

September 15⁻¹⁷, 1955

Internal Memorandum

Owen D. Young Papers

Box 264

J. Herbert Case was offered the post of Transfer Agent for the Reparations Commission to follow Joseph Sterrett. Copy of a cablegram dated June 10, 1926 expresses Mr. Case's regret at not being able to accept this position. Mr. Young then moved to suggest that Mr. Pierre Jay himself might be willing to accept the position. On June 23, 1926 he wrote to Mr. Gates McGarrah at the Chase National Bank saying, "Since my talk I have been wondering whether Jay himself might not undertake the job if asked. ... If a good man can be gotten for quite a long period and would become experienced on the job, it would be a great security for the plan. You know how deeply interested I am in the Federal Reserve Bank, and my suggestion on its face shows the tremendous sacrifice I am willing to make in order to provide Gilbert and the plan the best possible material."

Two more details in this file are valuable, first a series of papers on Cuban agencies (the question of Cuban agencies) of the Federal Reserve Banks of Boston and Atlanta. A memorandum dated November 1, 1926 entitled "Cuban Agencies of Federal Reserve Banks of Boston and Atlanta" is unsigned. A copy should be in the files of the New York Bank. According to this memorandum, "The proposal for some kind of Federal Reserve agency in Cuba appears to have arisen primarily in the search for some means of improving the physical condition of the currency in Cuba - - -"

The question of the Cuban agency of a Reserve Bank appears to have been first raised in 1921 by Mr. George E. Roberts, vice president of the National City Bank of New York, with a reference to a proposal which had been made to establish in Cuba a central bank, modelled, perhaps, on the Federal Reserve System. Mr. Roberts suggested to Governor Strong in a letter that, "The best thing that could possibly be done would be to have a branch of the Federal Reserve Bank of

New York located at Havana." Governor Strong stated to Mr. Roberts his opposition to this proposal, saying that he thought Cuba should have a central bank of issue under American supervision; that in any event he was against the establishment by our own bank of issue of offices to carry on normal banking functions outside the United States. The governor advised Mr. Roberts further that means could be found for retiring mutilated and worn out currency in circulation in Cuba and issuing fresh supplies "without the Reserve Bank being involved in the banking business in Havana."

All this material is of value in any memorandum which is written on this business of the Cuban branch. If this material is not found in the New York Bank files, it can be consulted in Mr. Young's box #264.

Mr. Young's suggestion that Mr. Jay might be willing to take the post of Transfer Agent for the Reparations Commission (he would be American member of the Transfer Committee under the Dawes Plan) bore fruit, and on December 5, 1926 the appointment was reported in the New York Herald Tribune. Mr. Jay sailed about January 2, 1927.

In this box there is also evidence that tension between the Board and the New York Bank had been reaching a stage which bothered both institutions. The pertinent material consists first of a letter (a copy) from Mr. Edmund Platt, member of the Board of governors, to Mr. Saunders, who had been Class C director of the Federal Reserve Bank of New York. The letter explained why the Board did not reappoint Mr. Saunders, and the excuse given was that, "There has been developing a feeling that as a rule the director representing industry should not serve more than two terms." This was followed by a letter dated January 3rd from Mr. C. S. Hamlin of the Board to Mr. William L. Saunders thanking him for the splendid work he had done for the Federal Reserve Bank in New York and regretting that his appointment had not been reaffirmed.

A letter dated January 7, 1927 to Governor Crissinger from Mr. Young states that, "I discussed with the directors and officers of the Federal Reserve Bank of New York at their meeting this afternoon the program which you had suggested in behalf of the Federal Reserve Bank of resigning as Class B director of the Federal Reserve Bank of New York in order that I might qualify for appointment as a Class C director and become through designation the vice chairman of the board of the Federal Reserve Bank of New York."

