call deposits were a highly vulnerable form of money and when the stock market began going up they were withdrawn in an attempt to get better returns in the United States. During 1926, '27 and '28 Berlin was full of American bankers trying to put money there and to persuade the Germans to borrow money in order to invest in the United States.

The rise of money rates in the United States took money out of Germany because investors could get more in the United States. (Mr. Morgan tried for years to find out from Dr. Schacht what the volume of investment, which was involved in these transactions, was, but, Dr. Schacht refused to ~~review~~ reveal the total). Bond salesmen in Berlin sold American bonds to the Germans and then loaned them money with which to pay for it. Thus, the situation was doubly vulnerable.

George Murraine tried to cover the collapse of the Credit Anstalt in 1931 by a loan of thirty to forty million dollars from Lee Higginson and Company. It was not the failure of this loan, however, which caused Lee Higginson such financial distress, but the collapse of Ivor Kruger of Sweden. The New York banks did not lose much on the German loans. They lost merely the interest they might have earned. (This was unclear). Pressed for more information as to the effect of the Credit Anstalt failure, Mr. Morgan said, that this was political in substance rather than economic. In the first place, the end of World War I had cut Vienna off from Austria and left Vienna a capital city far too large for the small amount of countries surrounding it. The prestige of Austria was in a weakened condition and it did not take much to cause her economy to topple. President Bruning created a customs union with Austria and frightened the French. The French thereupon began withdrawing their money. Vienna was a stepchild of London. Mr. Montagu Norman tried to persuade

New York (the Federal Reserve Bank) and the Bank of France to make a loan. Both of them refused. England then made the gallant gesture of loaning money to Austria, but, it was not enough. Mr. Murraine tried to get a loan in Berlin. (This is unclear and will need to be checked). When the French money was withdrawn, one bank after another in Berlin collapsed. The French, said Mr. Morgan, are very skilled at this type of pressure. They did the same thing in 1929 to force the Germans to sign the Young Plan.

Mr. Morgan then examined the 1926-28 boom and the reasons for its existence. He said that Americans were paying off the public debt too fast. (This reverts to his earlier statement that very few people knew then or know now what is the effect of Government spending and Government cessation of spending.) The United States had very successful years under Mr. Mellon as Secretary of the Treasury. The country was prosperous. The Federal Reserve Board was very reluctant to approve increase in discount rates which were requested by the New York Federal Reserve Bank. There were some twenty-six times that Mr. Gates McGarrah tried to persuade the Board to allow the New York Bank to increase the discount rate, but in every instance the Board said no.

This shows a fundamental flaw in the idea of a managed currency. The managers seldom know how or have the fortitude to take necessary action in time. Almost always they are behind the procession.

Mr. Morgan also quoted Mr. Burgess as saying that no matter what was done to the economy, inflation did not come until there was full employment. A rise in the gold price, a rise in the currency, a rise in the government debt - none of them caused high prices until money was so distributed that it could be widely spent.

"Economics is a very simple science, but the difficulty is that there are so many simplicities in it, all of which must be taken in to account."

Mr. Morgan will be spending the summer at Norfolk, Connecticut. He does not like to write, but it is perfectly obvious that he does enjoy discussing early economic situations and banking difficulties, and that if ways can be found which suit his convenience he may be of continued use to these researchers.

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