

Office Correspondence

FEDERAL RESERVE BOARD

111 2 40

Date: ~~April 23~~ 1935
 REC'D - IN FILES SECTION
 MAR 29 1935
 111 2 - 40

To Governor Eccles

From Mr. Goldenweiser *GG*

Subject: _____

16-852

I am sending you some quotations from Mr. Warburg, which show clearly that he had in mind the necessity of a centralized public control over national monetary problems combined with local autonomy in local concerns. The three most important quotations are as follows:

One from an essay written January 6, 1907: "That a central bank is the ideal solution of the difficulty and that it must finally come--though, perhaps, we may not live to see it--is my firm belief. None of the reasons advanced against it are tenable."

Secondly, from a speech made on November 12, 1910: "The management of the central reservoir must be absolutely free from the dangers of control by politics and by private interests, singly or combined."

And third from the same speech a statement that shows an interesting understanding of the distinction between the Federal Reserve System and the usual type of central bank: "I have here avoided the name central bank, and have used the name central reservoir, just as in my previous articles I have termed the institution a central reserve bank or a united reserve bank. This has not been done from cowardice, for the purpose of avoiding a name against which popular prejudice ran high. It has been done for the reason that, first of all, the name expresses what is to me the most important feature of the problem, namely, the centralization of reserves. The second reason is that we should not have, and what we suggest is not, a central bank. Wherever central banks exist, their powers are infinitely wider; they are real banks privileged to do almost a complete general banking business. The central organization, on the other hand, as here suggested, though

2-1-f

Governor Eccles, - #2

April 23, 1935

securing for us the principal advantages of the central bank system, is nothing but a central reservoir, precluded from doing a general banking business and invested only with such functions as it absolutely needs for its own protection and for the protection of the nation."

10

2-2-f

Paul M. Warburg
DEFECTS AND NEEDS OF OUR SYSTEM
(January 6, 1907)

(From Paul M. Warburg, "The Federal Reserve System,
Its Origin and Growth," Vol. II
Pages 24 and 25)

"We should lay the foundation to modernize our financial structure, a foundation that would carry in itself the elements of a central system built up on the trade, commerce, and industry of the country, an end which at present is far out of our reach."

. . . .

"Whether a central bank will be eventually owned by the national banks is impossible to foretell, nor can it be predicted whether the business of accepting and rediscounting will become the domain of the trust companies and the general banks, or whether new discount companies, like those in England, will be started for this purpose. ..."

. . . .

"That a central bank is the ideal solution of the difficulty and that it must finally come--though, perhaps, we may not live to see it--is my firm belief. None of the reasons advanced against it are tenable. (January 6, 1907)"

"It has been argued that a central bank would be dangerous, as, in fact, it was in the past, because it might become the tool of politicians, and it has been frequently stated that 'we do not want politics in business.' But the powers which the Secretary of the Treasury, a political officer, must exercise now are much vaster than those that any single

officer of a central bank would ever enjoy, and these officers could be appointed in such a way--for instance in part by the government, by the national banks, by the courts, by the chambers of commerce--that the constitution of the board would be taken entirely out of politics. Are we not unduly depreciating ourselves by saying that we should not be able to find a set of business men of sufficiently high standing to form the central and local boards of such a central bank, and that we could not secure salaried officers competent to fill the post of managers of the central bank and of the branch offices?"

. . . .

2-4 f

Paul M. Warburg
PRINCIPLES THAT MUST UNDERLIE MONETARY REFORM
IN THE UNITED STATES
(November 12, 1910)

(From Paul M. Warburg, "The Federal Reserve System,
Its Origin and Growth," Vol. II
Pages 167-168, 170-172, 178)

"This leads to a clear division of the functions of the central reservoir and of the general banks. It is the function and duty of the general banks to act as the custodians of the people's money and deposits and to employ the same in conformity with the principle that a bank must not give any other credit than it receives, which means that against all demand deposits it must be able to provide at all times payment by cash credit. It is the function and duty of the central organ: First, to watch that the right proportion be maintained between all demand cash obligations of the country and the actual cash at its disposal; second, to guarantee that every legitimate cash credit can be transformed at will into actual cash; and third, to establish so firm a confidence in its ability to perform these duties that cash will never be withdrawn to be hoarded, but will always return promptly into the central reservoir, leaving in the hands of the banks and the public only the amounts absorbed by actual circulation or taken for gold exports by creditor nations.

"From these different functions of the central banks and the general banks, there follow as a logical consequence the different elements necessarily inherent in their reserves. The central bank, having cash obligations, must have the strongest possible reserve of

2/ 4

cash and quick assets payable within a short time. The general banks, having obligations payable only in cash credit, need have reserves only in cash credit and in quick assets, convertible at all times into cash credit."

. . . .

"The central reservoir must not be operated for profit."

. . . .

"The central reservoir would have to be restricted in its operations. It should deal only with banks, bankers, and trust companies. Its main function should be to buy foreign exchange, which it should accumulate in times of ease as a gold reserve, and it should purchase commercial paper from banks and trust companies only."

. . . .

"The management of the central reservoir must be absolutely free from the dangers of control by politics and by private interests, singly or combined. This can be achieved without doubt by a combination of measures like the following: the stockholders would appoint only a minority of the directors; a small number of additional directors would be furnished ex officio by some political officers, but the majority could be appointed by groups of banks all over the country under a system, for instance, like that proposed in the above-named plan. . . ."

(November 12, 1910)

. . . .