Fed Reserve Bk

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MEMORANDA
for
Mr. Strong.

Credit
DEPARTMENT

1914
Sept. 17,

The attached is as much as I have been able to get on Tweedy, so far. I have tried to interview other members of the Exchange whom I know, but have not been able to see them as they are out of town, coming to their offices only once or twice a week. You will understand in my conversation with both Holden and Allen that in each case they brought up the subject of the Federal Reserve Bank, and I was non-commital to their questions as to whether that was the object of my inquiry.

EWL.

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LAURANCE TWEEDY

Laurance Tweedy, the son of John Tweedy, and Laura J. Wildman Tweedy, was born in Danbury, Conn., October 17, 1877. Laurance fitted for Yale at Phillip's Academy, Andover, Mass.

After graduation, in the fall of 1899, he went to New York and took a position with the firm of J. H. Parker and Company. He was only there a few months, when he was taken ill with typhoid fever. When he recovered he went to New York again, and in May 1900, joined the Consolidated Cotton Exchange, and has been an active member there ever since, serving for two years as one of the Governors.

In 1906 and 1907, he entered the firm of Sutro, Tweedy and Company, with Victor Sutro '97, and Griswold Smith '96.

On October 22, 1901, he was married to Miss Alice Burbank, daughter of General J. G. Burbank, U.S.A. They have three children - Laurance, Jr., born December 5, 1902, James Burbank, born September 13, 1905 (and died December 29, 1905) and Alice Bradford, born August 7, 1908. Laurance's business address is 33 Wall Street.

His residence address 227 Raymond Avenue, South Orange, N.J.

W.E.S.G. says:

Laurance Tweedy is of large stature (6ft.) was captain bicycle team in college. Not mentally "flash of lightning": somewhat "roly poly"; agreeable personality: easy-going; character good.

suggests Ledyard Cogswell Jr of Albany would know more about present status of Tweedy

W.E.S.G has not seen much of Tweedy in late years. Tweedy was not at last Class Reunion.

LAURANCE TWEEDY, 33 Wall Street, New York City.

September 16, 1914

Mechanics & Metals National Bank, Mr. Roe said this young man was of the firm of Sutro, Tweedy & Co., which had offices in the building at No. 33 Wall Street, where the Mechanics & Metals National Bank used to be. He said that he was not acquainted with young Tweedy, but knew his father, who was a very nice man. The family, he understood, came from Connecticut and was very respectable.

W. Jenks Merritt said that he knows Tweedy as being a member of the Consolidated Stock Exchange, but does not know anything in particular about him. According to the directory of the Consolidated Stock Exchange, Tweedy has been a member of the Exchange since May 25, 1900, and is a member of the Arbitration Committee. EWL.

September 17, 1914

New York Consolidated Stock Exchange, Mr. Lynch, Secretary, said he knows nothing regarding the personal affairs of Tweedy, but that the latter has been a member of the Exchange since 1900, and for three years was one of its Board of Governors. He has always met his obligations and conducted himself with due propriety. He is an active trader on the floor, and, while his appearance is not impressive, he seems to be well spoken of by every one, and Lynch knows nothing against him.

J.Frank Howell said that Tweedy is a trader who used to be in the commission business, with Victor Sutro as a partner. Said he is married and, he thinks, lives in the Oranges; that he is "very honorable", and he has known him for 10 or 15 years; bears an excellent reputation, and, while he would not impress one at the outset, as he is not flashy, "he is a man", and Howell said that, while there is no reason for his recommending Tweedy, he is glad to be able to speak in high terms of him, as he cannot do so about a great many men. He said he does not know what Tweedy is worth or what his income may amount to, but that he never seems to want for money, and all relations that Howell has had with him, which were quite numerous in the past, have been very satisfactory.

Hathaway,Smith,Folds & Co., Mr.Holden spoke in very high terms of Tweedy as to his qualifications for the position in question; said that he is a neighbor of his in South Orange, where he has lived for 9 or 10 years, and, while he does not know him intimately, he has had occasion to see more or less of Tweedy and the latter impresses him as being a man who has something to him. He is quite a student, and, in conversations which Holden has had with him, he has demonstrated the fact that he has studied questions on finance and is well read on the Federal Reserve Law. Holden said that Tweedy gave his name as reference and he not only saw Mr. Woodward in regard to Tweedy, but wrote a letter to Woodward setting forth Tweedy's qualifications. Holden told me Tweedy is an unassuming chap, strictly honest, and a fellow who, he believes, could meet people and would know what he was talking about. He married the daughter of General Burbank, has two children, and, besides owning his house in South Orange, has some little income, he believes, from money he got through a relation. His family came from Danbury, Conn. EWL.

Mechanics & Metals Natl.Bank, Mr. Allen said he had not seen Tweedy for several years, until about two or three weeks ago, when he came to say that he was going to apply for a position in the Federal Reserve Bank. Allen said he knew Tweedy in college and that he was a very hard-working and persevering fellow, and he is glad to say a good word for him without knowing just what success he may have met with in recent years. While he could not tell me very much about Tweedy, he said the latter "handles himself well". EWL.

Mr.Lawrence Tweedy was in the employ of Spencer Trask & Co. for a number of years, first in a clerical capacity in the New York office, and afterwards as a salesman in our Albany office. His work at all times was satisfactory and his leaving was due to an offer received from the Guaranty Trust Co., which, in his opinion, presented greater possibilities for advancement. In the opinion of the writer, who is well acquainted with Mr.Tweedy, he is bright and energetic and possesses a very pleasing address and personality. He is a Princeton graduate and comes of a good family and is very gentlemanly in manners and bearing. His work showed ambition and his ability was entirely equal to the work of the various positions that he held. His advancement, however, had not reached a point before he left us that would make an opinion possible as to his executive ability.

(Signed) J. Graham Parsons.

September 14, 1914.

Mr. Lawrence Tweedy is, I understand, a young man about 31 years of age, who for the past two years has been in charge of the London office of Messrs. Bernhard, Scholle & Co. of New York, who are dealers in securities. Prior to that time he was a clerk in the employ of the Guaranty Trust Company where for about two or three years he had occupied a position in the Bond Department, for the last year or thereabouts having been manager of that Department. He is very highly spoken of by the officers of the Guaranty Trust Company, who say he is a bright, intelligent young man, but of rather limited experience in banking outside of the security business. Prior to his employment by the Guaranty Trust Company he was in the employ of Spencer Trask & Company, Investment Bankers, of New York, having had charge of an office which they established in Albany during the latter period of his employment.

36 Beaver Street
New York City,
Sept. 9, 1914.

Dear Sir:-

The Hon. Ben T. Cable has told me of his talk with you regarding my desire to obtain a position with the Federal Reserve Bank of New York. In compliance with your request I have the honor to submit a summary of my business experience and qualifications.

I am 36 years old and was graduated at Yale in 1899, obtaining special honors in Finance. These honors were accorded me for work under Prof. J.C. Schwab in investigating the fluctuations in the price of gold during the years 1861 to 1879.

Shortly after my graduation, I came to New York and worked for the Cotton Exchange House of J.H. Parker & Co. In 1900, I joined the Consolidated Stock Exchange and have been an active member there ever since, serving as one of the Board of Governors in 1906-7. For two years I was engaged in the commission business with Mr. Victor Sutro under the firm name of Sutro, Tweedy & Co.

Having a keen interest in financial affairs, I am desirous of entering the banking business, as it offers a broader and better field than the line of work in which I am now engaged.

The new Reserve Banks are in part an extension of the Clearing House System which is more highly developed here than in any other country. They present new problems and offer opportunity to many to use their talents and be of service to the community.

I am in a position to take up at once any duties that might be designated to me in connection with the organization of the Bank.

For reference I can give the following:

Hon.Ben T. Cable; Mr. A. B. Holden of Hathaway, Smith Folds Co; Mr. Marvyn Scudder, 55 Wall St; Mr. Hendon Chubb of Chubb & Son; and Dr. Granville White, Vice President of the Mutual Life Insurance Co.

Thanking you for your interest in this matter, I am

Yours respectfully,

Lawrance Tweedy

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D.C.

Draft (1)

October 30, 1914.

To the Honorable C. S. Hamlin,

Washington, D. C.

Dear Sir:

On Friday, October 23rd, at a meeting of the Honorable the Secretary of the Treasury, the ~~Honorable the~~ Comptroller of the Currency, representing the United States Government, Sir George Paish and Basil B. Blackett, Esq., representing the Chancellor of the Exchequer of England; the members of the Federal Reserve Board; and representatives of banking institutions in this country; the undersigned were appointed a Committee to confer with a Sub-committee of the Federal Reserve Board and the representatives of the Chancellor of the Exchequer on the subjects discussed at the meeting.

¶ Your Committee recognizes the ~~extraordinary nature~~ difficulties of the present financial situation both in England and in the United States, and is conscious of the responsibility assumed in attempting to deal with this matter. It desires, on behalf of those it represents, to express to our English ~~friends~~ visitors its ~~sincere~~ admiration for the energy, courage and ability with which the English Government and the Bank of England have prevented, by extraordinary but adequate measures, the financial catastrophe ~~that would~~ which otherwise would have enveloped the business world.

Your Committee also takes pleasure, on behalf of the banking community of the United States, to acknowledge to the Honorable the President of the United States, the Honorable the Secretary of the Treasury, the ~~Honorable the~~ Comptroller of the Currency, and to the other officials of the United States Government not omitting the Governor and Members of the Federal Reserve Board, who have so recently taken office, its appreciation of their co-operation with the merchants and bankers of ~~the~~ this country in devising ways and means to meet the difficulties of the present situation.

Your Committee submits its report herewith in the form of a proposed letter to Sir George Paish, and Basil B. Blackett, Esq., representatives of the Chancellor of the British Exchequer, accredited to the Honorable the Secretary of the Treasury of the United States. Attached to this letter are various memoranda mentioned therein, all of which ~~is~~ are submitted for your information, and as the best judgment of the Committee on the subjects discussed, as enumerated in the letter.

In the course of our ~~discussion~~ meetings it has come to be understood that a definite proposal, or proposals, would be submitted. Inasmuch as those in London who are to consider proposals ~~in London~~ have not yet had opportunity to examine the memoranda submitted, and particularly in view of the fact that much of the information and many of the opinions contained in the memoranda submitted are of a delicate and confidential ~~character~~ nature, which it would be unwise at this time to make public, we beg to urge upon you the necessity of regarding the privacy of this communication as being of the utmost importance.

Respectfully yours,

October 30, 1914.

Sir George Paish,
Basil B. Blackett, Esq.,
Representatives of the Chancellor of the British Exchequer accredited to the Honorable the Secretary of the Treasury of the United States.

Gentlemen:

At a conference in Washington, convened by the Honorable William G. McAdoo, Secretary of the Treasury of the United States, which was attended by the members of the Federal Reserve Board of the United States, and representatives of banking interests of this country, the undersigned were appointed a Committee, representing the banking interests, to confer with you in order that, after exchanging views as to financial conditions in England and the United States precipitated by the war in Europe, they could submit to you memoranda outlining the conditions discussed, and possibly consider and submit to you, for transmission to England, such proposals as, in our judgment, would be to the mutual advantage of the business interests of both countries.

Based upon the interchange of views at the recent conference, and upon facts that have developed in recent conferences in New York and elsewhere, and upon our general knowledge of the local situation, combined with information in our possession regarding the situation in England, we submit the following explanatory memoranda. Because of the inherent economic differences between England's position and that of the United States, and the differences between ~~the~~ Banking Systems and Banking Methods in your country and ours, this memorandum is necessarily elaborate, but it will, we trust, afford you a full comprehension of the situation.

FIRST: A statement of the position of the New York banks on August 1st, and thereafter, ~~3rd, and~~ of the reasons why it was deemed desirable for the banks to issue Clearing House Certificates, and to apply for Aldrich-Vreeland currency; including a statement as of Aug. 1st ~~of the position, on that day,~~ of the ~~banks and~~ members of the Clearing House Association. ~~(Figures later)~~.

financial

SECOND: A statement of gold shipments made prior to the month of August ~~3rd~~ in payment of obligations, ~~and~~ an estimate of the probable additional indebtedness of American merchants, banks, and ~~bankers~~ Corporations to Europe on or about September 12th last, and a statement of the Country's Export balances for August, September & Oct. (est) 1914.

THIRD: A statement explaining the reasons why the ~~international~~ settlement of international balances necessarily falls upon the banks of New York City and not o~~f~~ the country at large, and ~~the reason~~ why a weakening of the New York City banks, ~~through the~~ by depletion of gold reserves, is serious, and is reflected at once in lack of confidence and curtailment of credit throughout the country.

FOURTH: A statement ~~of the organization of~~ respecting the syndicate formed to guarantee the payment ~~of gold of~~ of gold to meet the debt about $80,000,000 of New York City ~~debt~~, due in London (and Paris) up to January 1, 1915.

FIFTH: A statement of the necessity for and the creation of the so-called "Gold Fund", the difficulties under which it was completed, its method of operation, ~~and~~ the expenses thereof ~~in connection with its operation~~, and the risk of loss incurred by the participants; incidentally, a memorandum with regard to the price paid by the Bank of England for American eagles delivered at Ottawa, and certain questions on which the "Gold Fund Committee" desires information, having to do with the price allowed by the Bank of England for gold delivered in Ottawa.

SIXTH: A statement of the object and the terms and conditions of the so-called "Cotton Loan Pool" of $135,000,000, and of the method by which the cotton crop and its movement to market is financed, with certain suggestions.

SEVENTH: A statement in respect of the Federal Reserve Bank of New York now in course of organization, and its bearing on the matter under discussion.

EIGHTH: A statement in respect of a possible credit of £20,000,000, ~~and~~ the Committee's opinion in regard thereto, and a suggested plan which might be adopted at a later date.

These statements are submitted for consideration and discussion and are put forward for the information of the conference as an expression of the belief and opinion of the Committee.

At the general conference between the Honorable the Secretary of the Treasury, and the Federal Reserve Board, and the full Committee representing the bankers of the United States, at which this Committee was appointed, with the information then at hand, it was expected that this Committee, after conference with you, and a careful canvass of the financial situations in England and in the United States, would have some specific proposals to submit for the consideration of the English Government, or of the financial interests in England.

With the New York City Gold Syndicate andthe Gold Pool Committee funds aggregating $180,000,000 (only a small amount of which has as yet been availed of), and with the completion of the Cotton Pool Loan Syndicate, all in this country, and with the expected early conclusion of arrangements to reopen the New York Cotton Exchange with full protection to its members as to existing contracts, and with the arrangements made by the English Government to discount pre-moratorium acceptances of English Banks and Accepting Houses, and to postpone pre-moratorium liabilities to post-moratorium business, and the resultant facilities offered for new acceptance business in London, this Committee is of the opinion that the only additional step necessary at the present time to adjust the international commercial situation and enable bankers, corporations, and business firms of the United States to meet obligations as they mature at normal rates of exchange, is an understanding that the free purchase of American cotton by English spinners and merchants shall be encouraged by the bankers and government authorities of England, and that arrangements should be promptly made to open the usual channels for advances against cotton or for the discount of cotton acceptance bills.

The Cotton Loan Pool is estimated to provide funds to enable the banks and merchants of the South to carry over four million bales of cotton until February 1, 1916. The best expert opinions estimate the excess over the consumption at not over five million bales. This

Committee is of the opinion that the present low price, being considerably under the cost of production, will tend to induce cotton merchants and spinners of America and Europe to buy somewhat in excess of their needs, and that this inducement will result in the absorption of considerably more cotton than the amount generally estimated.

No Separate statement ~~reference~~ has been made ~~in this letter, or in memoranda accompanying it~~, in regard to the international security markets, or to the opening of the New York or London Stock Exchanges.

The measures above enumerated we believe are adequate and will eventually correct the international commercial situation, but would be entirely inadquate should any considerable volume of securities be thrown upon this market on the opening of the New York Stock Exchange. Until, therefore, the commercial situation has been adjusted, and the exchanges have turned in our favor, any discussion bearing on the opening of the New York Stock Exchange to a free and unrestricted market for American securities owned abroad would be premature.

Respectfully yours,

~~N.Y. C.H. Assn. Stat. of Aug. 1st '08 attached-~~

FIRST

THE POSITION OF THE NEW YORK BANKS

At conferences of New York bankers held immediately prior to the declaration of war by England, opinions were unanimous that the banking position in this country would shortly develop along lines similar to those experienced in the fall of 1907. Up to the time of these conferences gold to the amount of about $130,000,000. had been exported from the country and it was feared that, in addition to the contraction of credit resulting from this large loss of gold reserves, a further and larger contraction would be imposed upon the New York banks by reason of the withdrawal of funds by banks throughout the country who might be inspired ~~by~~ through fear to strengthen their position by increasing their reserves. In 1907, after the crisis of the panic had passed, (on December 2nd) the reports of the National Banks to the Comptroller of the Currency indicated that even ~~then~~ at that time the country banks, as distinguished from the Reserve City and Central Reserve City banks, still held excess cash reserves of $115,000,000.; and it must be borne in mind that this leaves out of consideration the ~~similar~~ accumulation of reserves doubtless made by about 18,000 State banks, as to which figures have not been compiled. In order to meet the strain imposed by this probable development, the New York Clearing House Association decided to issue Clearing House loan certificates for the settlement of clearing balances between members, and the Secretary of the Treasury announced his intention of issuing Aldrich-Vreeland notes, as authorized by existing law. These measures afforded protection to the banks of the City of New York, both National and State, and ~~resulted in their~~ Enabled them to retain~~ing~~ about $240,000,000. gold reserves which they held at that time.

Of the~~se~~ gold reserves ~~held by the New York banks~~, $80,000,000. was shortly pledged for the payment of the debt of the City of New York, and, of that amount, about $60,000,000 is still to be furnished, less ~~whatever~~ Such amount as is furnished in exchange. Of about $20,000,000 already paid, $15,000,000 has been by shipment of gold and $5,000,000 by purchase of exchange.

