

No. _____

012.2

Federal Reserve Bank

District No. 2

Correspondence Files Division

STRONG PAPERS

SUBJECT

U.S. TREAS. DEPT. - CARTER GLASS, SECRETARY

1919 - 1920

SEE ALSO: U.S. CONGRESS

HOUSE - 1915

SENATE - 1922-27

Return to
R.H. Johnson
1916
Federal Reserve Bank

Estes Park, Col.,

August 26th, 1916.

Dear Sir:

Among the proposed amendments to the Federal Reserve Act now before Congress for consideration, is one which authorizes reserve banks to exchange Federal reserve notes for gold and permits them to include the amount of gold so received as a part of their reserves. Understanding that there is some doubt of favorable action by Congress, the following statement is respectfully submitted, in the hope that it conveys convincing reasons why this amendment should be passed and, if possible, at this session of Congress.

In the preparation of the Federal Reserve Act, Congress recognized that the financing of the foreign commerce of the United States had for many years been dependent upon banking machinery which was under the control of citizens of competing nations, particularly of Great Britain, and that this dependence should be removed as promptly as possible. Congress sought to accomplish this, both by enlarging the powers of national banks so as to enable them to do a foreign business and by conferring upon Federal reserve banks powers and functions which would supplement the new activities of the national banks. The Federal Reserve Act, in fact, recognizes that international finance is inseparable from international commerce and aims to establish our financial system upon a basis where American

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credit can finance American trade. The English system should be examined in this connection in order to understand why English banks have so long been able to control the largest proportion of the world's international banking, and what we must do to develop and extend our own System upon an equally secure basis.

The chief and fundamental reason for England's success, which is emphasized by every English authority writing on this subject, is the ability and willingness of her bankers at all times to meet their foreign obligations in gold. Since the Bank Act of 1844, this has been the pride and foundation of English banking. Does the Federal Reserve Act permit the reserve banks to obtain such a control of gold, as will enable them to discharge their obligations to their members, and to the public, in this new department of American banking, with the same success as the English banks?

If our country is to permanently take over even its own share of this business, and is to finance its own foreign commerce, its banking system must first establish in the minds of bankers in every part of the world that it is able and willing to export gold whenever the exchanges make it profitable for its creditors to ask for gold payment. Our past record in that respect is bad. Since this country resumed specie payment, there have been at least three occasions when gold payments were arbitrarily suspended by our bankers, bringing discredit to our banking system and seriously impairing the confidence which

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should be felt in our banks; such confidence, in fact, as is now enjoyed by the English system and which we must enjoy, if we are to compete with England. In 1907 and in the Fall of 1914, our banks arbitrarily declined to pay gold to their creditors and in the latter case, to their foreign creditors. During a recent visit to London, our action on these occasions was frequently mentioned by prominent bankers as creating an almost insuperable obstacle for us to overcome in our efforts to compete with English bankers in foreign markets, nor did any banker with whom I discussed the matter seem to understand that this suspension of international gold payment was forced upon the banks of New York, partly by a situation that is now in course of being remedied, and somewhat by the inherited defects of our currency system, which we hope in time to correct.

The occurrences of 1914 will illustrate the weakness of our position. When in August of that year, sterling exchange passed the gold export point, the gold held in New York was scattered among 65 Clearing House institutions; no one of them, as I recall, holding in excess of \$50,000,000, (The National City Bank), the total of all banks in the city being about \$250,000,000. Of these 65 institutions, not over eight or ten had connections and facilities for supplying foreign drafts to enable our merchants and dealers to make payments abroad. Had these few institutions, which alone enjoyed the facilities, undertaken to create all the exchange needed by

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shipping gold to Europe, their gold would have been exhausted in a few days and they had no possible means of replacing it. The drafts which they sold would be paid for by the purchasers by checks on other banks. These checks would be collected through the Clearing House and settlement made there, in silver certificates and greenbacks (and later in national bank notes). Not only would that have resulted from the direct transactions of these exchange-drawing banks, but it would have resulted also from the operations of all private bankers who had facilities to draw exchange. They would have withdrawn gold from these same large banks, with which they kept their accounts, making payment therefor with the checks which they received from the purchasers of foreign drafts, in settlement of which, the banks would again receive silver certificates and greenbacks through the Clearing House. In other words, the shipment of gold by the few institutions which had foreign connections, would have been entirely inadequate to meet the situation, even if they had shipped the greater part or all of their gold reserves, and, to the extent shipped, it would have promptly resulted in the conversion of their gold holdings into silver certificates and greenbacks. During the period when Clearing House loan certificates were being issued, they would not even have received silver certificates and greenbacks, but would have received the promise to pay of the various Clearing House banks which had to meet debit balances caused by the presentation of the checks deposited by the banks which had shipped

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gold, which they in turn had received from the purchasers of the exchange.

The only means presumably available for these banks to restore their gold reserves was by presenting large amounts of U. S. notes and silver certificates to the Subtreasury for redemption in gold. The average amount of gold held by the Treasury Department in the general fund available for such redemptions during the past two years has been trifling in comparison with the amount of money of this character which might be presented for redemption, especially if we add to the amount of greenbacks and silver certificates, the total amount of national bank notes (including Aldrich-Vreeland notes), outstanding during the Fall of 1914. The combined gold resources of the Treasury, including the 5 % Redemption Fund, was not then over \$250,000,000, and during part of the time, much less than this - a very small sum indeed to insure the redemption of about \$2,000,000,000 of paper money, the maintenance of a gold basis for all of our currency, and the conduct of the regular financial business of the Government.

Three times in recent years a situation has arisen where the free payment or exportation of gold would have depleted bank reserves in this way and thrown the burden of furnishing large amounts of gold upon the Treasury Department, when it was not in position to meet the demand. It would have added to the alarm already created, had the gold reserve of \$150,000,000 been

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used for this purpose nor, in fact, was it so used, or its use even suggested in a crisis of unprecedented seriousness, in 1914.

