May 25, 1954

Internal Memorandum

Federal Reserve Bank of Boston

Interview with Mr. Frederic Curtiss

Mr. Curtiss was connected with the Boston Bank from 1914 until 1944 as Chairman of the Board. He is now 85, slightly bent, gallant and very much an example of the old school. He recently celebrated his 60th wedding anniversary by flying with his wife for three weeks on the island of Majorca.

Mr. Curtiss brought with him a green felt Boston bag into which he had thrust a pile of papers taken from his own files which he was ready to turn over to us on the understanding that they be read, notes be taken from them, and then that they be destroyed. These included mostly letters which he said he was through with, but did not want preserved.

His memory was clear, but, his line of thought did not continue for very long, therefore, the interview was rather jumpy and while it contained interesting information it also contains a good deal of repetition.

He said that when he was notified of his appointment to the officer body of the bank (this was when the Boston Bank was first organized) he read and studied the Act, but it told him very little. It was a skeleton for operation and the operation was important. He had the feeling that the operation would determine the effectiveness of the banks. In that first law the Governor and the Chairman were given what amounted to equal responsibility. (In a great many of the banks this was the cause of considerable friction). In Boston the Governor and the Chairman took on an equal status, had their desks side by side and shared equally in the work of the bank. This was a very unusual situation, but in part it was due to the fact that the two men occupying those two posts were old friends. Mr. Aiken, the Governor of the Bank, was graduated from Yale in 1891. Mr. Curtiss who was the Chairman, was graduated from Harvard in the same year.

In St. Louis, Mr. Martin, who was the Chairman, ran the bank. The Governor of that bank only came in for lunch. In Kansas City, Mr. Bailey, the Governor, was Governor of the state and a man far more interested in politics than in banking. In New York, the first staff of tellers, etc. were recruited from the National City Bank.

Boston had a hard time at the beginning. They had insufficient quarters and they had no storage for funds that was adequate. They finally decided to store funds in the then sub-Treasury. They started with fourteen clerks - they now have fourteen hundred. Their first office was in the site where the present bank is located. Everybody in the small staff did everything and at times Mr. Aiken and Mr. Curtiss were actually counting the money of the bank. There was one time when the Governor, the Chairman and the cashier had the combination to the vaults. The Governor and the cashier lost it and could not locate Mr. Curtiss. They had to cut out the lock in order to open the vault. There was another time when the head bookkeeper got locked in a book vault and was rescued only by someone from the outside. These were details in early operation of what was, in the beginning, a very simple bank.

The Federal Reserve Act was important mostly for commercial banks. The only possible investments were government bonds and commercial paper up to a certain standard. State banks were, at that time, not interested in joining. Mr. Curtiss had under him the Credit Department, the Auditing Department and the Bank Examination Department. Mr. Aiken took on the active bank operation.

The first thing that happened was that the Chairman, Governors and Directors were called to Washington. (Check date on this). Under the Act as finally passed the Government wanted a central bank in Washington, but the bankers wanted it to be in New York City. They compromised by a plan for not more than 12 or fewer than 4 regional banks. Mr. McAdoo, as Treasurer, promptly named 12 banks, thus filling the regional scheme. This caused a great deal of hard feeling in New England. Already a trend had set in from Providence, Springfield, and Hartford towards New York. The visible sign of this dissatisfaction with making Boston the head of the first district was that eventually so much fuss was stirred up in Connecticut that Fairfield County was assigned to New York. One Congressman Hill in Connecticut made that fight and got the county taken out of the first district and reassigned to the second.

Emergency currency was issued in 1914. (Check on this).

One of the first problems was the matter of handling member checks. Such a system had been set up in the New England area previously and this was continued. The Federal Reserve Bank of New York and the Federal Reserve Bank of Boston were the only ones which made a 1914 report. (The banks were established in November 1914). Mr. Curtiss told everything that had happened in that first report. The first big problem was the question of earnings.

Mr. Pierre Jay of New York and Mr. Curtiss were the men who suggested the title of "governor" for head of the regional banks. McAdoo in Washington wanted the word "manager" used, but he was outvoted and the word "governor" was employed.