Of the $100,000,000 ~~furnished~~ Contributed to the gold pool, $45,000,000 was pledged by the banks of New York City, of which $11,250,000 has now been called. $26,250,000 has therefore been taken to date, leaving ~~nearly~~ ~~$155,000,000~~ $93,750,000 still to be furnished out of the present New York City bank reserves. At the present time the Clearing House banks show a ~~slight~~ Small excess Cash reserve. When these $ obligations were entered into, the New York banks were ~~below~~ from 15,000,000 to 40,000,000 under their legal reserve.

When the Federal Reserve Bank of New York is organized, it is estimated that a total of about $128,000,000 will be ~~required of the~~ withdrawn from New York City National banks to make capital and reserve payments ~~either~~ both for their own accounts ~~and~~ and for those of their out-of-town correspondents. Simultaneously, the reserve requirements will be reduced from 25% to 18%, and it is estimated that, after making these payments ~~aggregating~~ of $128,000,000, the reduction of reserve requirements will leave ~~an~~ excess reserves in the ~~banks~~ Vaults of the National banks of New York City aggregating about $60,000,000. If this calculation is correct, we must consider the result of the completion of the three operations referred to, namely, the withdrawal of the entire amount of gold which may be called for on account of City of New York and the Gold Fund, and the payments and reserve reductions resulting from the organization of the Federal Reserve Bank. The total payments to be made, aggregating about $93,750,000, will be partially offset by the $60,000,000 gained in reserves, due to reduction of reserve requirements, leaving the New York institutions possibly $35,000,000 to ~~about~~ $40,000,000 below the required legal reserve. The amount of deficiency in reserve may, by the terms of the Federal Reserve Act, be further offset if ~~by~~ member banks are allowed and avail of ~~availing of~~ the privilege of rediscounting commercial paper, at the time of ~~the~~ opening of the Federal Reserve Bank. ~~to the extent of whatever deficit arises~~.

SECOND:

GOLD SHIPMENTS PRIOR TO AUGUST 3RD

An exact statement of the shipments of gold during the first seven months of 1914, and of its destination, would require considerable investigation, which time does not permit. In general, it may be said that in that period the banks of the City of New York exported, in round figures, $130,000,000 of gold, largely in eagles, the principal amount having been taken by the Bank of France, and, indirectly, by the Reischbank. The inducements offered by these institutions to attract gold in settlement of international balances were understood in this country to have deprived the Bank of England of the opportunity afforded at that time to strengthen its gold holdings, and undoubtedly was occasioned by the willingness of the English Market to continue to extend accommodation to its customers in the United States in the accustomed volume. It is possible that the occurrences of the past few months in international exchange may be explained by the fact that France and Germany did not renew current American indebtedness as freely as the English Market did. Investigation conducted by a special committee appointed at the request of the Federal Reserve Board in the latter part of September disclosed the fact that, as of September 12th, the total ascertainable current international debt maturing between that date and January 1, 1915, amounted to about $450,000,000. The items investigated included bank balances, maturing securities, interest and dividend obligations, commercial credits, finance bills, and indebtedness for securities sold. As to some of these accounts, estimates were necessary, and it is recognized that information of this character is inaccurate and liable to be misleading. The offset accounts were shown to be about $150,000,000, leaving the net indebtedness as of that date maturing before January 1st, in round figures, $300,000,000. due to England, France, Germany, Canada, and, to some extent, other European countries. The amounts maturing were about equally proportioned over the fall period of the year. I it should be ~~borne in mind~~ understood that a considerable portion of the American indebtedness to the London Market, maturing in the period between October 1st and January 1st, was created in anticipation of the purchase of cotton bills, which have always been considered cash in the London Market.

No further data has been obtained in connection with the present amount of the current international indebtedness, but opinions asked of bankers conversant with this matter would probably justify the belief that over one-half of the net indebtedness has been paid at the present time.

The foreign trade, exclusive of gold and silver shipments, was $20,000,000 adverse to the United States in August, $17,000,000 in its favor in September and will probably be $25,000,000 in its favor for October. Last year, for the months the balances ~~for these months~~ in favor of the US were

	1912	1913
Aug.		
Sept.		
Oct.		

~~In~~ 1912, the balance ~~for these months~~ were-

THIRD:

THE SETTLEMENT OF INTERNATIONAL BALANCES IN GOLD FALLS ENTIRELY UPON THE BANKS OF NEW YORK CITY.

The international exchanges reflected fears of the effect of the outbreak of ~~the~~ war, by the latter part of July, and even before August 3rd there developed in America an insistent demand for exchange to meet ~~existing~~ maturing obligations to Europe ~~which were about to mature~~. The declaration of war, and the ~~temporary~~ suspension of shipping facilities, caused such an interruption of the American export trade as to dangerously reduce the supply of exchange. The following statement is made at some length in order that the position taken by the New York banks with respect to gold exports may be better understood.

About 80% of the foreign commerce of the Atlantic Seaboard passes through the Port of New York. It is the largest ~~banking~~ manufacturing and banking center in the United States, and is the market where the quotation for foreign exchange is made, and where foreign bills are assembled for remittance to Europe for collection or discount. There is no city in the United States which can make a quotation for exchange, without a quotation from New York. The burden imposed upon the reserves of the banks of New York, when the gold movement is adverse in both the foreign and domestic exchanges, has at times under our old ~~present~~ banking system, proved to be too heavy for the banks to carry without employing emergency relief measures. In 1907 the only such measure available was to issue clearing house loan certificates for settling balances between members, which however afforded no relief to the rest of the country. The new York banks in 1907 suspended free shipment of currency to their correspondents, and the immediate result was a maximum premium of 3-1/2% on both currency and gold.

This year the Aldrich-Vreeland Currency Act permitted the prompt ~~free~~ use of an emergency currency which was acceptable to the people of the country. Within a few days after August 3rd, the New York banks were able to freely supply their correspondents with currency, and at no time since that date has there been a premium on either gold or currency in this country nor, in fact, has New York exchange ~~sold at such a~~ ~~premium~~ ~~discount~~ in ~~any~~ other parts of the country indicated ~~as to give rise to~~ distrust of the ability of the New York banks to promptly meet their obligations to their correspondents. This currency not being available for the settlement of international balances, and it having been impossible for the banks to ship gold to Europe, London exchange reached a premium equivalent to a very considerable premium on gold. Had this situation occurred in our domestic exchanges, distrust of the ability of the New York banks to meet their commitments and the demands of their depositors might have arisen and with serious consequences. London exchange, after the first violent rise to a maximum of seven dollars for cable transfers, gradually reacted until a fairly level price was established, in the neighborhood of five dollars to the pound, with fluctuations within a range of about five cents either way. In normal times exchange at this level would have caused a large export of gold, the burden of which would have fallen not only upon the banks of New York City, but indeed upon the comparatively few large banks which draw exchange or which carry the accounts of private firms which draw exchange, but which do not themselves carry gold reserves. At the suggestion of the Federal Reserve Board, a committee of bankers formulated a plan for assembling $100,000,000 ~~in~~ of gold for export, in order to make exchange and to thereby distribute the burden among institutions all over the United States instead of imposing it upon a few of the banks of New York City. This $100,000,000 was in addition to the $80,000,000, The Banks of New York City pledged $45.000.000 of the amount. pledged by the banks of the City of New York for the payment of New York City obligations maturing in Europe during the balance of this year. The necessity for pursuing this course, instead of allowing a free movement of gold, arises:

FIRST: From the fact that the gold reserves of the United States are scattered among about twenty-five thousand national and state banking institutions;

SECOND: From the fact that those banks in New York which might ship gold would be unable to recoup their gold reserves by calling loans; and,

THIRD: From the fact that it is impossible for a bank which parts with its gold for export to recoup itself through the exchanges from other banks, and because the proceeds of sales of exchange as well as of loans paid are payable in New York funds through the Clearing House and ~~are~~ have since August 1st been settled either in clearing house loan certificates or Aldrich-Vreeland notes.

FOURTH:

THE NEW YORK CITY DEBT.

The City of New York has for many years been authorized, by the terms of its charter, to borrow money in anticipation of the payment of taxes. With the growth of the city, and the enormous increase in the tax levy, the amounts of these borrowings have increased to such an extent that at times the city is indebted to the market on short loans to the extent of $100,000,000. which loans are ~~is~~ ordinarily liquidated at the time taxes are paid in the fall, and, in recent years, in both the spring and fall, as the tax levy is now divided into semi-annual payments. The movement of the cotton crop in the fall of the year ordinarily furnishes such a large volume of exchange at that season that borrowers have been able to count with reasonable certainty upon lower rates in the fall than in the spring, and advantage ~~of that fact~~ has been taken of that fact not only by the City of New York but by other municipalities which make similar loans to borrow large sums of money in the London market. On August 3rd the City of New York had so borrowed a total of $82,000,000., a small portion payable in Paris, but the greater part in London. The breakdown of international exchange imposed upon the City of New York the necessity of meeting this large obligation by the export of gold. The city carries its accounts in a large number of institutions, both national and state, located in the City of New York, and, under ordinary circumstances, would have had no difficulty in obtaining gold in large amounts from those institutions. The conditions existing early in August, however, made it impossible for the City's bankers ~~city banks~~ to furnish the amount of gold required, and, had the city been obliged to purchase exchange at the rates recently prevailing, the loss would have been enormous. It was therefore determined by the bankers who undertook the solution of this problem to ask all the banks in the City to contribute to a fund of gold amounting to about $80,000,000, in proportion to the amount of their respective gold holdings. The contracts entered into between the City, the contributing banks, and the Managers of the transaction (J. P. Morgan & Company, and Kuhn, Loeb & Company) provided for the sale of $100,000,000 of obligations of the City maturing in one, two, and three years. The banks which underwrote the issues undertook to furnish the managers, if required to do so, eighty per cent. of the amounts of their subscriptions to the syndicate in gold, having the option, however, of furnishing sterling exchange in place of gold at the rate of $4.90 a pound. The practically unanimous response of the banks of the city to the call made upon them, as well as the universal approval of the transaction, indicates that the bankers were correct in their belief that a postponement or default in the payment of this indebtedness of the city could not be contemplated, and that the consequences would be so serious as to justify the pledge of gold involved. While it is now ~~clearly~~ recognized that the city could have extended a large part of this indebtedness in London by the offer of an issue of new notes payable in London in sterling, the city authorities nevertheless felt, no doubt influenced by the pressure of public opinion, that it was to the city's advantage to extinguish the debt at once, and avoid the possibility of loss at a later maturity, rather than to advance its position and to take the chance of being able to get gold six months or a year later. The contract so made by the banks of New York placed one-third of their entire gold holdings under contract for export, at least to the extent that exchange could not be furnished. Attention is here called to the fact that the privilege of furnishing exchange in place of gold permits any contributor to this fund to avoid the loss of gold by purchasing exchange and, therefore, contributors to this fund are, to some extent, competitors in the market for the purchase of sterling exchange.

FIFTH:

THE $100,000,000 GOLD FUND.

Statement "third" largely explains the necessity for providing a fund of gold by the method adopted, and it is the belief of the Committee that the success of the plan affords evidence of the willingness and intention of the banks of the United States to furnish the means to their customers for paying foreign indebtedness which the banks of New York alone, without endangering the situation, were unable to provide.

Voluntary contributions were obtained from national and state banks in all central reserve and reserve cities (52 in number), those cities, under the law, being required to hold 25% and 12½% cash reserves, respectively, as against 6% in other cities. Contributions of gold to the fund were received from 1,494 different banks, located in all parts of the United States. An amount in excess of $100,000,000 was promptly pledged through the co-operation of the Secretary of the Treasury and the Federal Reserve Board. Pending the payment of the first call of $25,000,000, nine New York institutions advanced $10,000,000 in gold for shipment to Ottawa. This enabled the Committee to promptly meet the urgent demand for exchange, which was selling at about $5.02½.

The Committee desires to call attention to the fact that the gold fund was not created for the purpose of making a profit, but rather to meet an emergency and thereby exert an influence in bringing about a decline in the rate of exchange. The policy of the Committee has not been to sell exchange freely. This would certainly have resulted in the accumulation of exchange by debtors who desired to insure the protection of future maturing obligations, and, unfortunately, might also have resulted in releasing exchange to the contributors to the fund provided to meet the obligations of the City of New York. It was rather the ~~intention~~ policy of the Committee to use the fund to prevent an undue advance in exchange rates, but, nevertheless, to permit rates to follow fairly normal fluctuations and thereby induce American obligors to arrange for renewals in the expectation that the creation of exchange ~~by~~ following a restoration of export trade would avoid the necessity of exporting any considerable portion of the gold fund. This Committee, of which two members are also members of the Gold Fund Committee, is convinced that the policy adopted was a wise one, and that the purposes of the gold fund have already been largely accomplished. After allowing for certain large payments made for account of the United States Government, for which the Government reimbursed the Gold Fund Committee in gold, the total amount of the fund has been reduced by not over one million pounds, and is substantially intact.

PROFITS AND LOSSES OF THE GOLD POOL.

Misunderstanding is liable to arise with regard to the ultimate profit and loss account of the Gold Fund Committee, and we are informed that the attitude of the Bank of England later referred to ~~is~~ was possibly due to the belief that large profits will accrue to the Gold Fund contributors. Consideration of the following will, we trust, make clear the Gold Fund Committee's position:

ABRASION.

The legal limit of tolerance on American gold coin is one-half of one per cent. Eagles furnished by the Sub-Treasury at New York will rarely show an abrasion exceeding one-quarter of one per cent. Eagles shipped from western points, however, where gold coins circulate much more freely, show a larger percentage of abrasion. The Committee must figure on a loss of from one-quarter to three-eighths per cent. for abrasion.

INTEREST and Expenses -

The gold furnished for the purpose of this fund is taken out of bank reserves, and held in safe deposit in New York, and is not held as a part of the reserves of the New York banks. The contributors are called upon to make payments in installments of 25%. The first payment of 25%, in anticipation of which $10,000,000 was advanced by certain New York banks, was made as soon as the fund was completed, and the expense of transferring this fund from all parts of the country was paid out of the fund. In order to arrive at the cost of exchange, it is also necessary to make allowance for the interest during transmission, and during the period when the gold is held in storage in New York, for all the expenses of shipment to Ottawa, as well as for abrasion; the gold being received by the Committee at its face value, and sold to the Bank of England at its bullion value. It is impossible to estimate the interest cost involved in shipments which have not yet been made, but a calculation has been made as to the first shipment, with allowance of interest to November 30th, and it is found that London exchange on the basis of this calculation costs the contributors about 4.92-3/4. The average price realized for exchange sold to date will slightly exceed 4.95, and, after making allowance for 2% interest allowed by the London banks, it is probable that if the account was closed at the present time by selling exchange against balances now in London, the result would be a loss to all the contributors to the fund. This is occasioned by the decline in exchange after the first transfer to Ottawa was made, and before the entire balance was exhausted.

At the time the fund was created, the Committee desired the co-operation of the Bank of England on two points only, pending a discussion of other matters of importance which could not be then taken up by cable.

First: A better understanding of the basis on which the Bank was purchasing gold shipped to Ottawa;

Second: An arrangement for advances, without interest, upon advice and guaranty of shipment from New York to Ottawa.

AS TO THE PRICE PAID FOR AMERICAN GOLD:

The value of the grains of gold in the English sovereign in American currency is $4.86656

One ounce of American gold coin contains fine gold of the value of $18.6046

$18.6046, at the rate of $4.86656, equals..................76sh. 5½d.

which is the value, expressed in sterling, of one ounce of American gold coin.

This is the exact price which the Bank of England was paying for American Eagles just prior to the outbreak of the war.

Reductions were made to a net price of ....76sh. 3½d.

3d. being further deducted for American Eagles shipped to Ottawa.. 3d.

making the net price for Eagles delivered in Ottawa........76sh. ½d.

It has been stated to us that the ~~difference~~ reduction of 5d. on is made in order to cover ~~up of~~ the following items:

(a) An allowance for the cost of melting and minting;

(b) An allowance for the cost of transferring Eagles from Ottawa to London.

As to the first item, inquiry arises as to whether the price which the Bank of England is required by law to pay for bars (77sh. 9d.) does not make allowance for the cost of coining bars into sovereigns, and that, therefore, a shipper of Eagles should not be required to make this additional allowance, which is already covered in figuring the equivalent of the bullion value of the gold contained in American Eagles.

As to the second item, the question arises as to whether the Bank of England should not, if the exchanges turn before the gold is shipped to London, then allow in the price at which it resells the gold to New York, a rebate of the charge which it has collected for the conversion of Eagles into sovereigns. The same question will arise as to 3d. deducted from the price allowed for standard bars.

The Gold Pool Committee feels that the deduction of 5d. on Eagles and 3d. on bars is not justified under the circumstances, but a clearer understanding of the reasons for these deductions may change the Committee's views.

As to an arrangement for advances without interest, the request which was made for this accommodation at the time of the first shipment grew out of an emergency. Exchange was selling above five dollars a pound and the

Committee desired to be in a position to draw exchange at once before the gold shipped could be received and weighed at Ottawa and orders confirmed. The necessity for accommodation on that account is now passed.

With exchange approaching the point where gold exports become unprofitable and without a better understanding with the Bank of England as to the rate which they will make on Eagles exported to or from Ottawa, the Gold Fund Committee will find it impossible to make any considerable shipment of gold at one time without risk of loss on a portion of such shipments.

The Committee desires to be in a position where it may furnish exchange so long as it may profitably cover with gold, but not to run the risk of ~~fluctuation in the~~ a rapid decline in the exchange market.

SIXTH:

THE COTTON LOAN POOL.

It has been generally estimated, and this Committee believes with reasonable accuracy, that this year's American cotton crop will somewhat exceed 15,000,000 bales, and that the world's reduced consumption of cotton will leave an unused balance of the American product of about 5,000,000 bales. At the conference in Washington, it was suggested that the maximum credit to finance the cotton crop would be required at the time when the maximum of the crop had been picked, and the minimum marketed, that is to say, about December 1st, at which time it was suggested that a credit of $300,000,000 might be ~~needed.~~ required. This does not take into account two factors in the situation.

First: The method of financing the growing and gathering of the crop.

Second: The difference in price between this year and last year.