The foreign exchanges of the country are settled almost entirely through the banks of New York City. They, in turn, will in future years largely depend upon the Federal Reserve Bank of New York for their gold requirements to meet foreign obligations, when exchange is not otherwise available, and the volume of these obligations will increase in proportion to the extent to which our new banking system is successful in financing our own foreign commerce. Enlarged demands for gold will at times arise under the new System through the encouragement, if successful, of the use of acceptance drafts drawn on New York banks and bankers. Such drafts, when drawn on English acceptors are regarded by bankers throughout the world as convertible at once upon arrival in London, into a bank credit which, in turn, can be converted into gold for withdrawal, if the rate of exchange makes that course necessary or profitable. Bills of a like character drawn on American acceptors must enjoy this same quality and reputation if we are to develop successfully the use of dollar drafts for financing our foreign commerce. Foreign bankers will not, if they can avoid it, buy large amounts of New York bills, unless they are assured that they can be certain of immediate discount, and rely upon liquidating the resulting credit in gold, if necessary. It was, in fact, to bring about exactly such a development of our banking business abroad that various provisions were incorporated in the Federal Reserve

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Act and Congress should now carefully consider whether adequate means are afforded to the reserve banks to accumulate gold in sufficient quantity to meet the demands which may and are almost certain to be made upon us in later years if, as we hope, our international banking assumes important volume. Does the Federal Reserve Act, in fact, accomplish what it was designed to accomplish in this respect?

If Federal reserve notes cannot be issued in exchange for gold, or if the gold so accumulated by the present clumsy method of exchange does not count as part of the reserves of reserve banks, then the only source of supply of gold for the reserve banks is the reserve deposits of member banks, (and the General Fund of the government), the amount of which is limited by law and which we cannot expect will be increased materially beyond the reserve required to be carried. How far will this gold go?

The statement of the 12 reserve banks as of June 30th shows a total gold reserve of \$377,000,000, which was about 69 % of deposit and note liabilities, a percentage certainly as low, if not lower than should be permitted for the entire system under present conditions. The amount of earning assets of all the reserve banks at that date was \$165,000,000, which earned, roughly, at the rate of $2\frac{1}{2}\%$ for the month of June. This amount of earning assets at the present average rate of about $2\frac{1}{2}\%$ has produced net earnings in the first six months of 1916 for the entire system of about 2.9 % on the capital. Assuming a moderate increase in expenses, it will

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take a further investment of, say, \$80,000,000 at present rates to enable the 12 reserve banks to earn their current dividends, regardless of those accrued. This additional investment will cause the reserve banks to pay out an equal amount of their gold reserves so that it is undoubtedly a fact that if the reserve banks were to-day earning their dividends, their reserves would be so low that they could meet no demands of importance from their member banks for gold for export.

It is frequently stated that demands upon the reserve banks for discounts by member banks can be met by the issue of Federal reserve notes, thus enabling them to conserve their gold reserve. That is not a fact. In the first place, only 14 % of the earning investments of the reserve banks consist to-day of the discounts of member banks and the demands for discounts by member banks so discounting has no connection whatever with demands for the issue of Federal reserve notes - that is, for currency. Member banks apply for discounts when they have extended accommodation to their customers to the point of impairment of their reserves. They take credit for the proceeds of the discount in their reserve accounts and draw checks on the reserve banks as these balances are used for loans or otherwise, which checks are ultimately presented through the exchanges, and must be settled by the payment of reserve money, that is, gold. The reserve banks cannot meet these checks by the use of Federal reserve notes any more than the Bank of England can require its depositors to accept its notes in payment of deposits or redeem its notes by the issue of its own notes.

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The same statement applies to other investments made by the reserve banks, that is, government bonds, municipal warrants and bankers acceptances, (the latter comprising 42 % of all earning investments.) These are purchased from brokers and bankers and paid for by check, which checks likewise are presented through the clearings in the usual course and must be paid by the use of the bank's reserve money.

The only available means of issuing Federal reserve notes is by delivery or shipment to those member banks whose customers have use for currency, and on these occasions the reserve banks are sometimes able to accumulate, or at any rate, to protect their gold and it is by availing of such demand that the reserve banks have been able to put by a total of \$162,000,000 of gold which is now held by the reserve agents, but which does not count as part of their reserves, and is not directly available to meet the needs of member banks.

During the past 14 or 15 months, since the establishment of the Gold Settlement Fund, the Reserve Bank of New York has, as I recall, received from the banks of New York City, either in exchange for Federal reserve notes or through private transactions with importers, in the neighborhood of \$200,000,000 of gold, which it could not retain. This imported gold, however, which we should have had the power to hold to meet possible future demands, had to be distributed to the other 11 reserve banks, through the Gold Settlement Fund, in order to settle for exchange sent to New York by the other reserve banks for credit, and through the other reserve banks has been put into

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circulation. This operation simply distributes gold certificates, principally of \$10 and \$20 denominations throughout the country in hand to hand circulation, whereas it should be impounded by the reserve banks and held against future emergencies. Nor will we be successful, of course, in accumulating gold in a large way against issues of Federal reserve notes until the Congress is willing to make Federal reserve notes reserve money for the banks and until the banks are able to accept reserve notes in settlement of Clearing House balances.

Objection is made that the use of Federal reserve notes for that purpose is unsound, inflational and will result in an undue expansion of our circulating medium. Quite the reverse is true. Under the law as at present, Federal reserve notes, issued against discounted paper solely, will be entirely a fiduciary issue and without as large gold backing as would be the case if reserves could be accumulated by the exchange of Federal reserve notes for gold. Had the Federal Reserve Bank of New York been in position to effect such exchanges and retain the gold received during the past year, it would to-day hold in its note and general reserves possibly between \$450,000,000 and \$500,000,000 of gold instead of about \$225,000,000 as at present. Its percentage of reserves would have been much larger than at present, possibly over 90 %, and it would be in position to meet the demands of its member banks for gold for export when that demand arises without an alarming depletion of the reserve.

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Up to the present time, the loss of gold received by the Federal Reserve Bank of New York has been occasioned first, by the investment of its funds, payment for which investments is made in gold; second, by settlements with other reserve banks through the Gold Settlement Fund of the balances created by deposit of New York exchange, sent for credit, (which operation results in the conversion of our gold reserve into silver certificates and greenbacks.) When, however, a demand for gold for export arises, as it will inevitably some day, the loss of gold will be caused by transactions which will very rapidly impair the bank's reserve position. Member banks in New York will first withdraw whatever excess balances over their required reserve they may have on deposit with us. When these are exhausted, they will likely apply to us for the discount of commercial paper and bills, the proceeds of which they will withdraw in gold for export. Our note issue cannot be used to protect our gold, our discounts will increase and our reserve will decrease by the amount of gold paid out against them. And, as stated above, were the Federal Reserve Bank of New York willing to invest a sufficient amount of its funds to earn its full dividends, the amount of its reserve would be so greatly reduced that we would be unable to meet any considerable demands from our member banks for gold for export.