It appears from further correspondence that Mr. Clarence Woolley had been offered the deputy chairmanship but had refused it for what are explained as personal reasons. There was also included a copy of a letter from Mr. Samuel Reyburn to Governor Strong saying, "The development since Mr. Jay's resignation on the fourth of December particularly had been fraught with great significance as to the future policies and effectiveness of the Bank. The lack of your constant counsel and advice has been keenly felt by all of us" (Mr. Strong was ill). "While all of the directors have appreciated the great responsibility resting upon them and have given to the limit from their knowledge and experience, the duty of acting somewhat as a clearing house has devolved without planning, but for sundry reasons, upon the three of us who are writing these letters."

Apparently Mr. Reyburn's letter was in substance a round-robin letter breaking the news to Governor Strong that the senior directors in the Bank felt the need of more strength in the top officer class. Mr. Strong himself had been ill so much that his lack was very seriously felt. The proposal they were making was that Mr. Owen Young be transferred to Class C director status and then be appointed as deputy chairman, and that Mr. Gates McGarrah be appointed by the board as chairman. Obviously, the appointment of a new chairman for the New York board was a serious matter and one on which Mr. Strong would have expected to be consulted. The fact that the board was making the appointment and that the officers ^{of the board} felt called

on to break the news to Mr. Strong with such pains and such great compliments indicates a rather serious situation.

Letter dated January 8, 1927 to Governor Strong, unsigned, sets forth the progress of this idea. It indicates that Mr. McGarrah was the choice particularly of Governor Crissinger, though the other members concurred. This unsigned letter of January 8th revealed the fact that the New York board had wanted Dr. Randolph Burgess as the new chairman to follow Mr. Jay. "The members of the Federal Reserve Board express the greatest confidence in and respect for Dr. Burgess. If there was any feeling on the part of the members of the Board, which we doubt, that the New York board had overstepped the proprieties in recommending Dr. Burgess, it is now removed. The Reserve Board, however, feels that it is more desirable at this time to take a man of high position from the banking world for that office than it is to promote a man less well known from the organization itself. The Board recognizes the beneficial effect of a young man like Mr. Burgess on the morale of the Bank organization, but it feels the other course would now be wiser in the interests of the Bank of New York and of the System as a whole."

The letter goes on to say that Mr. McGarrah would not take the job unless it were made known to him "clearly and enthusiastically that you would like to have him associated with you in the work of the Bank in the full and equal partnership which should exist between two men occupying those high positions. We believe that if Mr. McGarrah can be persuaded to accept this appointment, it will improve greatly the relations between the Federal Reserve Board and the New York Bank. We confidently believe that many of the irritations which have troubled you so much and given us so much concern will be alleviated and that you will have as governor not only less troubles but a freer hand in working out the great program."

... The men signing the letter were worried lest first, Mr. McGarrah should feel that he was stepping down from a high post in the Chase Bank and taking a less important job, or second, that the appointment of McGarrah would cast any reflection on the dominance of the governorship in the handling of the Bank. They felt that these difficulties could be met without undue effort. They sent the letter by the hand of Mr. George Harrison and offered to go to Asheville if necessary to interpret their position more fully. (Asheville, North Carolina where Mr. Strong was recuperating.)

A final detail was contained in a letter dated January 18, 1927 from Mr. Young to Mr. Lewis E. Pierson, Chairman of the Board, American Exchange, Irving Trust Company. Mr. Young thanks him for a letter approving acceptance of the deputy chairmanship and adds, "Just at the moment it seemed to everyone, both on the Reserve Board and on the New York Board, that it would be helpful if I could change my relationships so as to be a government ~~FE~~ director and carry on in the absence of Ben Strong ?
vacancy."

Before Mr. McGarrah took office, the by-laws of the New York Bank were apparently amended to take from the governor the right of being chairman of the executive committee. McGarrah's appointment as chairman of the Federal Reserve Bank obviously aroused an enormous amount of newspaper interest, judging by the size of clippings here included. Appointment was made on February 15th₁₉₂₇ to take effect on May 1st. Mr. McGarrah was previously American member of the General Council of the Reichsbank. Until Mr. McGarrah took office, Mr. Young acted as chairman of the board and Randolph Burgess as Federal Reserve agent.

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