June 13, 1955

Internal Memorandum

Interview with Mr. John P. Phillips Jr., recently retired as vice president of the Kansas City Bank

Mr. Phillips is a rotund little man, interested, talkative and hard to pin down to a logical line of conversation. It proved almost impossible to ask questions that would keep him on a track. He appeared to listen politely but then disregarded them and swept on his own somewhat diffuse way of remembering.

Mr. Phillips came to Kansas City in 1905. He entered the bank on May 23, 1917. He had been a certified public accountant and engaged in trust work for Arthur Young and Company. His first task was to open up the Liberty Bond Department in the old Glendale building which at that time occupied the space on which the present building of the Kansas City Federal Reserve Bank was to be built. At that time, the four corners were entirely occupied with banks. They were, what Mr. Phillips describes as, "high clay" buildings, a term which seems to mean that they had under them no solid rock foundations which would be impervious to robbers. In those days Main Street was a ravine, and since that time the streets have been cut through these high clay hills and leveled.

The Liberty Bond operation sounds here less well organized than in Minneapolis, although this is no more than an impression. There was a bond committee which did the actual selling with a sales force gathered together from bond houses and banks. This included John A. Prescott from Prescott and Snyder, Mr. Gerald Parker from Commerce Trust, and so on. Mr. Phillips' job was to keep track of records, subscriptions, and so forth. He came on a per diem basis from his firm, loaned for the duration of the bond selling.

In July 1917 the fiscal agency of the bank moved across the street. In September 1917 they moved to the American Bank building. They stayed in the American Bank building until 1921 when, with the rest of the bank, they moved into the present building.

This scattering of separate functions among separate buildings seems to be characteristic of the early period of many of the banks. It must have had a definite effect on the way the work was set up.

Asked about par clearance, Mr. Phillips said that R. Davies worked on par clearance, and when confronted with some of the unpleasant aspects of bankers' replies, said that this was "beyond the limits of tolerance." Exactly what this meant nobody quite knows, but it was very effective. The bankers bowed and the term went into Kansas City lore.

Mr. Edward P. Tiner, now with the safe deposit vault at the Baltimore Bank, also worked on par clearance in Kansas City.

The building when erected was the highest one in Kansas City.

According to Mr. Phillips the physical set-up of records in the early Liberty Loans ~~were~~ was a mess. The necessary information was entered on separate cards, and the separate cards were always getting lost. When the second loan came along, a loose leaf system was installed, and all banks finally went over to it. This was a much easier way of handling it.

(Mr. Phillips says that the first loan was a great headache in San Francisco which had to get certified public accountants to straighten it out).

Mr. Phillips was in charge of the fiscal agency work most of the time, but a Mr. Worthington came in to help sort the Liberty Bond papers and straighten out the material.

Various bits of assorted information turned up in this interview, for instance, "Mr. Miller was a Kemper man." Kemper is apparently a name to conjure with in Kansas City.

The Washington Board is supposed to have wanted Mr. Worthington to come in as president of the Kansas City Bank in place of Mr. Leedy, but the Kansas City directors refused to accept him. Mr. Worthington thereupon resigned (this could be checked).

There was a 10% limit on excess of deposits over need. The bank hated shipping back and forth. This occurred at an interval when Mr. Worthington was titular head of the Bond Department. The latter came in at the end of the first Liberty Loan, and the unpopularity of this 10% limit is supposed to have had something to do with the failure of the Kansas City directors to accept him as president of the bank.

The first loan in Kansas City, as in New York and in many other cities, created a great rush in the bank. Men stayed up all night sorting the bonds and at the end found themselves only a few dollars away from what they should have been.

Kansas City has more small banks than any other district. During the first loan the Kansas City Federal Reserve Bank received all subscriptions. Many of them were individual subscriptions. These were sorted and sent to the proper banks. In the second loan the clearing house did the sorting. The manager of the clearing house found the problem far beyond him, emerged $20,000 short and finally put up $9,000 of his own to help clear his records. In the end this was cleared, and he came through without any stain on his reputation.

The Federal Reserve Bank had a terrible time with conversions. They had no proper vault space at that time. (They kept no daily balance or Federal Agent's statements. Phillips started this after the second loan.) The bonds which they were holding for conversion were stacked in a brick-lined book vault, and the responsible officers, Mr. Phillips and Mr. Worthington, were very much afraid that some robber would tunnel through and get into them. They put in steel lining and steel chests and thereafter slept easier.

The fourth loan was the big one. The bank had 173 employees when they moved into the new building. They occupied two floors with the Bond Department on the ninth floor. (Mr. Broderick wanted Mr. Phillips to be made auditor, but Mr. Phillips refused the job.) In November, 1921 they had $50,000,000 in vaults and stocks.

Insurance only covered $10,000,000 at a time, and the problem was how they were going to move all this to the new house. They decided on a surprise move in a covered van and made it without losing a cent. Ten years later they would not have dared to go thus unguarded.

There was a good deal of bank robbery at that time and strange hoarding of bonds in strange places. Bonds came in for conversion smelling of potatoes, of death in the Missouri River, of coal. One group came in rotted, with holes in it. They had been hidden in a henhouse, and water had leaked through the roof and rotted the nest and hence the bonds. The sheriff in Clay County saw some men digging under willows and, investigating, found two tin boxes with notes and records stolen from a bank whose president later brought them into the Federal Reserve Bank for conversion. Another man came in with a fruit jar full of bonds which he said he had found under brush pile. They were soggy. They had been registered and proved to have been stolen from a Circleville, Kansas bank. When this was reported to the secret service, they sent a man out who dug under a similar brush pile and found another jar. Finally they located a complete set; ~~and~~ all of them had been duplicated, in Washington and duplicates sent to the owners.