This country differs from other modern banking countries in the vast number of its banking institutions. For security's sake this condition demands a larger fund of assembled gold than is required even for England. During the past two years, we have

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witnessed an exhibition of strength by England in the matter of exports of gold, such as has never before been displayed in the history of banking. This country could never have met a situation such as England is now meeting without changes in our laws undertaken in time of emergency, and risking added alarm. Nor does England care to risk the loss of prestige to her foreign banking system by suspending gold exports, even in time of war.

It should be borne in mind that the Treasury of the United States is generally not in position to meet the redemption of United States notes and silver certificates in times of crises and that under the new law, demands upon the reserve banks for gold have the effect of making them the first agency of redemption, principally by the sorting process described above, which takes place at the Clearing Houses. It is highly important, not only to the reserve banks, their members and the public, but to the government as well, that this process of intermediate redemption should be fortified by as large a reserve of gold as can be assembled.

Many New York bankers have inquired of me why the Federal Reserve Bank of New York was not able to accumulate a greater proportion of the gold now being imported and a greater proportion of the gold in current circulation in small denomination gold certificates. There are a number of reasons in addition to those named above in connection with the note issue:

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At present, when gold is imported from Europe, it is immediately deposited with the Assay Office and Assay Office checks are issued to responsible depositors for 99 % of the assumed value of the gold on the day of deposit. These Assay Office checks are paid through the Clearing House or directly at the New York Subtreasury by the issue of gold certificates. These gold certificates go into the bank reserves and are gradually shipped throughout the country and put into circulation. The English system is quite different and enables the Bank of England to stand between the importers of gold and the Assay Office, or the mint. The English mint takes gold from depositors at the rate of 77 s. 10½ d. per ounce, issuing in payment the actual sovereigns coined at the end of, say 12 days; to avoid the inconvenience of delay to gold importers, the Bank of England is required by law to buy gold bars at 77 s. 9 d. and make immediate payment. 1½ d. per ounce of gold is less than the equivalent of 12 days interest and results in practically all gold purchases being made by the Bank of England. Some such plan would be possible in this country, provided the note provisions of the Federal Reserve Act were amended and it is safe to say that practically all the gold imported to the United States in the past two years would now be in the vaults of the Federal Reserve banks, if the Treasury Department discontinued its practice of immediate payment, and if the reserve banks could pay for the gold by the issue of a note which would be accepted in settlement of Clearing House balances.

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Aug. 25, 1916.

The Bank of England is understood to go even further than above described in order to insure retaining control of gold receipts; it is currently reported that the bank always has enough gold bars at the mint for coinage, to indefinitely postpone returns by the mint to private depositors, so that all importers of gold are forced to the Bank of England with their gold bars.

Should Congress determine to amend the note provisions and expect reserve banks to avail of that means of accumulating a more adequate gold reserve, the present practice of issuing \$10 and \$20 gold certificates should be gradually discontinued, and greater discretion vested in the Secretary of the Treasury to determine in what denominations of gold certificates shall be issued in future. The mere discontinuance of the issue of these small denomination notes would lead to the replacement of that amount of gold circulation by the Federal Reserve notes, if they had adequate circulating qualities and some hundreds of millions of gold certificates now in circulation would gradually be driven into the reserves, not only of the reserve banks, but of member banks as well, thereby gradually increasing the strength of the gold reserve of the whole country.

Unfortunately, issues of Federal reserve notes, particularly of the quality now in use, are exceedingly expensive. In fact, the cost, if entirely borne by the reserve banks, is prohibitive, unless the reserve banks make use of this very method of accumulating reserves to considerably expand their

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investment account. This, at the present time, is highly undesirable and I have reluctantly come to the conclusion that whenever Congress is willing to authorize the expansion of note operations by the reserve banks to the degree required, it will be justified in having the Treasury assume the cost of the note issue, as there will be a great saving to the Government in the cost of the present issues of gold certificates. The reserve banks will indirectly recoup the Treasury when they pay a share of their profits to the government.

I have made no reference to the course of exchange after the conclusion of the war which many bankers and economists believe will be adverse to this country, possibly for a long period, and result in the return of some portion of the \$500,000,000 gold which we have received from Europe during the period when the exchanges have been in our favor. Without hazarding a prophecy as to any such occurrence, it is nevertheless sufficiently a possibility to require the reserve banks to make every preparation for extensive demands for gold. As I hope has been brought out by this letter, means are not available which will be adequate for this purpose except through amendment to the note provisions of the Federal Reserve Act.

To summarize the above, the provisions of the Federal Reserve Act as they are at present, do not permit the reserve banks to accumulate sufficient gold to meet the demands which may be made upon them during a long period of adverse exchanges. There is considerable possibility of these conditions arising.

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It will take time to accumulate a sufficient fund of gold to meet such conditions. Unless Congress amends the Act sufficiently in advance of the conclusion of the war, it may be found that the reliance of the community generally, as well as member banks, upon the new banking system will meet with disappointment.

The Federal Reserve Act affords a basis for the reorganization of our banking system, and ultimately of our currency system, on sound lines, but I do not think that it will provide means for adequate development of our foreign banking until the whole subject of the note issue and gold reserves has been comprehensively dealt with somewhat as above indicated. Old prejudices in regard to our currency system must be abandoned. The object ultimately to be attained through the agency of the reserve banks is to have but two kinds of major circulating medium in the United States - one gold, and the other Federal reserve notes, with adequate gold reserves in the custody of the reserve banks.

Very truly yours,

Hon. Carter Glass,
Chairman, Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

BS Jr/VCM

THE SECRETARY OF THE TREASURY
WASHINGTON

March 7, 1919.

My dear Governor Strong:

Your kind letter of February 28th reached my office just as I was taking train for Virginia, and this is the first time since my return that I have been able to give any attention to my personal correspondence. I desire now to express my very warm appreciation of your generous reference to my New York visit, and you may be sure that I am glad that you think it did good. I certainly had every reason to be gratified at my cordial reception there, and am especially indebted to you for your many courtesies.