As to the method of financing the crop, it may be generally stated that the initial advances are made before the crop is planted. They are largely made to the farmers by merchants ~~or~~ and supply houses, and are increased as the work on the crop advances, the merchants taking a lien on the growing crop and borrowing money from their banks. By the time the cotton is gathered, the last advance is made. The marketing of the crop through the ginning and compress companies and the cotton factors is a process of liquidation, and the problem confronting the South ~~today~~ at this season is not that of arranging new credits with which to finance the cotton crop as a whole, but rather of providing a temporary credit to be employed in facilitating the liquidation of that portion of the crop which can be marketed, by enabling banks to extend or renew the loans that have already been made and thereby assist in ~~to~~ financing the surplus which may not promptly be marketed. This may be described as a process of clearing or shifting loans rather than as a process of ~~the~~ creation ~~of a~~ new credits. As to the second point, namely, the price, it is of course evident that with cotton selling at six cents, those banks which loan on cotton could ~~can~~ carry two bales this year against one bale, at twelve cents, last year.

In order to facilitate the process of liquidation, which contemplates that 10,000,000 bales will be sold and 5,000,000 bales will be carried, a credit is in course of being arranged, amounting to $135,000,000, to be handled by the following plan: $100,000,000 of the advance is to be secured by a first lien upon cotton pledged at not exceeding six cents a pound, middling grade. $35,000,000 is to be secured by a second lien on the pledged cotton, this ~~the latter~~ portion of the loan to be provided by the banks of the cotton growing states, to whom, or through whom, the loans will be made. A fund amounting to three per cent. of the amount of the loans made is to be set aside to cover the expenses of managing the transaction, and to pay any losses incurred. The fund is to be administered under the directionof aCommittee consisting of members of the Federal Reserve Board, the business, however, to be conducted by an operating committee, and, under its management, by local committees, the machinery for the appointment of which has already been ~~arranged.~~ devised. This Committee believes that the cotton loan fund will be inadequate to restore normal conditions in the market for raw cotton, or in the cotton manufacturing industry, unless it is supplemented by energetic measurez to bring about better facilities, both in the United States and abroad, for marketing, financing, and manufacturing cotton. Last year, sales of cotton to Europe furnished this country with $534,000,000 of exchange. Anything which retards the free purchase of the free sale of cotton, or the restoration of stable prices for raw cotton, will also retard the restoration of normal conditions in the international exchanges, and work injury both in England and in the United States. In the opinion of this Committee, it seems desirable that the following measures be adopted:

<u>First:</u> That the fund of $135,000,000 be completed and its administration undertaken at once.

<u>Second:</u> That the New York and Liverpool cotton exchanges should be opened. Plans for opening the New York Cotton Exchange have reached a point where it may be reasonably expected that the exchange can open at an early date provided necessary co-operation is afforded by the Liverpool Cotton Exchange and By the English banks. A fund has been pledged which will enable ~~brokers who are~~ the members of the New York Cotton Exchange, ~~and~~

who are committed for the purchase of cotton, at high prices, to margin their contracts down to 7-1/2 cents. With this relief, confidence is expressed that they may ~~undertake to~~ safely open the exchange with a reasonable expectation of being able to meet the market conditions which will arise. Co-operation by the Liverpool Cotton Exchange on similar lines is necessary before it will be feasible to open the New York Cotton Exchange.

THIRD: It is also essential that no question as to contraband be permitted to arise in regard to export cotton. The Committee notes with great satisfaction that the British Government has already recognized this situation.

FOURTH: Any restraint which may have been imposed upon English merchants or spinners in the purchase of cotton should be removed. Reference has been made to some agreement or understanding which we had been advised exists in England in this respect. It is not understood that the British Government has brought about any such understanding, nor, in fact, is it understood that English purchasers of cotton have any definite agreement among themselves in this regard. Advices have reached this country, however, to the effect that some of the English banks have exerted a strong influence in restraining the free purchase of cotton by English cotton merchants and spinners, and it is hoped that the English banks ~~will~~ may be induced to encourage the purchase of cotton within reasonable limits.

FIFTH: That the usual means of financing purchases of cotton by English merchants and spinners should be reopened through advances against cotton bills ~~on~~ through the discount market.

SEVENTH:

FEDERAL RESERVE BANK

The first installment is to be paid ~~for~~ for the capital stock of the Federal Reserve Bank ~~has been called to be paid~~ on November 2nd. The plan ~~now contemplated~~ announced provides for the transfer of ~~the~~ reserve deposits ~~in~~ to these banks, commencing with November 16th. If the operation is successfully concluded, the Federal Reserve Bank of New York, within a period of six months (and possibly at the end of three months) will have received payment for over $10,000,000 capital stock in gold, and will have received on deposit ~~about~~ at least $100,000,000 of the reserves of the National Banks of New York State, and possibly much more.

The Federal Reserve Act provides that not exceeding 50% of the initial reserve deposits may be made out of the proceeds of commercial paper which the Banks may allow the member banks to rediscount~~ed by the member banks~~. It is therefore impossible, at this time, to forecast the condition of the Federal Reserve Bank of New York resulting from the initial transactions, as the amounts of discounts ~~availed of by~~ allowed to the member banks will depend,--

(1) Upon the rate of discount established by the bank;

(2) Upon the rate of interest ~~provided~~ prevailing in the City of New York; and

(3) Somewhat upon the extent to which the New York City Banks are required to make payments for account of their correspondents located in Federal Reserve Districts.

(4) The extent to which they may deposit 5/18 of their reserves, the deposit of which is optional.

The Federal Reserve Banks of the United States are in the course of establishment. Calls for payment on the capital

Federal Reserve Bank:

stock have already been made. The ability of this bank to furnish gold is a matter for future consideration, and should not at this time be made the basis of any transaction or proposal.

SEVENTH:

SUPPLEMENTAL MEMORANDUM

AS TO THE FEDERAL RESERVE BANK OF NEW YORK CITY

It must be borne in mind that there is no certainty as to the amount of gold which will be paid into the Federal Reserve Bank at the commencement of its operation. The capital payments which must be met within a period of from ~~30~~ ninety days to six months, in gold, total about $10,000,000. The payment of reserves, aggregating $100,000,000, may be made in United States notes and silver certificates. While it is hoped that the banks of ~~this~~ the New York district will make a considerable portion of their reserve payments in gold, it is, nevertheless, quite possible that a large proportion will be made in legal tender notes, and the ability of the Federal Reserve Bank to accumulate gold from other sources than the United States Treasury will therefore depend upon:

(A) The degree of confidence which the bank enjoys from its member banks, which now hold the principal gold reserves.

(B) A change in the present currency laws, readjusting the various forms of gold certificates and legal tender notes, so as to force the withdrawal ~~the~~ of small denominations ~~of~~ gold certificates from circulation.

No transaction involving the present pledge of the credit of the Federal Reserve Bank to furnish gold would be justified until the bank has been in operation a sufficient length of time to demonstrate its ability to accumulate sufficient gold reserve to justify such a transaction.

EIGHTH:

CREDIT OF £20,000,000 STERLING.

Your Committee has been informed that ~~more than~~ about a month ago, when the visit of Sir George Paish and Basil B. Blackett, Esq., was first proposed, ~~that~~ one of the subjects to be considered at the conferences would be a possible credit which would, in effect, afford means for extension of the obligations due in England by bankers and merchants in the United States. If it had been possible to arrange such a credit by exchange of cables at that time, your Committee would have approved of the transaction. It would have supplied exchange at a moment when the demand was urgent; and it would have insured us against any serious drain on gold reserves for the time being, and given this country a period for readjustment during which local conditions could have been ~~made~~ brought to meet the extraordinary situation.

Since the date when the suggestion of a credit was made, exchange in large quantities has been supplied to the market, and confidence has been greatly restored ~~through~~ by the knowledge that the New York City Syndicate and the Gold Pool Committees' operations have been ~~demonstrated to be~~ effective. From information which your Committee has gathered, it is strongly of the opinion that a continually increasing supply of exchange is in prospect. The export of food products and raw and manufactured materials that Europe needs in the present crisis (not to mention munitions of war), must continue; mills and manufacturing companies are working overtime on orders for goods which, in many cases, will not be ready for shipment for some months, and which will make a corresponding supply of exchange. The opening of the New York and Liverpool Cotton Exchanges, coincident with the completion of the Cotton Loan Pool, if accompanied by assurances to the merchants and spinners of England of the willingness of the English banking community to finance reasonable purchases of cotton from the United States will also add to the supply of exchange.

For this, and other reasons that it is not necessary to elaborate here, your Committee is convinced that the adoption and Employment of any extraordinary or unusual measures at this time are unnecessary, as such action might, in fact, be interpreted as an expression of the belief of this Committee that the present situation requires such measures, and because ~~an~~ unusual measures ~~is~~ are likely to bring about unexpected and possibly undesir~~able~~ed results.

It will be noted that the foregoing relates entirely to the commercial situation. No account has been taken of the possible opening of the New York Stock Exchange, and the additional demands that might arise if any considerable amount of English owned American securities were resold ~~to~~ in this country. Your Committee is firmly of the opinion that it is premature to discuss the opening of the New York Stock Exchange until the adjustment of the commercial situation has been demonstrated. In the meantime, however, and with a view to this step, it is recommended that a Committee from the New York Stock Exchange be appointed, which Committee should visit London for conference with a like Committee from the London Stock Exchange, and for a careful study of the situation there. A tentative arrangement for a large Sterling credit, predicated on the understanding that its repayment will not be made in gold, but in commodities and manufactured goods, would ~~certainly~~ make it possible to consider the opening of the Stock Exchange sooner than it would otherwise be safe to do, should other conditions permit, ~~[illegible]~~ As this step is recognized to be a desirable one from the point of view of both countries, a present discussion of the form of such a credit and a tentative agreement as to its terms, at this time, would be beneficial. ~~A memorandum. Supplementary report is attached, ~~containing~~ outlining the Committee's suggestion~~

P

Conditioned upon the understanding suggested in ~~page 3 of~~ memorandum Eighth, and with the view to assistance in meeting conditions which may arise through excessive sales of American securities held in Europe, the following has been tentatively discussed with Gov. Fed. R. & B. of E. — ~~It is suggested~~ that a revolving sterling credit of £20,000,000 shall be granted under the authority of the English Government, or the Bank of England, on the following plan:

(1) The Credit to be available as a supplement to and only after the $100,000,000 Gold Fund has been shipped, in order to avoid further gold shipment.

(2) Drafts at 90 days, with one agreed renewal, on an acceptor, or acceptors, to be designated by the grantors.

(3) Drafts to be forwarded direct to England for discount under an agreed arrangement, and demand or cables to be sold against them.

(4) Drafts to be drawn by the Gold Fund Committee, or a new committee representing guarantors, consisting of banks, trust companies and banking firms in the United States acceptable to grantor.

(5) Proceeds of sales of exchange to be loaned upon security of approved bonds and stocks as collateral, with the obligations of borrowers, who are satisfactory to the guarantors, to maintain a margin of not less than twenty per cent. (20%) of the face value of the loan.

(6) Drafts to be drawn only as required to supply exchange to take the place of gold remittances.

(7) Drafts to be covered at maturity in the usual way if exchange can be purchased at or below the cost of exporting gold.

(8) If exchange cannot be purchased as above, and payment of the bills would require the export of gold, ~~another~~ further 90 day renewals to be granted, provided that, in the opinion of the Federal Reserve Board, a further loss of gold would be detrimental to our financial ~~condition.~~ situation,

(9) The grantors of the credit to be entitled, after the first renewal, to ~~accept~~ ~~require~~ require payment ~~if any balance not covered~~, in whole or in part, in New York exchange. Such dollar balances, however, to be used only in the purchase of American products.

November 2, 1914.

Sir George Paish,
Basil P. Blackett, Esq.,
Representatives of the Chancellor of the British Exchequer accredited to the Honorable the Secretary of the Treasury of the United States.

Gentlemen:

At a conference in Washington, convened by the Honorable William G. McAdoo, Secretary of the Treasury of the United States, which was attended by the members of the Federal Reserve Board of the United States, and representatives of banking interests of this country, the undersigned were appointed a Committee, representing the banking interests, to confer with you in order that, after exchanging views as to financial conditions in England and the United States precipitated by the war in Europe, they could submit to you memoranda outlining the conditions discussed, and possibly consider and submit to you, for transmission to England, such proposals as, in our judgment, would be to the mutual advantage of the business interests of both countries.

Based upon the interchange of views at the recent conference, and upon facts that have developed in recent conferences in New York and elsewhere, and upon our general knowledge of the local situation, combined with information in our possession regarding the situation in England, we submit the following explanatory memoranda. Because of the inherent economic differences between England's position and that of the United States, and the differences between banking systems and banking methods in your country and ours, this memorandum is necessarily elaborate, but it will, we trust, afford you a full comprehension of the situation.

FIRST: A statement of the position of the New York banks on August 1st, and thereafter, of the reasons why it was deemed desirable for the banks to issue Clearing House certificates, and to apply for Aldrich-Vreeland currency; including a statement, as of August 1st, of the members of the Clearing House Association.

SECOND: A statement of gold shipments made prior to the month of August in payment of obligations, an estimate of the probable additional indebtedness of American merchants, banks, and corporations to Europe on or about September 12th last, and a statement of the country's export balances for August, September, and October (estimated) 1914.

THIRD: A statement explaining the reasons why the settlement of international balances necessarily falls upon the banks of New York City and not of the country at large, and why a weakening of the New York City banks, through depletion of gold reserves, is serious, and is reflected at once in lack of confidence and curtailment of credit throughout the country.

FOURTH: A statement respecting the syndicate formed to guarantee the payment of about $80,000,000 of gold to meet the debt of New York City, due in London (and Paris) up to January 1, 1915.

FIFTH: A statement of the necessity for and the creation of the so-called "Gold Fund," the difficulties under which it was completed, its method of operation, the expenses thereof, and the risk of loss incurred by the participants; incidentally,

a memorandum with regard to the price paid by the Bank of England for American Eagles delivered at Ottawa, and certain questions on which the "Gold Fund Committee" desires information, having to do with the price allowed by the Bank of England for gold delivered in Ottawa.

SIXTH: A statement of the object and the terms and conditions of the so-called "Cotton Loan Pool" of $135,000,000, and of the method by which the cotton crop and its movement to market is financed, with certain suggestions.

SEVENTH: A statement in respect of the Federal Reserve Bank of New York now in course of organization, and its bearing on the matter under discussion.

EIGHTH: A statement in respect of a possible credit of £20,000,000, the Committee's opinion in regard thereto, and a suggested plan which might be adopted at a later date.

These statements are submitted for consideration and discussion and are put forward for the information of the conference as an expression of the belief and opinion of the Committee.

At the general conference between the Honorable the Secretary of the Treasury, and the Federal Reserve Board, and the full Committee representing the bankers of the United States, at which this Committee was appointed, with the information then at hand, it was expected that this Committee, after conference with you, and a careful canvass of the financial situations in England and in the United States, would have some specific proposals to submit for the consideration of the English Government, or of the financial interests in England.

With the New York City Gold Syndicate and the Gold Pool Committee funds aggregating $160,000,000 (only a small amount of which has as yet been availed of), and with the completion of the Cotton Pool Loan Syndicate, all in this country, and with the expected early conclusion of arrangements to reopen the New York Cotton Exchange, with full protection to its members as to existing contracts, and with the arrangements made by the English Government to discount pre-moratorium acceptances of English banks and accepting houses, and to postpone pre-moratorium liabilities to post-moratorium business, and the resultant facilities offered for new acceptance business in London, this Committee is of the opinion that the only additional step necessary at the present time to adjust the international commercial situation and enable bankers, corporations, and business firms of the United States to meet obligations as they mature at normal rates of exchange, is an understanding that the free purchase of American cotton by English spinners and merchants shall be encouraged by the bankers and government authorities of England, and that arrangements should be promptly made to open the usual channels for advances against cotton or for the discount of cotton acceptance bills.

The Cotton Loan Pool is estimated to provide funds to enable the banks and merchants of the South to carry over four million bales of cotton until February 1, 1916. The best expert opinions estimate the excess over the consumption at not over five million bales. This Committee is of the opinion that the present low price, being considerably under the cost of production, will tend to induce cotton merchants and spinners of America and Europe to buy somewhat in excess of their needs, and that this inducement will result in the absorption of considerably more cotton than the amount generally estimated.

No separate statement has been made in regard to the international

security markets, or to the opening of the New York or London Stock Exchanges. The measures above enumerated we believe are adequate and will eventually correct the international commercial situation, but would be entirely inadequate should any considerable volume of securities be thrown upon this market on the opening of the New York Stock Exchange. Until, therefore, the commercial situation has been adjusted, and the exchanges have turned in our favor, any discussion bearing on the opening of the New York Stock Exchange to a free and unrestricted market for American securities owned abroad would be premature.

Respectfully yours,

(Sgd.) James Brown
Benj. Strong Jr
A. H. Wiggin

FIRST:

THE POSITION OF THE NEW YORK BANKS

At conferences of New York bankers held immediately prior to the declaration of war by England, opinions were unanimous that the banking position in this country would shortly develop along lines similar to those experienced in the fall of 1907. Up to the time of these conferences gold to the amount of about $130,000,000 had been exported from the country and it was feared that, in addition to the contraction of credit resulting from this large loss of gold reserves, a further and larger contraction would be imposed upon the New York banks by reason of the withdrawal of funds by banks throughout the country who might be inspired through fear to strengthen their position by increasing their reserves. In 1907, after the crisis of the panic had passed (on December 2nd), the reports of the National Banks to the Comptroller of the Currency indicated that, even at that time, country banks, as distinguished from the Reserve City and Central Reserve City banks, still held excess cash reserves of $115,000,000; and it must be borne in mind that this leaves out of consideration the accumulation of reserves doubtless made by about 18,000 state banks, as to which figures have not been compiled. In order to meet the strain imposed by this probable development, the New York Clearing House Association decided to issue Clearing House loan certificates for the settlement of clearing balances between members, and the Secretary of the Treasury announced his intention of issuing Aldrich-

Vreeland notes, as authorized by existing law. These measures afforded protection to the Banks of the City of New York, both National and State, and enabled them to retain about $240,000,000 gold reserves which they held at that time.

