

No. 012.5

Federal Reserve Bank
District No. 2
Correspondence Files Division

STRONG PAPERS

SUBJECT

1.) STRONG TO S.P. GILBERT, JR.
1921-1923

February 11, 1921.

My dear Mr. Gilbert:

Thank you for your note of the 10th, enclosing
copy of the Treasury Department's Summary of Advances
under the Transportation Act.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Treasury Department,
Washington, D. C.

BS:MM

FEDERAL RESERVE BANK
OF NEW YORK

SENT BY

SEND TO FILES

COPY OF TELEGRAM

February 7, 1921.

Gilbert,

Treasury.

Personal and Confidential

Wire received. Assume you have received the needed information regarding local conditions which might affect times from Case. He is absent this week

Strong

February 15, 1921.

Dear Mr. Gilbert:

Would you mind reading the enclosed, quite confidentially, and returning it to me. The memorandum was prepared for my personal information, but if it would be of service to you, I must ask you to regard it as quite private and personal, for obvious reasons.

Yours very truly,



Honorable S. P. Gilbert,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C

Enc.
BS:MM

March 5, 1921.

Dear Mr. Gilbert:

Thank you for your note of the 23rd, and
the interesting chart which accompanied it.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert,
Assistant Secretary of the Treasury,
Washington, D. C.

BS:MM

Personal

March 18, 1921.

My dear Mr. Gilbert:

Thank you for your note of the 16th, and the various enclosures. I shall make an effort to do something in this matter right away.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Washington, D. C.

BS:MM

May 16, 1921.

Dear Mr. Gilbert:

Enclosed is a memorandum of the proceedings of the Eighth National Foreign Trade Convention, held in Cleveland, May 5--7, 1921. You may already have received a copy; if not, I hope you will read the first page and the portion of the second page which I have marked.

Some one with sufficient foresight must exercise some influence upon developments from now on which may well have the effect of making us the world's greatest selling market, and the world's poorest buying market, simply because our costs of production are higher than those in other parts of the world.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

May 17, 1921.

Dear Mr. Gilbert:

Thank you for your note of the 16th instant,
enclosing copy of Secretary Mellon's letter of May 11,
addressed to Senator Frelinghuysen.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

May 23, 1921.

Dear Mr. Gilbert:

See File → I am enclosing copy of a letter just received from Mr. Sasakie, who has something to do with economic research work in the Bank of Japan. Please note his reference to speculators being alert to seize the opportunity of cheap money, etc. Conditions in Japan have gone through the same cycle of developments, which we are experiencing, only somewhat in advance of ours, and I have no doubt that the results of cheap money here under present conditions would be the same as those which are apprehended in Japan.

Yours very truly,

Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

PERSONAL AND CONFIDENTIAL

May 23, 1921.

Dear Mr. Gilbert:

I am grateful to you for your personal and confidential letter of May 21. I have heard something of the meeting of the sort described in your letter, and would regret very much if such a meeting were held without opportunity being afforded for some one representing this bank to express the views which we think are material to the determination of the country's policy, especially in regard to foreign loans.

There seem at the present time to be three or four outstanding questions in the minds of members of the Cabinet, so far as I can gather from the newspaper reports appearing from time to time, and such statements as are made to me personally. The two important ones are:

(1) Business must be stimulated and encouraged by every possible means, and one means will be lower discount rates at the several Federal reserve banks.

(2) Our export trade must be stimulated, and this might be brought about by requiring that the proceeds of loans negotiated in this market by foreign governments or other foreign borrowers, be applied to the payment of debts owing in this country, or to the purchase of goods in this market, and that unless this is done such foreign loans be discouraged.

As to the first proposal, we have discussed it, and corresponded about it at considerable length. I can only repeat what I have previously stated, that in my opinion rate reductions will have no effect of importance in relieving cases of distress, such as now exist in the agricultural section, unless the reductions are of such character and extent as to really encourage borrowing from the reserve banks. In other words, unless they encourage a period of expansion and inflation with all the accompanying evils of speculation and extravagance. What is needed is a discontinuance of pressure to liquidate, and free extension of credit to institutions

which need it, and will demonstrate that they realize their duty of taking care of clients who are embarrassed and need time in which to improve their position, as the result of new crops made at lower costs.

I think I cannot do better than quote Bagehot's golden rule which forty or fifty years ago effected a real revolution in banking thought in London and has since, more or less, determined the Bank of England's policy under conditions similar to the present.

As to the second, it appears to me that these gentlemen who advocate restrictions on foreign loans do not fully appreciate where the difficulties lie with our foreign trade. They are various and complicated, and probably cannot be overcome by artificial restrictions or stimulations.

In the first place our export trade depends upon our capacity to compete with other producing nations, which means that we must be able to produce as cheaply as they do, or cheaper, and we will deprive ourselves of our ability to do so if we now engage in a policy of expansion and encourage speculation so as to arrest the orderly development of the process of readjusting production costs, particularly that part of cost which is wages.

In the second place, one of the most serious, if not the most serious, difficulties encountered by our export trade is the present premium on dollars, and especially the erratic and rapid fluctuation in the foreign exchanges. Curtailment of borrowings by foreign governments in this market would simply have the effect of deferring the date of restoration of normal conditions in the exchanges. Even if the statement is true that the proceeds of the Belgium loan was largely used to pay for wheat in Argentina, the effect is to improve the relation of exchanges between Argentina and this country, where the present premium of 40%, or thereabouts, on the dollar has the effect of making it difficult, if not impossible, for Argentine buyers of our goods to remit in payment. The more loans we are able to make to foreign countries, the greater will be the relief to the exchanges, the sooner will normal conditions be started, and the easier it will be for the citizens of other

nations to trade with us. If Belgium borrows in New York for the purpose of buying wheat in Argentina, it means that they can buy wheat cheaper in Argentina than in this market, and until that wheat is marketed there will be no opportunity for us to sell wheat to Belgium. But it also means that the Argentine banks will have command of dollars in New York with which to pay for goods already sold in Argentina, or to buy more goods here. To close the doors to such loans would be to seriously interfere with the creation of just such conditions as would enable us to export our produce.

It seems to me that care must now be exercised not to encourage those who are looking to the government, that is to say, to the new administration, to effect some miraculous cure in the economic situation which cannot be safely administered by any known method, except it be by resorting to inflation with the danger of a recurrence of all of the difficulties of the last two years. I should hope that our government would see the wisdom of incorporating in any program adopted such policies as the following:

- (1) No reduction of rates which would encourage speculation.
- (2) Discontinuance of pressure upon borrowing member banks to liquidate loans which would cause losses and hardships to borrowers.
- (3) Free extension of credit by reserve banks in the agricultural sections to enable the new crop to be made.
- (4) Encouragement of foreign borrowing in this market without any restriction as to the application of the proceeds.
- (5) Liberalizing the regulations of the Federal Reserve System as to acceptance credits representing our import and export trade, particularly the latter.
- (6) The prompt funding of the debt of the allied nations to our government upon liberal terms, which will defer payments of interest during the ^{present} period of pressure upon the exchanges.

With this I am enclosing a little summary of rates which may be of some interest to you in this connection.

#4 Honorable S. P. Gilbert, Jr.

May 23, 1921.

I am writing you this personally and confidentially, but wish to say in conclusion that I believe the conference, such as the one to be held on Wednesday, will be helpful if it produces some constructive thought along the above lines, but will be distinctly harmful if it results in a lot of proposed restrictions, with the idea that we can build a stone wall around this country and look after our own interests without regard to conditions in the rest of the world.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

P. S. Since dictating the above, I have received a telegram from Mr. Hoover, asking me to attend the meeting about which you wrote.

B.S.

Extracts from Bagehot's "Lombard Street."

"The management of the money market is the more difficult because, as has been said, periods of internal panic and external demand for bullion commonly occur together. The foreign drain empties the Bank till; and that emptiness, and the resulting rise in the rate of discount, tend to frighten the market. The holders of the reserve have therefore to treat two opposite maladies at once: one requiring stringent remedies, and especially a rapid rise in the rate of interest; and the other an alleviative treatment with large and ready loans.

"Before we had much specific experience, it was not easy to prescribe for this compound disease; but now we know how to deal with it. We must look first to the foreign drain, and raise the rate of interest as high as may be necessary; unless you can stop the foreign export, you cannot allay the domestic alarm; the Bank will get poorer and poorer, and its poverty will protract or renew the apprehension. And at the rate of interest so raised, the holders-- one or more--of the final bank reserve must lend freely. Very large loans at very high rates are the best remedy for the worst malady of the money market, when a foreign drain is added to a domestic drain; any notion that money is not to be had, or that it may not be had at any price, only raises alarm to panic and enhances panic to madness. But though the rule is clear, the greatest delicacy, the finest and best skilled judgment, are needed to deal at once with such great and contrary evils."

"Nothing, therefore, can be more certain than that the Bank of England has in this respect no peculiar privilege: that it is simply in the position of a bank keeping the banking reserve of the country; that it must in time of panic do what all other similar banks must do; that in time of panic it must advance freely and vigorously to the public out of the reserve.

"And with the Bank of England, as with other banks in the same case, these advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made; the end is to stay the panic, and the advances should if possible stay the panic; and for this purpose there are two rules:

"First. That these loans should only be made at a very high rate of interest; this will operate as a heavy fine on unreasonable timidity, and will prevent the greatest number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

"Secondly. That at this rate these advances should be made on all good banking securities, and as largely as the public ask for them. The reason is plain: the object is to stay alarm, and nothing therefore should be done to cause alarm; but the way to cause alarm is to refuse some one who has good security to offer. The news of this will spread in an instant through all the money market at a moment of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the Bank will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business; that in a panic the bank or banks holding the ultimate reserve should refuse bad bills or bad securities will not make the panic really worse,-- the 'unsound' people are a feeble minority, and they are afraid even to look frightened for fear their

unsoundness may be detected. The great majority, the majority to be protected, are the 'sound' people, the people who have good security to offer. If it is known that the Bank of England is freely advancing on what in ordinary times is reckoned a good security,--on what is then commonly pledged and easily convertible,--the alarm of the solvent merchants and bankers will be stayed; but if securities really good and usually convertible are refused by the Bank, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

"It may be said that the reserve in the Banking Department will not be enough for all such loans. If that be so, the Banking Department must fail; but lending is nevertheless its best expedient,--this is the method of making its money go the farthest, and of enabling it to get through the panic if anything will enable it. Making no loans, as we have seen, will ruin it; making large loans and stopping, as we have also seen, will ruin it. The only safe plan for the Bank is the brave plan,--to lend in a panic on every kind of current security, or every sort on which money is ordinarily and usually lent. This policy may not save the Bank; but if it do not, nothing will save it."

June 6, 1921

GENERAL

Copy sent to file

My dear Gilbert:

I am forwarding herewith a letter from
Blackett, with a formidable set of questionnaires.

*See no. 1372
20
Prepared by
League of Nations]*

We have looked them through and find that practically all but one are published currently, so that they could very readily be furnished, if it was so desired. Perhaps you will take the matter up with the State Department, and indicate to me what sort of reply they would like to have made, if any.

I have already acknowledged his letter and advised him that the inquiry would be forwarded to Washington.

See Blackett 6/3/21

Sincerely yours,

BENJAMIN STRONG,
Governor.

Hon. S. P. Gilbert,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

CONFIDENTIAL

June 18, 1921.

Dear Mr. Gilbert:

Thank you for your confidential note of June 11. I agree with the doubts expressed in your letter as to the wisdom of supervision of foreign loans placed in the American market; but I have been under the impression that it was only the desire of the administration that both the State and Treasury Departments be advised of negotiations in advance of their conclusion. I did not understand that either department intended to take any affirmative action.

The maintenance of our export trade generally depends upon foreign credits, and if they are restricted in any way, in the long run it would come out of our exports. This class of business should be encouraged and not discouraged, especially at a time when America has a surplus of products for export, and when most of the world owes us money anyway.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Washington, D. C.

BS:MM

June 20, 1921.

My dear Mr. Gilbert:

Thank you for your note of June 15, in relation to the questionnaire prepared by the League of Nations. I hope you can get the documents back to me, together with those mentioned in your letter, and we will send the batch to Blackett, together with some other material such as will enable them to complete the answers.

In fact, we may decide to complete them and send them entirely unofficially, and upon our own responsibility, with an indication that they do not come from the government in any way, and that we have filled out the questions from sources of information available to the public, principally those which we will transmit to them with the documents.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

June 24, 1921.

My dear Mr. Gilbert:

I have your letter of June 22, and am grateful to you for the various enclosures, which I shall take pleasure in forwarding to Mr. Blakett, with other reports which I shall collect for his information.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GS:MM

June 27, 1921.

GENERAL
JUN 28 1921
FEDERAL RESERVE BANK
OF NEW YORK

Hon. S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Dear Mr. Gilbert:

I thank you for the return of the economic and financial questionnaires prepared by the League of Nations, which accompanied your letter of June 24.

Inasmuch as it is the desire of the State Department that no Governmental agency of the United States Government shall have any relations directly or indirectly with the League of Nations, we shall be pleased to acquiesce to their request by not filling out the questionnaires above referred to.

Very truly yours,

Benjamin Strong,
Governor.

June 29, 1921.

My dear Mr. Gilbert:

Only yesterday word reached me that your name was before the Senate for confirmation of your appointment to fill the new office of Under-Secretary of the Treasury. I wish I might have been the first to congratulate you upon this appointment and to send you my good wishes for success. To be quite candid, I feel that Secretary Mellon is to be more congratulated than you, and he certainly has shown good sense in asking you to accept the office. If the appointment is intended to be permanent, it will be all the more agreeable and satisfactory to all of us at the Federal Reserve Bank in the assurance that we will continue our Treasury Department relations so largely with you. You do not need any assurance from me, or from my associates in the bank, of our earnest desire to do everything in our power to assist you in your work. Please call upon us without hesitation or limit.

With my very best wishes,

Sincerely yours,

Honorable S. P. Gilbert, Jr.,
Assistant Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

PERSONAL

July 15, 1921.

Dear Mr. Gilbert:

I was particularly pleased to have your note of July 13, in regard to the Comptroller's addresses. Of course, we have a great many things to occupy our time here, but I am debating ^{the} wisdom of writing an article for one of the financial papers, or possibly the New York Times, dealing specifically with some of these ridiculous notions, of which the Comptroller's plan is a notable example.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

July 18, 1921.

PERSONAL

Dear Mr. Gilbert:

Replying to your personal note of the 16th, I fear it would be impossible for me to prepare the article until such later date that my temperature will have been reduced to a point where interest in the enterprise is lost. Certainly I shall wait until cooler weather comes.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Washington, D. C.
August 9, 1921.