Cordially yours,

Charles Evans.

Mr. Benjamin Strong,
Federal Reserve Bank,
New York City.

THE SECRETARY OF THE TREASURY
WASHINGTON

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Cordially yours,

Wm. C. Glass.

Mr. Benjamin Strong,
Federal Reserve Bank,
New York City.

April 3, 1919.

Dear Mr. Secretary:

In connection with the plan which I mentioned to you for obtaining legislation from Congress directed toward the establishment of a scientific budget system for our Government, the committee of which I am a member is now proposing to appoint a representative in each State for the purpose of disseminating literature and information on this important matter in order to arouse some public interest.

We are fortunate in being able to secure the cooperation of the Institute for Government Research and the United States Chamber of Commerce, but we wish to make our own independent appointments in each State, and, through the State representatives, build up local State Organizations of our own. I am now writing to ask if you can suggest some one to act as State representative in Virginia.

What is needed is a man who will undertake some work, not of a very onerous character, for patriotic reasons only. He should be willing to make some study of the subject, for which literature is being prepared and will be furnished. He should, if possible, be able to discuss budget legislation publicly; should enjoy the respect and confidence of the people of the State; and be free of possible charge of partisanship, as, of course, the movement is distinctly nonpartisan.

The plan contemplates that each State representative shall raise a sufficient fund to finance the expense of the State Organization, but that will not be a large sum, and probably one of the least difficulties.

Will it be possible for you to suggest some one for the State of Virginia? I dislike very much to add anything to the work of your busy days, and if no one

occurs to you at once, please do not give it further thought.

Faithfully yours,

Honorable Carter Glass,
Secretary of the Treasury,
Washington, D. C.

BS/MSB

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THE SECRETARY OF THE TREASURY

WASHINGTON

FEDERAL RESERVE BANK

April 7, 1919.

Dear Governor Strong:

I received your letter of April 4th with the enclosed advertisement of the Liberty Loan, which I have examined with a great deal of interest. I think it is a good idea to make use of the appeal to civic pride as you are planning to do. Many thanks for sending me the advertisement.

Sincerely yours,

Emily Glass

Secretary.

Benj. Strong, Jr., Esq.,
Governor, Federal Reserve Bank,
New York City.

Rec'd.

Emil in this file

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APR 12 1919

THE SECRETARY OF THE TREASURY

WASHINGTON

FEDERAL RESERVE BANK

April 7, 1919.

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which I have examined with a great deal of interest.
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thanks for sending me the advertisement.

Sincerely yours,

Ernest Glass

Secretary.

Benj. Strong, Jr., Esq.,
Governor, Federal Reserve Bank,
New York City.

Recd.

*sent in
this file*

April 11, 1919.

Dear Mr. Secretary:

Many thanks for your kind letter of April 8th in regard to an appointment to represent the budget organization in the State of Virginia. I am transmitting this to the committee, and am hopeful that they will act promptly.

Sincerely yours,

Honorable Carter Glass,
Secretary of the Treasury,
Washington, D. C.

BS/MSB

see 796

THE SECRETARY OF THE TREASURY
WASHINGTON

May 31, 1919.

My dear Governor:

Now that the Victory Liberty Loan Campaign has been brought to a successful conclusion, I want to tell you how much the Treasury Department appreciates the cordial co-operation which it has received from you during the past two years. In that period, the Treasury has been confronted with financial problems of a magnitude never before conceived, and to the successful solution of these questions you have contributed in very large measure.

You have relieved me personally of a large part of the responsibility and burden attached to this office, and have made an almost impossible task possible. I wish to assure you of my deepest appreciation and heartiest good wishes for your health and happiness.

With warm regard, I am,

Cordially yours,

Carter Glass

Honorable Benjamin Strong,
Governor, Federal Reserve Bank,
New York City.

THE SECRETARY OF THE TREASURY
WASHINGTON

May 31, 1919.

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With warm regard, I am,

Cordially yours,

Carter Glass

Honorable Benjamin Strong,
Governor, Federal Reserve Bank,
New York City.

Copy.



THE SECRETARY OF THE TREASURY
WASHINGTON

May 14, 1919.

My dear Mr. Emerson:

I received your letter of the 9th of May and thank you for the invitation to attend the dinner to be given to Governor Strong and the other members of the Central Liberty Loan Committee of the Second Federal Reserve District on the 26th of May. I should be very happy to accept and express in person my deep appreciation of the splendid service of Governor Strong and the members of his organization in the Liberty Loan campaigns, but the exceedingly great pressure of official duties in the Treasury will make it impossible for me to leave Washington at that time.

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While I am denied the pleasure of attending the farewell dinner of the New York organization, I shall be glad if you will express my sincere sense of gratitude for the efficient and effective support and cooperation that was given the Treasury by the War Loan Organization of the Second Federal Reserve District. Its great achievements in every Liberty Loan have been due to the fact that the efforts of its leaders and its entire membership have been guided by the love of America and a firm determination that her righteous cause in war should triumph. For such unselfish and patriotic devotion to the Government of their country the Liberty Loan Organizations of New York and the other Federal Reserve Districts deserve the undying thanks of the Nation. In the years to come it will be a source of genuine satisfaction always to the members of these unique voluntary organizations to realize that they served America, and served America well, in the greatest crisis of her history. When I contemplate in the full light of retrospection the magnitude of the loan operations and the greatness of their achievements, it is not within the power of the written or spoken word to express the full measure of appreciation that I feel for the work of those who have served the Government so faithfully without thought of recompense or personal reward. I must ask the Loan Organization to believe that the inadequacy of language finds its compensation in the sincerity of the sentiment with which the Government at Washington regards their great contribution to the success of the war. It is my privilege and pleasure to transmit this message of thanks and I hope you will convey to Governor Strong and all his associates my heartiest good wishes and warmest regard. //

Cordially yours,
(signed) Carter Glass

Mr. Guy Emerson,
C/o Liberty Loan Committee,
120 Broadway,
New York City.