Of these gold reserves, $80,000,000 was shortly pledged for the payment of the debt of the City of New York, and, of that amount, about $60,000,000 is still to be furnished, less such amount as is furnished in exchange. Of about $20,000,000 already paid, $15,000,000 has been by shipment of gold and $5,000,000 by purchase of exchange.

Of the $100,000,000 contributed to the gold pool, $45,000,000 was pledged by the banks of New York City, of which $11,250,000 has now been called. $26,250,000 has therefore been taken to date, leaving $93,750,000 still to be furnished out of the present New York City bank reserves. At the present time the Clearing House banks show a small excess cash reserve. When these obligations were entered into, the New York banks were from $15,000,000 to $40,000,000 under their legal reserve.

When the Federal Reserve Bank of New York is organized, it is estimated that a total of about $128,000,000 will be withdrawn from New York City National Banks to make capital and reserve payments both for their own accounts and for those of their out-of-town correspondents. Simultaneously, the reserve requirements will be reduced from 25% to 18%, and it is estimated that, after making these payments of $128,000,000, the reduction of reserve requirements will leave excess reserves in the vaults of the National Banks of New York City aggregating about $60,000,000. If this calculation is correct, we must consider the result of the completion of the three operations referred to, namely, the withdrawal of the entire amount of gold which may be called for on account of the City of New York and the Gold Fund, and the payments and reserve reductions resulting from the organization of the Federal Reserve Bank. The total payments to be made, aggregating about $93,750,000, will be partially offset by the $60,000,000 gained in reserves, due to reduction of reserve requirements, leaving the New York institutions possibly $35,000,000 to $40,000,000 below the required legal reserve. The amount of deficiency in reserve may, by the terms of the Federal Reserve Act, be further offset if member banks are allowed and avail of the privilege of rediscounting commercial paper, at the time of opening of the Federal Reserve Bank.

Statement of the Members of the New York Clearing House Association

From Reports as required under Article III of the Constitution.

For Week ending Saturday, August 1, 1914.

NOS.	MEMBERS.	*CAPITAL	*NET PROFITS	LOANS AND DISCOUNTS Average.	SPECIE Average.	LEGAL TENDERS Average	On Deposit with Clearing House Members carrying 25% Cash Reserve	LEGAL NET DEPOSITS Average	CIRCULATION Average	NOS.
1	Bank of New York N. B. A...	$2,000,000	$4,346,800	$22,317,000	$4,224,000	$1,218,000	....	$20,668,000	$772,000	1
2	Bank of the Manhattan Co....	2,050,000	4,719,900	36,130,000	9,482,000	1,541,000	....	41,900,000		2
3	Merchants' National Bank.....	2,000,000	2,097,700	20,489,000	4,254,000	1,457,000	....	21,158,000	1,888,000	3
4	Mech. & Metals Nat. Bank....	6,000,000	8,874,600	80,745,000	15,416,000	5,882,000	....	85,528,000	4,930,000	4
6	Bank of America............	1,500,000	6,186,600	26,538,000	5,052,000	1,749,000	....	26,499,000		6
8	National City Bank..........	25,000,000	32,916,900	198,630,000	42 089,000	13,252,000	....	196,234,000	3,679,000	8
12	Chemical National Bank......	3,000,000	7,755,000	28,644,000	4,357,000	2,218,000	....	24,790,000	397,000	12
13	Merchants' Exch. Nat. Bank..	1,000,000	761,800	8,954,000	2,115,000	205,000	....	8,858,000	475,000	13
15	Nat. Butchers & Drovers Bk..	300,000	111,100	1,973,000	516,000	57,000	....	2,171,000	48,000	15
17	Greenwich Bank	500,000	1,070,100	9,649,000	2,520,000	205,000	....	10,822,000		17
21	American Exch. Nat. Bank....	5,000,000	4,693,300	47,846,000	10,217,000	1,552,000	....	47,890,000	3,883,000	21
23	National Bank of Commerce..	25,000,000	16,690,600	140,272,000	21,903,000	6,231,000	....	117,971,000	7,912,000	23
28	Pacific Bank	500,000	1,009,800	4,871,000	728,000	840,000	....	4,927,000		28
30	Chatham & Phenix Nat'l Bk...	2,250,000	1,357,900	21,247,000	3,696,000	1,579,000	....	21,852,000	1,173,000	30
31	People's Bank	200,000	435,800	1,967,000	409,000	148,000	....	2,313,000		31
33	Hanover National Bank.......	3,000,000	15,054,800	77,634,000	21,082,000	2,582,000	....	88,412,000	50,000	33
36	Citizen's Central Nat. Bank...	2,550,000	2,371,200	22,339,000	5,111,000	611,000	....	21,819,000	1,531,000	36
42	Market & Fulton Nat. Bank...	1,000,000	1,948,100	9,221,000	1,498,000	984,000	....	9,257,000	56,000	42
44	Metropolitan Bank	2,000,000	1,779,400	11,717,000	2,603,000	312,000	....	11,595,000		44
45	Corn Exchange Bank.........	3,500,000	6,916,000	63,823,000	15,850,000	3,269,000	....	75,814,000		45
53	Importers & Traders' Nat. Bk.	1,500,000	7,676,000	26,591,000	3,759,000	2,387,000	....	24,077,000	50,000	53
54	National Park Bank..........	5,000,000	14,344,700	90,034,000	19,503,000	2,572,000	....	91,241,000	3,497,000	54
59	East River National Bank.....	250,000	65,200	1,561,000	452,000	107,000	....	1,766,000	49,000	59
63	Second National Bank........	1,000,000	2,870,500	13,867,000	3,102,000	123,000	....	12,625,000	669,000	63
65	First National Bank..........	10,000,000	23,177,700	115 527,000	25,158,000	2,159,000	....	106,457,000	4,936,000	65
67	Irving National Bank.........	4,000,000	3,468,600	45,247,000	9,082,000	3,063,000	....	48,208,000	1,579,000	67
70	Bowery Bank	250,000	789,000	3,163,000	786,000	71,000	....	3,403,000		70
71	N. Y. County Nat. Bank.......	500,000	1,916,800	8,667,000	1,536,000	768,000	....	9,127,000	197,000	71
72	German-American Bank	750,000	706,200	4.215,000	979,000	212,000	....	4,180,000		72
74	Chase National Bank.........	5,000,000	9,645,700	102,020,000	23,462,000	5,460,000	....	115,201,000	446,000	74
76	Fifth Avenue Bank...........	100,000	2,091,600	12,928,000	2,610,000	1 062,000	....	14,425,000		76
77	German Exchange Bank......	200,000	803,800	3,219 000	509,000	367,000	....	3,481,000		77
78	Germania Bank	200.000	1.000,300	4,901,000	1,137,000	253,000	....	5,582,000		78
80	Lincoln National Bank........	1,000,000	1,789,800	15,027,000	2,963,000	1,169,000	....	15,522,000	877,000	80
81	Garfield National Bank........	1,000,000	1,290,100	9,293,000	2,332,000	142,000	....	9,586,000	343,000	81
82	Fifth National Bank..........	250,000	505,000	3,998,000	779,000	244,000	....	4,241,000	245,000	82
83	Bank of the Metropolis.......	1,000,000	2,089,900	12,968,000	2,120,000	926,000	....	12,784,000		83
84	West Side Bank..............	200,000	759,700	3,761,000	706,000	520,000	....	4,752,000		84
85	Seaboard National Bank......	1,000,000	2,598,500	25,099,000	5,950,000	1,752,000	....	29,267,000	346,000	85
91	Liberty National Bank........	1,000,000	2,844,800	24.400,000	5,218,000	1,433,000	....	26,680,000	495,000	91
92	N. Y. Produce Exch. Bank....	1,000,000	928,300	9,317,000	2,271,000	666,000	....	10,795,000		92
96	State Bank	‡1,500,000	‡750,700	19,134,000	5,891,000	309,000	....	24,115,000		96
97	Security Bank	1,000,000	345,500	10,832,000	1,880,000	1,276,000	....	12,753,000		97
99	Coal and Iron Nat'l Bank.....	1,000,000	604,800	6,981,000	1,083,000	618,000	....	6,987,000	394,000	99
100	Union Exch. National Bank...	1,000,000	1,008,000	10,017,000	2,145,000	350,000	....	10,125,000	394,000	100
118	Nassau Nat'l Bk., Brooklyn...	1,000,000	1,121,700	7,927,000	1,430,000	180,000	....	6,720,000	267,000	118
102	Brooklyn Trust Co...........	1,500,000	3,706,700	26,451,000	2,193,000	939,000	2,696,000	20,788,000		102
103	Bankers Trust Co............	10,000,000	13,065,500	126,045,000	14,824,000	375,000	11,028,000	102,559,000		103
104	U. S. Mortgage & Trust Co...	2,000,000	4,211,400	36,838,000	3,432,000	785,000	7,156,000	28,179,000		104
105	Astor Trust Co..............	1,250,000	1,201,300	21,422,000	2,097,000	108,000	1,576,000	15,590,000		105
106	Title Guarantee & Trust Co...	5,000,000	11,614,000	33,045,000	2,618,000	490,000	2,322,000	20,843,000		106
107	Guaranty Trust Co..........	10,000,000	21,222,100	187,702,000	18,729,000	1,140,000	17,988,000	141,517,000		107
108	Fidelity Trust Co............	1,000,000	1,307,900	7,534,000	842.000	46,000	981,000	5,900,000		108
110	Lawyers Title Ins. & T. Co....	4,000,000	5,388,900	15,877,000	1,218,000	613,000	1,388,000	11,883,000		110
111	Columbia-Knickerbocker T. Co.	2,000,000	7,348,300	48,628,000	5,501,000	280,000	4,448,000	38,688,000		111
113	Peoples Trust Co............	1,000,000	1,566,800	16,360,000	1,839,000	376,000	2,251,000	15,156,000		113
114	New York Trust Co..........	3,000,000	11,545,300	45,951,000	3,946,000	527,000	3,338,000	29,554,000		114
115	Franklin Trust Co............	1,000,000	1,165,500	10,708,000	997,000	129,000	1,042,000	7,541,000		115
116	Lincoln Trust Co............	1,000,000	555,700	9,901,000	1,049,000	223,000	1,016,000	8,669,000		116
117	Metropolitan Trust Co........	2,000,000	5,892,600	29,899,000	2,746,000	250,000	2,223,000	20,436,000		117
119	Broadway Trust Co...........	1,500,000	848,500	14,129,000	1,384,000	692,000	1,642,000	13,940,000		119
	Totals, National Banks	112,600,000	173,907,700	}1,425,700,000	299,965,000	74,081,000		1,454,578,000	41,578,000	
	" State Banks	16,450,000	32,382,600							
	" Trust Companies	46,250,000	90,640,500	630,490,000	63,415,000	6,973,000	61,095,000	481,243,000		
	Totals, all members...........	175,300,000	296,930,800	2,056,190,000	363,380,000	81,054,000	61,095,000	1,935,821,000	41,578,000	
				Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	
				2,286,000	21,692,000	451,000	3,677,000	21,394,000	163,000	

*As per official reports.
29 National June 30, 1914.
17 State, June 30, 1914.
15 Trust Co's, June 30, 1914.
‡As of July 18, 1914.

Banks: Cash Reserve in Vault, $374,046,000 Cash Reserve Required, (25%) $363,644,500 Excess, $10,401,500 Decrease, $13,430,250

Trust Co's: " " " 70,388,000 " " " (15%) 72,186,450 Deficit, 1,798,450 Decrease, 3,094,550

Aggregate.................... $444,434,000 $435,830,950 Excess, $ 8,603,050 Decrease, $16,524,800

Trust Companies' Reserves with Clearing House Members, $61,095,000 Decrease, $3,677,000

	Loans and Discounts	Specie	Legal Tenders	On Deposit with Clearing House Members	Legal Net Deposits	Circulation
Actual figures this morning:						
Totals, Nat. and State Banks	1,423,407,000	272,752,000	71,646,000		1,422,749,000	41,737,000
" Trust Companies ...	635,348,000	60,137,000	7,045 000	56,547,000	488,790,000	
Totals, all members	2,058,755,000	332,889,000	78,691,000	56,547,000	1,911,539,000	41,737,000
	Increase	Decrease	Decrease	Decrease	Decrease	Increase
	1,182,000	53,065,000	3,234,000	10,692,000	46,776,000	3,000

Banks: Cash Reserve in Vault, $344,398,000 Cash Reserve Required, (25%) $355,687,250 Deficit, $11,289,250 Decrease, $35,004,250

Trust Co's: " " " 67,182,000 " " " (15%) 73,318,500 Deficit, 6,136,500 Decrease, 8,595,250

Aggregate.................... $411,580,000 $429,005,750 Deficit, $17,425,750 Decrease, $43,599,500

Trust Companies' Reserves with Clearing House Members, $56,547,000 Decrease, $10,692,000

Clearings for Week ending	August 1, 1914,	$1,838,183,016.11	**Balances for Week ending**	August 1, 1914,	$109,601,810 65
" " "	July 25, 1914,	1,588,913,808.47	" " "	July 25, 1914,	95,095,253.82
Clearings this Day	August 1, 1914,	296,815,972.90	**Balances this Day**	August 1, 1914,	23,383,391.37

SECOND:

GOLD SHIPMENTS PRIOR TO AUGUST 3rd

An exact statement of the shipments of gold during the first seven months of 1914, and of its destination, would require considerable investigation, which time does not permit. In general, it may be said that in that period the banks of the City of New York exported, in round figures, $130,000,000 of gold, largely in Eagles, the principal amount having been taken by the Bank of France, and, indirectly, by the Reichsbank. The inducements offered by those institutions to attract gold in settlement of international balances were understood in this country to have deprived the Bank of England of the opportunity afforded at that time to strengthen its gold holdings, and undoubtedly was occasioned by the willingness of the English market to continue to extend accommodation to its customers in the United States in the accustomed volume. It is possible that the occurrences of the past few months in international exchange may be explained by the fact that France and Germany did not renew current American indebtedness as freely as the English market did. Investigation conducted by a special committee appointed at the request of the Federal Reserve Board in the latter part of September disclosed the fact that, as of September 12th, the total ascertainable current international debt maturing between that date and January 1, 1915, amounted to about $450,000,000. The items investigated included bank balances, maturing securities, interest and dividend obligations, commercial credits, finance bills, and indebtedness for securities sold. As to some of these accounts, estimates were necessary, and it is recognized that information of this character is inaccurate and liable to be misleading. The offset accounts were shown to be about $150,000,000, leaving the net indebtedness as of that date maturing before January 1st, in round figures, $300,000,000 due to England, France, Germany, Canada, and, to some extent, other European countries. The amounts maturing were about equally proportioned over the fall period of the year. It should be understood that a considerable portion of the American indebtedness to the London market, maturing in the period between October 1st and January 1st, was created in anticipation of the purchase of cotton bills, which have always been considered cash in the London market.

No further data has been obtained in connection with the present amount of the current international indebtedness, but opinions asked of bankers conversant with this matter would probably justify the belief that over one-half of the net indebtedness has been paid at the present time.

The foreign trade, exclusive of gold and silver shipments, was $20,000,000 adverse to the United States in August, $17,000,000 in its favor in September, and will probably be $~~54~~60,000,000 in its favor for October. Last year, and in 1912, for these months, the balances in favor of the United States were:

	1912	1913
August	$13,000,000	$50,000,000
September	54,000,000	47,000,000
October	77,000,000	139,000,000

THIRD:

THE SETTLEMENT OF INTERNATIONAL BALANCES IN
GOLD FALLS ENTIRELY UPON THE BANKS
OF NEW YORK CITY.

The international exchanges reflected fears of the effect of the outbreak of war, by the latter part of July, and even before August 3rd there developed in America an insistent demand for exchange to meet maturing obligations to Europe. The declaration of war, and the suspension of shipping facilities, caused such an interruption of the American export trade as to dangerously reduce the supply of exchange. The following statement is made at some length in order that the position taken by the New York banks with respect to gold exports may be better understood.

About 80% of the foreign commerce of the Atlantic seaboard passes through the Port of New York. It is the largest manufacturing and banking center in the United States, and is the market where the quotation for foreign exchange is made, and where foreign bills are assembled for remittance to Europe for collection or discount. There is no city in the United States which can make a quotation for exchange, without a quotation from New York. The burden imposed upon the reserves of the banks of New York, when the gold movement is adverse in both the foreign and domestic exchanges, has at times under our old banking system, proved to be too heavy for the banks to carry without employing emergency relief measures. In 1907 the only such measure available was to issue clearing house loan certificates for settling balances between members,

which, however, afforded no relief to the rest of the country. The New York banks in 1907 suspended free shipment of currency to their correspondents, and the immediate result was a maximum premium of 5-1/2% on both currency and gold.

This year the Aldrich-Vreeland Currency Act permitted the prompt use of an emergency currency which was acceptable to the people of the country. Within a few days after August 3rd, the New York banks were able to freely supply their correspondents with currency, and at no time since that date has there been a premium on either gold or currency in this country nor, in fact, has New York exchange in other parts of the country indicated distrust of the ability of the New York banks to promptly meet their obligations to their correspondents. This currency not being available for the settlement of international balances, and it having been impossible for the banks to ship gold to Europe, London exchange reached a premium equivalent to a very considerable premium on gold. Had this situation occurred in our domestic exchanges, distrust of the ability of the New York banks to meet their commitments and the demands of their depositors might have arisen and with serious consequences. London exchange, after the first violent rise to a maximum of seven dollars for cable transfers, gradually reacted until a fairly level price was established, in the neighborhood of five dollars to the pound, with fluctuations within a range of about five cents either way. In normal times exchange at this level would have caused a large export of gold, the burden of which would have fallen not only upon the banks of New York City, but indeed upon the comparatively few large banks which draw exchange or which carry the accounts of private firms which draw exchange, but which do not themselves carry gold reserves. At the

suggestion of the Federal Reserve Board, a committee of bankers formulated a plan for assembling $100,000,000 of gold for export, in order to make exchange and to thereby distribute the burden among institutions all over the United States instead of imposing it upon a few of the banks of New York City. The banks of New York City pledged $45,000,000 of the amount. This $100,000,000 was in addition to the $80,000,000 pledged by the banks of the City of New York for the payment of New York City obligations maturing in Europe during the balance of this year. The necessity for pursuing this course, instead of allowing a free movement of gold, arises:

FIRST: From the fact that the gold reserves of the United States are scattered among about twenty-five thousand national and state banking institutions;

SECOND: From the fact that those banks in New York which might ship gold would be unable to recoup their gold reserves by calling loans; and,

THIRD: From the fact that it is impossible for a bank which parts with its gold for export to recoup itself through the exchanges from other banks, and because the proceeds of sales of exchange, as well as of loans paid, are payable in New York funds through the Clearing House and have since August 1st been settled either in Clearing House loan certificates or Aldrich-Vreeland notes.