PERSONAL:

My dear Mr. Gilbert:

My friend, Montagu C. Norman, Governor of the Bank of England, is on his way to this country on the Steamship Celtic, accompanied by one of the Directors of the Bank of England, Sir Charles Addis. They are coming for the purpose of visiting with me and discussing matters of importance to the Federal Reserve Bank and to the Bank of England, which is our correspondent in London.

Because of the many courtesies which have been extended to me by these gentlemen, and, through them, by the British Government, on the occasion of my recent visits to London, I am exceedingly anxious that they should be suitably received on their arrival in New York; that every facility be accorded them to disembark without inconvenience and delay due to the examination of luggage, etc; and especially that I be afforded opportunity to go down and meet the Celtic at Quarantine on the same boat which carries the inspectors and newspaper men.

The Celtic will probably arrive, as I understand, next Sunday or Monday. Will you, therefore, be good enough to give the necessary directions to enable the above request to be complied with through the Treasury Officials in New York.

Governor Norman and Sir Charles Addis are making this visit quite unofficially and quietly, and do not wish their presence to be advertised.

Thanking you in anticipation, I am,

Sincerely yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB
Signed in Mr. Strong's absence.

August 13, 1921.

Dear Mr. Gilbert:

I thank you for your letter of August 10, enclosing copy of a letter written to Honorable George W. Aldridge, Collector of the Port, in connection with the arrival of Mr. Montagu C. Norman and Sir Charles Addis.

Mr. Aldridge was good enough to send me a Revenue cutter pass to meet the Celtic at quarrantine, and has also given instructions to expedite the landing of Mr. Norman and Sir Addis on their arrival.

I am indeed grateful to you for having attended to this matter for me.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

Copy

This matter on file 710

September 14, 1921.

Dear Mr. Gilbert:

copy

Sometime ago Mr. Casenave, the French Fiscal Representative in this country, asked me if I would be able to arrange for one of the representatives of the French Government to make some inquiries as to the methods employed by our government in the administration of the income tax laws. To-day I have received a call from Mr. Jean de Rincquesen, Inspector of Finance, who is also the accredited representative of the Bank of France in New York, who desires to ascertain just what arrangements of this character can be made.

I have told him that to enable him to make such a study it would be necessary to get certain permits from the officers of the Treasury, and I am writing to inquire whether it would be possible for you to give such authorities to us or to the Collector of Internal Revenue at New York, as will enable him to make a little study of our methods on the ground.

He wishes at the outset to obtain information principally upon the following points:

- (1) How income tax returns are made so as to insure that a large body of the tax payers do not escape.
- (2) How the actual collection of the funds is effected.
- (3) How the transfers of the funds to the credit of the Treasury are made.
- (4) How delinquent tax payers or tax debtors are discovered and checked up.

After obtaining some information on these points, he will wish to have some further information with regard to the methods by which expenditures are checked and controlled.

September 14, 1921.

Mr. de Rincussen advises me that under their new income tax law they are faced with a good many new problems which puzzle them, and furthermore, they feel their present machinery is antiquated and inadequate for the purpose of administrating the present law. His government will be deeply grateful for any assistance which we can render them.

I would greatly appreciate favorable action upon this request, and, of course, some of the men in this bank would be glad to assist in the inquiry if you think it desirable that they should do so.

Yours very truly,

Honorable S. P. Gilbert,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Washington, D. C., October 24, 1921.

Dear Mr. Gilbert:

I have just received from the office Mr. F. A. Vanderlip's letter addressed to Mr. H. E. Benedict of New York pointing out that Mr. Vanderlip has encouraged the Austrian Government to send some representatives to this country to attempt some negotiations with regard to the Austrian debt to the United States Grain Corporation. I am very sorry that this has transpired. It seems to me that the visit can be productive of no good until the so-called "Funding Bill" passes and that, I understand, is not in such shape at this time that any prophecy can be made as to its probable passage.

I am writing Mr. Benedict as per enclosed copy and would be glad to have your suggestions of anything further that occurs to you and should be done.

Very truly yours,

Governor.

Hon. S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

Enclosure.

October 31, 1921.

Dear Mr. Gilbert:

This letter will be presented to you by my friend, Mr. Eigo Fukai, Deputy Governor of the Bank of Japan, who is visiting this country as financial adviser to the Japanese Delegation attending the Conference on Limitation of Armament.

Mr. Fukai is a warm personal friend with whom I have had many most enjoyable visits while in Japan, and from whom I received many courtesies while there. I am anxious that he should become acquainted with you and with the members of the Treasury Department.

Anything that you are able to do to make his visit in Washington an enjoyable and profitable one will be greatly appreciated by

Yours faithfully,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

October 31, 1921.

Dear Mr. Gilbert:

With this I am enclosing a copy of a letter of introduction which I have just sent to my friend, Mr. Eigo Fukai, which will explain itself. His quarters while in Washington will be with the Japanese Delegation to the Conference on Limitation of Armament.

Mr. Fukai was one of the financial advisers to the Japanese Delegation to the Peace Conference in Paris. At one time he represented the Bank of Japan in London, and when a young man was private secretary to Marquis Matzukata.

Mr. Fukai speaks English fluently and is one of the best informed men that I met in Japan.

I shall greatly appreciate any courtesies that you are able to show him, and especially any assistance which you are able to render him during his stay in Washington.

Thanking you in anticipation, and with cordial regards, believe me,

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

November 1, 1921.

Dear Mr. Gilbert:

The enclosed correspondence in regard to Mr. Thomas R. Lill explains itself. Mr. Lill has formerly been associated with our Mr. Oakey, whose opinion I would accept without reserve as to Mr. Lill's qualifications.

If the Philippine Government can get a few men of that character in the service, they will be fortunate and our difficulties will be much lessened.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

Enc.

November 2, 1921.

My dear Mr. Gilbert:

Thank you for writing me under date of October 29, enclosing copy of your letter to Mr. Ochs. I had already read the article, and had it in mind to either talk with Mr. Noyes or take luncheon, under a standing invitation, with the editorial staff of the New York Times, and discuss these matters, when your letter arrived.

After our telephone conversation this morning, I assume that there is nothing further that you care to have me do just now; but I stand ready whenever I hear from you.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

FEDERAL RESERVE BANK
OF NEW YORK

PERSONAL

November 2, 1921.

Dear Mr. Gilbert:

Not sent but to be retained.

This is a ~~very~~ confidential reply to your inquiry of November 1st about Mr. Rounds. It was only to-day that I found opportunity to discuss the matter with my associates, owing to my continued absence. We are all agreed that at the moment, and especially because of a program developed at the recent Conference of Governors which especially requires Mr. Rounds' attention, it is quite out of the question for us to spare him either temporarily or permanently. Of course, this does not mean that we will not expect you to make him an offer of a position if you feel that you need him, and have a position which he would be interested in considering; but as for letting him go in the expectation of taking him back at the end of a period, I think that just now would be out of the question, as we would have to replace him with some one right away.

I am sorry to send this message now

I hope you will not mind my making this subject the text for a letter on a matter which it has long been in my mind to write, or speak to you about. Please understand that these suggestions are purely personal, do not represent the official attitude of the bank in respect to its duties as Fiscal Agent, and are only personal views which I am led to express to you with reference to the more intimate, personal and unofficial relations between the Treasury of the United States and this bank and its officers.

It has been our policy ever since we were appointed Fiscal Agent of the Treasury of the United States, (and repeated instructions have been given by me to my associates emphasizing the importance of the policy) ^{to render} of rendering every possible assistance to the Treasury, whether it appeared to be required or authorized by law, or not. This includes lending men when their services are

needed, furnishing information, advice, assistance, support, and comfort, defending the Treasury against its enemies and critics, and in every possible way in our power promoting its interest. We intend to continue to do that. On the other hand, there has been a distinct chill to my enthusiasm for this policy, and to that of some of my associates, because during the period when the Federal Reserve System was being attacked, abused and misrepresented, there has not been one whisper or statement emanating from the Treasury Department of the United States, either its present officials or those that preceded them, in defense of the System. The difficulties which the reserve banks are now encountering are entirely the outgrowth of the situations created by the war, and of the attitude of cooperation, and the policy of subordination, which the reserve banks willingly and enthusiastically pursued during the war and immediately subsequent to it. Neither Mr. McAdoo, Mr. Houston, Mr. Glass, Mr. Leffingwell, nor any present officer of the Treasury, so far as I am aware, has publicly or privately in any influential or important way undertaken to share the responsibility with the System, or defend it against its critics. It is suggested to my mind that inasmuch as the present officers of the Treasury naturally had no responsibility for the policies of that day, they are not called upon to defend those policies. That may well be true; but I feel, on the other hand, that when the integrity and good faith of the officers and directors of this bank are attacked, as they have been, that some affirmative position might have been taken by the Treasury Department, because in those matters the Treasury is well aware of the facts, whether under the present or former administration.

In my present frame of mind, I am beginning to believe that we are subject to two things; as to the old administration, ^{is} its disposition to let the critics place the blame, if any blame can be placed, upon the Federal Reserve System alone, and not to assume any share of it; as to the present administration, to wait and see what the outcome is before deciding to defend the System or not.

November 2, 1921.

It always has been, and always will be, my policy to get a matter of this sort out of my mind, and out of my system, frankly, when it arises, and I am only writing this letter after long deliberation; but I would be the last one to ask for any defense in my own behalf. I am not doing so now, because the occasion for it is passed; but I am inclined to think that it is a matter which you and your associates in the Treasury will need to think about some day, if you expect to maintain the efficiency of the service which is now rendered to the Treasury by the reserve banks, and especially by this bank. You will not get it if the type of men who now run the bank leave its service for other institutions; and they will do so if this movement to attack the bank's management has any measure of success.

Three of our officers have within the last week or ten days mentioned to me the possibility of their leaving in case their future in the bank is what would be indicated by the unwillingness of its friends to support it, and at least two of them are the men upon whom you depend more than any others for the business which we transact for the Treasury.

This letter is for your own eye and no other, and I believe especially you will understand the friendly spirit in which it is written.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

November 9, 1921.

Dear Mr. Gilbert:

The enclosed personal and confidential memorandum in regard to Mr. Kenneth Lord may be worth considering in connection with the Savings Division. If so, please advise me, and Mr. Morgan will be very glad to interview Mr. Lord.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

Enc.
BS:MM

Zelle

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Trane → Paris etc

Address by J.S.

Treatment by Confucius

December 7, 1921.

annual circus 6%

Dear Mr. Gilbert:

I thank you for your letter of December 5, enclosing copy of the address of Sir H. Strakosh to the Second Assembly Commission of the League of Nations on the work of the Financial Committee, and a copy of the recommendations of the International Financial Conference at Brussels to which reference is made in the address.

I shall be pleased to read the papers mentioned and appreciate your courtesy in forwarding them to me.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GE.MM

December 9, 1921.

Dear Mr. Gilbert:

The copy of the Annual Report of the Secretary of the Treasury on the state of the Finances for the fiscal year ended June 30, 1921, has been received, together with your letter of December 7, for which accept thanks.

It will give me pleasure to read the report, and I am glad to have the same for the information it contains.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB:MM

Please send report to apt.
B.S.

COPY OF TELEGRAM

January 31, 1922.

S. P. Gilbert
Washington.

Referring to our correspondence with regard to recent developments tending to classify Victory notes as obligations which are to be traded in in the short-term money market, it occurs to me that this program might be further accelerated if you were to request the various Federal reserve banks in whose districts there is now a real open market for short-term Treasury certificates, etc., to also make similar temporary advances to dealers against Victory notes as well as against short-term certificates.

CASE.

February 3, 1922.

Dear Mr. Gilbert:

I was only able yesterday to read Sir Henry Strakosh's address, which you were good enough to send me last December. I know him quite well. He is a very unusual and exceedingly able fellow, and if he, and others like him, would only keep playing on this stop, it may be that common sense will ultimately prevail in some of these matters abroad.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

PERSONAL

February 9, 1922.

Dear Mr. Gilbert:

Last month the directors of the Federal Reserve Bank of Dallas appointed a new Governor in place of Van Zandt. The circumstances are fully known to Governor Harding. Van Zandt had some experience some years ago in the Philippines in the Treasury Department under Mr. Taft. He has been a bank examiner, bank officer, and an officer of the Federal Reserve Bank of Dallas. He is 50 years old, although a man of young appearance and much energy. The members of the Federal Reserve Board are aware of his capacities. Do you think he might be of service in the Philippines? He is not acquainted with foreign exchange, but has a splendid groundwork in general banking and finance.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

February 18, 1922.

Dear Mr. Gilbert:

Thank you for your note of the 17th in regard
to former Governor Van Zandt.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

March 15, 1922.

Governor Strong

I referred the attached correspondence
to Mr. Oakey for perusal during your absence.

G. B.

Americans in Philippines Oppose Maj.Gen. McIntyre

[Special Cable Dispatch]

MANILA, February 17.—The American Chamber of Commerce has petitioned President Harding through Gov. Gen. Wood to remove Major Gen. Frank McIntyre as chief of the Bureau of Insular Affairs. It is alleged that he is incompetent to cope with big issues and antagonizes sentiment here, and that he is out of harmony with Gen. Wood. According to Judge Williams's allegations in the Chamber of Commerce, published in full to-day, Gen. McIntyre's recommendations have been often contrary to the best judgment of business interests and officialdom here.

Gen. Wood did not know of the chamber's intention to denounce Gen. McIntyre and merely forwarded the resolutions without comment.

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MS-2 20

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TO Superintendent TIME _____ A. M. DATE _____
P. M.

DEPARTMENT
DIVISION
SECTION

REMARKS Dropping from

last night - 1/18/22

FROM J.P.

DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

March 15, 1922.

My dear Mr. Gilbert:

I thank you for your letter of March 11, enclosing copy of letter from the Bureau of Insular Affairs of the War Department, with respect to Mr. Thomas R. Lill. I note that Mr. Lill's services can not be utilized for the present owing to no vacancy existing.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB.MM

FEDERAL RESERVE BANK
OF NEW YORK

PERSONAL

April 21, 1922.

Dear Mr. Gilbert:

This is a very personal and private communication to convey to you my reply to Leffingwell's letter of April 15. If you think it is too vigorous, please read his letter again, which I enclose. I would like to have his letter back, as well as my reply.

I feel about Leffingwell's comments somewhat as I feel about that executive order about paying out gold, that in a situation which requires consultation and a certain amount of give and take, it is a great deal better to have a little discussion before a commitment is made, either of opinion or action. How do you feel about it?

Sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

encs.

May 17, 1922.

Dear Mr. Gilbert:

This is to acknowledge receipt and to thank you for your letter of May 16, appending copy of a letter dated May 14, addressed to you by General McIntyre with respect to the possibility of an appointment in the Philippine National Bank for Mr. Van Zandt.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

GB.MM

May 19, 1922.

PRIVATE AND CONFIDENTIAL:

Dear Mr. Gilbert:

So far as I can gather, there is some chance that the British Government might step forward quite promptly and pay interest on the debt. If they do, you are bound to have a bond bill. bonus bill.

Very truly yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB

PERSONAL AND CONFIDENTIAL

May 25, 1922.

My dear Mr. Gilbert:

Thank you for yours of the 20th. I had already read the Secretary's letter to Senator McCumber, and of course realize that there will be a deficit notwithstanding what may be paid on foreign loans. On the other hand, the mere fact of any payment would seem to be confirmation of the views so frequently expressed that the interest on the loans and ultimately payments on the principal, or at least what may be realized from a sale of foreign government bonds, will be an assured source of income out of which bonus liabilities may be met.

Very truly yours,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

X

PERSONAL AND CONFIDENTIAL

June 5, 1922.

Dear Mr. Gilbert:

I have been catching up with your correspondence with Mr. Case in regard to Treasury financing, and have had more than one talk with Mr. Case so as to familiarize myself with your views and his as they have developed.

It is always dangerous to prophesy, but good financing involves a forward vision, and I am writing ^{not} to comment specifically upon your program, which Mr. Case has done at length, but to point out a few peculiarities of our present situation with which I believe people are not generally familiar.

Please consider this also an acknowledgment of your telegram just received advising of the imminence of the announcement of the new offering.

Under our American banking system prior to the introduction of the Federal Reserve System, times of liquidation and debt paying were accompanied by a large accumulation of surplus bank reserves throughout the United States, principally carried by all of the banks of the country with their reserve agents. In those days there was very little borrowing by any bank from any other bank, the maximum at no time, I believe, exceeding \$200 millions. These surplus bank reserves resulted in the establishment of abnormally low rates of interest in the market for all kinds of bank paper, and the abnormal ease of money was one of the direct results attributable to our inflexible system, just as much as were the abnormally high rates of interest which at times developed when bank reserves became deficient.

This has all ^{been} changed in revolutionary fashion. There is no such thing in this country to-day as a great surplus of bank reserves, outside of that

held by the reserve banks. As liquidation produced free funds in the hands of the banks of the country, those free funds were applied to repaying borrowings, principally from the reserve banks. The result of this change in our affairs is perfectly obvious. Rates are not liable to go as abnormally low as under the old system any more than they are likely to go abnormally high.

You may safely conclude, therefore, that any great further ease of money can only result from one of two things: one would be a further wave of liquidation, which we do not now anticipate will occur; and the other would be a general release of Federal reserve bank credit, either through large investments under section 14, or reducing the rates charged to members under section 13. My personal opinion is that we have about seen the bottom of interest rates, with the possible exception of a short period this summer when we may have some mid-summer dullness of business that would cause a flow of funds to New York; but I hardly see how that could last beyond the harvest season.

The point of this letter is to indicate to you my belief that it would be wise to do as large an amount of financing (I refer especially to the refunding of Victories by exchange for a new issue of Treasury notes) at the present time as is possible.

As I have repeatedly stated to you, were we to see a run-away speculation not only in securities but in commodities, I think it would be the duty of the Federal reserve banks either to advance their rates (the influence of which would be slight) or to let their short-time investments run off (the influence of which would be considerable).

I see many little indications that the great surplus of investment funds in the country has been pretty well absorbed for the moment. We see many indications that business is reviving^{and} agricultural, industrial and commercial demands for credit are likely to increase. We have seen an enormous increase in the stock

June 5, 1922.

exchange loan account, and we have seen some tendency for new issues of securities to back up in the hands of the distributors. Does not this constitute in itself a warning that with some \$5 billions maturing within the next year, that that portion made up of Victory notes, say \$2 1/2 billions, should be gotten out of the way to a large extent now?

Any prophecy as to the future is dangerous, and I ask you to accept this with reserve on that account, but as the best expression as to the future course of the money market that I am capable just now of giving you.

Very truly yours,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

PERSONAL AND CONFIDENTIAL

June 12, 1922.

Dear Mr. Gilbert:

Your note of June 10 is just received, and I am most grateful to you for keeping me posted about the matter referred to.

I am hoping that the outcome will be all right. If you feel disposed to do so I hope you will take the opportunity of saying to Mr. Mellon that if Governor Harding is reappointed to his present position, I believe that the country and the System will be greatly benefited by appointing Mr. Howard, President of the Federation of Farm Bureaus, as a member of the Federal Reserve Board.

While that organization has sometimes been regarded as over-critical of the Federal Reserve System, I believe it to be a responsible and conservative organization of the agricultural interests of the country and to be conducted under the guidance of men of prudence and wisdom. What I have been able recently to learn of Mr. Howard convinces me that he would be a useful member of the Board and a sound representative spokesman for the agricultural interests. My only fear is that in case the President should take this view, that Mr. Howard could not be induced to accept, and if the matter reaches that stage I think there are members of the Farm Bureau organization who would to-day be glad to urge him to accept if they were given the opportunity.

Again thank you for your letter.

Very truly yours,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

PERSONAL

June 19, 1922.

My dear Gilbert:

I have read the newspaper accounts of what transpired in connection with the attempt to introduce political appointments into the Treasury, with concern as well as with deep interest and finally with the greatest appreciation of the stand which Mr. Mellon has taken.

I do not like to write letters on matters of this sort, as sometimes they are misunderstood, especially as I have no desire to curry favor with a Chief for whom my admiration is constantly growing. If, however, you think that he would understand such a letter, please hand him the enclosed - otherwise be good enough to tear it up. Of course, it is quite private and confidential.

*See file
Sec. Mellon*

Let me add that what I am writing to Mr. Mellon is equally addressed to you.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

ES.MM

enc.

PERSONAL

June 27, 1922.

Dear Mr. Gilbert:

Replying to your note of the 26th. Your note affords me the opportunity to make a few reflections. I know that you want them to be frank, and I greatly appreciate your giving me a chance to write you. To make them as brief as possible, and disclaiming any desire to write an address for you, they are the following:

1. In varying degree for sometime past I have feared the development of this "soft" money movement, and personally believe that this Administration must sooner or later come out definitely in opposition to these demands to debauch our monetary system. This will be an opportunity for you to do so in a part of the country where the sentiments you express may not be very popular.
2. I am convinced that the principles contained in the bills introduced by Senator Lenroot and Congressman Anderson are the ones which are best designed to meet the needs of the agricultural people of the West. If you agree with this statement then I would suggest that the plan be expressed in the simplest language and that emphasis be placed upon two points: (a) It creates no new separate system for the farmer, but simply renders the present existing credit agencies more effective for the farmers' benefit. (b) By introducing the debenture scheme, it draws money from the capital centers, that is, from the centers where there is a surplus of credit, to the agricultural districts where there is a shortage of credit, and will thereby release a certain amount of local bank credit now needed for the local merchant and general borrower who at times is required to pay what he regards as excessive interest rates.

3. Any debasement of the currency is all to the advantage of the large producer, and all to the disadvantage of the small producer and the laborer. This is especially true of the laborer. When inflation occurs, prices rise, but wages lag behind. The laboring man gets his share, so to speak, of the inflated values through increases in wages, which generally necessitate strikes, and a certain amount of suffering. With his wages higher he will enjoy a short period of artificial prosperity when he can indulge in extravagance; then the day of reckoning comes with a business reaction that throws him out of employment. He suffers both ways. He is the last to be benefitted when prices are rising, and the first to be thrown out of employment when prices collapse.

4. Edison's first question was to ask what would be the value of gold if the principal banking nations of the world demonetized their currencies. Offhand, many people were inclined to answer that gold would find a certain level of value depending upon its usefulness in the arts, etc., and the extent of the demand for it, implying that it would be at a discount. The question is most misleading. Measured by what standard of value would it be at a discount? Obviously, in any new currency which was substituted for demonetized gold. The fact is, however, that gold would probably instantly go to a great premium and the new currency to a great discount. Gold did not acquire its value through the coinage laws of the various nations, which simply fixed a standard as to the quantity of gold in a given coin. The value of gold is traditional - historical. Through many centuries, generation after generation of human beings have learned by experience that gold is ^{the} one article in the world which always seems to retain purchasing power; whereas other kinds of currency at one time or another have depreciated when measured in gold values. The instinct to hoard gold and to put savings into gold would be stimulated by any such proposal as that of Edison or Ford. Gold would go to a premium, the new currency to a discount, and the utmost confusion would arise in prices. The very effort to stabilize prices by the issue of so-called "energy currency" or "warehouse currency" would result in the most unstable ^{currency} values that can be imagined.

June 27, 1922.

5. Were I making such an address (although I presume you could not take this position) I would go as far as I dared in expressing sympathy with the position of those members of Congress who are commonly called the Farm Bloc. I think some of the things that they have proposed are fantastic, but they do represent a constituency that has endured a period of real suffering and distress and they cannot be blamed for making efforts, even though some of them are misguided, to help their people out. Further than that, I think their methods have in some instances been wrong - but their purpose, that is to afford relief to their own constituency, is beyond challenge.

6. Finally, I am frank to say that I think that an address of this character to such an audience - or at least in that section of the country - is filled with gun powder, and being made by an officer of the Government, and a high one at that, will have a considerable element of political interpretation given to it which cannot be avoided.

I wish you success in preparing the address, and would hate to face the task myself. Good luck to you.

Yours very truly,

~~Ben C. Strong~~
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

PRIVATE AND CONFIDENTIAL

July 26, 1922.

Dear Mr. Gilbert:

Enclosed are the figures indicating the amount of borrowings at this bank by weeks from November 30, 1921 to date, divided so as to show loans to all of our member banks, loans to all New York City banks, and loans to those which we class as "Wall Street" banks. The daily figures you already have, and I hope in satisfactory form.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

enc.

Loans of the Federal Reserve Bank of New York as of close of business on
 Wednesday of each week, from Nov. 30, 1921 to July 19, 1922,
 the latest date for which weekly figures are available.

(In millions of dollars)

<u>Date</u>	<u>Discount Rate</u>	<u>To all Member Banks</u>	<u>All New York City Banks</u>	<u>To Wall Street, Banks</u>
<u>1921</u>				
Nov. 30	4 1/2	200	125	103
Dec. 7		227	148	122
Dec. 14		214	133	107
Dec. 21		236	157	133
Dec. 28		213	131	116
<u>1922</u>				
Jan. 4		199	125	111
Jan. 11		164	97	85
Jan. 18		144	84	74
Jan. 25		118	62	48
Feb. 1		119	59	43
Feb. 8		153	96	67
Feb. 15		140	83	65
Feb. 21		101	43	31
Mar. 1		90	33	17
Mar. 8		68	14	1
Mar. 15		64	12	0
Mar. 22		69	20	2
Mar. 29		74	23	11.5
Apr. 5		88	42	31.5
Apr. 12		66	23	11.5
Apr. 19		61	21	13
Apr. 26		47	8	0
May 3		68	28	20
May 10		48	9	0
May 17		45	8	0
May 24		54	23	18.5
May 31		43	6	0
June 7		39	8	0
June 14		42	9	0
June 21		34	7	0
June 28	4	88	52	41
July 5		108	77	58
July 12		74	47	40
July 19		94	72	64

*Banks described as "Wall St. Banks," are those which make loans to Stock Exchange Brokers; and excludes strictly commercial banks and trust companies which do no "Wall St." business.

Loans to Wall Street Banks each day from November 3, 1921, when the discount rate of the Federal Reserve Bank of New York was reduced from 5 per cent to 4-1/2 per cent, to June 22, 1922, when the rate was reduced to 4 per cent, and from June 22nd to July 24th.*

<u>Date</u>	<u>Loans in Millions of Dollars</u>	<u>Dis- count Rate</u>	:	<u>Date</u>	<u>Loans in Millions of Dollars</u>	<u>Dis- count Rate</u>
1921			:	1921		
Nov. 3	86.3	4-1/2	:	Dec. 19	101.7	4-1/2
Nov. 4	100.4		:	20	120.	
5	97.		:	21	133.5	
7	88.		:	22	138.4	
9	109.		:	23	103.9	
10	96.		:	24	113.7	
12	87.6		:	27	113.7	
14	88.6		:	28	115.8	
15	80.		:	29	102.3	
16	80.1		:	30	83.5	
17	120.		:	31	118.3	
18	139.2		:			
19	137.8		:	1922		
21	124.9		:	Jan. 3	117.8	
22	113.1		:	4	111.3	
23	106.9		:	5	103.2	
25	116.1		:	6	108.5	
26	112.5		:	7	105.4	
28	100.8		:	9	104.5	
29	100.3		:	10	95.6	
30	103.4		:	11	84.9	
Dec. 1	101.		:	12	89.2	
2	143.		:	13	75.9	
3	139		:	14	59.4	
5	128.6		:	16	56.5	
6	128.9		:	17	63.	
7	122.2		:	18	74.2	
8	130.3		:	19	94.7	
9	126.5		:	20	103.1	
10	136.2		:	21	85.2	
12	139.1		:	23	81.5	
13	127.4		:	24	68.4	
14	107.1		:	25	48.	
15	105.5		:	26	36.7	
16	96.5		:	27	53.9	
17	97.6		:	28	60.9	
			:	30	55.7	
			:	31	48.1	

Loans to Wall Street Banks each day from November 3, 1921, when the discount rate of the Federal Reserve Bank of New York was reduced from 5 per cent to 4-1/2 per cent, to June 22, 1922, when the rate was reduced to 4 per cent, and from June 22nd to July 24th.* (Cont'd)

<u>Date</u>	<u>Loans</u> <u>in Millions</u> <u>of Dollars</u>	<u>Dis-</u> <u>count</u> <u>Rate</u>	<u>Date</u>	<u>Loans</u> <u>in Millions</u> <u>of Dollars</u>	<u>Dis-</u> <u>count</u> <u>Rate</u>
1922			1922		
Feb. 1	43.	4-1/2	Mar. 19	0.	
2	56.		20	0.	
3	75.2		21	0.	
4	56.4		22	2.	
6	70.6		23	40.	
7	70.		24	65.9	
8	67.2		25	28.6	
9	66.3		27	20.6	
10	20.6		28	9.	
11	32.7		29	11.5	
14	54.3		30	25.	
15	64.8		31	32.3	
16	26.7				
17	16.2		Apr. 1	27.	
18	8.6		3	51.	
20	9.9		4	19.	
21	31.4		5	31.5	
23	31.4		6	38.	
24	49.		7	34.8	
25	18.3		8	29.5	
27	17.1		10	27.	
28	17.		11	24.	
			12	11.5	
Mar. 1	17.		13	25.	
2	18.		14	9.	
3	0.		15	15.	
4	10.		17	21.7	
6	11.		18	10.	
7	1.		19	13.	
8	1.		20	0.	
9	0.		21	0.	
10	7.6		22	5.	
11	7.6		24	0.	
13	10.		25	0.	
14.	2.		26	0.	
15	0.		27	0.	
16	0.		28	15.2	
17	0.		29.	6.	
18	0.				