TREASURY DEPARTMENT

WASHINGTON

July 10, 1919

My dear Governor Strong:

On the 14th of May, the Secretary sent a letter to Mr. Emerson expressing his deep regret that it would be impossible for him to attend the dinner which the Central Liberty Loan Committee of the Second Federal Reserve District desired to give in your honor on the 26th of that month. Later, I believe, the date was changed and the invitation to the Secretary was renewed. He thought that it would be possible for him to accept, but, as you probably recall, at the last moment developments in Washington rendered this out of the question. He consequently sent a telegram giving the reasons why he could not attend. The message was very brief, and it was made so because his letter of the 14th of May was intended for reading at the dinner in case he was not able to be present. I assume that the letter was forgotten by reason of the lapse of time, because I am told that only the Secretary's telegram was read at the dinner. It occurred to me that in the circumstances possibly you had never seen a copy of it, and for that reason I am sending it herewith.

Cordially yours,

W. C. Cooksey
Assistant to the Secretary.

Benjamin Strong, Jr., Esq.,
Governor, Federal Reserve Bank,
New York, N. Y.

July 17, 1930.

My dear Mr. Cooksey:

Your kind letter of July 10th reached me on the steamer the day I sailed, and I am writing to express my appreciation of your thoughtfulness in sending me a copy of Secretary Glass' letter of May 14th. How it happened that the letter was never read nor in fact brought to my attention, I cannot explain. It exhibits again the Secretary's thoughtfulness and friendship, and I am taking the liberty of writing him expressing my appreciation of the many kind things that he writes about the work of the organization.

With kindest regards and wishing you an enjoyable summer, I am,

Sincerely yours,

Hon. G. R. Cooksey,
Treasury Department,
Washington, D. C.

July 17, 1919.

My dear Mr. Secretary:

Mr. Cooksey was good enough to send me a copy of your kind letter of May 14th addressed to Mr. Emerson, and which reached me on the steamer the day I sailed.

What you say about the work of the Liberty Loan organization at New York is but another evidence of your friendship and thoughtfulness, which I deeply appreciate. How it happened that your letter did not reach me earlier, I am quite unable to explain.

It makes me feel a bit guilty to be taking this trip when so many of my friends and associates are hard at work during the hot summer, but I shall hope on my return to settle in the harness again and make up for lost time.

With kindest regards and with many thanks for your kind letter, I am,

Sincerely yours,

Hon. Carter Glass,
Treasury Department,
Washington, D. C.



THE SECRETARY OF THE TREASURY
WASHINGTON

December 13, 1919.

BA

DEC 16 1919

My dear Mr. Strong:-

Aware though I am of the heavy burden of work and responsibility resting on you, I venture, in the public interest, to overcome my reluctance to ask you to assume a further obligation. I am most anxious to have you deliver an address at the Second Pan-American Financial Conference on Thursday afternoon, January 15, at 3:00 P.M. on "The Introduction of the Budget System and the Improvement of Fiscal Methods in the United States".

I enclose an advance and confidential copy of meetings and entertainment. I hope within a few days to be able to send you a list of the gentlemen who have up to this time signified their willingness to serve on the Group Committees. You will see from these papers the character of your audience and the importance of the occasion. I feel that you will be rendering a great service in stating the situation upon a matter so directly of interest to all the official delegations in attendance at the Conference.

I trust that I may be favored with a copy of your address as far in advance of the Conference as possible in order to permit of translation and printing. If I could have such a copy by the first of January, I would feel greatly indebted to you.

I remain, my dear Mr. Strong,

Sincerely yours,

Charles E. Glass

Honorable Benjamin Strong,
Governor of the Federal
Reserve Bank of New York,
New York City.

Confidential

TENTATIVE PROGRAM OF THE
SECOND PAN AMERICAN FINANCIAL CONFERENCE

Saturday, January 10, 1920.

10:30 A.M.	Delegates received by the Secretary of State.
12:00 A.M.	Delegates received by the Secretary of the Treasury.
1:00 P.M.	Luncheon tendered Delegates by the Secretary of the Treasury.
3:00 P.M.	Preliminary meeting of Delegates, Hall of the Americas, Pan American Building, Reading of Rules.

Sunday, January 11, 1920.

10:00 A.M.	Trip to Mt. Vernon by Automobile.
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Monday, January 12, 1920.

10:00 A.M.

Opening Session, Hall of the Americas.

The Secretary of the Treasury will be introduced as Presiding Officer by the Secretary of State.

The Secretary of the Treasury will present the Vice-President of the United States.

Address of the Vice-President.

Responses by Delegations.

Welcome on behalf of the Pan American Union by the Honorable John Barrett, Director General.

1:00 P.M.

Luncheons of Official Delegates and Group Committees, at Hotels Shoreham, Washington and Willard.

2:00 P.M.

Continuation of Opening Session.

Announcements.

4:00 P.M.

Organization meetings of Group Committees.

9:00 P.M.

Reception tendered to the Official Delegations and members of Group Committees by the Secretary of the Treasury at the Pan American Building.

Tuesday, January 13, 1920.

10:00 A.M.

Group Committee and other
Committee Meetings.

3:00 P.M.

Group Committee Meetings.

8:30 P.M.

Second General Session.

General Topic: "The Credit
Situation of the World"

Addresses by

(1) The Governor of the Federal
Reserve Board on "The Problems
of the United States as a
Creditor Nation."

(2) The Honorable W.G. McAdoo:
"International Finance."

(3) A member of one of the dele-
gations from Central or South
America, to be designated here-
after.

(4) A member of one of the dele-
gations from Central or South
America, to be designated here-
after.

General Sessions will be open
to ladies.

Wednesday, January 14, 1920.

10:00 A.M.	Group Committee Meetings.
1:00 P.M.	Luncheon tendered by the Secretary of State to the Chairmen of Delegations.
3:00 P.M.	Group Committee Meetings.
8:30 P.M.	Third General Session.

General Topic: "Commerce and Finance, International Co-operation".

Addresses by

- (1) Honorable John Bassett Moore:
"The Work of the International High Commission".
- (2) Dr. Mario Diaz Irizar,
Director of the International Trade Mark Registration Bureau at Havana:
"The International Trade Mark Convention".
- (3) A member of one of the delegations from Central or South America, to be designated hereafter.
- (4) A member of one of the delegations from Central or South America, to be designated hereafter.

Thursday, January 15, 1920.