FOURTH.

THE NEW YORK CITY DEBT.

The City of New York has for many years been authorized, by the terms of its Charter, to borrow money in anticipation of the payment of taxes., With the growth of the City, and the enormous increase in the tax levy, the amounts of these borrowings have increased to such an extent that at times the City is indebted to the market on short loans to the extent of $100,000,000, which loans are ordinarily liquidated at the time taxes are paid in the fall, and, in recent years, in both the spring and fall, as the tax levy is now divided into semi-annual payments. The movement of the cotton crop in the fall of the year ordinarily furnishes such a large volume of exchange at that season that borrowers have been able to count with reasonable certainty upon lower rates in the fall than in the spring, and advantage has been taken of that fact not only by the City of New York but by other municipalities which make similar loans to borrow large sums of money in the London market. On August 3rd the City of New York had so borrowed a total of $82,000,000, a small portion payable in Paris, but the greater part in London. The breakdown of international exchange imposed upon the City of New York the necessity of meeting this large obligation by the export of gold. The City carries its accounts in a large number of institutions, both national and state, located in the City of New York, and, under ordinary circumstances, would have had no difficulty in obtaining gold in large amounts from those institutions. The conditions existing early in August, however, made it impossible for the City's bankers to furnish the amountof gold required, and, had the City been obliged to purchase exchange at the rates recently prevailing, the loss would have been enormous. It was therefore determined by the bankers who undertook the solution of this problem to ask all the banks in the City to contribute to a fund of gold amounting to about $80,000,000, in proportion to the amount of their respective gold holdings. The contracts entered into between the City, the contributing banks, and the Managers of the transaction (J. P. Morgan & Company, and Kuhn, Loeb & Company) provided for the sale of $100,000,000 of obligations of the City maturing in one, two, and three years. The banks which underwrote the issues undertook to furnish the Managers, if required to do so, eighty per cent. of the amounts of their subscriptions to the syndicate in gold, having the option, however, of furnishing sterling exchange in place of gold at the rate of $4.90 a pound. The practically unanimous response of the banks of the City to the call made upon them, as well as the universal approval of the transaction, indicates that the bankers were correct in their belief that a postponement or default in the payment of this indebtedness of the City could not be contemplated, and that the consequences would be so serious as to justify the pledge of gold involved. While it is now recognized that the City could have extended a large part of this indebtedness in London by the offer of an issue of new notes payable in London in sterling, the city authorities nevertheless felt, no doubt influenced by the pressure of public opinion, that it was to the City's advantage to extinguishthe debt at once, and avoid the possibility of loss at a later maturity, rather than to advance its position and to take the chance of being able to get gold six months or a year later. The contract so made by the banks of New York placed one-third of their entire gold holdings under contract for export, at least to the extent that exchange could not be furnished. Attention is here called to the fact that the privilege of furnishing exchange in place of gold permits any contributor to this fund to avoid the loss of gold by purchasing exchange and, therefore,contributors to this fund are, to some extent, competitors in the market for the purchase of sterling exchange.

FIFTH:

THE $100,000,000 GOLD FUND.

Statement "third" largely explains the necessity for providing a fund of gold by the method adopted, and it is the belief of the Committee that the success of the plan affords evidence of the willingness and intention of the banks of the United States to furnish the means to their customers for paying foreign indebtedness which the banks of New York alone, without endangering the situation, were unable to provide.

Voluntary contributions were obtained from national and state banks in all central reserve and reserve cities (52 in number), those cities, under the law, being required to hold 25% and 12½% cash reserves, respectively, as against 6% in other cities. Contributions of gold to the fund were received from 1,494 different banks, located in all parts of the United States. An amount in excess of $100,000,000 was promptly pledged through the co-operation of the Secretary of the Treasury and the Federal Reserve Board. Pending the payment of the first call of $25,000,000, nine New York institutions advanced $10,000,000 in gold for shipment to Ottawa. This enabled the Committee to promptly meet the urgent demand for exchange, which was selling at about $5.02½.

The Committee desires to call attention to the fact that the gold fund was not created for the purpose of making a profit, but rather to meet an emergency and thereby exert an influence in bringing about a decline in the rate of exchange. The policy of the Committee has not been to sell exchange freely. This would certainly have resulted in the accumulation of exchange by debtors who desired to insure the protection of future maturing obligations, and, unfortunately, might also have

resulted in releasing exchange to the contributors to the fund provided to meet the obligations of the City of New York. It was rather the policy of the Committee to use the fund to prevent an undue advance in exchange rates, but, nevertheless, to permit rates to follow fairly normal fluctuations and thereby induce American obligors to arrange for renewals in the expectation that the creation of exchange following a restoration of export trade would avoid the necessity of exporting any considerable portion of the gold fund. This Committee, of which two members are also members of the Gold Fund Committee, is convinced that the policy adopted was a wise one, and that the purposes of the gold fund have already been largely accomplished. After allowing for certain large payments made for account of the United States Government, for which the Government reimbursed the Gold Fund Committee in gold, the total amount of the fund has been reduced by not over one million pounds, and is substantially intact.

PROFITS AND LOSSES OF THE GOLD POOL.

Misunderstanding is liable to arise with regard to the ultimate profit and loss account of the Gold Fund Committee, and we are informed that the attitude of the Bank of England later referred to was possibly due to the belief that large profits will accrue to the Gold Fund contributors. Consideration of the following will, we trust, make clear the Gold Fund Committee's position:

ABRASION.

The legal limit of tolerance on American gold coin is one-half of one per cent. Eagles furnished by the Sub-Treasury at New York will rarely show an abrasion exceeding one-quarter of one per cent. Eagles shipped from Western points, however, where gold coins circulate much more

freely, show a larger percentage of abrasion. The Committee must figure on a loss of from one-quarter to three-eighths per cent. for abrasion.

INTEREST AND EXPENSES.

The gold furnished for the purpose of this fund is taken out of bank reserves and held in safe deposit in New York, and is not held as a part of the reserves of the New York banks. The contributors are called upon to make payments in installments of 25%. The first payment of 25%, in anticipation of which $10,000,000 was advanced by certain New York banks, was made as soon as the fund was completed, and the expense of transferring this fund from all parts of the country was paid out of the fund. In order to arrive at the cost of exchange, it is also necessary to make allowance for the interest during transmission, and during the period when the gold is held in storage in New York, for all the expenses of shipment to Ottawa, as well as for abrasion; the gold being received by the Committee at its face value, and sold to the Bank of England at its bullion value. It is impossible to estimate the interest cost involved in shipments which have not yet been made, but a calculation has been made as to the first shipment, with allowance of interest to November 30th, and it is found that London exchange on the basis of this calculation costs the contributors about 4.92-3/4. The average price realized for exchange sold to date will slightly exceed 4.95, and, after making allowance for 2% interest allowed by the London banks, it is probable that if the account was closed at the present time by selling exchange against balances now in London, the result would be a loss to all the contributors to the fund. This is occasioned by the decline in exchange after the first transfer to Ottawa was made, and before the entire balance was exhausted.

At the time the fund was created, the Committee desired the

co-operation of the Bank of England on two points only, pending a discussion of other matters of importance which could not be then taken up by cable.

First: A better understanding of the basis on which the Bank was purchasing gold shipped to Ottawa;

Second: An arrangement for advances, without interest, upon advice and guaranty of shipment from New York to Ottawa.

AS TO THE PRICE PAID FOR AMERICAN GOLD:

The value of the grains of gold in the English sovereign in American currency is.. $4.86656

One ounce of American gold coin contains fine gold of the value of...$18.6046

$18.6046, at the rate of $4.86656, equals..................76sh. 5½d.

which is the value, expressed in sterling, of one ounce of American gold coin.

This is the exact price which the Bank of England was paying for American Eagles just prior to the outbreak of the war.

Reductions were made to a net price of...........76sh. 3½d.

3d. being further deducted for American Eagles shipped to Ottawa.. 3d.

making the net price for Eagles delivered in Ottawa........76sh. ½d.

It has been stated to us that the reduction of 5d. was made in order to cover the following items:

(a) An allowance for the cost of melting and minting;

(b) An allowance for the cost of transferring Eagles from Ottawa to London.

As to the first item, inquiry arises as to whether the price which the Bank of England is required by law to pay for bars (77sh. 9d.) does not make allowance for the cost of coining bars into sovereigns, and that, therefore, a shipper of Eagles should not be required to make this

additional allowance, which is already covered in figuring the equivalent of the bullion value of the gold contained in American Eagles.

As to the second item, the question arises as to whether the Bank of England should not, if the exchanges turn before the gold is shipped to London, then allow in the price at which it resells the gold to New York, a rebate of the charge which it has collected for the conversion of Eagles into sovereigns. The same question will arise as to 3d. deducted from the price allowed for standard bars.

The Gold Pool Committee feels that the deduction of 5d. on Eagles and 3d. on bars is not justified under the circumstances, but a clearer understanding of the reasons for these deductions may change the Committee's views.

As to an arrangement for advances without interest, the request which was made for this accommodation at the time of the first shipment grew out of an emergency. Exchange was selling above five dollars a pound, and the Committee desired to be in a position to draw exchange at once before the gold shipped could be received and weighed at Ottawa and credits confirmed. The necessity for accommodation on that account is now passed.

With exchange approaching the point where gold exports become unprofitable and without a better understanding with the Bank of England as to the rate which they will make on Eagles exported to or from Ottawa the Gold Fund Committee will find it impossible to make any considerable shipment of gold at one time without risk of loss on a portion of such shipments.

The Committee desires to be in a position where it may furnish exchange so long as it may profitably cover with gold, but not to run the

risk of a rapid decline in the exchange market.

SIXTH:

THE COTTON LOAN POOL.

It has been generally estimated, and this Committee believes with reasonable accuracy, that this year's American cotton crop will somewhat exceed 15,000,000 bales, and that the world's reduced consumption of cotton will leave an unused balance of the American product of about 5,000,000 bales. At the conference in Washington, it was suggested that the maximum credit to finance the cotton crop would be required at the time when the maximum of the crop had been picked, and the minimum marketed, that is to say, about December 1st, at which time it was suggested that a credit of $300,000,000 might be required. This does not take into account two factors in the situation.

First: The method of financing the growing and gathering of the crop;

Second: The difference in price between this year and last year.

As to the method of financing the crop, it may be generally stated that the initial advances are made before the crop is planted. They are largely made to the farmers by merchants and supply houses, and are increased as the work on the crop advances, the merchants taking a lien on the growing crop and borrowing money from their banks. By the time the cotton is gathered, thelast advance is made. The marketing of the crop through the ginning and compress companies and the cotton factors

is a process of liquidation, and the problem confronting the South at this season is not that of arranging new credits with which to finance the cotton crop as a whole, but rather of providing a temporary credit to be employed in facilitating the liquidation of that portion of the crop which can be marketed, by enabling banks to extend or renew the loans that have already been made, and thereby assist in financing the surplus which may not be promptly marketed. This may be described as a process of clearing or shifting loans rather than as a process of creating new credits. As to the second point, namely, the price, it is, of course, evident that with cotton selling at six cents, those banks which loan on cotton could carry two bales this year against one bale, at twelve cents, last year.

In order to facilitate the process of liquidation, which contemplates that 10,000,000 bales will be sold and 5,000,000 bales will be carried, a credit is in course of being arranged, amounting to $135,000,000, to be handled by the following plan: $100,000,000 of the advance is to be secured by a first lien upon cotton pledged at not exceeding six cents a pound, middling grade. $35,000,000 is to be secured by a second lien on the pledgedcotton, this portion of the loan to be provided by the banks of the cotton growing states, to whom, or through whom, the loans will be made. A fund amounting to three per cent. of the amount of the loans made is to be set aside to cover the expenses of managing the transaction, and to pay any losses incurred. The fund is to be administered under the direction of a Committee consisting of members of the Federal Reserve Board, the business, however, to be conducted by an operating committee, and, under its management, by local committees, the machinery for the appointment of which has already been devised. This Committee believes that the cotton loan fund will be inadequate to restore normal conditions in the market for raw cotton, or in the cotton manufacturing industry, unless it is supplemented by energetic measures to bring about better facilities, both in the United States and abroad, for marketing, financing, and manufacturing cotton. Last year, sales of cotton to Europe furnished this country with $534,000,000 of exchange. Anything which retards the free purchase or the free sale of cotton, or the restoration of stable prices for raw cotton, will also retard the restoration of normal conditions in the international exchanges, and work injury both in England and in the United States. In the opinion of this Committee, it seems desirable that the following measures be adopted:

<u>First</u>: That the fund of $135,000,000 be completed and its administration undertaken at once.

<u>Second</u>: That the New York and Liverpool cotton exchanges should be opened. Plans for opening the New York Cotton Exchange have reached a point where it may be reasonably expected that the exchange can open at an early date provided necessary co-operation is afforded by the Liverpool Cotton Exchange and by the English banks. A fund has been pledged which will enable the members of the New York Cotton Exchange, who are committed for the purchase of cotton at high prices, to margin their contracts down to 7-1/2 cents.

With this relief, confidence is expressed that they may safely open the exchange with a reasonable expectation of being able to meet the market conditions which will arise. Coöperation by the Liverpool Cotton Exchange on similar lines is necessary before it will be feasible to open the New York Cotton Exchange.

THIRD: It is also essential that no question as to contraband be permitted to arise in regard to export cotton. The Committee notes with great satisfaction that the British Government has already recognized this situation.

FOURTH: Any restraint which may have been imposed upon English merchants or spinners in the purchase of cotton should be removed. Reference has been made to some agreement or understanding which we had been advised exists in England in this respect. It is not understood that the British Government has brought about any such understanding, nor, in fact, is it understood that English purchasers of cotton have any definite agreement among themselves in this regard. Advices have reached this country, however, to the effect that some of the English banks have exerted a strong influence in restraining the free purchase of cotton by English cotton merchants and spinners, and it is hoped that the

English banks may be induced to encourage the purchase of cotton within reasonable limits.

FIFTH: That the usual means of financing purchases of cotton by English merchants and spinners should be reopened through advances against cotton bills through the discount market.

SEVENTH:

FEDERAL RESERVE BANK.

The first installment is to be paid for the capital stock of the Federal Reserve Bank on November 2nd. The plan announced provides for the transfer of reserve deposits to these banks, commencing with November 16th. If the operation is successfully concluded, the Federal Reserve Bank of New York, within a period of six months (and possibly at the end of three months) will have received payment for over $10,000,000 capital stock in gold, and will have received on deposit at least $100,000,000 of the reserves of the National Banks of New York State, and possibly much more.

The Federal Reserve Act provides that not exceeding 50% of the initial reserve deposits may be made out of the proceeds of commercial paper which the banks may allow the member banks to rediscount. It is therefore impossible, at this time, to forecast the condition of the Federal Reserve Bank of New York resulting from the initial transactions, as the amounts of discounts allowed to the member banks will depend,--

(1) Upon the rate of discount established by the bank;

(2) Upon the rate of interest prevailing in the City of New York.

(3) Somewhat upon the extent to which the New York City Banks are required to make payments for account of their correspondents located in Federal Reserve Districts and

(4) The extent to which they may deposit 5/18 of their reserves, the deposit of which is optional.

The Federal Reserve Banks of the United States are in the course of establishment. Calls for payment on the capital stock have already been made. The ability of this bank to furnish gold is a matter for future consideration, and should not, at this time, be made the basis of any transaction or proposal.

EIGHTH:

CREDIT OF £20,000,000 STERLING.

Your Committee has been informed that about a month ago, when the visit of Sir George Paish and Basil P. Blackett, Esq. was first proposed, one of the subjects to be considered at the conferences would be a possible credit which would, in effect, afford means for extension of the obligations due in England by bankers and merchants in the United States. If it had been possible to arrange such a credit by exchange of cables at that time, your Committee would have approved of the transaction. It would have supplied exchange at a moment when the demand was urgent; and it would have insured us against any serious drain on gold reserves for the time being, and given this country a period for readjustment during which local conditions could have been brought to meet the extraordinary situation.

Since the date when the suggestion of a credit was made, exchange in large quantities has been supplied to the market, and confidence has been greatly restored by the knowledge that the New York City Syndicate and the Gold Pool Committees' operations have been effective. From information which your Committee has gathered, it is strongly of the opinion that a continually increasing supply of exchange is in prospect. The export of food products and raw and manufactured materials that Europe needs in the present crisis (not to mention munitions of war) must continue; mills and manufacturing

companies are working overtime on orders for goods which, in many cases, will not be ready for shipment for some months, and which will make a corresponding supply of exchange. The opening of the New York and Liverpool Cotton Exchanges, coincident with the completion of the Cotton Loan Pool, if accompanied by assurances to the merchants and spinners of England of the willingness of the English banking community to finance reasonable purchases of cotton from the United States will also add to the supply of exchange.

For this, and other reasons that it is not necessary to elaborate here, your Committee is convinced that the adoption and employment of any extraordinary or unusual measures at this time are unnecessary, as such action might, in fact, be interpreted as an expression of the belief of this Committee that the present situation requires such measures, and because unusual measures are likely to bring about unexpected and possibly undesired results.

