

May 12, 1955

Internal Memorandum

Richmond Governor

Excerpts from a Letter written October 27, 1916 by Mr. George Seay, then Governor of the Federal Reserve Bank of Richmond, to Governor Benjamin Strong of the New York Federal Reserve Bank - then in Estes Park, Colorado.

"But for the fact that I know you like to be where the trouble is thickest, I would say that you were lucky to be away at the time of launching the new collection system. It interfered with the holiday plans of most all of us, and I have not been able to get more than a two-weeks period even yet. Aiken, I think, had to postpone his expedition after Block Island tuna and Maine trout. I believe you have some trout fishing in your vicinity. If so, I envy you, since that is my most beloved passtime.

'Well, we launched the collection system along the lines previously agreed upon, which caused us all so much travail.

'There are kickers aplenty of course, but most of the banks, particularly the larger ones, are praising the system, and the public is certainly keenly interested in the results.

'One of the effects of the operation of the system is encroachment upon reserves. Of course there is no real reason why this should be so, since the plan is upon the deferred credit basis, but some of the banks have nevertheless made it a pretext for encroaching upon reserves. We have been imposing the penalty since the first of August, and the charge for that offense during the month of August amounted to about \$4,000.

'I communicated all this to the Board, all of whom were keenly interested and seemed to entirely approve the position taken by this bank.

'As a result of the imposition of the penalty, or as a result of the combination of other causes, our reserve balances have increased about \$3,000,000. The amount of reserve required to be kept with us on June 30th, which is the last Comptroller's Report, was \$15,700,000. Today our reserve balances are \$21,500,000.

This of course does not include any deferred credits which frequently amount to as much as \$8,000,000.

'If anybody was in doubt as to there being such an "animale" as float, this collection system will convince them. We are not doing more than twenty per-cent of the collection business of the district according to my estimate, although up to this time this bank has been doing more than any of the other Federal Reserve Banks, excepting, of course, the big banks of New York, Boston, Philadelphia and Chicago.

'At this time of the year New York is in debt to us at every weekly settlement period, but that state of affairs will change later on.

'For the period September 1st to October 11th we paid New York \$103,000,000 through the gold fund. For a few weeks back New York has been paying us at the rate of about \$2,000,000 a week.

'I am very deeply interested in the manner of making checks of member banks and Federal Reserve Banks pass a par for immediate availability at all Federal Reserve Banks, settlement to be made through the gold fund daily of course. This matter was discussed in Boston and while there were some objections to and disbelievers in the plan, the majority sentiment was favorable to it. and the two members of the Federal Reserve Board stated the Board believed it to be desirable if it could be effected with entire safety which I am sure can be done.

'This will operate in favor of the New York Reserve Bank, although, of course, it will tend to operate against member banks, at least in the central reserve cities. Since it will, if put into effect, substitute Federal Reserve exchange to a very large degree for New York exchange, it will also result in returning the balances of member banks within the district to which they belong to a very much larger extent than heretofore and will so increase the financial independence, so to speak, of the several districts, which is of course one of the chief purposes of the Federal Reserve Act, however it may be thought about.

.....
'These are wonderful times through which we are passing and growing more wonderful daily. Gold is still flooding us as you know, and prices are climbing and still climbing, likewise the wage of labor. Politics is also adding to the complexity of things. It seems that we are in reality becoming the world's banker, at least for a time. The extraordinary prices which the other nations are having to pay for the things they obtain from us is transferring their wealth to us in an undreamed of degree.

'Our discounted bills are fast being paid off. The cotton crop of the south may possibly bring a billion and a half dollars including seed and oil. Tobacco is bringing twice as much as it brought last year. The deposits of some of our little country banks are twice what they were last year at this time, and the south will be overflowed with a greater flood of money than it has ever known in all of its experience. There is no wonder then that our bills are being paid off. We shall probably have bankers' acceptances offered to us more freely. The new French industrial loan is a highly interesting action, and the banks seem disposed to participate in it. We shall have to look to business of this character very largely in order to obtain revenue.' "

This excerpt gives a very clear picture of the prosperity of 1916 and is in strange contrast to the depression of the end of 1914 and 1915, not to mention the succeeding depression of 1920 when cotton brought 5¢ a pound. It is worth keeping for further quotation.

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