Business was scarce in the early days of the Boston Bank. The only things that could be bought were government bonds and municipal notes although Kansas City bought more than its share of government bonds and threw the picture out of proportion. From this developed the Open-Market Committee. It was urged in the beginning by Mr. Benjamin Strong and Mr. Paul Warburg on a very secret status. No reports were made either to the Board or to the Bank Directors. There was an incident when two Governors of the Board, Mr. Warburg and Mr. Harding, were refused admittance to an open-market session.

Mr. Curtiss says that Mr. W. P. G. Harding tried very hard to get away from process of dual control of the Boston Bank.

He mentioned the Gold Pool, but made no statement concerning it.

When the first Liberty Loan came along the Boston Bank had no room to handle it. They had to go and get barrels in order to hold the money that came flooding in. At one time the assistant cashier, who was keeping account, "lost the end of the string" and found it only after great labor.

One of the early problems was that none of the state banks would join the System. Mr. Adolph Miller "who thought he was an economist" put pressure on the Board to admit a California bank which had fifty or sixty branches and only had as security about 15% of useable paper. (Was this perhaps the bank of Italy). There was not enough of this paper permitted by the Board as security against which loans could be made. The scarcity of reserves was responsible for changes in the System ultimately.

Mr. W. P. G. Harding was a man of enormous energy who did not have enough to do when he first came to the Boston Bank. He therefore invented jobs. His first desire was that the plain glass in the then bank building be made into colored glass. The First National Bank of Boston had the United Fruit Company business and wanted the Federal Reserve Bank of Boston to set up a branch in Havana. Further interest came from Mr. Harding who was a Southerner. Mr. Curtiss went down incognito with the Deputy Governor to survey conditions in Havana. They saw no harm in setting up a branch there and this was done. (Mr. Pitman talked at length about this operation. He said that at the time they established the Havana branch the only money which was used consisted of such filthy American bills that noone wanted to handle them. Adequate provision was made for supplying Havana with clean and regular currency. General Crowther was then American representative in Havana and arrangements were made with him. Currency use to be sent from the South in a government ship to Havana. Atlanta was very annoyed that Boston was having this business. Boston was, however, making 1/10 of 1% on the transactions and it amounted to something like $50,000 a year (?). Finally, however, the Havana branch was turned over to Atlanta where from the point of view of geography it logically belonged).

Mr. Harding's second idea was that there should be an annual stock holders meeting of the member banks in the Boston district. This was a highly popular idea and Boston is one of the few banks which has this feature still in existence. Boston people believe that it has solidified the loyalty of the member banks to the Federal Reserve Bank of Boston.

Mr. Curtiss says that he was always interested in economics and that after he went into the Bank he went back to college to do some work. He was a member of Harvard's Committee on Economic Research in the 1920's and saw such signs of a slight recession beginning in Boston. According to him a heavy snowfall had piled up inventories and business was slowing down. In the fall of 1927 the Federal Reserve System was asked to reduce its discount rates in order to help the movement of grain to England. There was no leadership in New York. Mr. Strong was ill. He was the ablest man in the System and in Mr. Curtiss' opinion there would not have been the stock market crash if Mr. Strong had lived. The latter was taken ill in August of 1928. Mr. Harrison was young and inexperienced. Mr. Warburg was Jewish and "New Yorkers will not follow a Jew". In the summer of 1928 things were so serious that Mr. Curtiss did not think he should go to Europe. He went to New York and saw Mr. Leffingwell whom he found optimistic. Mr. Morgan also was optimistic and so were the Bankers Trust and New York bank people. Mr. Curtiss therefore took his wife to Wyoming for a holiday. When he came back he found that Morgan and the Bankers Trust had shifted to a pessimistic point of view, but that the National City, which had been pessimistic earlier, had turned optimistic. Mr. Curtiss read in the Spectator an article by Mr. Hawtry of England predicting financial difficulties. The article was so persuasive that Mr. Curtiss went home and sold his investments.

In 1920 the banks had started a drive for bankers' acceptances. They bought these freely, and without much backing. When they agreed to reduce the discount rates in order to help England it was understood that after the first of the year credit would be reduced. (This probably means the discount rate would be reduced.) On February 20, 1928, Mr. Curtiss went to Africa. When he left, credit had been reduced through the sale of government bonds. On his return, he found that credit had gone up through the purchase of acceptances.