It will be noted that the foregoing relates entirely to the commercial situation. No account has been taken of the possible opening of the New York Stock Exchange, and the additional demands that might arise if any considerable amount of English owned American securities were resold in this country. Your Committee is firmly of the opinion that it is premature to discuss the opening of the New York Stock Exchange until the adjustment of the commercial situation has been demonstrated. In the meantime, however, and, with a view to this step, it is recommended that a Committee from the New York Stock Exchange be appointed, which Committee should visit London for conference with a like Committee from the London Stock Exchange, and

for a careful study of the situation there. A tentative arrangement for a large sterling credit, predicated on the understanding that its repayment will not be made in gold, but in commodities and manufactured goods, would make it possible to consider the opening of the Stock Exchange sooner than it would otherwise be safe to do, should other conditions permit. As this step is recognized to be a desirable one from the point of view of both countries, a present discussion of the form of such a credit and a tentative agreement as to its terms, at this time, would be beneficial. A memorandum supplemental hereto, outlining a plan discussed with Sir George Paish and Basil P. Blackett, Esq., is attached.

EIGHTH (Supplement):

Conditioned upon the understanding suggested in memorandum "Eighth," and with a view to assistance in meeting conditions which may arise through excessive sales of American securities held in Europe, the following has been tentatively discussed with Sir George Paish and Basil P. Blackett, Esq.:

That a revolving sterling credit of, say, £20,000,000, shall be granted by or through the Bank of England, or other British bankers, on the following plan:

(1) The credit to be available as a supplement to and only after the $100,000,000 Gold Fund has been shipped, in order to avoid further gold shipment.

(2) Drafts at 90 days, with one agreed renewal, on an acceptor, or acceptors, to be designated by the grantors.

(3) Drafts to be forwarded direct to England for discount under an agreed arrangement, and demand or cables to be sold against them.

(4) Drafts to be drawn by the Gold Fund Committee, or a new committee representing guarantors, consisting of banks, trust companies and banking firms in the United States acceptable to grantor.

(5) Proceeds of sales of exchange to be loaned upon security of approved bonds and stocks as collateral, with the obligations of borrowers, who are satisfactory to the guarantors, to maintain a margin of not less than twenty per cent. (20%) of the face value of the loan.

(6) Drafts to be drawn only as required to supply exchange to take the place of gold remittances.

(7) Drafts to be covered at maturity in the usual way if exchange can be purchased at or below the cost of exporting gold.

(8) If exchange cannot be purchased as above, and payment of the bills would require the export of gold, further 90 day renewals to be granted, provided that, in the opinion of the Federal Reserve Board, a further loss of gold would be detrimental to our financial situation.

(9) The grantors of the credit to be entitled, after the first renewal, to require payment, in whole or in part, in New York exchange. Such dollar balances, however, to be used only in the purchase of American products.

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[2nd schp.]

November 4, 1914.

Honorable Charles S. Hamlin, Governor,
Honorable Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

Gentlemen:-

On Friday, October 23rd, at a conference called by the Secretary of the Treasury, at which were present the Secretary of the Treasury, the members of the Federal Reserve Board, the Comptroller of the Currency, Sir George Paish, Basil P. Blackett, Esq., and a committee of bankers, the undersigned were appointed a committee to prepare a report and memoranda covering the various subjects discussed at the conference.

After careful consideration, your committee submits herewith its report in the form of a proposed letter to Sir George Paish and Basil P. Blackett, Esq., representing the Chancellor of the British Exchequer. Attached to this letter are the various memoranda mentioned, all of which are submitted for your information and as the best judgment of the committee on the subjects discussed, as enumerated in the proposed letter.

The plan forming supplement to memorandum "Eighth" herewith, we believe briefly expresses what was discussed at our last conference in Washington, which was attended by Sir George Paish and Mr. Blackett. It embodies the best judgment of the members of the sub-committee, but has been prepared without conference with New York bankers, whose co-operation and approval are essential to the success of any such

undertaking. The members of the committee therefore respectfully suggest that it would be harmful to the success of the plan were it to become public before those who would be interested in New York (and equally those in London) have been given opportunity to consider it. We await a further expression of your views in this regard before taking any steps to ascertain the attitude of the bankers of New York.

Respectfully yours,

(Sgd.) Benj. Strong, Jr.

for the Committee.

November 2, 1914.

Sir George Paish,
Basil P. Blackett, Esq.,
Representatives of the Chancellor of the British Exchequer accredited to the Honorable the Secretary of the Treasury of the United States.

Gentlemen:-

At a conference in Washington, convened by the Honorable William G. McAdoo, Secretary of the Treasury of the United States, which was attended by the members of the Federal Reserve Board of the United States, and representatives of banking interests of this country, the undersigned were appointed a Committee, representing the banking interests, to confer with you in order that, after exchanging views as to financial conditions in England and the United States precipitated by the war in Europe, they could submit to you memoranda outlinging the conditions discussed, and possibly consider and submit to you, for transmission to England, such proposals as, in our judgment, would be to the mutual advantage of the business interests of both countries.

Based upon the interchange of views at the recent conference, and upon facts that have developed in recent conferences in New York and elsewhere, and upon our general knowledge of the local situation, combined with information in our possession regarding the situation in England, we submit the following explanatory memoranda. Because of the inherent economic differences between England's position and that of the United States, and the differences between banking systems and banking methods in your country and ours, this memorandum is necessarily elaborate, but it will, we trust, afford you a full comprehension of the situation.

FIRST: A statement of the position of the New York banks on August 1st, and thereafter, of the reasons why it was deemed desirable for the banks to issue Clearing House certificates, and to apply for Aldrich-Vreeland currency; including a statement, as of August 1st, of the members of the Clearing House Association.

SECOND: A statement of gold shipments made prior to the month of August in payment of obligations, an estimate of the probable additional indebtedness of American merchants, banks, and corporations to Europe on or about September 12th last, and a statement of the country's export balances for August, September, and October (estimated) 1914.

THIRD: A statement explaining the reasons why the settlement of international balances necessarily falls upon the banks of New York City and not of the country at large, and why a weakening of the New York City banks, through depletion of gold reserves, is serious, and is reflected at once in lack of confidence and curtailment of credit throughout the country.

FOURTH: A statement respecting the syndicate formed to guarantee the payment of about $80,000,000. of gold to meet the debt of New York City, due in London (and Paris) up to January 1, 1915.

FIFTH: A statement of the necessity for and the creation of the so-called "Gold Fund," the difficulties under which it was completed, its method of operation, the expenses thereof, and the risk of loss incurred by the participants; incidentally

a memorandum with regard to the price paid by the Bank of England for American Eagles delivered at Ottawa, and certain questions on which the "Gold Fund Committee" desires information, having to do with the price allowed by the Bank of England for gold delivered in Ottawa.

SIXTH: A statement of the object and the terms and conditions of the so-called "Cotton Loan Pool" of $135,000,000, and of the method by which the cotton crop and its movement to market is financed, with certain suggestions.

SEVENTH: A statement in respect of the Federal Reserve Bank of New York now in course of organization, and its bearing on the matter under discussion.

EIGHTH: A statement in respect of a possible credit of £20,000,000, the Committee's opinion in regard thereto, and a suggested plan which might be adopted at a later date.

These statements are submitted for consideration and discussion and are put forward for the information of the conference as an expression of the belief and opinion of the Committee.

At the general conference between the Honorable the Secretary of the Treasury, and the Federal Reserve Board, and the full Committee representing the bankers of the United States, at which this Committee was appointed, with the information then at hand, it was expected that this Committee, after conference with you, and a careful canvass of the financial situations in England and in the United States, would have some specific proposals to submit for the consideration of the English Government, or of the financial interests in England.

With the New York City Gold Syndicate and the Gold Pool Committee funds aggregating $150,000,000 (only a small amount of which has as yet been availed of), and with the completion of the Cotton Pool Loan Syndicate, all in this country, and with the expected early conclusion of arrangements to reopen the New York Cotton Exchange, with full protection to its members as to existing contracts, and with the arrangements made by the English Government to discount pre-moratorium acceptances of English banks and accepting houses, and to postpone pre-moratorium liabilities to post-moratorium business, and the resultant facilities offered for new acceptance business in London, this Committee is of the opinion that the only additional step necessary at the present time to adjust the international commercial situation and enable bankers, corporations, and business firms of the United States to meet obligations as they mature at normal rates of exchange, is an understanding that the new free purchase of American cotton by English spinners and merchants shall be encouraged by the bankers and government authorities of England, and that arrangements should be promptly made to open the usual channels for advances against cotton or for the discount of cotton acceptance bills.

The Cotton Loan Pool is estimated to provide funds to enable the banks and merchants of the South to carry over four million bales of cotton until February 1, 1916. The best expert opinions estimate the excess over the consumption at not over five million bales. This Committee is of the opinion that the present low price, being considerably under the cost of production, will tend to induce cotton merchants and spinners of America and Europe to buy somewhat in excess of their needs, and that this inducement will result in the absorption of considerably more cotton than the amount generally estimated.

No separate statement has been made in regard to the international

security markets, or to the opening of the New York or London Stock Exchanges. The measures above enumerated we believe are adequate and will eventually correct the international commercial situation, but would be entirely inadequate should any considerable volume of securities be thrown upon this market on the opening of the New York Stock Exchange. Until, therefore, the commercial situation has been adjusted, and the exchanges have turned in our favor, any discussion bearing on the opening of the New York Stock Exchange to a free and unrestricted market for American securities owned abroad would be premature.

Respectfully yours,

(Sgd.) James Brown,
Benj. Strong, Jr.,
A. H. Wiggin.

First.

THE POSITION OF THE NEW YORK BANKS

At conference of New York bankers held immediately prior to the declaration of war by England, opinions were unanimous that the banking position in this country would shortly develop along the lines similar to those experienced in the fall of 1907. Up to the time of these conferences gold to the amount of about $130,000,000. had been exported from the country and it was feared that, in addition to the contraction of credit resulting from this large loss of gold reserves, a further and larger contraction would be imposed upon the New York banks by reason of the withdrawal of funds by banks throughout the country who might be inspired through fear to strengthen their position by increasing their reserves. In 1907, after the crisis of the panic had passed (on December 2nd), the reports of the National Banks to the Comptroller of the Currency indicated that even at that time, country banks, as distinguished from the Reserve City and Central Reserve City Banks, still held excess cash reserves of $115,000,000; and it must be borne in mind that this leaves out of consideration the accumulation of reserves doubtless made by about 18,000 state banks, as to which figures have not been compiled. In order to meet the strain imposed by this probable development, the New York Clearing House Association decided to issue Clearing House loan certificates for the settlement of clearing balances between members, and the Secretary of the Treasury announced his intention of issuing Aldrich-

Vreeland notes, as authorized by existing law. These measures afforded protection to the Banks of the City of New York, both National and State, and enabled them to retain about $240,000,000 gold reserves which they held at that time.

Of these gold reserves, $80,000,000. was shortly pledged for the payment of the debt of the City of New York, and, of that amount, about $60,000,000. is still to be furnished, less such amount as is furnished in exchange. Of about $20,000,000. already paid, $15,000,000. has been by shipment of gold and $5,000,000. by purchase of exchange.

Of the $100,000,000. contributed to the gold pool, $45,000,000. was pledged by the banks of New York City, of which $11,250,000. has now been called. $26,250,000. has therefore been taken to date, leaving $93,750,000. still to be furnished out of present New York City bank reserves. At the present time the Clearing House banks show a small excess cash reserve. When these obligations were entered into, the New York banks were from $15,000,000. to $40,000,000. under their legal reserve.

When the Federal Reserve Bank of New York is organized, it is estimated that a total of about $120,000,000. will be withdrawn from New York City National Banks to make capital and reserve payments both for their own accounts and for those of their out-of-town correspondents. Simultaneously, the reserve requirements will be reduced from 25% to 18%, and it is estimated that, after making these payments of $128,000,000. the reduction of reserve requirements will leave excess reserves in the vaults of the National Banks of New York City aggregating about $60,000,000. If this calculation is correct, we must consider the result of the completion of the three operations referred to, namely, the withdrawal of the entire amount of gold which may be called for on account of the City of New York and the Gold Fund, and the payments and reserve reductions resulting from the organization of the Federal Reserve Bank. The total payments to be made, aggregating about $93,750,000., will be partially offset by the $60,000,000. gained in reserves, due to reduction of reserve requirements, leaving the New York institutions possibly $35,000,000. to $40,000,000. below the required legal reserve. The amount of deficiency in reserve may, by the terms of the Federal Reserve Act, be further offset if member banks are allowed and avail of the privilege of rediscounting commercial paper, at the time of opening of the Federal Reserve Bank.

Statement of the Members of the New York Clearing House Association

From Reports as required under Article III of the Constitution.

For Week ending Saturday, August 1, 1914.

NOS.	MEMBERS.	*CAPITAL	*NET PROFITS	LOANS AND DISCOUNTS Average.	SPECIE Average.	LEGAL TENDERS Average	On Deposit with Clearing House Members carrying 25% Cash Reserve	LEGAL NET DEPOSITS Average	CIRCULATION Average	NOS.
1	Bank of New York N. B. A.	$2,000,000	$4,346,800	$22,317,000	$4,224,000	$1,218,000	....	$20,668,000	$772,000	1
2	Bank of the Manhattan Co.	2,050,000	4,719,900	36,130,000	9,482,000	1,541,000	....	41,900,000		2
3	Merchants' National Bank	2,000,000	2,097,700	20,489,000	4,254,000	1,457,000	....	21,158,000	1,888,000	3
4	Mech. & Metals Nat. Bank	6,000,000	8,874,600	80,745,000	15,416,000	5,882,000	....	85,528,000	4,930,000	4
6	Bank of America	1,500,000	6,186,600	26,538,000	5,052,000	1,749,000	....	26,499,000		6
8	National City Bank	25,000,000	32,916,900	198,630,000	42 089,000	13,252,000	....	196,234,000	3,679,000	8
12	Chemical National Bank	3,000,000	7,755,000	28,644,000	4,357,000	2,218,000	....	24,790,000	397,000	12
13	Merchants' Exch. Nat. Bank	1,000,000	761,800	8,954,000	2,115,000	205,000	....	8,858,000	475,000	13
15	Nat. Butchers & Drovers Bk.	300,000	111,100	1,973,000	516,000	57,000	....	2,171,000	48,000	15
17	Greenwich Bank	500,000	1,070,100	9,649,000	2,520,000	205,000	....	10,822,000		17
21	American Exch. Nat. Bank	5,000,000	4,693,300	47,846,000	10,217,000	1,552,000	....	47,890,000	3,883,000	21
23	National Bank of Commerce	25,000,000	16,690,600	140,272,000	21,903,000	6,231,000	....	117,971,000	7,912,000	23
28	Pacific Bank	500,000	1,009,800	4,871,000	728,000	840,000	....	4,927,000		28
30	Chatham & Phenix Nat'l Bk.	2,250,000	1,357,900	21,247,000	3,696,000	1,579,000	....	21,852,000	1,173,000	30
31	People's Bank	200,000	435,800	1,967,000	409,000	148,000	....	2,313,000		31
33	Hanover National Bank	3,000,000	15,054,800	77,634,000	21,082,000	2,582,000	....	88,412,000	50,000	33
36	Citizen's Central Nat. Bank	2,550,000	2,371,200	22,339,000	5,111,000	611,000	....	21,819,000	1,531,000	36
42	Market & Fulton Nat. Bank	1,000,000	1,948,100	9,221,000	1,498,000	984,000	....	9,257,000	56,000	42
44	Metropolitan Bank	2,000,000	1,779,400	11,717,000	2,603,000	312,000	....	11,595,000		44
45	Corn Exchange Bank	3,500,000	6,916,000	63,823,000	15,850,000	3,269,000	....	75,814,000		45
53	Importers & Traders' Nat. Bk.	1,500,000	7,676,000	26,591,000	3,759,000	2,387,000	....	24,077,000	50,000	53
54	National Park Bank	5,000,000	14,344,700	90,034,000	19,503,000	2,572,000	....	91,241,000	3,497,000	54
59	East River National Bank	250,000	65,200	1,561,000	452,000	107,000	....	1,766,000	49,000	59
63	Second National Bank	1,000,000	2,870,500	13,867,000	3,102 000	123,000	....	12,625,000	669,000	63
65	First National Bank	10,000,000	23,177,700	115 527,000	25,158,000	2,159,000	....	106,457,000	4,936,000	65
67	Irving National Bank	4,000,000	3,468,600	45,247,000	9,082,000	3,063,000	....	48,208,000	1,579,000	67
70	Bowery Bank	250,000	789,000	3,163,000	786,000	71,000	....	3,403,000		70
71	N. Y. County Nat. Bank	500,000	1,916,800	8,667,000	1,536,000	768,000	....	9,127,000	197,000	71
72	German-American Bank	750,000	706,200	4 215,000	979,000	212,000	....	4,180,000		72
74	Chase National Bank	5,000,000	9,645,700	102,020,000	23,462,000	5,460,000	....	115,201,000	446,000	74
76	Fifth Avenue Bank	100,000	2,091,600	12,928,000	2,610,000	1 062,000	....	14,425,000		76
77	German Exchange Bank	200,000	803,800	3,219 000	509,000	367,000	....	3,481,000		77
78	Germania Bank	200,000	1,000,300	4,901,000	1,137,000	253,000	....	5,582,000		78
80	Lincoln National Bank	1,000,000	1,789,800	15,027,000	2,963,000	1,169,000	....	15,522,000	877,000	80
81	Garfield National Bank	1,000,000	1,290,100	9,293,000	2,332,000	142,000	....	9,586,000	343,000	81
82	Fifth National Bank	250,000	505,000	3,998,000	779,000	244,000	....	4,241,000	245,000	82
83	Bank of the Metropolis	1,000,000	2,089,900	12,968,000	2,120,000	926,000	....	12,784,000		83
84	West Side Bank	200,000	759,700	3,761,000	706,000	520,000	....	4,752,000		84
85	Seaboard National Bank	1,000,000	2,598,500	25,099,000	5,950,000	1,752,000	....	29,267,000	346,000	85
91	Liberty National Bank	1,000,000	2,844,800	24,400,000	5,218,000	1,433,000	....	26,680,000	495,000	91
92	N. Y. Produce Exch. Bank	1,000,000	928,300	9,317,000	2,271,000	666,000	....	10,795,000		92
96	State Bank	‡1,500,000	‡750,700	19,134,000	5,891,000	309,000	....	24,115,000		96
97	Security Bank	1,000,000	345,500	10,832,000	1,880,000	1,276,000	....	12,753,000		97
99	Coal and Iron Nat'l Bank	1,000,000	604,800	6,981,000	1,083,000	618,000	....	6,987,000	394,000	99
100	Union Exch. National Bank	1,000,000	1,008,000	10,017,000	2,145,000	350,000	....	10,125,000	394,000	100
118	Nassau Nat'l Bk., Brooklyn	1,000,000	1,121,700	7,927,000	1,430,000	180,000	....	6,720,000	267,000	118
102	Brooklyn Trust Co.	1,500,000	3,706,700	26,451,000	2,193,000	939,000	2,696,000	20,788,000		102
103	Bankers Trust Co.	10,000,000	13,065,500	126,045,000	14,824,000	375,000	11,028,000	102,559,000		103
104	U. S. Mortgage & Trust Co.	2,000,000	4,211,400	36,838,000	3,432,000	785,000	7,156,000	28,179,000		104
105	Astor Trust Co.	1,250,000	1,201,300	21,422,000	2,097,000	108,000	1,576,000	15,590,000		105
106	Title Guarantee & Trust Co.	5,000,000	11,614,000	33,045,000	2,618,000	490,000	2,322,000	20,843,000		106
107	Guaranty Trust Co.	10,000,000	21,222,100	187,702,000	18,729,000	1,140,000	17,988,000	141,517,000		107
108	Fidelity Trust Co.	1,000,000	1,307,900	7,534,000	842,000	46,000	981,000	5,900,000		108
110	Lawyers Title Ins. & T. Co.	4,000,000	5,388,900	15,877,000	1,218,000	613,000	1,388,000	11,883,000		110
111	Columbia Trust Co.	2,000,000	7,348,300	48,628,000	5,501,000	280,000	4,448,000	38,688,000		111
113	Peoples Trust Co.	1,000,000	1,566,800	16,360,000	1,839,000	376,000	2,251,000	15,156,000		113
114	New York Trust Co.	3,000,000	11,545,300	45,951,000	3,946,000	527,000	3,338,000	29,554,000		114
115	Franklin Trust Co.	1,000,000	1,165,500	10,708,000	997,000	129,000	1,042,000	7,541,000		115
116	Lincoln Trust Co.	1,000,000	555,700	9,901,000	1,049,000	223,000	1,016,000	8,669,000		116
117	Metropolitan Trust Co.	2,000,000	5,892,600	29,899,000	2,746,000	250,000	2,223,000	20,436,000		117
119	Broadway Trust Co.	1,500,000	848,500	14,129,000	1,384,000	692,000	1,642,000	13,940,000		119
	Totals, National Banks	112,600,000	173,907,700	} 1,425,700,000	299,965,000	74,081,000		1,454,578,000	41,578,000	
	" State Banks	16,450,000	32,382,600							
	" Trust Companies	46,250,000	90,640,500	630,490,000	63,415,000	6,973,000	61,095,000	481,243,000		
	Totals, all members	175,300,000	296,930,800	2,056,190,000	363,380,000	81,054,000	61,095,000	1,935,821,000	41,578,000	
				Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	
				2,286,000	21,692,000	451,000	3,677,000	21,394,000	163,000	