Loans to Wall Street Banks each day from November 3, 1921, when the discount rate of the Federal Reserve Bank of New York was reduced from 5 per cent to 4-1/2 per cent, to June 22, 1922, when the rate was reduced to 4 per cent, and from June 22nd to July 24th.* (Cont'd)

<u>Date</u>	<u>Loans</u> <u>in Millions</u> <u>of Dollars</u>	<u>Dis-</u> <u>count</u> <u>Rate</u>	:	<u>Date</u>	<u>Loans</u> <u>in Millions</u> <u>of Dollars</u>	<u>Dis-</u> <u>count</u> <u>Rate</u>
1922		4-1/2	:	1922		4-1/2
May 1	10.		:	June 14	0.	
2	20.		:	15	0.	
3	20		:	16	0.	
4	0.		:	17	0.	
5	24.4		:	18	0.	
6	.0		:	19	0.	
8	.6		:	20	0.	
9	0.		:	21	0.	
10	0.		:	22	0.	
11	0.		:	23	45.7	
12	0.		:	24	35.1	
13	0.		:	25	35.1	
14	0.		:	26	38.	
15	0.		:	27	31.	
16	0.		:	28	41.	
17	0.		:	29	11.	
18	0.		:	30	19.7	
19	0.		:			
20	0.		:	July 1	18.	
21	0.		:	2	18.	
22	0.		:	3	63.4	
23	0.		:	4	66.4	
24	18.5		:	5	58.4	
25	0.		:	6	54.7	
26	11.7		:	7	63.8	
27	4.7		:	8	38.	
29	1.		:	9	38.	
31	0.0		:	10	31.5	
			:	11	31.5	
June 1	10.		:	12	40.	
2	21.9		:	13	25.	
3	11.7		:	14	13.5	
5	9.		:	15	11.5	
6	5.2		:	16	11.5	
7	0.		:	17	17.	
8	0.		:	18	44.	
9	0.		:	19	64.	
10	0.		:	20	32.9	
11	0.		:	21	46.1	
12	0.		:	22	14.7	
13	.5		:	23	14.7	
			:	24	3.	

*Banks described as "Wall St. Banks", are those which make loans to Stock Exchange Brokers; and excludes strictly commercial banks and trust companies which do no "Wall St." business.

B.S. pers.

CONFIDENTIAL

August 2, 1922.

Dear Mr. Gilbert:

Mr. Moran came in this morning and I expected to hand him the enclosed document, but not being certain of his return am sending it to you. You may already have seen it. I know nothing about the people from whom it comes, but presume that Mr. Moran does.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

ES.MM

enc.

CONFIDENTIAL

August 3, 1922. X

Dear Mr. Gilbert:

I am grateful to you for your confidential letter of August 1, and for the enclosure which accompanied it.

Superficial conclusions in regard to the policy of this bank with respect to its rate of discount and in general its policy in employing its funds by investment in bills and Treasury certificates might well lead not only to a misunderstanding of the whole situation but result in efforts to impose upon the bank a rate and investment policy which in the long run would prove to be disastrous. As I have repeatedly stated to you and written to you, and as has been explained to the Federal Reserve Board, the primary consideration which has moved the directors and officers of this bank to gradually build up an investment account as its loans to member banks were paid off was in order that we might not entirely lose control or forego our influence upon the money market. The employment of our investment account - as I have explained to you - is now about the only method upon which we may rely for exerting any effect upon a dangerous speculation should it develop.

But further than that, the preparations now being made by the British Government to pay interest upon the debt owing to our Government has already necessitated and will probably continue to necessitate large shipments of gold to this country. The effect of these further additions to our reserves are directly inflationary and the only method by which the inflationary effects of heavy gold imports may be offset is by our liquidating our investment

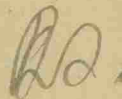
August 3, 1922

account and taking an equal amount of funds out of the market. This we are doing from time to time and expect to continue to do to the extent that our position permits.

Efforts to induce the lowering of our discount rate or to bring about a change in our policy in these regards would simply serve to defeat a program which has been adopted after much study and is being pursued with careful regard to all the circumstances. Were our discount rate reduced at the same time that we were liquidating our investments it would simply drive the member banks to borrowing from us. It would in fact nullify what we are now undertaking to do to meet a situation which cannot otherwise be controlled.

The activity in the stock market is no longer calling for the employment of increasing amounts of credit - as was true some months ago; we believe we are checking the inflationary effects of gold imports; we find that our policy, as you are well aware, is not in any way interfering with the success of the Treasury's refunding operations; and I think I should frankly advise you that should attempts be made to modify this program, and especially should they be attempted without our having opportunity to be heard, we would feel it necessary to lodge a vigorous protest with the Secretary of the Treasury.

Yours very truly,



Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

ES.MM

PERSONAL AND CONFIDENTIAL

August 3, 1922.

Dear Mr. Gilbert:

Replying to your letter of the first in regard to exchanges of 4 3/4 per cent. Victory notes for the new 4 1/4 per cent. Treasury notes, Mr. Case is to-day communicating with the reserve banks which hold Victory notes, advising them what we did, that we gather that you will be glad to see exchanges effected, and stating that if they do not make the exchange direct, we will be glad to handle the transaction for them in this market to the extent possible, along the lines of our own exchange.

I have just had a talk with the President of the Metropolitan Life Insurance Company, who indicates that they will again take up consideration of exchanging some \$16 millions which they hold. They had decided not to do so, but I think possibly a little better understanding of the situation may induce them to change their decision.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

PERSONAL

August 4, 1922.

Dear Mr. Gilbert:

Referring to your note of July 22 about that speech you contemplate making in Montana, I am enclosing a memorandum of what I had in mind to suggest. It was written by our Mr. Roberts.

But let me point out that this is full of pricklers. Some intelligent people may say that if inflation is such a crime, why did the Treasury inflate as they did in 1919 - 1920, and why did the reserve banks permit themselves to be drawn into such a policy.

I am sending this suggestion to you for such use as you care to make of it upon your own responsibility, but on reading it over I cannot but feel that it might be misunderstood.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

enc.

*No copy sent to file
Tufelau*

PERSONAL AND CONFIDENTIAL

August 4, 1922.

Dear Mr. Gilbert:

Thank you for your favor of August 2, enclosing copy of your personal and confidential letter of August 1 addressed to Mr. Case. Before writing you in detail in regard to the program, there is some information that I will need in regard to bond values, and I shall hope to write you sometime next week.

Yours very truly

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

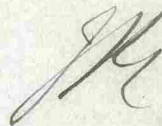
August 9, 1922.

Dear Mr. Gilbert:

✓ Supplementing Governor Strong's letter to you of August 7 in reply to your inquiry of August 4 as to the present whereabouts of Charles W. Fowler, I learn, upon query, that Mr. Fowler has an office at 44 Beaver Street, New York City, and that his residence address is 527 Riverside Drive, New York.

Trusting that this information will serve your purpose,
I am,

Very truly yours,



J. H. CASE,
Deputy Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

JHC HAB

PERSONAL AND CONFIDENTIAL

August 9, 1922.

Dear Mr. Gilbert:

Your favor of the fourth instant, in regard to exchanges of Victory notes for the 4 1/4% notes, is just received on my return to New York.

In my final talk with Mr. Fiske of the Metropolitan Life Insurance Company he pointed out that the exchange would cost them about \$50,000 in income. He said that he would prefer to await the maturity of their holdings and he would then assure us that any offer of exchange then made would be promptly accepted. X

Obviously, I felt unwilling to request him definitely to take a loss of that amount but I think you can count on their exchanging their entire holdings whenever the maturity date arrives.

Very truly yours,

BENJ. STRONG,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

CONFIDENTIAL

August 11, 1922.

My dear Mr. Gilbert:

I have read your letter of August 1 addressed to Mr. Case and his reply of August 3 and now yours of August 10, all relating to the Treasury's program for the next six months or so.

The first outstanding impression from your letter is the very large amount of issues to be made in a comparatively short period. While, to be sure, it involves no enlargement of the total borrowing, a very large proportion of the money to be obtained must be sought from new investors and subscribers to pay off old investors who will doubtless want cash, and it is the largest turnover of that character that the Treasury has yet undertaken. Therefore, it is surrounded with a greater degree of uncertainty than has been the case with previous issues.

The second impression that I gain is the difficulty of dealing with both the Victory notes and the War Savings certificates effectively and economically by any exchange offer. The previous offerings of that character have not produced the results that were anticipated or desired.

The third impression is the very considerable physical difficulty with which the reserve banks will be confronted in the last two weeks of December in handling the enormous number of people with whom we must deal in paying off the called bonds, effecting physical exchanges, and especially in dealing with the owners of the maturing War Savings certificates. These physical difficulties are being studied now by the officers of the bank and we hope to submit some suggestions in the near future.

As to the specific proposals contained in your letter of August 1, may I offer the following comments:

Paragraph (1). Of course, our experience would indicate that with the rates suitably adjusted to the market we could count on September 15 upon realizing any amount of cash required upon an offering of one year certificates, but as stated above, I would doubt the success of an exchange offer - that is, I would doubt its producing any very considerable amount of Victory notes. The rate suggested in this paragraph as possible at that time may indeed prove to be the case, but a 4 per cent. five year note just now would not be sufficiently attractive. There is possibly less doubt of the success of a 3 1/2 per cent. one year certificate selling in adequate volume. I am inclined to express a little warning as to your confidence in an easy money market in the middle of September. Much depends upon the strike and the extent to which the crop movement has gotten under way and whether the railroads are in shape to handle the harvest promptly.

Paragraph (2). If conditions appear to be satisfactory I would rather prefer to see the long time bond offering made in September rather than in October. If the offering was not a complete success it would then afford a period of recuperation between September 15 and the December maturity; and the period between October 15 and the date when you would need to offer the new bonds to retire the called Victory notes is rather short in case the offering proposed for October were not fully successful. I am inclined to think that you under-estimate the importance of organized methods in placing a loan for \$500 millions. That is a very large amount of investment money to get on one offering, and of course it depends for its success entirely upon the rate being sufficiently attractive. It is difficult to form an estimate from present data of just what can be expected of the market as to a 4 per cent. taxable bond maturing in 20 or 30 years, bearing in mind of course that the interest basis is always figured in the market to the date when a bond may be called and not to the date it may run if not called. In order to get some idea of market bases of a 4 per cent. taxable bond, we have calculated the interest basis of the 3 per cent. Panama Canal bonds, which at the present price

August 11, 1932.

of 92.41 is 3.35 per cent. This is for a bond wholly tax exempt which matures in 1961 - that is, 39 years. We have made a similar calculation for the Fourth 4 1/4 per cent. Liberty loan bond, assuming a maturity in that case of 1961, which gives the bond a market value of 102.90. By taking the difference in interest basis between the taxable and non-taxable bond and reducing this to a 4 per cent. basis, we find that theoretically at the present market values of these two issues, a 4 per cent. taxable bond should have a market value of 100.44 if maturing in 1933 - that is, 11 years; of 100.68 if maturing in 1942 - that is, 20 years; of 100.87 if maturing in 1952 - that is, 30 years; of 100.99 if maturing in 1961 - that is 39 years.

This calculation may be a bit misleading because of the limited issue of the Panama Canal 3s, and because of the special circumstances surrounding the use which is made of those bonds by certain classes of owners. I think it may be fair to assume that they sell at a little higher price and a somewhat lower interest basis relatively than do the various taxable issues. The amount of the issue also has an important bearing upon the market price. In view of all the circumstances I think I would lean towards making the offering of a long time bond in September, and offer a smaller amount than \$500 millions, thereby giving yourself the benefit of a good test of the market as well as ample opportunity to make other arrangements in the light of what is disclosed as the result of that offering.

Paragraph (3). It is very difficult for me to accept your suggestion that an issue of \$1 billion of long time bonds can safely be relied upon as the means of financing the December payments. It is a very large issue to place and will need to be attractive in terms, and your feeling about issuing a 4 per cent. bond seems to be so strong that I am led to urge that the amount of long time bonds to be offered be materially reduced below this figure. Inability under the present law to have the issue underwritten greatly increases the risk of the Treasury, and the amount to be raised is so large that it emphasizes the need for making the preliminary offering earlier than October 15.

While December 1 is not a bad time to offer the bonds because of the heavy interest and dividend payments for reinvestment - all this coming into the market around the first of the year - I nevertheless would err on the side of caution in determining the amount to be offered.

Paragraph (4). This suggestion calls for no comment.

Paragraph (5). The physical difficulties of handling the exchange of War Savings certificates and of making the payment of the cash to those who do not accept new securities are so great that I think the Treasury will necessarily be called upon to make some interest sacrifice in order to start exchanges at least a month before January 1, and notwithstanding that it will overlap the heavy operations on December 1 and December 15.

It would not surprise me at all if there were a million and a half people in the City of New York alone that hold War Savings certificates and Thrift stamps maturing on January 1. That Even if there is only one million, I think we must realize that the handling of this enormous number of people, even though it were distributed among all the Post Offices and Sub-Station and all the banks and their branches in New York City, nevertheless involves a very serious problem. For that reason I would strongly urge that arrangements be made to start exchanges just as soon as possible, certainly not later than December 1.

In general, I agree with you that at least \$1,500 millions of the short debt of the Government should not be funded at the present time, and I would be rather surprised if it does not transpire that this figure may have to be increased as the result of some issues of short securities, to take care of the portion of the called Victory notes and the War Savings certificates beyond what is anticipated by the outline contained in your letter.

In general as to the interest rate on a long time bond; it is too early as yet to have a final opinion. It would be unwise to consult the dealers or bankers, and you doubtless have it in mind to take that matter up for final

August 11, 1922.

consideration in case the first offering is made in October, say sometime around the middle of September; or if you should decide to make an offering of a long time bond in September, you will probably want to decide about the rate sometime within the next two weeks.