Mr. Phillips' tales of bank robberies were many and full of color. He told of a robbery at Iuka after which the robbers set out for Oklahoma and disappeared. The sheriff picked up a bond or two along the road and reported the finds at the bank from which the bonds had been stolen. The president "got a boy on a horse" to go back and search the road, and he picked up every single one of the lost bonds. Apparently the robbers had opened the boxes and examined their find as they fled for safety. Finding each bond registered as they came to it and therefore impossible to handle, they flung them one by one out of the car windows. In spite of the wind and the rain that had covered the country between the robbery and the finding, the bonds were in good enough shape to be used without being turned in and replaced.

The Federal Reserve Bank of Kansas City kept a list of the bonds lost or stolen and referred all found pieces to this list.

Speaking of the older days of the bank, Mr. Phillips said that Joe Zach Miller was a financial wizard but not a very popular man. It was Mr. Phillips' impression that he came from Belgium, but I have not been able to verify this in any way and I think it more likely that he may have had a Belgian mother or that perhaps his grandfather came from Belgium. This could, of course, be tracked down.

Asked about the scramble between the chairmanship and the governorship which has been spoken of many times in other places, Mr. Phillips said that Mr. Sawyer was a banker and state bank commissioner of Kansas. When the Federal Reserve Bank was set up, Mr. Miller was made chairman and Federal Reserve agent. He expected to run the bank from that position. Mr. Sawyer was made governor. When Mr. Miller found that it was the governor who was to run the bank, he arranged so that the two men should switch jobs. Mr. Sawyer, according to Mr. Phillips, did not mind. He liked to take it easy and was an easy-going person. Mr. Sawyer in turn was followed by Mr. Ramsey who, in Mr. Phillips' opinion, was chiefly impressive for his story-telling abilities. Mr. Miller had Mr. Cross to help him, a very able and imaginative person.

Since 1935 the Treasury cash has been under the joint supervision of the chairman and the president, but the 1935 shift made very little difference in the fiscal agency operation.

Continuing down the list of chairmen (or rather, of primary officers) Mr. Bailey was an ex-governor of Kansas, forthright and honest, solid and old fashioned.

(Reverting to Mr. Miller, Mr. Phillips said that he was not personally popular in part because he was thought to be too dictatorial insofar as his wife was concerned. There may have been some scandal here which I had not yet plumbed. Mr. Phillips' statement was, "The outside activities of Mr. Miller did not please the directors," but he did not go into detail as to why.)

Mr. McLure was an old stock commission man, excellent so far as cattle paper was concerned. He had headed the War Finance Corporation. As for other aspects of banking, he knew very little, but obviously in a place where cattle paper was an important item against which loans were made, it was important to have a cattle paper expert in the bank.

Mr. Joe Zach Miller is said to have taken out $500,000 in cattle paper from the bank's loan list and turned it over to the War Finance Corporation. Mr. Miller's reputation is that of never having turned down a cattle loan.

At one time things were so bad that the Kansas City Bank had to borrow $164,000,000 from other Federal Reserve Banks in Cleveland, New York and Chicago.

Perhaps the most important item that Mr. Phillips detailed was his belief that the progressive discount rate, which played so large a part in Federal Reserve matters in the twenties and made such trouble, was started in Kansas City by Joe Zach Miller. I had always heard previously that it was something which Governor W. P. G. Harding invented and fostered. The argument for it was that each member bank was to have only its just proportion of loanable funds of the Federal Reserve Bank, and above that they must pay a progressive discount rate. The rate in some places went up as high as 20%, and the banks became understandably annoyed at it. (In substance, this would seem to me to have made the borrowing privilege a sort of private club pool, but the whole thing is well worth investigating and worth being made the subject of a monograph, or at least a portion of a monograph on discount rates.)

Mr. Phillips said that Mr. Boardman was a problem. Mr. Bolt was a Chilean, interesting but not very well absorbed into the Federal Reserve System.

John Evans now finances the famous opera house at Central City.

Mr. Ramsey, who seems to have been generally liked, went from Kansas City to Oklahoma and then to Texas, and finally to California. He had a series of business failures after he left this bank, and the general attitude is to pity him.

Mr. J. J. Thomas, who was in both the Kansas City bank and in the Board, was "not by any means a ball of fire."

Reverting to the progressive discount rate, I asked Mr. Delos Johns whether it was true that Mr. J. Z. Miller had invented it, and he said he did not know. We looked up existing records, but unfortunately in this instance at least they seemed to go no further than 1920, and that is too late to do any good, as Miller's experience with the progressive discount rate in Kansas City was to be traced back of January, 1920.

The first Annual Report shows that when the Kansas City bank opened, its interest rates ranged from 7% to 8% in Missouri, from 8% to 10% in Kansas and Nebraska, from 8% to 12% in Colorado, from 10% to 20% in Oklahoma, New Mexico and Wyoming. The Board at that time set 6% as the rate, which must have brought considerable alleviation to the borrowers.

Building statistics at the present time show that the Kansas City bank building has 282,193 square feet for gross area, of which 206,548 are tenantable. At the present time the building is 41.48% tenant occupied and 58.52% bank occupied. These figures show a slightly higher degree of occupancy than I had known of.

Mr. Phillips undoubtedly knows a great deal more about the course of the bank than is included in this memorandum. Unfortunately, his fashion of talking makes the process of gathering his memoirs very difficult, and he is not disposed to write. It would take days and much patience to gather the riches which undoubtedly live within that round head.

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