*As per official reports
29 National June 30, 1914
17 State, June 30, 1914
15 Trust Co's. June 30, 1914.
‡As of July 18, 1914.

Banks: Cash Reserve in Vault,	$374,046,000	Cash Reserve Required, (25%)	$363,644,500	Excess,	$10,401,500	Decrease,	$13,430,250
Trust Co's: " " "	70,388,000	" " " (15%)	72,186,450	Deficit,	1,798,450	Decrease,	3,094,550
Aggregate	$444,434,000		$435,830,950	Excess,	$ 8,603,050	Decrease,	$16,524,800

Trust Companies' Reserves with Clearing House Members, $61,095,000 Decrease, $3,677,000

	LOANS AND DISCOUNTS	SPECIE	LEGAL TENDERS	On Deposit with Clearing House Members	LEGAL NET DEPOSITS	CIRCULATION
Actual figures this morning: Totals, Nat. and State Banks	1,423,407,000	272,752,000	71,646,000		1,422,749,000	41,737,000
" Trust Companies ...	635,348,000	60,137,000	7,045 000	56,547,000	488,790,000	
Totals, all members	2,058,755,000	332,889,000	78,691,000	56,547,000	1,911,539,000	41,737,000
	Increase	Decrease	Decrease	Decrease	Decrease	Increase
	1,182,000	53,065,000	3,234,000	10,692,000	46,776,000	3,000

Banks: Cash Reserve in Vault,	$344,398,000	Cash Reserve Required, (25%)	$355,687,250	Deficit,	$11,289,250	Decrease,	$35,004,250
Trust Co's: " " "	67,182,000	" " " (15%)	73,318,500	Deficit,	6,136,500	Decrease,	8,595,250
Aggregate	$411,580,000		$429,005,750	Deficit,	$17,425,750	Decrease,	$43,599,500

Trust Companies' Reserves with Clearing House Members, $56,547,000 Decrease, $10,692,000

Clearings for Week ending	August 1, 1914,	$1,838,183,016.11	**Balances for Week ending**	August 1, 1914,	$109,601,810.65
" " "	July 25, 1914,	1,588,913,808 47	" " "	July 25, 1914,	95,095,253.82
Clearings this Day	August 1, 1914,	296,815,972.90	**Balances this Day**	August 1, 1914,	23,383,391.37

SECOND:

GOLD SHIPMENTS PRIOR TO AUGUST 3rd.

An exact statement of the shipments of gold during the first seven months of 1914, and of its destination, would require considerable investigation, which time does not permit. In general, it may be said that in that period the banks of the City of New York exported, in round figures, $150,000,000. of gold, largely in Eagles, the principal amount having been taken by the Bank of France, and, indirectly, by the Reichsbank. The inducements offered by those institutions to attract gold in settlement of international balances were understood in this country to have deprived the Bank of England of the opportunity afforded at that time to strengthen its gold holdings, and undoubtedly was occasioned by the willingness of the English market to continue to extend accommodation to its customers in the United States in the acustomed volume. It is possible that the occurrences of the past few months in international exchange may be explained by the fact that France and Germany did not renew current American indebtedness as freely as the English market did. Investigation conducted by a special committee appointed at the request of the Federal Reserve Board in the latter part of September disclosed the fact that, as of September 12th, the total ascertainable current international debt maturing between that date and January 1, 1915, amounted to about $450,000,000. The items investigated included bank balances, maturing securities, interest and dividend obligations, commercial credits, finance bills, and indebtedness for securities sold. As to some of these accounts, estimates were necessary, and it is recognized that information of this character is inaccurate and liable to be misleading. The offset accounts were shown to be about $150,000,000. leaving the net indebtedness as of that date maturing before January 1st, in round figures, $300,000,000. due to England, France, Germany, Canada, and, to some extent, other European countries. The amounts maturing were about equally proportioned over the fall period of the year. It should be understood that a considerable portion of the American indebtedness to the London market, maturing in the period between October 1st and January 1st, was created in anticipation of the purchase of cotton bills, which have always been considered cash in the London market.

No further data has been obtained in connection with the present amount of the current international indebtedness, but opinions asked of bankers conversant with this matter would probably justify the belief that over one-half of the net indebtedness has been paid at the present time.

The foreign trade, exclusive of gold and silver shipments, was $20,000,000. adverse to the United States in August, $17,000,000. in its favor in September, and will probably be $60,000,000. in its favor for October. Last year, and in 1912, for these months, the balances in favor of the United States were:

	1912	1913
August	$13,000,000.	$50,000,000.
September	54,000,000.	47,000,000.
October	77,000,000.	139,000,000.

THIRD:

THE SETTLEMENT OF INTERNATIONAL BALANCES IN GOLD FALLS ENTIRELY UPON THE BANKS OF NEW YORK CITY.

The international exchanges reflected fears of the effect of the outbreak of war, by the latter part of July, and even before August 2nd there developed in America an insistent demand for exchange to meet maturing obligations to Europe. The declaration of war, and the suspension of shipping facilities, caused such an interruption of the American export trade as to dangerously reduce the supply of exchange. The following statement is made at some length in order that the position taken by the New York banks with respect to gold exports may be better understood.

About 80% of the foreign commerce of the Atlantic seaboard passes through the Port of New York. It is the largest manufacturing and banking center in the United States, and is the market where the quotation for foreign exchange is made, and where foreign bills are assembled for remittance to Europe for collection or discount. There is no city in the United States which can make a quotation for exchange, without a quotation from New York. The burden imposed upon the reserves of the banks of New York, when the gold movement is adverse in both the foreign and domestic exchanges, has at times under our old banking system, proved to be too heavy for the banks to carry without employing emergency relief measures. In 1907 the only such measure available was to issue clearing house loan certificates for settling balances between members,

which, however, afforded no relief to the rest of the country. The New York banks in 1907 suspended free shipment of currency to their correspondents, and the immediate result was a maximum premium of 3-1/2% on both currency and gold.

This year the Aldrich-Vreeland Currency Act permitted the prompt use of an emergency currency which was acceptable to the people of the country. Within a few days after August 3rd, the New York banks were able to freely supply their correspondents with currency, and at no time since that date has there been a premium on either gold or currency in this country nor, in fact, has New York exchange in other parts of the country indicated distrust of the ability of the New York banks to promptly meet their obligations to their correspondents. This currency not being available for the settlement of international balances, and it having been impossible for the banks to ship gold to Europe, London exchange reached a premium equivalent to a very considerable premium on gold. Had this situation occurred in our domestic exchanges, distrust of the ability of the New York banks to meet their commitments and the demands of their depositors might have arisen and with serious consequences. London exchange, after the first violent rise to a maximum of seven dollars for cable transfers, gradually reacted until a fairly level price was established, in the neighborhood of five dollars to the pound, with fluctuations within a range of about five cents either way. In normal times exchange at this level would have caused a large export of gold, the burden of which would have fallen not only upon the banks of New York City, but indeed upon the comparatively few large banks which draw exchange or which carry the accounts of private firms which draw exchange, but which do not themselves carry gold reserves. At the

suggestion of the Federal Reserve Board, a committee of bankers formulated a plan for assembling $100,000,000 of gold for export, in order to make exchange and to thereby distribute the burden among institutions all over the United States instead of imposing it upon a few of the banks of New York City. The banks of New York City pledged $45,000,000 of the amount. This $100,000,000 was in addition to the $80,000,000 pledged by the banks of the City of New York for the payment of New York City obligations maturing in Europe during the balance of this year. The necessity for pursuing this course, instead of allowing a free movement of gold, arises:

FIRST: From the fact that the gold reserves of the United States are scattered among about twenty-five thousand national and state banking institutions;

SECOND: From the fact that those banks in New York which might ship gold would be unable to recoup their gold reserves by calling loans; and,

THIRD: From the fact that it is impossible for a bank which parts with its gold for export to recoup itself through the exchanges from other banks, and because the proceeds of sales of exchange, as well as of loans paid, are payable in New York funds through the Clearing House and have since August 1st been settled either in Clearing House loan certificates or Aldrich-Vreeland notes.

FOURTH:

NEW YORK CITY DEBT.

The City of New York has for many years been authorized, by the terms of its Charter, to borrow money in anticipation of the payment of taxes. With the growth of the City, and the enormous increase in the tax levy, the amounts of these borrowings have increased to such an extent that at times the City is indebted to the market on short loans to the extent of $100,000,000, which loans are ordinarily liquidated at the time taxes are paid in the fall, and, in recent years, in both the spring and fall, as the tax levy is now divided into semi-annual payments. The movement of the cotton crop in the fall of the year ordinarily furnishes such a large volume of exchange at that season that borrowers have been able to count with reasonable certainty upon lower rates in the fall than in the spring, and advantage has been taken of that fact not only by the City of New York, but by other municipalities which make similar loans to borrow large sums of money in the London market. On August 3rd the City of New York had so borrowed a total of $82,000,000, a small portion payable in Paris, but the greater part in London. The breakdown of international exchange imposed upon the City of New York the necessity of meeting this large obligation by the export of gold. The City carries its accounts in a large number of institutions, both national and state, located in the City of New York, and, under ordinary circumstances, would have had no difficulty in obtaining gold in large amounts from those institutions. The conditions existing early in August, however, made it impossible for the City's bankers to furnish the amounts of gold required, and, had the City been obliged to purchase exchange at the rates recently prevailing, the loss would have been enormous. It was therefore determined by the bankers who undertook the solution of this problem to ask all the banks in the City to contribute to a fund of gold amounting to about $80,000,000, in proportion to the amount of their respective gold holdings. The contracts entered into between the City, the contributing banks, and the Managers of the transaction (J.P. Morgan & Company, and Kuhn, Loeb & Company) provided for the sale of $100,000,000 of obligations of the City maturing in one, two and three years. The banks which underwrote the issues undertook to furnish the Managers, if required to do so, eighty per cent. of the amounts of their subscriptions to the syndicate in gold, having the option, however, of furnishing sterling exchange in place of gold at the rate of $4.90 a pound. The practically unanimous response of the banks of the City to the call made upon them, as well as the universal approval of the transaction, indicates that the bankers were correct in their belief that a postponement or default in the payment of this indebtedness of the City could not be contemplated, and that the consequences would be so serious as to justify the pledge of gold involved. While it is now recognized that the City could have extended a large part of this indebtedness in London by the offer of an issue of new notes payable in London in sterling, the City authorities nevertheless felt, no doubt influenced by the pressure of public opinion, that it was to the City's advantage to extinguish the debt at once, and avoid the possibility of loss at a later maturity, rather than to advance its position and to take the chance of being able to get gold six months or a year later. The contract so made by the banks of New York placed one-third of their entire gold holdings under contract for export, at least to the extent that exchange could not be furnished. Attention is here called to the fact that the privilege of furnishing exchange in place of gold permits any contributor to this fund to avoid the loss of gold by purchasing exchange and, therefore, contributors to this fund are, to some extent, competitors in the market for the purchase of sterling exchange.

FIFTH:

THE $100,000,000. GOLD FUND.

Statement "third" largely explains the necessity for providing a fund of gold by the method adopted, and it is the belief of the Committee that the success of the plan affords evidence of the willingness and intention of the banks of the United States to furnish the means to their customers for paying foreign indebtedness which the banks of New York alone, without endangering the situation, were unable to provide.

Voluntary contributions were obtained from national and state banks in all central reserve and reserve cities (52 in number), those cities, under the law, being required to hold 25% and 12½% cash reserves, respectively, as against 6% in other cities. Contributions of gold to the fund were received from 1,494 different banks, located in all parts of the United States. An amount in excess of $100,000,000. was promptly pledged through the co-operation of the Secretary of the Treasury and the Federal Reserve Board. Pending the payment of the first call of $25,000,000., nine New York institutions advanced $10,000,000. in gold for shipment to Ottawa. This enabled the Committee to promptly meet the urgent demand for exchange, which was selling at about $5.02½.

The Committee desires to call attention to the fact that the gold fund was not created for the purpose of making a profit, but rather to meet an emergency and thereby exert an influence in bringing about a decline in the rate of exchange. The policy of the Committee has not been to sell exchange freely. This would certainly have resulted in the accumulation of exchange by debtors who desired to insure the protection of future maturing obligations, and, unfortunately, might also have

resulted in releasing exchange to the contributors to the fund provided to meet the obligations of the City of New York. It was rather the policy of the Committee to use the fund to prevent an undue advance in exchange rates, but, nevertheless, to permit rates to follow fairly normal fluctuations and thereby induce American obligors to arrange for renewals in the expectation that the creation of exchange following a restoration of export trade would avoid the necessity of exporting any considerable portion of the gold fund. This Committee, of which two members are also members of the Gold Fund Committee, is convinced that the policy adopted was a wise one, and that the purposes of the gold fund have already been largely accomplished. After allowing for certain large payments made for account of the United States Government, for which the Government reimbursed the Gold Fund Committee in gold, the totalamount of the fund has been reduced by not over one million pounds, and is substantially intact.

PROFITS AND LOSSES OF THE GOLD POOL.

Misunderstanding is liable to arise with regard to the ultimate profit and loss account of the Gold Fund Committee, and we are informed that the attitude of the Bank of England later referred to was possibly due to the belief that large profits will accrue to the Gold Fund contributors. Consideration of the following will, we trust, make clear the Gold Fund Committee's position:

ABRASION.

The legal limit of tolerance on American gold coin is one-half of one per cent. Eagles furnished by the Sub-Treasury at New York will rarely show an abrasion exceeding one-quarter of one per cent. Eagles shipped from Western points, however, where gold coins circulate much more

freely, show a larger percentage of abrasion. The Committee must figure on a loss of from one-quarter to three-eighths per cent. for abrasion.

INTEREST AND EXPENSES.

The gold furnished for the purpose of this fund is taken out of bank reserves and held in safe deposit in New York, and is not held as a part of the reserves of the New York banks. The contributors are called upon to make payments in installments of 25%. The first payment of 25%, in anticipation of which $10,000,000 was advanced by certain New York banks, was made as soon as the fund was completed, and the expense of transferring this fund from all parts of the country was paid out of the fund. In order to arrive at the cost of exchange, it is also necessary to make allowance for the interest during transmission, and during the period when the gold is held in storage in New York, for all the expenses of shipment to Ottawa, as well as for abrasion; the gold being received by the Committee at its face value, and sold to the Bank of England at its bullion value. It is impossible to estimate the interest cost involved in shipments which have not yet been made, but a calculation has been made as to the first shipment, with allowance of interest to November 30th, and it is found that London exchange on the basis of this calculation costs the contributors about 4.92-3/4. The average price realized for exchange sold to date will slightly exceed 4.95, and, after making allowance for 2% interest allowed by the London banks, it is probable that if the account was closed at the present time by selling exchange against balances now in London, the result would be a loss to all the contributors to the fund. This is occasioned by the decline in exchange after the first transfer to Ottawa was made, and before the entire balance was exhausted.