If you arrive at a determination as to when the first long time bond offering should be made within the next few days and will advise us I think I would be inclined then to take two or three of the best bond men in the city into our confidence and ask their advice, but of course we would not think of doing so except with your consent. Please understand that these comments are in the light of conditions to-day, which may materially change within a few days because of the strike situation and within a few weeks because of the approaching demands upon the money market for financing the crop movement.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

CONFIDENTIAL

August 14, 1922.

My dear Mr. Gilbert:

Replying to your confidential note of August 12, I am very sorry that anything contained in my letter of August 11 may have led you to abandon the holiday, and the fishing trip which I understand you were contemplating. But, on the other hand, I am convinced that the floating of a long time loan is not going to be as easy as you seem to feel, and that should you determine to place such a loan at 4 per cent. it would, in my opinion, be hazardous to defer the offering until October because I believe the possibilities of only a partial success are sufficient to make it hazardous to have that offering made only two months before a much larger offering must be negotiated in order to meet the called Victory notes.

This will be the first long time loan offered by the Treasury since the war enthusiasm was employed to make the previous long time loans a success and since the Liberty Loan organizations have been disbanded. The Victory loan was not a long time loan, and the Fourth 4 1/4s were floated, as you realize, upon a wave of expansion and with all the enthusiasm of the war prevailing throughout the country and with the Liberty Loan organization at the highest stage of efficiency which it reached.

A loan of \$500 millions, or even less, running anywhere from 20 to 50 years, or even from 10 to 50 years, must be very widely and generally distributed in order to be fully sold. The largest investors will not be so attracted because of the heavy taxes; large trust funds, endowment funds, and funds of that character cannot afford to buy them in large amounts. This will not apply to insurance companies, savings banks, and, (unfortunately) to commercial banks and trust companies even because of the difference in the tax situation.

August 14, 1922

Our organization is not equipped now to effect a widespread distribution; we must rely almost entirely upon the activities of the banks. There is no profit to them in handling the business except a deposit for a short period. And if these difficulties are coupled with an offering of a less desirable bond - say a 4 per cent bond - as indicated in your letters, I would fear a good deal of difficulty in placing a loan of \$500 millions.

If a smaller offering than \$500 millions were made it still might be possible to accept oversubscriptions, but that policy did not work very well in the war, and it might deter subscribers if they knew that further large amounts of the bonds might come on the market due to an oversubscriptions.

I would very much regret having the Treasury face the choice of either an incomplete subscription, on the one hand, or asking the banks to take up the loan, on the other hand, - the latter would be a distinct reversal of the Treasury's policy of getting a wide distribution of its loans. If you have determined to come to New York, I hope you do not defer doing so as long as a week or ten days. Should I possibly determine to go abroad to attend the conference of the banks of issue, it might be possible to arrange for a conference of the Governors of the reserve banks just before the offering was made so that your selling organization might be brought together and inspired with the necessity for making a good strong effort to get a good distribution. I would rather like to see the meeting of the Governors held before leaving for Europe anyway, and am throwing out this suggestion in advance of writing to Mr. Platt. Will you let me know how it strikes you?

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

CONFIDENTIAL

August 24, 1922.

Dear Mr. Gilbert:

Your personal and confidential note of the 22nd in regard to the Treasury's program is just received on my return from Woods Hole.

It correctly expresses the view that I held at the time I wrote you, the only doubt in my mind being as to the amount of bonds that could be sold.

It would be illuminating if you could have some one in the Treasury prepare a schedule showing at what point the income of an individual investor is subject to so heavy income tax that he can hardly afford to buy a 4 1/4 per cent. bond that is subject to income tax. It will give you a good idea from the tabulation of income tax returns of the very wide distribution that will be required in order to make a large loan a success.

An offering in September will not have the advantage of coincident maturity of a long time note issue which has been so largely held by investors who will be seeking a reinvestment of funds. Of course, all of this points to caution in fixing the amount to be offered in September.

Since writing you last week, I think for the first time I have realized the imminence of the passage of the bonus bill by the Senate. If the press dispatches are reliable, there is in fact a possibility that a vote will be taken on the bill as early as Saturday of this week. In my opinion, the sentimental effect of the passage of that legislation without any provision of revenue to meet the payments, will be most unfavorable to the Treasury's refunding operations. The total amount of possible obligation thrown upon the Treasury has been so widely advertised as running between \$4 and \$5 billions that it will create the impression - whether justified or not - that the Treasury

August 24, 1922

will be faced with the need for raising large amounts upon new issues of securities beyond the very large amounts which must in any event be issued for refunding purposes.

The investing public is very easily influenced by such developments, and if the passage of the bonus bill occurs at about the time that this first issue is to be made, the effect will be most unfavorable and the extent of the effect can only be surmised as there will not be time for the country to be educated as to the exact financial obligation which it imposes.

It may well be that the hazard will necessitate resorting to some shorter time obligation, and that again would be, to my mind, unfortunate because it points only too certainly to enlarged purchases by the banks of the country rather than by investors, and a further expansion of bank investments and deposits.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

PERSONAL AND CONFIDENTIAL

August 24, 1922.

My dear Mr. Gilbert:

I read the article to which you refer, but do not think that it represents financial sentiment. The question in my mind is as to the origin of all of this publicity on the subject of the Comptroller succeeding Governor Harding.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS:MM

September 5, 1922.

CONFIDENTIAL

Dear Mr. Gilbert:

Your favor of August 31 is received and the figures prepared by Mr. McCoy are certainly most illuminating. They exhibit the necessity of wide distribution if we are to have a successful offering of a taxable bond. Outside of the corporations, the big buyers really do not exist.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Treasury Department,
Washington, D. C.

BS:MM

September 20, 1922.

PERSONAL AND CONFIDENTIAL

My dear Mr. Gilbert:

Replying to your personal and confidential note of September 18, in regard to Murray Halbert's outburst, I think you have stated the facts and my personal view is strongly against doing anything about it at all. The controversy is just kept alive by answering critics, and I hope the matter will be allowed to rest. This feeling is shared, I believe, by my associates.

Respectfully,

Honorable S. P. Gilbert, Jr.,
Undersecretary of the Treasury,
Washington, D. C.

PERSONAL

September 25, 1922.

My dear Mr. Gilbert:

Thank you for your note of September 21, which was presented to-day by Mr. Pollak of the Wiener Bank-Verein.

I had an interesting chat with him and am to see him later for the purpose of discussing conditions in Austria and Central Europe.

I have some fear that his task in settling the Austrian bank liabilities here will be made difficult both for our bankers and for him, unless something fairly definite can be known in regard to the assets of the Alien Property Custodian, the claims against them and what the chances are of recoveries from that source.

I have told Mr. Pollak that I will be glad if he will keep me posted as to what he is accomplishing, and will later write you in regard to the difficulty that I apprehend.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS.MM

PERSONAL

September 29, 1922.

Dear Mr. Gilbert:

My point about the Alien Property Custodian's interest in Mr. Pollak's endeavor lies in the fact that I believe many people are under the impression that the Alien Property Custodian is in possession of assets which will some day be applied to liquidate claims against enemy governments. They may hesitate to deal with him until they know better about the chances of a more favorable outcome from the Alien Property Custodian. I pointed out this difficulty to him, but of course gave him no encouragement that these matters should be dealt with officially. In fact, it was rather the contrary.

What strikes me as a responsibility of our government, however, is obvious. If banks are to deal intelligently with private negotiations, they should know something from their government as to what the government's policies may be and as to what the assets are and the claims and what the outcome may be. Is not this reasonable?

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

PERSONAL AND CONFIDENTIAL

October 19, 1922.

Dear Mr. Gilbert:

Replying to yours of the 17th instant, we have been gradually increasing our buying rates on bills until they have advanced from about 3 per cent. to $3 \frac{3}{4}$ per cent. It is important not to have this change become too rapid. You will observe, however, that our bill holdings are not increasing and they have a wider distribution at the higher rates. Of course, if the rate gets up to 4 per cent., it would be an indication that our discount rate was too low.

I expect to be in Washington the latter part of next week and believe that you and the Secretary and I should have a pretty thorough discussion of these market conditions as they relate to your own operations in the market.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D.C.

BS.MM

COPY-WITH

FEDERAL RESERVE BANK
OF NEW YORK

PRIVATE AND CONFIDENTIAL

October 20, 1922.

Dear Mr. Gilbert:

The resignation of the British Cabinet is no more than I expected, and as I telephoned you a few days ago, it was forecast in a cable which I received intimating the probability of a further delay in negotiations for the funding of the British debt.

This delay will afford opportunity for the making of certain investigations which we discussed (if this work has not already been done), and I am taking the liberty of outlining something of what is in my mind in a letter to you rather than to Mr. Wadsworth because we have had opportunity to discuss it at length and I have not been able to do so with him.

While what I am writing is directed especially to the British situation, it applies in greater or less degree to the situation of all the debtor governments, and I refer only to the British debt because that happens to be the one which is next to be dealt with.

One of the most serious difficulties encountered by the French Government in dealing with the adjustment of reparation payments by Germany arises in my opinion from the fact that the people of France have never been fully informed upon the subject of reparations, that the sentiment exists in France that Germany can pay and must be made to pay, and that no government can remain in office which proposes a compromise or adjustment of reparations which does not in a general way conform to a well crystallized public opinion on that subject. In view of this political situation, the Government of France has been forced to resort to the threat of occupation of the Ruhr and other sections of Germany in the event of a default, a course which would be disastrous to the French because of the costs involved and because an army cannot collect reparations. My best opinion is that this situation has arisen almost entirely from timidity by the French Government which has led to an unwillingness to disclose the true facts and that it would have been wiser at the outset for the Government of France to squarely face the question of reparations upon the theory that Germany can be made to pay only within her capacity to pay and no more.

These remarks are intended to draw attention to the rather parallel situation in this country. Our people have been

led to believe (as the result of statements which are based upon inadequate data - and some of them inspired by political motives) that in general most of the debts owing to this country by the debtor governments are collectible. They cannot state the grounds for this belief, but are simply repeating what they have heard in a general way from various sources. It is certainly time that a careful painstaking investigation of the debt situation upon a basis of capacity to pay should now be conducted, and laid before the country at the proper time and in the proper way. In order to establish the basis of such an investigation, it is well to consider, first, in what way payments may be made. All students of this subject will agree that for a country like England, the making of external payments, such as this, can be accomplished only by the following means:

- FIRST: Shipments of gold.
- SECOND: Export of goods in excess of those imported.
- THIRD: By substituting private loans in this country for the government loans.
- FOURTH: By the liquidation of foreign investments owned by British private investors.

An investigation of these four possible methods of payment should disclose something of the capacity of the British nation to repay the debt now owing to our government and especially whether that capacity is equal to meeting the limitations imposed by the funding bill.

FIRST - As to gold shipments; the gold resources of Great Britain should be carefully examined and a study should be made for the purpose of disclosing to what extent, on the one hand, Great Britain can afford to part with gold and thereby indefinitely defer the reestablishment of the gold standard, and, on the other hand, to what extent it is safe for us to receive further shipments of gold without dislocation of our domestic credit situation. This investigation, it seems to me, should include an examination of the African gold production, of its present disposition, of the extent to which India can command gold from Africa and from England, and, as throwing some light upon gold movements, the history of gold shipments between England and this country should be reviewed together with their relations to prices, interest rates and trade balances.

Such an investigation I am certain will disclose that the possibilities of gold payment are exceedingly limited unless we are prepared to face a complete and long-extended breakdown of the gold standard in Europe and the rest of the world, and some real peril to our own monetary system.

SECOND - The extent to which England may be expected to repay by excess shipments of goods to the rest of the world over imports will be most difficult to ascertain, but some light may be thrown upon the subject by an examination of the British foreign trade prior to the outbreak of the war; the extent to

which the result of that trade as reflected in the visible movement of goods, plus the invisible balance of payments, may be expected to produce a net fund applicable to the service of the debt. In this connection, the new tariff should be studied to ascertain what effect it may be presumed to have upon those classes of commodities which we have heretofore habitually purchased in England.

THIRD - The extent to which the British Government may be able to borrow privately in our markets in order to repay loans to the Treasury will be governed not only by market and investment conditions here, but also to some extent by the degree to which we may consider such a policy desirable from our own point of view. For example, if the payment of interest and amortization of the principal necessitated the British Government borrowing from \$200 to \$300 millions a year in this market, would it be wise to permit or encourage them to do so? The various considerations to be weighed in this connection should be examined and discussed and it should be borne in mind that such a program applied to the entire debt owing to this country would ultimately result in such a vast interest by American investors in foreign government loans that might in the course of years have a profound effect upon our political relations with other countries.

FOURTH - The amount and character of British investments in foreign countries should be examined for the purpose of ascertaining the possibilities of payment by recourse to these investments, but obviously a study should be made as to the method by which such investment could be made available for the purpose. I think it would be safe to say that there are only two methods which could be employed to this end, both of which involve dangers of a very certain character. First, the British Government might expropriate them as was done during the war. Such a policy would arouse such bitterness of feeling that I very much doubt if it could be resorted to except under conditions where we would be obliged to admit that we had completely lost the sympathy and friendship of the British people. The other means would be less obvious to the public but equally dangerous to the restoration of stable economic conditions. If the pound sterling under the pressure of obtaining dollars in order to repay this debt became progressively depressed, as was the case after sterling was unpegged, there would gradually arise a premium upon foreign owned securities in the hands of British investors, which might lead to the sale of large amounts of them. But any such occurrence would be so disorganizing to commerce, including that of our own country, that one would hesitate to advocate such a policy of destruction.

I have written the above simply as suggestions for a course of investigation designed to throw some light upon various means of payment which exist, upon the extent to which they can be employed, and upon the effect of their employment. It will probably be found as the result of such an investigation that the repayment of the debt to this country by Great Britain can be safely accomplished through the employment of resources which will be

found available under all four of the means suggested, but that a period of 25 years will not be sufficient for the purpose, that the amount of payments must be small at first and gradually increased, and that in connection with the scheme of payments adopted, some element of flexibility must be introduced so that the rate of payment may be reduced in case the pound sterling becomes depressed and may be accelerated in case it should rise above parity with our currency.

May I take the liberty of suggesting that the additional time now afforded as the result of the change in the British Ministry can well be employed in an investigation along some such line as that roughly outlined above. The data already in possession of the Department of State, the Treasury Department and the Department of Commerce, and accessible to the Federal Reserve Board and the Federal Reserve Bank of New York can I believe be marshalled in the course of a few months. If, as I should hope, it resulted in a clearer view of what Great Britain is capable of paying and how long a period should be allowed for the payment, then it seems to me the Funding Commission could go before Congress with a definite report and recommendation which would in fact contemplate the entire repayment of the debt by the British Government, but not necessarily within the strict limitations of the funding bill, and here would be afforded opportunity for a possible and friendly solution of the problem as to the principle debtor.