10:00 A.M.

Fourth General Session.

Submission of all Reports of Group Committees and of the Committee on Transportation.

Addresses by Honorable Huston Thompson of the Federal Trade Commission: "International Regulation of Unfair Competition".

3:00 P.M.

Fifth General Session.

General Topic: "Fiscal and Currency Reform as Factors in National Credit".

Addresses by (1) A member of one of the delegations from Central and South America, to be designated hereafter.

(2) A member of one of the delegations from Central and South America, to be designated hereafter.

(3) The Honorable Paul M. Warburg: "Fiscal and Currency Standards as the Measure of the Credit of Nations".

(4) The Honorable Benjamin Strong, Governor of the Federal Reserve Bank of New York: "The Introduction of the Budget System and the Improvement of Fiscal Methods in the United States".

8:30 P.M.

Sixth General Session.

General Topic: "The Improvement of Ocean and Land Transportation Facilities".

Addresses by

(1) A member of one of the delegations from Central or South America, to be designated hereafter.

(2) A member of one of the delegations from Central or South America, to be designated hereafter.

(3) A member of one of the delegations from Central and South America to be designated hereafter.

(4) The Chairman of the United States Shipping Board, Honorable John Barton Payne:
"The Future Policy of the United States Shipping Board".

Friday, January 16, 1920.

10:00 A.M.

Seventh and Closing General Session.

(1) Report of the Committee on Form and Resolutions.

(2) Report of the Secretary General.

(3) Unfinished Business.

(4) Adjournment.

Saturday, January 17, 1920.

12:00 M.

Visit to Annapolis, under the auspices of the Secretary of the Navy.

7:30 P.M.

Official Banquet,
Hall of the Americas, Pan
American Building.

Addresses by the Secretary of State and
by the Official Delegate
representing the delegations
from Central and South
America.

Monday, January 19, 1920.

Dinner at New York tendered
to Official Delegations by
the Pan American Society of
the United States.

December 16, 1919.

Dear Mr. Secretary:

It is most kind of you to invite me to address the Second Pan American Financial Conference, and upon a subject in which you know I am particularly interested, - at the same time one which is so near your own heart. This letter, which I am sending to you through Mr. Leffingwell for delivery by hand is my explanation of why I must deny myself this privilege.

I have been having a thorough overhauling lately by the doctors. Without going into details, they tell me first that I must go away for a few months (they would rather have me go now, but are willing to wait until the first of the year.) Beyond that, they say that if I want to save what health I have I must give up work for two years entirely or run the risk of being either a complete invalid the rest of my life, or, possibly, suffer a worse penalty. It has become perfectly obvious to me that my duty, both to the Bank and to myself is to resign, but it isn't easy to do it, and I am procrastinating in making a final decision until some further examinations and reports reach me.

It seemed unwise to trouble my good friends in Washington with this situation until I had reached a decision and I had expected to say nothing about it until I could state definitely what I had decided to do, but your letter seems to make it necessary to send this explanation, which I hope you will hold in confidence.

It seems quite out of the question that I should attend the conference at all, but this, of course, I have only learned in the last few days.

With my warmest thanks for your letter and for asking me to take
an active part in this important meeting, I am,

Sincerely yours,

Honorable Carter Glass,
Secretary of the Treasury,
Washington, D. C.

BS.MSB



THE SECRETARY OF THE TREASURY
WASHINGTON

BA
DEC 22 1919

December 20, 1919.

My dear Mr. Strong:-

I enclose a special report on the financial conditions of Mexico, which I would be glad to have you glance over in preparation for your service as special representative on the Group Committee for Mexico, a responsibility which you were so good as to accept at my request. I would appreciate your courtesy in returning this report to Room 182, Treasury, as soon as you have completed its reading or in arranging to bring it with you to the Financial Conference.

Sincerely yours,

Walter Glass.

Secretary.

Hon. Benj. Strong, Jr.,

Governor, Federal Reserve Bank,

New York City.

December 22, 1919.

My dear Mr. Secretary:

This morning's mail brings me your letter of December 20th, enclosing a special report upon financial conditions in Mexico, which was probably prepared before you received my recent letter through Mr. Leffingwell advising of my inability to attend the conference.

It is a great disappointment to miss the sessions of the conference, which will be most interesting, and I particularly regret being away and losing this opportunity of being of some service to you in connection with the conference.

As you will doubtless wish to appoint some one in my place at an early date, and, in order that he may have opportunity to familiarize himself with this material, I am sending it back at once.

Again expressing my sincere regret that I am unable to serve, and thanking you for this evidence of your confidence, I am,

Sincerely yours,

Honorable Carter Glass,
Secretary of the Treasury,
Washington, D. C.

Answer 1/1/20



THE SECRETARY OF THE TREASURY
WASHINGTON

Personal

December 31, 1919.

My dear Mr. Strong:

Leffingwell handed me your letter just before my departure for Virginia and I placed it among others in my portmanteau in the hope that I would get time to write you while at home. The expectation was vain, because while there I was kept constantly occupied with other matters and was not left a moment for correspondence.

I was very genuinely distressed to learn of the state of your health and I sincerely trust that it may not prove as bad as the preliminary examinations appear to indicate. It seems a great pity that you have been compelled to fight for your life while serving your country so patriotically and effectively as you did in the war finance period and subsequently in the period of readjustment. However, I am encouraged to hope that you may win the fight and I think you are doing exactly right to conform strictly to the program enjoined by your physicians. You should quit work for a season and endeavor to dismiss all cares from your mind.

I would like you to understand that I fully appraise the value of the work you have done and that our differences upon questions of policy have not arisen through any distrust of your absolute sincerity. I have fundamentally disagreed with some of your conceptions of the Federal Reserve System and could never be induced to yield my judgment of such matters since I believe the very existence of the system as a beneficent institution depends upon a strict adherence to the original intent of the law; but this is a difference of conviction and involves no sort of prejudice or dislike. Indeed, had I not liked you so much personally and so keenly appreciated your fine service I would long ago have made a sharp issue of our opposing views, for I put the Federal Reserve System as I have dreamed of it and worked with it above any other human interest. And I hold out to myself the expectation that when you shall have entirely recovered your health and are freed from the distractions and provocatives which are inevitable in such a situation you may find yourself in full accord with my interpretations of the provisions of the law and the purposes of those who contrived it.