It was Mr. Harrison's opinion that he could control the credit situation by balancing these two activities. Mr. Case was selling governments at one end of the New York Bank and at the other end they were buying bankers' acceptances. They believed they could keep both ends in balance, but credit is like silver and will escape from control.

Mr. Curtiss then shifted to the Banking Bill of 1935. He said that Mr. Eccles was head of a group of banks in Utah and allowed it to be said that his banks had not wanted help at the time of the banking holiday. This was not true. Mr. Stewart Chase heard Mr. Eccles speak in Utah and thought him wonderful. He went and reported to Mr. Roosevelt. This was a man who should be used. Mr. Eccles knew nothing about banking except the process of loaning money on wool. Mr. Curtiss went to Washington in December, 1933 and met Eccles there. Then he went to Sea Island, Georgia and read in the New York Times about the new bank bill. No word had been said. When he returned to Washington he found that no single member of the Federal Reserve Board had been consulted on the Banking Bill of 1933.

Boston held off on dropping its discount rate for some time and had they been able to put a fence around New England they need never have dropped the rate nor gone into crash. Mr. Curtiss thinks that a single region could hold off any action parallel to that of other banks as long as four weeks if they wanted to.

The banking troubles of the 1920's were brought about by a combination of the need to send money to England to help them and the agricultural troubles in the West. Things got very peculiar. Boston had a member bank with three millions in mortgages, but the mortgages were of such quality that they could not even borrow $600,000 against the three million. Time deposits were causing trouble. Banks were putting all their money into buildings.

As matters moved toward the banking holiday the organization of Federal Reserve bank chairman resolved to ask the Board for twenty millions to bail out the small banks in Illinois. Mr. Curtiss was appointed Chairman of a Committee to talk to the Board on this subject. Mr. Meyer refused to let him go before the Board and present this case.

The banking holiday brought about demands for gold in Boston. As the flight of capital became more marked, bales of small bills came in from hoarding to be exchanged for gold. One girl brought in $5,000 in bills and asked for gold. When asked why she wanted it she said "for bridge prizes". A Providence man presented the necessary papers for one million dollars which he wanted in gold, but he was unable to carry it away and the bank refused to provide transport. Boston was not so badly hit by wire transfer demands as was New York. Panic came to New England from the outside, things were steadier in that region. The seasonal business in New England is from cotton mills and from agriculture, but this does not come at the same time so that the balance is fairly even. There are also heavy security holdings in the region.

The Banking Act of 1935 took away a large measure of autonomy from the regions and made them in substance branches of the Board.

The Open-Market Committee has, in Mr. Curtiss' opinion, been dominated by Washington including both the Board and the Treasury. The State banks continue mostly outside the System. They fear they will come under more difficult supervision if they join. Commercial banking is more interesting now than Federal Reserve banking and calls for more judgement. Mr. Curtiss feels that the operation of a Federal Reserve bank has been reduced almost to the point where it is automatic and not interesting.

Mr. Curtiss once spent a week with Paul Warburg and Mr. J. M. Keynes. He was able to question the latter very closely on certain details, but found that it was impossible to understand what he was saying. Mr. Keynes' reply was "How could you? You were brought up in the classical school which has nothing to do with this argument". Mr. Curtiss then talked of the securities put out under the Dawes Young Plan. These loans were reported oversubscribed five times. They yielded 41/2% at 98 when they were sold, but, when the syndicate selling them was dissolved, they went down to 92. The question was how could a security issue, which was heavily oversubscribed go down in price. The answer on this side of the water was that people had been speculating in February. In May Mr. Curtiss went to England. Lunching at the Bank of England, he asked Montagu Norman why these securities went down. Mr. Norman replied that they had been allocated to different countries. The Dutch threw all theirs on the market in one great bang because Mr. Kruger of Sweden was then operating through the Dutch market. It was his practise to buy heavily in new security issues of this type and then when things were quiet to sell as heavily. When he sold all his holdings they were great enough so that the entire security market in the Dawes Young securities went down.

Mr. Curtiss will undoubtedly talk at any future date that he is asked to. He was discussing this Committee business with Mr. Owen Young and is obviously very much interested in what is written. He has offered to get Mr. Paddock to come out to his home at Charles Village in the summer if that seems desirable. At another time he should be asked specific questions which may be more illuminating.

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