Yours very truly,

(Signed) Benj. Strong

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Treasury Department,
Washington, D. C.

BS:MM

CONFIDENTIAL

October 25, 1922.

Dear Mr. Gilbert:

Thank you for your note of October 21 and the report which accompanied it regarding the State Bank of Soviet Russia.

You doubtless observed that the only item which might be considered as gold is the one under the title "Precious metals"- 307,000,000 rubles. I would accept that with some reservation as a true statement of the amount of gold held by the Soviet bank.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

PRIVATE AND CONFIDENTIAL

October 27, 1922.

Dear Mr. Gilbert:

The market rate for bills is now squarely four per cent. We have got to watch our discount rates now with the bill rate as high as that and with the stock exchange rates uniformly above ours. But I doubt if any action need be seriously considered until we are able to judge whether the seasonal demand is not responsible for most of the change that is taking place in the general rate level.

Referring to the document which you showed me yesterday afternoon. I have given it a good deal of thought and am convinced that every reason exists for the making of some such statement, at least to the extent embodied in the last paragraph of the pencil memorandum I handed you. In some ways I would regard such an action as equal in importance to the veto of the bonus bill, and as to its political wisdom, if that is any consideration to be entertained at all, it will make more votes than anything that could now be done.

Further reflection makes me feel this so strongly that I am inclined to urge you to take some steps, if they are possible, to have this represented to the President in the strongest possible terms.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

CONFIDENTIAL

November 2, 1922.

Dear Mr. Gilbert:

I am enclosing the weekly business and financial summary prepared for our directors and call your attention to the curve on the first page showing a sharp advance in deposits and in loans and investments not only in New York City but in all districts as reported by the reporting banks, and this should be considered in connection with the very sharp decrease in earning assets which took place in the same month in the Federal Reserve Bank of New York and to a somewhat less extent in the earning assets of all reserve banks. The indication is, partly at least, that the government loan in October swelled both the deposit and the loan account. At the meeting of the Investment Committee in Cleveland on Tuesday, every member of the committee agreed generally that the following comments were justified in regard to the loan and its effects:

First: There was a certain amount of padding of subscriptions by brokers and others who wanted to scalp a narrow profit and who immediately became sellers of the bonds. X

Second: While not generally the case in New York City where allotments to the banks were very small indeed, it was nevertheless true in some parts of the country that banks had subscribed to the loan for the sake of the deposit and at once the bonds were delivered they started to sell them, and this selling combined with the "First" is what caused the decline.

Third: That a large loan of this character where payment is made by credit, engages the active efforts of all banks to make sales to their

customers generally so as to get the benefit of the deposit.

Fourth: That the effect of payment by credit is nevertheless to inflate the banking position.

Fifth: That the deposits at the Government's credit are employed very promptly in loans of one or another character, and that when they are withdrawn from the depository banks they do not generally withdraw the loans which they have made, in order to make good deficient reserves, but at least some of them go to the reserve bank and borrow.

Sixth: All the members of the committee agreed that every effort must be made hereafter to effect distribution of bonds outside of the banks and that the only method by which inflation of the banking position as a result of these large deposits can be prevented is by the immediate employment of the funds by the Treasury in the retirement of outstanding debt, and if this process can be speeded up beyond what has heretofore been the case it will check the tendency to inflate somewhat and reduce the borrowing demands upon the Federal Reserve Banks.

As soon as the minutes of the meeting have been approved by the members of the committee, I shall send you a copy which will throw some light upon the discussion at the meeting and the attitude of the committee. The meeting was attended by Mr. Mitchell of the Federal Reserve Board, who is therefore familiar with what transpired.

It was felt by the members of the committee that in view of the advance in the market rate for bankers acceptances to 4 per cent. or over. that some better distribution of these bills might now be expected, but if they did not distribute naturally among banks and other buyers it would be desirable for us to suggest to all the Federal Reserve Banks that they liquidate further amounts of their government securities, preferably by selling them to the Treasury, against which we would continue purchases of bills in

November 2, 1922

the market so as to maintain the rate at about 4 per cent if possible.

Obviously, should the rate on these bills, as well as on the government certificates - except those of very short maturity - reach a level above our discount rate of 4 per cent., it might become necessary for us to advance our discount rate. This we had hoped would not be necessary for sometime yet.

Will you be good enough to read in connection with this letter, one that I wrote you sometime ago describing exactly the effect which the operations of the Federal Reserve System had upon the money market, in that under the present system there was no surplus banking reserve and that consequently it was not to be expected that rates would - at any rate for sometime - reach the abnormally low levels which heretofore occurred after a period of liquidation.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

Enc.

CONFIDENTIAL

November 3, 1922.

Dear Mr. Gilbert:

I am in receipt of your favor of November 1st, and as to the first part of it in regard to the distribution of bills, so far the distribution has not been very active but I hope to get a report to send you shortly on that subject.

As to the last part of your letter, I agree with you heartily but can you or Secretary Mellon convince others that the policy you advocate is the best? If any statement of an official nature is to be made, it would distress me very much to have it in any such terms as the one I saw in Washington. I am very sure it would do a great deal of harm.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

November 9, 1922.

Dear Mr. Gilbert:

I have given considerable thought to the subject matter of your letters of October 30 and November 1, 1922, dealing with the remaining Government security investments of the Federal reserve banks. I approve your suggestion that the Federal reserve banks dispose of their uncalled Victorys in the open market rather than by direct sale to the Treasury for Sinking Fund Account, and after consulting with the other members of the committee on centralized execution of orders, I have to-day sent the telegram appearing below to the six Federal reserve banks holding \$25,716,050 uncalled Victory notes as follows:

Boston	\$5,656,000
Philadelphia	1,150,150
Cleveland	9,822,500
Kansas City	10,850
Dallas	161,250
San Francisco	10,065,300
Total	\$25,716,050

(copy of telegram)

"Treasury is desirous of having Federal reserve banks holding uncalled Victory notes dispose their holdings and suggests selling in open market as most helpful program. Such action has approval entire Committee which suggests reinvestment in Bankers' bills to the extent that reinvestment is deemed desirable. According to records you hold of uncalled Victorys. Would appreciate your wiring me if foregoing procedure acceptable advising also to what extent Committee can serve you in consummating transactions. STRONG, Chairman."

I note that the Treasury now hold for the account of the Alien Property Custodian slightly more than \$40,000,000 of the new 4 1/2% Treasury bonds which you desire to have sold at the average cost price of about 100.07 or better, the proceeds of such sales to be immediately reinvested in United States Treasury

November 9, 1922

certificates of Indebtedness maturing in 1923, to be acquired at the then market prices from the remaining holdings of Federal reserve banks. I venture to say that it may take a considerable period of time, possibly a month or so, to consummate such a transaction, but meanwhile as opportunity offers we will undertake to follow your instructions and resell some of the new Treasury bonds to the market.

With reference to your further suggestion that the Federal reserve banks should dispose of a good part, if not all, of their Treasury notes, I think the banks generally would be willing to do this provided they could be sold without loss. The present adverse quotations are likely to prove a formidable stumbling block to that program. Our own holdings of Treasury notes (\$11,500,000 4 1/4% due September 15, 1926), were acquired at the time the notes were issued by turning in a similar amount of Victories in exchange, and the notes stand on our books at about a 4.10 basis, while to-day's market quotations show a yield of about 4.40. Under the circumstances I think it might be well to defer taking this particular note matter up with the Federal reserve banks at least until the sale of the uncalled Victories herein referred to has been consummated.

With regard to new financing, I am hopeful that it will not be necessary to bring out an issue, even a small one, before the December offering. This course will give the market a rest, a good chance to settle down, and make it just that much easier to effect the important financing in December.

With respect to the large cash balances of \$250,000,000 or more now on deposit in the War Loan Deposit Account, I understand it is your intention to continue to use these funds as rapidly as possible in redeeming the 1922 maturities, and to that extent simplify the heavy operations that lie ahead of us during the balance of this year.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Secretary of the Treasury,
Washington, D. C.

November 10, 1922.

My dear Mr. Gilbert:

I have your two telegrams of to-day advising that there will be no offering of certificates this month nor any announcement to that effect. All of this I think is very wise indeed.

In view of the proposed payment of \$50,000,000 by the British Government on the 15th, which Mr. Case advises me is definitely arranged, I sincerely hope that we may meet with some success in anticipating further amounts of the December 15 maturities. This will afford a saving in interest and a reduction of the turnover on that date which might be embarrassing in that it is so likely to create an artificial ease of funds. These funds are likely to go into Stock Exchange loans and then again cause difficulty when we come to withdraw them from the market.

Mr. Case and I have been discussing the matter this morning and he will have a word with you by telephone.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

X

CONFIDENTIAL

November 27, 1922.

Dear Mr. Gilbert:

Information has just reached me from reliable sources abroad in regard to one or two matters concerning which you are doubtless interested and possibly Assistant Secretary Wadsworth is equally so.

It appears that Zimmerman has been formally appointed Commissioner to serve in Austria under the proposed plan of rehabilitation and that Janssen, who as you know is an officer in the National Bank of Belgium, is seriously considering accepting appointment of Governor of the new bank of Austrian issue. Arrangements for legislation in the various countries concerned in this plan are now being considered looking toward the issue sometime next spring of a guaranteed Austrian loan. But I hear the opinion expressed that the likelihood of a successful public issue under the scheme now proposed is still remote. Presumably, any such loan would have to be taken by the assisting Governments.

I am also advised it is possible that some private effort is being made by the Dutch and Swiss representatives who served on the Committee of Experts to advise the German Government in regard to reparations, to arrange some sort of an international loan or foreign credit for the purpose of assisting Germany in stabilizing the exchange, and somewhat along the lines indicated in the report of the experts. The prospects of success of this private effort, which does not seem to have been officially confirmed, seems somewhat remote because of the probable inability of agreement among the Allied nations as to a moratorium applying to reparation payments.

Of course, the German Government is anxious to secure such a loan for stabilization purposes; and France for the purpose of anticipating reparations. But I think it may be assumed that the British Government is not likely to further any such plan until some final scheme for dealing with the reparation debts with Germany is actually assured.

It should also be borne in mind that both Holland and Switzerland have large interests in mark exchange which might be associated with this effort to arrange a foreign loan. I have been informed that Mr. J. P. Morgan rather takes the British point of view.

Will you be good enough to regard this as quite confidential.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

November 29, 1922

Dear Mr. Gilbert:

- See case
My physician, Dr. George D. Stewart of 417 Park Avenue, New York City, is having no end of trouble, he tells me, in adjusting his tax returns. The field agent with whom he is dealing is Mr. Edward J. Murray, and the deputy collector whom he has seen is Morris Cohn, room 620 Custom House Building.

I think the difficulty arises from Dr. Stewart, who is an exceedingly busy man, leaving the preparation of his income tax returns to an inexperienced secretary, and this has resulted, as I understand, in his failing to make the deductions which a physician or surgeon is permitted to make for costs of instruments, etc. At any rate, he tells me there is a difference of a considerable sum of money which he is certain he should not justly be required to pay, and I am wondering whether there is not some way of having this case reviewed, with a reasonable regard for the fact that Dr. Stewart is one of the leading surgeons of the city and in every way reliable.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

CONFIDENTIAL

December 1, 1922.

Dear Mr. Gilbert:

Referring to my letter of November 27, developments in regard to the reorganization of the finances of the Austrian Government, word has just reached me that at the last moment Zimmerman failed to definitely accept the appointment as Commissioner, owing to certain technical restrictions imposed upon the powers to be conferred on the Commissioners. But I am also informed that he has not finally and definitely declined to serve.

Yours very truly,

Benj. Strong,
Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

FEDERAL RESERVE BANK OF CHICAGO

GENERAL FILE COPY

TELEGRAM

OUTGOING

December 13, 1922.

Gilbert,

Washington.

Confidential. Have just learned Howard is considering important offer. He should be promptly advised if his appointment is contemplated; otherwise he may make some other commitment.

Strong.

December 21, 1922.

Dear Mr. Gilbert:

Thank you heartily for your nice letter of December 8. It got stuck to the back of some other mail, and I regret that its acknowledgment was overlooked on that account.

Thank you very much for your interest in Dr. Stewart's tax matter.

Yours sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

January 5, 1923.

Dear Mr. Gilbert:

As suggested in our telephone conversation this morning, I am writing to express some comments on the proposed bills for the relief of the agricultural interests introduced by Senators Capper and Lenroot.

As I view the situation, there are two main questions, first, the establishment of adequate means of distributing agricultural credit, and second, provision for drawing upon surplus credit funds in certain sections in order to supply additional credit to those districts where supplies are deficient.

The so-called Lenroot bill as originally planned, and subsequently modified, was designed to accomplish both of these purposes. As you know, it provided for the creation of a farm credit department in each of the twelve Farm Land Banks. These departments were to be separate and distinct from the farm mortgage departments. They were to have authority to issue debentures in amounts not exceeding ten times the amount of their capital and, in order to take care of the peak loads, they were to have authority to rediscount with the Federal Reserve Banks all agricultural paper held by them when within a maturity of six months, and as subsequently amended when within a maturity of nine months. In these two ways additional working capital over and above the amount of their paid-in capital was to be procured.

It was not contemplated in the bill that the Farm Land Banks shall lend directly to individual farmers except when grouped together in organized cooperative associations. Generally speaking their funds are to be availed of only by rediscount or purchase of paper from existing primary credit organizations such as national banks, state banks, trust companies, livestock loan associations,

cooperative marketing associations and farm credit associations. In other words, the chief purpose of this bill is to provide a means of rediscount for existing banks, trust companies and loan and credit associations whose customers are the farmers themselves. These existing points of contact when functioning properly are sufficiently broad as distributing agents, though I believe that the provisions which is incorporated in both the Lenroot and Capper bills for the membership of the smaller state banks in the Federal Reserve System would do much to facilitate a still better distribution of credit, especially when supplemented by the power of the Farm Credit departments to lend directly to organized cooperative associations of farmers.

But the purpose of both bills is to provide a means of drawing additional credit to the agricultural sections and for two reasons I believe that the Lenroot bill is better able to accomplish this than the Capper bill. First, I believe that the debentures of the Farm Land Banks, even without the tax-exempt feature, would have a much better market than the debentures or collateral trust notes of a number of individual credit or rediscount corporations with small capital of the kind provided in the Capper bill, and, second, the provision in the Lenroot bill which authorizes the Land Banks to rediscount agricultural paper with the Federal Reserve Banks when it comes within nine months of maturity is a most effective means of providing further credit for the peak loads.

