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Internal Memorandum

Interview with Edward L. Smead, at one time head of the Division of Reports and Statistics of the Federal Reserve Board.

Mr. Smead has been retired since 1948. He is a slender, wiry, rather shy man who lives in Michigan during the summer and in Florida during the winter. He came into the office of the Chief of Bank Operations in Washington. This is the modern division which corresponds best to what Reports and Statistics was when he was head of it.

Mr. Smead said that the division of Research and Statistics was established by the Board in 1920. At that time, as I understand it, (and this should be checked) the division of Reports and Statistics set up when the Board was first formed was divided into two parts. One part was called Research and Statistics. The other part became Bank Operations. Mr. Smead was chief of Bank Operations for twenty-four years and director of that division for four years more. He served from 1920 until 1948.

He said that in the early days the Bulletin, under H. Parker Willis, was published by Research and Statistics. William H. Steiner, now at NYU, was in charge of Reports and Statistics for a short time, but he was not at that time up to the job. He was succeeded by Walter Stewart.

He said that the lineup in those days was Willis and Warburg against Hamlin and Miller. (This might fruitfully be pursued.) Mr. Smead observed that there had never been so big a public debt as that of 1914 which was what the Board faced when it first came in.

I asked him about W. P. G. Harding and he said that Mr. Harding was a very peculiar man, not at all a social type, and rude by intent. He was the kind of man who would make a staff member stand for five minutes before acknowledging his existence by as much as a glance. After World War I he was in large part responsible for the fact that the Board tried to force too rapid a deflation on the economy. He was an able man and the progressive discount rate must be counted his invention. It worked so that every time borrowing was increased in relation to capital the rate went up. The progressive discount rate device had curious results. In some Alabama districts the bank rate went up to as much as 137 per cent on the last segment. (There is a Board pamphlet on this.) The device was in operation for a year or so. The intent was to keep the banks from going further and further into debt. The Board did not require this progressive discount rate, but recommended it.

Speaking of early committees connected with the Board, Mr. Smead said that the Check Collection Committee has existed since 1920. Parker Willis was head of it at one time. Other committees have come and gone. (This Check Collection Committee might have papers of value in connection with check collection.) He said that there was a reasonable degree of uniformity in regional operations though some banks did not earn money enough to pay their dividends and some officers of banks resented this very much.

He confirmed what everybody else says, namely, that the New York Bank dominated the scene. Benjamin Strong was more powerful than anybody on the stage, but Warburg. He never took a back seat. Eugene Meyer was in constant opposition to Harrison in the New York Bank. The New York-Washington feud, if one can call it that, has been carried on by Sproul and Eccles who very seldom saw eye to eye.

There was a good deal of resentment of the New York position. Mr. Smead said that Boston, for instance, never was put on the Open Market Committee because New York was on it and the two cities were too close together. (Check this.) Roy Young kept the Board point of view when he went to Boston. There was a general feeling that the Banks tended to gang up against the Board.

Talking of central banking as such, Mr. Smead said that so far as Open Market operations went, this technique and this function were mostly a matter of the Board and the New York Bank.

He said that Chicago for years had had a lease wire system which was headed up there. It had large check collection and currency problems. San Francisco keeps a hand on every detail of branch operations, that is operations of the branches of the San Francisco Federal Reserve Bank, but other Federal Reserve Banks give their branches leeway. It costs Chicago twice as much to handle check collections as it does the other banks. Atlanta, for example, has been heavily engaged in exchange problems. (Is this with Cuba?)

In the 1920's there were bank failures in the Northwest, also in Dallas.

(This interview sounds more scattered than it was. The links between paragraphs have been lost.)

Mr. Smead spoke of Mr. Emerson who came into the division of Research and Statistics, then was assistant to Mr. Harding, then went to Dallas as Vice President of the Dallas Federal Reserve Bank. Emerson bore down heavily on loans because this was Harding's policy and he had been trained under Harding.

The 1920's were a difficult period and one in which the agricultural problems were such that it might well have been advantageous to have set up something corresponding to the War Loans Administration during World War II. The RFC had some authority which the Board should have had. There was great rivalry between the two institutions. When the Federal Reserve Board got authority to make industrial loans, Mr. Jesse Jones went to Congress and got the same authority. (These were Five-D Loans.) Mr. Jones told Eugene Black that the RFC and the Federal Reserve Board should handle loans of this kind as a joint operation. Mr. Black assented and said that the Governors of the various banks were meeting and that Jones should come and talk to them. Black laid the problem before them and Jones talked to them for ten minutes. No single Governor responded in any way. Mr. Jones took this as a signal of defeat.

Mr. Smead's bank holiday memories were not as vivid as those of some of the other men. He said that Mr. Rounds and he himself along with other men spent the 1933 bank holiday in the Treasury office writing directives which were put forth under the signature of Secretary Woodin who knew very little about what was going on. He said that Ogden Mills, who was a carry-over from the previous administration, was the man who really took control and put the thing through. Eugene Meyer was less helpful than he should have been because he and Franklin Roosevelt clashed and Mr. Meyer did not lift a finger. The latter was an excellent man in getting people together and it is curious that he took no more initiative than he did in the banking holiday.

Paul Warburg, who was the first real central banker on the Board, was not reappointed because, said Mr. Smead, of his Wall Street connection. Mr. Smead does not think that his German ancestry had anything to do with this. Warburg was a powerful figure, but not quite trusted. He did bring in the device of acceptances to the American banking picture and thereby contributed greatly.

Speaking of other early governors, Mr. Smead said that Mr. Moehlenpah made no impact at all on the Board. Albert Strauss made very little. Crissinger left the Board under somewhat of a cloud and went with the F. H. Smith Company into real estate. He should have known better.

Owen D. Young got the idea that the staff was running the system and he warned the Board against that way of doing things. Mr. Smead obviously did not think this was a complaint with any real backing to it. Eugene Black was a member of the Board during the cut in the gold content of the dollar and he went along with the President's plan at that time. The staff did not think too highly of the idea. Goldenweiser was against it. According to Mr. Smead, Black was "politicked" into going along with it.

Governor Hamlin wanted a branch of the Federal Reserve Bank set up in every state. Political pressures ruled in the actual setting up of this system. Eight banks with their branches would have been better than twelve, but the demand for a bank in one's town had great prestige value and the politicians managed to put in the twelve banks.

One detail undoubtedly has a significance which I do not see at the moment. Mr. Smead said that gold certificates had to be endorsed as between banks in the beginning.

Mr. Smead said that committee work has played an important part in the system and that in it has been the best focus of bank cooperation. Much of this is done under the President of the bank. The President's conference is held with the Board sitting in. The Commission Reports all go to the President's conference.

Mr. Smead said that John Walden, now retired, of Richmond knows more about bank operations than anyone else. He has been on more committees than anyone else and he is a mine of information if he can be tapped.

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