Wishing you a speedy and full restoration, as well as happiness in the meanwhile, believe me,

Sincerely yours,

Mr. Benjamin Strong, Jr.,
Federal Reserve Bank,
New York, N. Y.

Enter Glass.



CASTLE HOT SPRINGS HOTEL
HOT SPRINGS, ARIZONA

*This page
taken for
all for exhibit
it*

Jan'y 14th 1920.

dear Secretary Glass.

Your most kind
letter of Dec 21st reached me just
as I was taking the train, and
since reaching Arizona I have
laid ^{aside} every thought of mail ~~on~~
~~side~~, in favor of complete
rest, which I sorely needed.
But I left greatly relieved by
the receipt of your letter and
freed of an anxiety which
~~had~~ had weighed on my

mind ever since my return
from abroad.

I hope now understand that
I have always regarded my
work in the Reserve Bank as
a great privilege, - the greatest
in fact that one could wish
to enjoy, - and though for the
last few years I have, as you
say, ^{been} ~~had~~ a rather severe battle
with Tuberculosis, - I cannot
regard that as any different
from what my own boy was
glad to do when he went to
France. It was worth it and
I wouldn't have missed it
for any consideration.

2.



CASTLE HOT SPRINGS HOTEL
HOT SPRINGS, ARIZONA

As I have frequently said to ~~the~~ ^{my} ~~leaves~~ ^{leaves} were, it would be a quivous disappointment to me ^{if} ~~to find~~, after five years were to make the Reserve Bank of New York, and ^{possibly to help make} ~~in some way~~ the system, an operating success, ^I ~~to find~~ myself ^{rationally} ~~completely~~ out of accord with the author of Reserve Act. But I am confident that such is not ~~truly~~ the case. There is at present, and has been now for three years, such

a difficult and distorted
situation, due to the war and
to war finance, that we have
none of us learned by the
experience under ^{of} more
normal conditions, just how
the Reserve Bank and the
money market in New York
can be made to function
together. Although necessary, I
have always regretted the extent
to which I had personally
dominated the New York situation.
It ^{has} aroused suspicions and
distrust of motives, and ^{at times} I
cannot help but wonder ^{at times} whether



CASTLE HOT SPRINGS HOTEL
HOT SPRINGS, ARIZONA

I or some successor at the head
of the bank may, ^{not some day} or quite, of some
blunder, or worse, which might
discredit us all. On the other
hand, anything approaching
the Exercise of ~~such~~ ^{of} a Control
^{such} as we have had, by a
Government body, in
Washington, I fear would
in time, and with the changes
which time brings, lead to a
"Political Control of the System
with the ever present possibility of misuse.
~~And so on~~

What I most want to do, Mr. Secretary, is to bring our minds to meet on the problems of the System for the long future, ~~and~~ even more than on present conditions and policies which are too unusual to be the basis of permanent judgment. Nothing is nearer my heart than to see this great reform established as the foundation of ^{our} ~~the~~ Country's future prosperity and security. And not least an importance to me has been the privilege and pleasure of sharing with you for a time



CASTLE HOT SPRINGS HOTEL
HOT SPRINGS, ARIZONA

Some of these duties and
burdens which I have really
Employed, and ^{so largely} because it has
been in association with you.

But I want to finish the
work, and to have you feel
that it was well done, and
more particularly that it was
promptly done for the best
welfare of the County.

Again many thanks for
your letter and for your

Confidence. I wish you
the ^{same} ~~great~~ success in the
Senate which you have
enjoyed in the House and
the Treasury and much
happiness with it.

CASTLE HOT SPRINGS HOTEL

Hot Springs, Arizona

January 14, 1920.

My dear Secretary Glass:

Your most kind letter of December 31 reached me just as I was taking the train, and since reaching Arizona I have laid aside every thought of mail in favor of complete rest, which I sorely needed. But I left greatly relieved by the receipt of your letter and freed of an anxiety which had weighed on my mind ever since my return from abroad.

I hope you understand that I have always regarded my work in the Reserve Bank as a great privilege, - the greatest in fact that one could wish to enjoy, - and though for the last five years I have, as you say, faced a rather grim fight with tuberculosis, I cannot regard that as any different from what my own boy was glad to do when he went to France. It was worth it and I wouldn't have missed it for any consideration. As I have frequently said to Leffingwell, it would be a grievous disappointment to me if, after five years work to make the Reserve Bank of New York, and possibly to help make the System, an operating success, I found myself out of accord with the author of the Reserve Act. But I am confident that such is not really the case. There is at present, and has been now for three years, such a difficult and distorted situation, due to the war and to war finance, that we have none of us learned by the experience of more normal conditions, just how the Reserve Bank and the money market in New York can be made to function together. Although necessary, I have always regretted the extent to which I had personally dominated the New York situation. It has aroused jealousies and distrust of motives, and at times I cannot help but wonder whether I or some successor at the head of the bank may not some day be guilty of some blunder, or worse, which might discredit us all. On the other hand, anything approaching the exercise of a control such as we have had, by a government body in Washington, I fear would in time, and with the changes which time bring, lead to a political control of the System with the ever present possibility of misuse.

What I most want to do, Mr. Secretary, is to bring our minds to meet on the problems of the System for the long future, even more than on present conditions and policies which are too unusual to be the basis of permanent judgment. Nothing is nearer my heart than to see this great reform established as the foundation of our country's future prosperity and security. And not least in importance to me has been the privilege and pleasure of sharing with you for a time some of these duties and burdens which I have really enjoyed, and so largely because it has been in association with you.

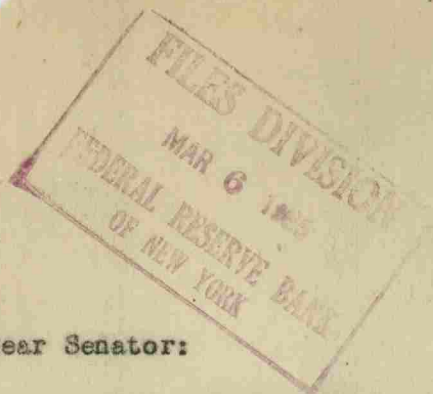
But I want to finish the work, and to have you feel that it was well done, and more particularly that it was honestly done for the best welfare of the country.