It may be suggested that the Capper bill might be amended so as to give to the Rediscount Corporations of that bill power to rediscount their paper with the Reserve Banks, but I believe it would be most unfortunate to extend the facilities of the Reserve Banks to a possibly very large number of individual loan corporations with small capital and with none of the restrictions or obligations imposed on member banks of the Reserve System. It is proper, however, and would be a real help to have the twelve Land Banks, which operate under the jurisdiction and supervision of an efficient Federal board, empowered to rediscount.

with the Federal Reserve Banks under proper safeguards and with their indorsement.

As I view the situation, the Lenroot bill, in principle, accomplishes all that is needed to solve the problem now confronting the agricultural sections although it is now rather roughly drawn and in a number of details should be amended. I believe, as you do, that the debentures authorized to be issued should not be tax-exempt. I believe, also, that there should be no statutory limitation upon the rates of discount charged by the Land Banks. There is no necessary relation between what should be the current rate of discount and the rates paid on what may have been the last issue of debentures. So, also, I believe that there should be no prohibition against a discount of paper on which the borrower is charged a rate of interest $1\frac{1}{2}\%$ or more in excess of the current rate of the Land Bank. These are matters that might much better be left to the regulation and control of the Farm Loan Board than to express provisions of law.

I am also opposed, as you are, to a Treasury contribution amounting to as much as \$120,000,000, the amount which I understand is now proposed in the Lenroot bill, but I believe that that bill and the credit departments created by it could function properly on a much smaller capitalization than that which has been suggested. If, as I believe, a capital of \$2,000,000 or \$3,000,000 for the credit department of each Land Bank would form the basis of all additional credit that may be required, then I feel that the bill might be so drawn as first to induce subscriptions by the public, and subsequently by the Treasury in the event that public subscriptions are not sufficient. You stated on the telephone that there have been some suggestions that the Lenroot bill ought to be amended by providing for an even greater capitalization. If it were intended that the Farm Land Banks should make only direct loans out of a revolving fund such as the War Finance Corporation has, without any means of making a turnover either through the Federal Reserve Banks or by drawing in new funds through the sale of debentures, it might be essential further to enlarge the capitalization, but with the provisions in the bill making possible the issue of debentures and the rediscount of eligible

without any great amount of capital, as much additional credit as is now needed for their successful operation as rediscount corporations.

While I have always opposed the principle of governmental participation in any sort of agricultural credit, it seems to me far better that the Treasury should contribute \$30,000,000 or \$40,000,000, if it is necessary to do so, to organize an effective rediscount corporation for the primary sources of agricultural credit, such as the existing banks, trust companies and loan associations, than to devise a plan such as the Capper bill, which I believe would be much less effective, - if not wholly ineffective, - in drawing sufficient additional credit into the agricultural sections.

The capital of the proposed credit departments of the Land banks might be raised by a provision in the law that the War Finance Corporation shall in the first instance subscribe for whatever amount is determined upon as needed, and to make payments as and when needed. The life of the War Finance Corporation itself should be extended for another year, and, pending its liquidation, strenuous efforts might be made to effect the sale of the new stock of the Land Banks to private interests. Whatever amount under the prescribed minimum might not be taken up by outside capital should, upon liquidation of the War Finance Corporation, be transferred to the Treasury. This mechanism will insure immediate funds for the new credit departments and will, at the same time, afford an opportunity to effect a sale of the capital to the outside before the Treasury takes it over. Incidentally this might make a most effective means of liquidating the War Finance Corporation when that time arrives and will, at the same time, give the new corporation going business.

Might it not be better, then, to adopt the principles of the Lenroot bill, eliminate the tax-exempt feature, reduce the amount of the capitalization, and provide for Treasury contribution only in the event that private capital cannot

One more thing, - I understand that the Capper bill has already been reported by the Senate Banking and Currency Committee and that it is likely that the Lenroot bill will be reported next week. If that is true, there will be before the Senate for consideration two bills vastly different in scope and operation. Unless there is somewhere a strong guiding hand it is difficult to foresee what will be the compromised product. I would like to urge, as I have done before, that the Treasury take hold, if necessary, ^{and,} through a conference of six or seven of those most directly interested, agree upon some plan that will not only be consistent with the principles we all stand for, but that will also work. As I have stated to you already, I do not believe that the Capper bill will work.

Very truly yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BSAGLH/MSB

PERSONAL AND CONFIDENTIAL

January 8, 1923.

Dear Mr. Gilbert:

Yours of January 6 about the article in the Journal of Commerce has just reached me. I have great difficulty in making out what Dr. Willis is driving at. He has a very cool and unenthusiastic article in the Journal of the Academy of Political Science for last month, in which - among other things - is an implication that there has been a certain amount of nepotism in the management of the Reserve Banks. I think possibly, however, we are all inclined to give his views a little more personal direction than is just to Dr. Willis. Undoubtedly, some of his experiences connected with the Reserve System have tended to sour him a bit. I am very sorry that it should be so because he could be of great help to us, especially at this time when the outlook for the System is a doubtful one.

As to the question of financial leadership; I am very much amused by the views which he expresses. At no time has the Reserve System been so free from anything approaching control by the Treasury as it has since Mr. Mellon took office; that is, since the Reserve Banks began to function in 1917, and I think, on the other hand, it is fair to say that at no time have the officers at the Treasury given so willingly, and quite properly, sympathetic attention to the views expressed by the Reserve Banks in connection with the Treasury's financial operations. This is all as it should be, and I cannot explain Dr. Willis's article except as being more of a criticism of the Reserve Board than it is of the Treasury. It is sort of a back-handed crack at the Board, if it is anything; and is not the best course in these matters to ignore them all?

If you would like to have me talk with Willis, I would be glad to do so, but doubt if there is much to be gained by it.

Yours very truly,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MM

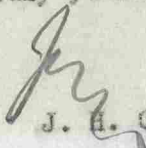
January 19, 1925.

Dear Mr. Gilbert:

Thank you for your check in the amount of \$11.89 covering the cost of your railroad and pullman tickets to Washington on the 15th.

It is always a pleasure to serve you in any capacity, so do not hesitate to call upon us at any time.

Very truly yours,


J. H. CASE.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE _____ 192_

TO _____ SUBJECT: _____

FROM _____

Dear Mr. Albert

Pardon this paper which I find casual for letters just now. I am sending you with this the bill of papers relating to my income taxes for the past five years, and would like to ask you to consider these facts:—

My books and returns have been examined by inspectors I think four times. There is no objection to that so long as they get the job done and quit bothering the taxpayer. But now it seems the inspector & the Bureau do not agree, and another correction is necessary, & finally I am asked to sign an agreement, — meaning my right of

Meowry, if the Quar, is wrong; Also the
agreement intimates that matters will be
expedited if I sign away my rights. It
all sounds like the old bureau "red tape
lock the taxpayer" staff to me and on
that score I sit a bit riled. But for
another reason, (and that is what inspires
this letter) I am really indignant. We
are facing a deficit this year of a large
sum. - 100 to 200 million I judge. - and
have some hundreds of millions of uncollected
taxes awaiting adjustment. Why waste so
much time and effort over the Quar
for, like me. Yet after the big amounts
and let these trifling errors wait!

So much for that. all best to you,

Leevin's

P.S.

Let be damned if I sign a Power of atty.
Mr. Raper is my Lee & can fix it or no money!

PERSONAL AND CONFIDENTIAL:

February 20, 1923.

My dear Mr. Gilbert:

I have just been over the memorandum which you enclosed in your letter of February 16, - but without any pride of authorship!

I am rather taken with the general idea expressed, but I feel that this is so much a matter for exchange of views that I suggest proposing it to the British and getting their reaction. If it would be desirable to do it unofficially, I can probably arrange to do so through Mr. Norman as a personal matter. What do you think?

Sincerely yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB

PERSONAL AND CONFIDENTIAL:

February 21, 1923.

Dear Mr. Gilbert:

This morning brings yours of the 19th, on the subject of the exchange problem relative to the British debt settlement.

Elaborating what I have already written, the following suggestions are strongly in my mind as worth considering -

1. While the problem discussed in the 1920 report of the Secretary of the Treasury, pages 60-65, was no different then than now, circumstances, (such as the German mark collapse) have changed and, in my opinion, favor less definiteness in any obligation to be assumed by either party than may then have seemed feasible. The provision on page 63 for payment in sterling drafts does not seem to accomplish anything. It would simply mean that with sterling at a premium, we would have the right to ask for payment in sterling and then have sterling to sell. But that is exactly what the British Treasury would do anyway in making payments in dollars, - simply sell sterling and buy dollars, - and the prevention of a sterling premium would not be accomplished any better by having a change in the party doing the selling. What would be required is just what I suggested in the memorandum I left with you; that is, an increase in the amounts paid. Nothing is accomplished by setting up forms of machinery to carry out the purpose, so long as the parties are agreed in the purpose.

2. Any scheme for converting the proposed 3 - 3-1/2% obligations into a marketable bond, payable in sterling at a fixed rate, (say par of exchange) or in dollars, presents many difficulties. Without elaboration, they seem to be principally the following:

a. The variable rate, provisions for anticipation and deferring, how to distribute amortization payments, etc., would re-

quire the creation of a wholly different bond, in my opinion.

b. If sold in London the discount loss would likely be large under any probable conditions now to be anticipated.

c. If the British are asked to assume the discount loss, it would be better to rely upon a simple right to call for larger payments and let them do their own borrowing in their own market and pay what they must.

d. Sales by our Government of a British bond in the London market would be a fruitful source of dispute and bad feeling.

e. The plan would be no more than a club, practically, and better plans are possible which would require no clubs.

3. We can have no objection to the British delaying payments, within the limits of the agreement; or increasing payments without limit, so long as the exchange market is protected; and (what so few people comprehend) we are deeply concerned that there shall be neither premiums nor discounts on the currencies, nor violent fluctuations. The British interest is similar and equal to our own. To express in simple language, and as a definite obligation upon the parties, an exact plan for increasing or decreasing payments in case of advances or declines in one currency or the other, impresses me as unnecessary, and possibly involving some hazards, if attempted beyond the limited proposals contained in my memorandum.

The important considerations are the following:

1. Stable rates of exchange
2. Return to par, within gold points, as soon as possible
3. Resumption of free gold payments by Great Britain and thereafter its maintenance by both parties.
4. Similar conditions brought about in some six or seven other countries where gold payments can no doubt be resumed as soon as done by the British.

The importance of such a resumption will be appreciated when it is realized that with dollars, sterling, yen, and guilders back at par (within gold shipping points) probably 75% or more of the world's foreign trade would be freed of the hazards and speculative complications of the exchange fluctuations of the past eight years.

4. This leads to your letter of the 19th and the larger aspects of the sterling market. We have discussed and corresponded with the Governor of the Bank of England upon this subject for two years past and are agreed even though the British debt is successfully funded^{that} there are still serious difficulties in the way of exchange stabilization, - principally those having to do with payments of reparations by Germany and, in turn, such payments to Great Britain by Allied Governments as may be required following our refunding. Notwithstanding this, it would be our expectation to continue discussion of the matter, especially if the exchange provisions of the British funding agreement are favorable, with the hope of arriving at some plan, even if not a comprehensive one at first.

The part to be taken by the Bank of England and the Federal Reserve Bank is comparatively simple. It should, however, supplement, - or, in fact, fundamentally rest upon a satisfactory and effective agreement as to the debt. It would, in a word, be our expectation to buy bills and earmark gold, in the respective markets, as exchange movements made it desirable to do so, and, of course, it is possible that a gold loan (so-called) might be considered at the outset, although the writer has never considered such a loan to be in fact more than a gesture.

5. It seems to me important to draw out the point of view of the British Treasury as to any specific provision, as soon as possible, as that may disclose weaknesses in the plan.

6. Finally, stated in order of importance, I believe the agreement should contain

- a. The general declaration referred to in your letter
- b. Provision for accelerating payments if sterling goes

to a premium

c. Provision for deferring payments (within the limitations of the agreement) in case sterling declines, such provision to be suggested by the British

d. Some such plan of payment as is outlined on page 2 of the memorandum, although this is of less importance, and

e. whenever a satisfactory agreement is concluded, it should, if possible, be followed by some agreements or understandings between banks of issue, looking to improving conditions in the exchange market.

It would be helpful to read the full terms of the agreement, whenever you are able to let me see it.

An additional copy of this letter is enclosed, which I should be glad to have delivered to Acting Governor Platt for the information of the Federal Reserve Board on matters relating to our foreign exchange discussions.

Very truly yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB

PRIVATE AND CONFIDENTIAL

February 26, 1923.

Dear Mr. Gilbert:

Under separate cover I am writing you about the British agreement.

Your letter containing the draft, was dated February 22, sent "special delivery", but only reached my office 9:45 a. m. Saturday, the 24th. It appears not to have been mailed in Washington till Friday morning. Please note the condition of the gum on the envelope.

Very truly yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB
Enc.

PERSONAL AND CONFIDENTIAL:

February 26, 1923.

Dear Mr. Gilbert:

With this I am returning the copy of the rough draft of the British funding agreement, on which I have made some pencil notations, also memoranda commenting upon the various points which you will find numbered. As this draft will doubtless be considerably changed in language and form, I am now sending only comments, without attempt to make any considerable changes in the language.

It will be a great aid in further considering this matter to have the enclosed rough draft, with my pencil notes, returned to me, as I have retained no copy. Also I am without a copy of the Act of Congress approving the funding plan. I have retained copies of the memoranda of points.

I am sorry that the delay in receipt of your letter of the 22d has unavoidably delayed this reply.

Very truly yours,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

BS.MSB
Encs.

CONFIDENTIAL:

March 6, 1923.

Dear Mr. Gilbert:

Yours of March 4, with the revised draft of the British funding agreement and the Senate bill, are duly received.

The agreement is of such immense importance that I hesitate to send any further comments in the nature of a "last word" without some further reflection. So I may send another note tomorrow, and will return the draft then anyway. Of course keep the copy containing my former notes.

In general I think the agreement is a fine, simple document, - clear and without ambiguous phrasing. It may need some polishing, and, if there is time and opportunity, I would appreciate seeing it again when about finished.

The following suggestions may be worth considering -

1. Page 2, Paragraph 2. The language indicates that the entire \$4,600,000,000 will fall due, normally, December 15, 1984. This would imply that the entire principal is kept alive 'till maturity on the basis of a typical American cumulative sinking fund obligation. But is this literally true? Does not the debt really mature according to the schedule of payments? A few words will cure this; if I am right in the comment.