Again, many thanks for your letter and for your confidence. I wish you the same success in the Senate which you have enjoyed in the House and the Treasury and much happiness with it.

Sincerely yours,

(Signed) Benj. Strong.

Honorable Carter Glass,
Secretary of the Treasury,
Washington, D. C.



010

March 5, 1925.

My dear Senator:

It was my hope and expectation, when in Washington this week, to make an effort to see you and thank you personally for the courtesy which you showed to my son and Mr. Hamilton; but unfortunately, the pressure of matters which occupied all of my time prevented my getting to the Capitol.

This is, therefore, to thank you by letter and to express my regret that I could not do so by word of mouth.

Many times during the past year I have been tempted to have a talk with you about the pending banking legislation. There is something about the McFadden bill which I do not like at all. Possibly what I most dislike is the fact that it will prove to be no solution in the long run of the matters which it undertakes to deal with.

As you know, I have never voluntarily or in any way undertaken to influence any legislation relating to the Reserve System, or even to the National system. Too many times I have been charged, without justification, with lobbying and endeavoring to do the very thing that I have always most scrupulously avoided, but I do regret very much seeing this opportunity for a real legislative treatment of the difficult problem miss its main purpose because of some few defects in the bill.

If you would care to have some comments from me about it, I think possibly it might be proper for me to write you personally, giving you my own views for such value as you may find them, but beyond that I would not expect to display any interest in the matter.

3/5/25.

FILES DIVISION
MAR 10 1925
FEDERAL RESERVE BANK
OF ST. LOUIS

Hoping that you keep well, and with many kind wishes, I beg to remain,

Very sincerely yours,

1 BS. msb

Honorable Carter Glass,
United States Senate,
Washington, D. C.

BS.LS

FRANCIS E. WARREN, WYO., CHAIRMAN
REED SMOOT, UTAH
WESLEY L. JONES, WASH.
CHARLES CURTIS, KANS.
FREDERICK HALE, ME.
SELDEN DENCKER, MO.
LAWRENCE C. PHIPPS, COLO.
WILLIAM B. MCKINLEY, ILL.
IRVINE L. LENROOT, WIS.
HENRY W. KEYES, N. H.
LEE S. OVERMAN, N. C.
WILLIAM J. HARRIS, GA.
CARTER GLASS, VA.
ANDRIEUS A. JONES, N. MEX.
KENNETH D. MCKELLAR, TENN.
EDWIN S. BROUSSARD, LA.
THOMAS F. BAYARD, DEL.
M. M. NEELY, W. VA.

KENNEDY F. REA, CLERK

010
United States Senate

COMMITTEE ON APPROPRIATIONS

March 6, 1925.

My dear Governor Strong:

Acknowledging yours of March 5th, it gave me pleasure to show your son and his friend, Mr. Hamilton, the utmost courtesy. I wish I might have been of greater service.

The McFadden bank bill was utterly bad as it came from the House. It constituted the most shameless attempt by federal statute to control the banking establishments of the States that was ever initiated in Congress. The pretended purpose was to put national banks on a parity of competition with State banks with respect to branch banking. Its concealed purpose was to destroy branch banking of every description. The whole scheme was initiated by Mr. Henry Dawes, of Chicago, who appears to have gone into the Comptroller's office for no other purpose than to destroy branch banking. Assuming that he had done this when he constructed the McFadden bill, he abandoned the Comptroller's office.

When the McFadden bill came to the Banking and Currency Committee of the Senate I took occasion to point out in some detail the objectionable features of the measure and, in this process, introduced in the record your letter to the Federal Reserve Board, along with letters from John Perrin and other Federal Reserve Governors and agents. These are all printed in the record of hearings; and, together with the analysis of the bill made by the counsel of the Federal Reserve Board, they constituted such a conclusive case as to induce the Senate committee radically to alter the bill, omitting Section 9 altogether and revising other provisions.

I would be glad to have your views more in detail before the re-assembling of Congress next December, because I have no doubt another effort will be made in behalf of the so-called McFadden bill. I am thoroughly in favor of giving national banks every possible privilege, based on sound banking, that is enjoyed by State institutions. I am also in favor of restricted branch banking severely safeguarded; but I am not willing to vest the Federal Reserve Board with legislative authority nor am I willing to do anything that will exclude desirable State banks from the Federal Reserve system and cause those that are now members to abandon the system. This the McFadden bill would have accomplished.

With cordial regards,

Sincerely yours,

Benjamin Strong, Esq.,
Federal Reserve Bank,
New York City.

Carter Glass
#

FEDERAL RESERVE BANK
OF NEW YORK

MAR 7 1925 9 47 AM

RECEIVED
GOVERNOR'S OFFICE

United States Banknote

COMMITTEE ON APPROPRIATIONS

RECEIVED
MAR 7 1925
GOVERNOR'S OFFICE

RECEIVED
MAR 7 1925

The attached bill was introduced in the House of Representatives on March 4, 1925. It is a bill to amend the Federal Reserve Act, and is numbered H. R. 10000. The bill is reported by the Committee on Appropriations, and is now in the hands of the Senate.

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010.2

I AM NEW YORK

and this is my creed:

I AM New York: all aspect, but few the

Not out of my They make their way ocean, where the State with fresh hopes.

From the West, and and village, where clear have turned their face tunity.

They are the builders what foundation stones

On money? On cor upon the firm security

When I give my corner of the nation n promise of that word the continent; to open unbroken plains.

Because the war w ingly my sons and my

And not until the l shall I call my task co

The Victory Loan not fail.

For I am New York

"A City that hath Faith.

New York

ow my fame and outward o know my heart.

is have my people come. rom the East, across the harbor lights their spirits

nd North, from every farm , clear-eyed boys and girls me as the home of oppor-

ve made me great; and on ou, have they built?

On trade?

trust in one another.

do not falter. From every gone forth, relying on the tch great railroads across and rear new cities on the

for Right, I gave unspar-

of the cost of Victory is paid

onor Loan to me;—it shall

eking place of Honor.

ns"— whose corner stone is

ee it through!

GOVERNMENT LOAN ORGANIZATION
Second Federal Reserve District
LIBERTY LOAN COMMITTEE
120 Broadway . . . New York

I AM NY