2. Page 4, first paragraph. The language might imply that after one such postponement had been made and repaid, others could not be subsequently made; add the words "until all amounts previously postponed have been fully repaid" or something like that!

3. Pages 5 and 6, Paragraph 5. While there is provision in paragraph 6 for fixing the rate of exchange, it seems to me that paragraph 5 is rather uncertain as to intention. Does it mean the United States can fix any

rate of exchange in any currency? The British will surely object to that, and properly. Does not the spirit of the agreement indicate that -

(a) It is a dollar debt and normally to be repaid in dollars

(b) If repayable in any other currency it will be simply as a measure of mutual value to protect the respective dollar - sterling exchanges

(c) In that event the only other currency would be sterling, - certainly not francs, or lira, etc.

(d) Therefore why not let paragraph 5 relate just to dollar bonds and rely upon paragraph 6 to cover the terms for sterling bonds.

Also I think paragraph 5 (near the end) might read as follows -

"The United States, before offering any such bonds for sale to the public
"in Great Britain, etc." (words underlined are new)

The last sentence (paragraph 5) is so broad as to appear to offer opportunity for a hostile Secretary of the Treasury in later years to impose very burdensome rules upon the other party. I certainly think this should be made clear that the rules, etc., must be reasonable and within the terms and spirit of the agreement. Also, on further thought, I feel quite certain that the intention will be clearer if paragraph 5 is made to cover dollar bonds for public sale, and paragraph 6 for sterling bonds, etc.

4. ~~Page 7, Paragraph 6.~~ The rate of exchange suggested, 4.87, is, I think, a mistake. Premiums and discounts on dollar - sterling exchange are figured above and below exact gold parity, which is \$4.8665 plus, per full weight sovereign. Therefore, the gold shipping point is that point above or below 4.8665 plus which produces a difference equal to all cost (including assay charges, freight, insurance, boxing, abrasion, interest, and incidentals) of laying down gold in the market whose exchange is at a premium. The amounts involved here are so enormous, that I feel sure the exact gold equivalent should be "nominated in the bond." There are some changes of phrase, which I am considering and will

send tomorrow. They take some further thought.

5. Page 3, Paragraph 3. Insert word "made" after word "states" third line of this paragraph 3.

6. Page 3, Paragraph 3, last line. The words "good deliveries" are difficult to exactly define. It depends upon business custom, etc. - a very difficult thing to define. Why not say "shall be in such negotiable form, free of defacement or mutilation, as to constitute an acceptable transfer of title under then existing rules of the Treasury, which apply to securities of the United States." This would include our fiscal agency rules.

7. As preliminary to sending you a new suggestion for paragraph 3, tomorrow, please consider that I am rather doubtful of the reasonableness of requiring the British to "make advance payment of principal in such amounts as may be necessary etc." It might be too much for them, and we are just guessing as to what the future has in store for us anyway. I am clear that if there are any deferred payments unrepaid, they should then be paid up. A blank check up to billions (beyond unrepaid, deferred instalments) I think is much too uncertain and possibly too harsh. I'll try and suggest another formula later.

In general, the possibility of calamity growing out of this agreement lies entirely in the possibility of a British default. While remote, it could only occur, so far as human foresight can judge, because these are foreign payments. We would suffer, though not as much as they, because of such a default, - and I think our own interest requires that the additional obligations contemplated, - for exchange purposes, - be most scrupulously safeguarded. It is hard to picture a situation, with sterling above our gold shipping point, in which the British could not find means to make these additional payments; it would, indeed, probably be the case only in event British domestic credit was at such low ebb that the Government could borrow neither at home nor abroad.

So please let me have another twenty-four hours to chew on this.

Sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

copied from manuscript.

CONFIDENTIAL:

March 7, 1923.

Dear Mr. Gilbert:

Unexpectedly long sessions with the Dentist and Doctors have made it difficult to send you another draft of paragraph 6 of the funding agreement, as I had hoped, before leaving for Colorado on Friday.

The enclosed rough draft may be suggestive, but possibly the following will express better what is in my mind -

The paragraph, in my view, should contain the following provisions:

(a) Both parties desire gold standard, free gold payment, and stable exchanges restored and maintained.

(b) The first named provisions (as now recited) are to protect Great Britain against decline in pound.

(c) Great Britain will repay all deferred instalments in case sterling goes to premium, - not exceeding, say, \$, in stated period or periods, in order to protect dollar.

(d) I had hoped to avoid a fixed amount to be paid in advance, in case of a sterling premium still continuing, but there is really no way that occurs to me to avoid doing so, without leaving the amount either to be determined by the Secretary, by events, or by later agreement, and I would therefore prefer to omit (d) and substitute some such language as you already have in the last paragraph of this (6), making the British obligation to repay apply to deferred amounts and arrangements for advance payments to be worked out when the need arises.

My yesterday's letter covered the other parts of paragraph 6.

Please let me know if there is anything further that I can do.

It is a privilege.

Sincerely,

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

copied from manuscript.

April 12, 1923.

Dear Governor Strong:

Sent
I am returning to you for signature your letter to Mr. Gilbert, with a few slight changes which Mr. Mason has approved. Also letter with check for \$435.78 to be sent to the Commissioner of Internal Revenue, which Mr. Mason considers the proper procedure to follow under the circumstances.

Yours sincerely,

Mr. Ben J. Strong,
c/o Cragnor Sanatorium,
Colorado Springs, Colorado.

Encs.

Colorado Springs, Colorado
April 16, 1923.

Dear Mr. Gilbert:

I am sending you with this the file of papers relating to my income taxes for the years 1918 - 1919 - 1920, and would like to ask you to consider these facts.

My books and returns have been examined by inspectors three or four times, and the last inspection made was in August, 1921, which covered the years 1918 - 1919 - 1920 above mentioned. There is no objection to that so long as they get the job done and quit bothering the taxpayer; but now it seems, at this late date, that I am advised that the Revenue inspector and the Bureau at Washington do not agree with respect to the taxable interest on Liberty bonds, and another correction is necessary, and finally I am asked to sign an agreement - meaning loss of my right of recovery if the Treasury is wrong. Also the agreement intimates that matters will be expedited if I sign away my rights. It all sounds like the old bureau "red tape soak the taxpayer" stuff to me, and on that score I get a bit riled. But for another reason. (And that is what inspires this letter.) I am really indignant. We are facing a deficit this year of a large sum - \$100 to \$200 millions, I judge - and have some hundreds of millions of uncollected taxes awaiting adjustment. Why waste so much time and effort over the small fry, like me? Get after the big amounts and let these trifling errors wait!

So much for that. My best to you.

Sincerely,

Honorable S. P. Gilbert, Jr.,
c/o Treasury Department,
Washington, D. C.

Encs.

copy of
Income
Tax
file

PERSONAL AND CONFIDENTIAL

April 18, 1923.

Dear Gilbert:

Referring to our exchange of telegrams yesterday and your wire which I received this morning, I regret to observe that present Treasury balances in Federal Reserve banks do not permit of redemption of September maturities as of to-day. With respect to the suggestion that we try some sales in the market, I honestly believe that this is a most inadvisable thing for me to suggest to the committee at the present time. Please bear in mind in this regard that at the Washington Conference there was considerable discussion, between the Governors on the one hand and the Federal Reserve Board on the other, with respect to the right of the Board of of the Treasury to dictate as to the purchase and sale of securities in the open market. This discussion terminated in a modification of the preamble originally adopted by the Board. My best judgment is that for the present there has been quite enough pressure from the Board and the Treasury, and that it is not wise to unduly press this matter further just now. In other words the situation calls for the exercise of a bit of patience.

As I advised you on Monday, in transmitting the copy of the minutes of the Philadelphia committee meeting, this question of further sales on the market was thoroughly gone over at that conference, and the feeling was pretty general that in view of the possibility of a advance in rates in the near future it was not advisable to re-sell to the market any substantial block of Government securities from the Federal Reserve portfolio if such action were to be shortly followed by a rate increase. I thereupon seized upon that opportunity to suggest an alternative course, namely, that it would be a nice thing for the committee to cooperate

copy on file
410.15

Tomac?

April 18, 1923.

With the Treasury's expressed desire to have the Federal Reserve banks gradually liquidate their Government securities by tendering the Treasury all of the September certificates for redemption at par and interest. As you have stated that there is a larger amount of September maturities outstanding than is necessary, I naturally felt that this offer would commend itself to you. After some discussion all members of the committee cordially agreed to recommend to their respective Boards that all September certificates held in portfolio be offered to the Treasury at par and interest. The Treasury to have the privilege of taking them up at such time as would suit its convenience. If you have not sufficient funds on hand to take up the whole \$36,000,000., why not make a start and take up some part of them this week and the balance later on? For your information I am enclosing with this a memorandum showing that the September maturities are held by nine banks, in the aggregate sum of \$35,943,500., and I am hoping I may hear favorably from you about this in the near future.

Developments of the past week have but strengthened my conviction that the time has arrived when a slight advance in the discount rate should be made here, but I am heartily in sympathy with the idea that Mr. Crissinger should immediately qualify as Governor, and promptly accept the invitation of the New York Chamber of Commerce to come here and make an address which will contain some important statement with respect to the present credit tendencies, the statement to be of such a character as to pave the way for an increase.

I enclose a copy of current information from Washington which may be of interest to you.

Very truly yours,

J. H. CASE.

S. P. Gilbert, Jr., Esq.,
Grove Park Inn,
Asheville, North Carolina.

April 18, 1923.

Memo. on Credit Policy.

Examination of the banking position today as compared with 1920 must make due allowance for the fact that the foundation upon which any inflation may occur has been tremendously broadened by reason of the large increase in the country's gold stocks. The danger point in the 1923 reserve ratio therefore, is considerably above that of 1920, and a like measure of inflation may be attained without the corresponding expansion of member banks borrowings from the Federal Reserve System. The facts as charted seem to show that commercial loans and investments of member banks have gone up more than \$3,000,000,000. during the past year or thereabouts and are fully as high as the 1919-20 maximum. The simple fact is, therefore, that a great credit expansion has already taken place, based largely on the extraordinarily large gold imports of the past two years instead of being based solely on Federal reserve bank credit as was the case in 1919-20.

The two important questions to be determined at this time are:-

1. Will further credit expansion actually increase production and facilitate distribution of goods.
2. In view of what has already taken place, should our discount rate continue to be about 1% below open market rates, thereby stimulating further expansion.

It should be borne in mind that if, as and when our rate is increased it normally happens that a considerable further expansion of credit continues for a brief period.

The recent report of the President's Committee on Unemployment, states that the main objective is "to flatten out the alternating cycles of abnormal prosperity and resultant deflation, so that business may be spread out more evenly and the recurrent disasters avoided." According to Secretary Hoover's statement, the hypothesis upon which the committee has worked is that "when industry has been restored to full production further price rises are artificial inflation." The so-called boom, which the committee points out has always preceded depressions and in some instances panics, comes of consumption demands exceeding full production capacity.

The report of this committee goes on to state, "Individual banks and the Federal Reserve System as an organization have a responsibility for checking undue expansion by credit control, and in concluding, it recommends that more study be given to this subject. It further adds that excess gold now in the American banking system, might constitute a factor tending to undue price enhancement, with consequent relapse later." The American Banker in commenting upon this report editorially says: "Every one agrees that the causes of the periods of depression originate in the over-expansion and inflation that occurs during a period of prosperity. Thus if anything is to be done toward controlling our business and impart to it a greater amount of stability, the control must be applied in the period of prosperity. We are now in a period of prosperity and fortunately the report of this committee, begun in a period of depression, has been issued at just the right time because the actions of the business world in this period of prosperity will determine the extent and the nature of the period of depression which is to follow."

The foregoing is sound and it seems ^{not} ~~but~~ unreasonable to assume that the Federal Reserve System is looked to by the Country to protect the credit resources of the nation from exploitation.

[See Warburg:
copy of letter to
Heckert May 8, 1923]

(2)

C O P Y

CONFIDENTIAL

August 6, 1923.

Dear Mr. Gilbert:

Have you given any thought to the disposition of the outstanding bonds of the 4% Loan of 1925 which become redeemable on and after February 1, 1925? I notice that there are \$118,489,900 outstanding, of which \$84,890,800 and \$1,768,000 are on deposit to secure national bank notes and Federal Reserve Bank notes respectively. Of course at the money rates now prevailing, it would pay the Treasury to let these bonds run along, but even if such conditions should prevail when these bonds become redeemable I would be interested to know what you think of the advisability of retiring them because they carry the circulation privilege. I think we all agree that national bank notes constitute an unscientific form of currency and that it would be desirable to retire them on that account, and with a view to reducing the different kinds of currency in circulation in this country. By redeeming the outstanding bonds of the 4% Loan of 1925, you would automatically bring about the retirement of at least \$84,000,000 of national bank notes.

In addition to these 4% bonds there are close to \$600,000,000 2% Consols redeemable on and after April 1, 1930, which also carry the circulation privilege, and these two issues make up the bulk of the \$793,000,000 circulation bonds now outstanding. If they were paid off gradually and no further bonds with the circulation privilege issued, most of the national bank notes would be entirely out of the way. While I appreciate that in order to redeem these circulation bonds the Treasury

Hon. S. P. Gilbert, Jr.

-2-

8/6/23.

might have to reborrow at a higher rate or use surplus funds which otherwise might be used to retire through purchase at less than par, government bonds bearing higher coupon rates, nevertheless I am inclined to think that such a course would be desirable and that the Treasury would be justified in following it in order to retire most of the national bank notes.

I should be glad to have an expression of your views on this.

Very truly yours,

(Signed) J. H. Case.
Deputy Governor.

Honorable S. P. Gilbert, Jr.,
Under Secretary of the Treasury,
Washington, D. C.

[see also
F R B, Governors

Harris to Case

Sept 14. 1923

with draft to
Gilbert]

November 22, 1923.

Dear Mr. Gilbert:

It was good of you to write me so cordially, now that our ways seem to part, after all these years. Our relations have been a great cause for satisfaction to us all in the bank. If we have been of some little service in your work, indeed you have equally been our stalwart friend in ours.

No reply to your letter would be adequate without expressing the great admiration I have for you and for your splendid achievements in the Treasury. You leave a record of public service of the highest order, which the public will never understand and appreciate as fully as do your intimate associates like myself.

I wish you every success and much happiness.

Very sincerely,

Honorable S. P. Gilbert, Jr.,
c/o Messrs. Cravath, Henderson & de Gersdorf,
52 William St., New York, N. Y.

BS.MM