At the time the fund was created, the Committee desired the

co-operation of the Bank of England on two points only, pending a discussion of other matters of importance which could not be then taken up by cable.

First: A better understanding of the basis on which the Bank was purchasing gold shipped to Ottawa:

Second: An arrangement for advances, without interest, upon advice and guaranty of shipment from New York to Ottawa.

AS TO THE PRICE PAID FOR AMERICAN GOLD:

The value of the grains of gold in the English sovereign in American currency is $4.86656

One ounce of American gold coin contains fine gold of the value of $18.6046

$18.6046, at the rate of $4.86656, equals ....76sh. 3½d.

which is the value, expressed in sterling, of one ounce of American gold coin.

This is the exact price which the Bank of England was paying for American Eagles just prior to the outbreak of the war.

Reductions were made to a net price of..........76sh. 3½d.

3d. being further deducted for American Eagles shipped to Ottawa.. 3d.

making the net price for Eagles delivered in Ottawa.........76sh. ½d.

It has been stated to us that the reduction of 3d. was made in order to cover the following items:

(a) An allowance for the cost of melting and minting:

(b) An allowance for the cost of transferring Eagles from Ottawa to London.

As to the first item, inquiry arises as to whether the price which the Bank of England is required by law to pay for bars (77sh. 9d.) does not make allowance for the cost of coining bars into sovereigns, and that, therefore, a shipper of Eagles should not be required to make this

additional allowance, which is already covered in figuring the equivalent of the bullion value of the gold contained in American Eagles.

As to the second item, the question arises as to whether the Bank of England should not, if the exchanges turn before the gold is shipped to London, then allow in the price at which it resells the gold to New York a rebate of the charge which it has collected for the conversion of Eagles into sovereigns. The same question will arise as to 3d. deducted from the price allowed for standard bars.

The Gold Pool Committee feels that the deduction of 5d. on Eagles and 3d. on bars is not justified under the circumstances, but a clearer understanding of the reasons for these deductions may change the Committee's views.

As to an arrangement for advances without interest, the request which was made for this accommodation at the time of the first shipment grew out of an emergency. Exchange was selling above five dollars a pound, and the Committee desired to be in a position to draw exchange at once before the gold shipped could be received and weighed at Ottawa and credits confirmed. The necessity for accommodation on that account is now passed.

With exchange approaching the point where gold exports become unprofitable and without a better understanding with the Bank of England as to the rate which they will make on Eagles exported to or from Ottawa the Gold Fund Committee will find it impossible to make any considerable shipment of gold at one time without risk of loss on a portion of such shipments.

The Committee desires to be in a position where it may furnish exchange so long as it may profitably cover with gold, but not to run the

risk of a rapid decline in the exchange market.

SIXTH

THE COTTON LOAN POOL.

It has been generally estimated, and this Committee believes with reasonable accuracy, that this year's American cotton crop will somewhat exceed 15,000,000 bales, and that the world's reduced consumption of cotton will leave an unused balance of the American product of about 5,000,000 bales. At the conference in Washington, it was suggested that the maximum credit to finance the cotton crop would be required at the time when the maximum of the crop had been picked, and the minimum marketed, that is to say, about December 1st, at which time it was suggested that a credit of $300,000,000 might be required. This does not take into account two factors in the situation.

First: The method of financing the growing and gathering of the crop;

Second: The difference in price between this year and last year.

As to the method of financing the crop, it may be generally stated that the initial advances are made before the crop is planted. They are largely made to the farmers by merchants and supply houses, and are increased as the work on the crop advances, the merchants taking a lien on the growing crop and borrowing money from their banks. By the time the cotton is gathered, the last advance is made. The marketing of the crop through the ginning and compress companies and the cotton factors

is a process of liquidation, and the problem confronting the South at this season is not that of arranging new credits with which to finance the cotton crop as a whole, but rather of providing a temporary credit to be employed in facilitating the liquidation of that portion of the crop which can be marketed, by enabling banks to extend or renew the loans that have already been made, and thereby assist in financing the surplus which may not be promptly marketed. This may be described as a process of clearing or shifting loans rather than as a process of creating new credits. As to the second point, namely, the price, it is, of course, evident that with cotton selling at six cents, those banks which loan on cotton could carry two bales this year against one bale, at twelve cents, last year.

In order to facilitate the process of liquidation, which contemplates that 10,000,000 bales will be sold and 5,000,000 bales will be carried, a credit is in course of being arranged, amounting to $135,000,000, to be handled by the following plan: $100,000,000 of the advance is to be secured by a first lien upon cotton pledged at not exceeding six cents a pound, middling grade. $35,000,000 is to be secured by a second lien on the pledged cotton, this portion of the loan to be provided by the banks of the cotton growing states, to whom, or through whom, the loans will be made. A fund amounting to three per cent. of the amount of the loans made is to be set aside to cover the expenses of managing the transaction, and to pay any losses incurred. The fund is to be administered under the direction of a Committee consisting of members of the Federal Reserve Board, the business, however, to be conducted by an operating committee, and , under its management, by local committees, the machinery for the appointment of which has already been devised. This Committee believes that the cotton loan fund will be inadequate to restore normal conditions in the market for raw cotton, or in the cotton manufacturing industry, unless it is supplemented by energetic measures to bring about better facitities, both in the United States and abroad, for marketing, financing, and manufacturing cotton. Last year, sales of cotton to Europe furnished this country with $534,000,000. of exchange. Anything which retards the free purchase or the free sale of cotton, or the restoration of stable prices for raw cotton, will also retard the restoration of normal conditions in the international exchanges, and work injury both in England and in the United States. In the opinion of this Committee, it seems desirable that the following measures be adopted:

<u>First:</u> That the fund of $135,000,000 be completed and its administration undertaken at once.

<u>Second:</u> That the New York and Liverpool cotton exchanges should be opened. Plans for opening the New York Cotton Exchange have reached a point where it may be reasonably expected that the exchange can open at an early date provided necessary co-operation is afforded by the Liverpool Cotton Exchange and by the English banks. A fund has been pledged which will enable the members of the New York Cotton Exchange, who are committed for the purchase of cotton at high prices, to margin their contracts down to 7-½ cents.

with this relief, confidence is expressed that they may safely open the exchange with a reasonable expectation of being able to meet the market conditions which will arise. Co-operation by the Liverpool Cotton Exchange on similar lines is necessary before it will be feasible to open the New York Cotton Exchange.

THIRD: It is also essential that no question as to contraband be permitted to arise in regard to export cotton. The Committee notes with great satisfaction that the British Government has already recognised this situation.

FOURTH: Any restraint which may have been imposed upon English merchants or spinners in the purchase of cotton should be removed. Reference has been made to some agreement or understanding which we had been advised exists in England in this respect. It is not understood that the British Government has brought about any such understanding, nor, in fact, is it understood that English purchasers of cotton have any definite agreement among themselves in this regard. Advices have reached this country, however, to the effect that some of the English banks have exerted a strong influence in restraining the free purchase of cotton by English cotton merchants and spinners, and it is hoped that the

English banks may be induced to encourage the purchase of cotton within reasonable limits.

FIFTH: That the usual means of financing purchases of cotton by English merchants and spinners should be reopened through advances against cotton bills through the discount market.

SEVENTH:

FEDERAL RESERVE BANK.

The first installment is to be paid for the capital stock of the Federal Reserve Bank on November 2nd. The plan announced provides for the transfer of reserve deposits to these banks, commencing with November 16th. If the operation is successfully concluded, the Federal Reserve Bank of New York, within a period of six months (and possibly at the end of three months) will have received payment for over $10,000,000 capital stock in gold, and will have received on deposit at least $100,000,000 of the reserves of the National Banks of New York State, and possibly much more.

The Federal Reserve Act provides that notexceeding 50% of the initial reserve deposits may be made out of the proceeds of commercial paper which the banks may allow the member banks to rediscount. It is therefore impossible, at this time, to forecast the condition of the Federal Reserve Bank of New York resulting from the initial transactions, as the amounts of discounts allowed to the member banks will depend,--

(1) Upon the rate of discount established by the bank;

(2) Upon the rate of interest prevailing in the City of New York,

(3) Somewhat upon the extent to which the New York City Banks are required to make payments for account of their correspondents located in Federal Reserve Districts and

(4) The extent to which they may deposit 5/18 of their reserves, the deposit of which is optional.

The Federal Reserve Banks of the United States are in the course of establishment. Calls for payment on the capital stock have already been made. The ability of this bank to furnish gold is a matter for future consideration, and should not, at this time, be made the basis of any transaction or proposal.

EIGHTH.

CREDIT OF £20,000,000 STERLING.

Your Committee has been informed that about a month ago, when the visit of Sir George Paish and Basil P. Blackett, Esq. was first proposed, one of the subjects to be considered at the conferences would be a possible credit which would, in effect, afford means for extension of the obligations due in England by bankers and merchants in the United States. If it had been possible to arrange such a credit by exchange of cables at that time, your Committee would have approved of the transaction. It would have supplied exchange at a moment when the demand was urgent; and it would have insured us against any serious drain on gold reserves for the time being, and given this country a period for readjustment during which local conditions could have been brought to meet the extraordinary situation.

Since the date when the suggestion of a credit was made, exchange in large quantities has been supplied to the market, and confidence has been greatly restored by the knowledge that the New York City Syndicate and the Gold Pool Committees' operations have been effective. From information which your Committee has gathered, it is strongly of the opinion that a continually increasing supply of exchange is in prospect. The export of food products and raw and manufactured materials that Europe needs in the present crisis (not to mention munitions of war) must continue; mills and manufacturing

companies are working overtime on orders for goods which, in many cases, will not be ready for shipment for some months, and which will make a corresponding supply of exchange. The opening of the New York and Liverpool Cotton Exchanges, coincident with the completion of the Cotton Loan Pool, if accompanied by assurances to the merchants and spinners of England of the willingness of the English banking community to finance reasonable purchases of cotton from the United States will also add to the supply of exchange.

For this, and other reasons that it is not necessary to elaborate here, your Committee is convinced that the adoption and employment of any extraordinary or unusual measures at this time are unnecessary, as such action might, in fact, be interpreted as an expression of the belief of this Committee that the present situation required such measures, and because unusual measures are likely to bring about unexpected and possibly undesired results.

It will be noted that the foregoing relates entirely to the commercial situation. No account has been taken of the possible opening of the New York Stock Exchange, and the additional demands that might arise if any considerable amount of English owned American securities were resold in this country. Your Committee is firmly of the opinion that it is premature to discuss the opening of the New York Stock Exchange until the adjustment of the commercial situation has been demonstrated. In the meantime, however, and, with a view to this step, it is recommended that a Committee from the New York Stock Exchange be appointed, which Committee should visit London for conference with a like Committee from the London Stock Exchange, and

for a careful study of the situation there. A tentative arrangement for a large sterling credit, predicated on the understanding that its repayment will not be made in gold, but in commodities and manufactured goods, would make it possible to consider the opening of the Stock Exchange sooner than it would otherwise be safe to do, should other conditions permit. As this step is recognized to be a desirable one from the point of view of both countries, a present discussion of the form of such a credit and a tentative agreement as to its terms, at this time, would be beneficial. A memorandum supplemental hereto, outlining a plan discussed with Sir George Paish and Basil P. Blackett, Esq., is attached.

EIGHTH (Supplement)

Conditioned upon the understanding suggested in memorandum "Eighth", and with a view to assistance in meeting conditions which may arise through excessive sales of American securities held in Europe, the following has been tentatively discussed with Sir George Paish and Basil P. Blackett, Esq.

That a revolving sterling credit of, say, £20,000,000. shall be granted by or through the Bank of England, or other British bankers, on the following plan:

(1) The credit to be available as a supplement to and only after the $100,000,000. Gold Fund has been shipped, in order to avoid further gold shipment.

(2) Drafts at 90 days, with one agreed renewal, on an acceptor or acceptors, to be designated by the grantors.

(3) Drafts to be forwarded direct to England for discount under an agreed arrangement, and demand or cables to be sold against them.

(4) Drafts to be drawn by the Gold Fund Committee, or a new committee representing guarantors, consisting of banks, trust companies and banking firms in the United States acceptable to grantor.

(5) Proceeds of sales of exchange to be loaned upon security of approved bonds and stocks as collateral, with the obligations of borrowers, who are satisfactory to the guarantors, to maintain a margin of not less than twenty per cent. (20%) of the face value of the loan.

(6) Drafts to be drawn only as required to supply exchange to take the place of gold remittances.

(7) Drafts to be covered at maturity in the usual way if exchange can be purchased at or below the cost of exporting gold.

(8) If exchange cannot be purchased as above, and payment of the bills would require the export of gold, further 90 day renewals to be granted provided that, in the opinion of the Federal Reserve Board, a further loss of gold would be detrimental to our financial situation.

(9) The grantors of the credit to be entitled, after the first renewal, to require payment, in whole or in part, in New York exchange. Such dollar balances, however, to be used only in the purchase of American products.

SEVENTH. SUPPLEMENTAL MEMORANDUM

AS TO THE FEDERAL RESERVE BANK OF NEW YORK CITY.

It must be borne in mind that there is no certainty as to the amount of gold which will be paid into the Federal Reserve Bank at the commencement of its operation. The capital payments which must be met within a period of from ninety days to six months, in gold, total about $10,000,000. The payment of reserves, aggregating $100,000,000, may be made in United States notes and silver certificates. While it is hoped that the banks of the New York District will make a considerable portion of their reserve payments in gold, it is nevertheless quite possible that a large proportion will be made in legal tender notes, and the ability of the Federal Reserve Bank to accumulate gold from other sources than the United States Treasury will therefore demand upon:

(A) The degree of confidence which the bank enjoys from its member banks, which now hold the principal gold reserves.

(B) A change in the present currency laws, readjusting the various forms of gold certificates and legal tender notes so as to force the withdrawal of small denominations gold certificates from circulation.

No transaction involving the present pledge of the credit of the Federal Reserve Bank to furnish gold would be justified until the bank has been in operation a sufficient length of time to demonstrate its ability to accumulate sufficient gold reserve to justify such a transaction.

210.x

November 4, 1914.

Honorable Charles S. Hamlin, Governor,
Honorable Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

Gentlemen:

On Friday, October 23rd, at a conference called by the Secretary of the Treasury, at which were present the Secretary of the Treasury, the members of the Federal Reserve Board, the Comptroller of the Currency, Sir George Paish, Basil P. Blackett, Esq., and a committee of bankers, the undersigned were appointed a committee to prepare a report and memoranda covering the various subjects discussed at the conference.

After careful consideration, your committee submits herewith its report in the form of a proposed letter to Sir George Paish and Basil P. Blackett, Esq., representing the Chancellor of the British Exchequer. Attached to this letter are the various memoranda mentioned, all of which are submitted for your information and as the best judgment of the committee on the subjects discussed, as enumerated in the proposed letter.

The plan forming supplement to memorandum "Eighth" herewith, we believe briefly expresses what was discussed at our last conference in Washington, which was attended by Sir George Paish and Mr. Blackett. It embodies the best judgment of the members of the sub-committee, but has been prepared without conference with New York bankers, whose co-operation and approval are essential to the success of any such

undertaking. The members of the committee therefore respectfully suggest that it would be harmful to the success of the plan were it to become public before those who would be interested in New York (and equally those in London) have been given opportunity to consider it. We await a further expression of your views in this regard before taking any steps to ascertain the attitude of the bankers of New York.

Respectfully yours,

(Sgd.) Benj. Strong, Jr.

for the Committee.

2

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Honorable Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

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Respectfully yours,

(Sgd.) Benj. Strong, Jr.

for the Committee.

November 2, 1914.

Sir George Paish,
Basil P. Blackett, Esq.,
Representatives of the Chancellor of the British Exchequer accredited to the Honorable the Secretary of the Treasury of the United States.

Gentlemen:-

At a conference in Washington, convened by the Honorable William G. McAdoo, Secretary of the Treasury of the United States, which was attended by the members of the Federal Reserve Board of the United States, and representatives of banking interests of this country, the undersigned were appointed a Committee, representing the banking interests, to confer with you in order that, after exchanging views as to financial conditions in England and the United States precipitated by the war in Europe, they could submit to you memoranda outlining the conditions discussed, and possibly consider and submit to you, for transmission to England, such proposals as, in our judgment, would be to the mutual advantage of the business interests of both countries.

Based upon the interchange of views at the recent conference, and upon facts that have developed in recent conferences in New York and elsewhere, and upon our general knowledge of the local situation, combined with information in our possession regarding the situation in England, we submit the following explanatory memoranda. Because of the inherent economic differences between England's position and that of the United States, and the differences between banking systems and banking methods in your country and ours, this memorandum is necessarily elaborate, but it will, we trust, afford you a full comprehension of the situation.

FIRST: A statement of the position of the New York banks on August 1st, and thereafter, of the reasons why it was deemed desirable for the banks to issue Clearing House certificates, and to apply for Aldrich-Vreeland currency: including a statement, as of August 1st, of the members of the Clearing House Association.

SECOND: A statement of gold shipments made prior to the month of August in payment of obligations, an estimate of the probable additional indebtedness of American merchants, banks, and corporations to Europe on or about September 12th last, and a statement of the country's export balances for August, September, and October (estimated) 1914.

THIRD: A statement explaining the reasons why the settlement of international balances necessarily falls upon the banks of New York City and not of the country at large, and why a weakening of the New York City banks, through depletion of gold reserves, is serious, and is reflected at once in lack of confidence and curtailment of credit throughout the country.

FOURTH: A statement respecting the syndicate formed to guarantee the payment of about $80,000,000. of gold to meet the debt of New York City, due in London (and Paris) up to January 1, 1915.

FIFTH: A statement of the necessity for and the creation of the so-called "Gold Fund," the difficulties under which it was completed, its method of operation, the expenses thereof, and the risk of loss incurred by the participants; incidentally,

a memorandum with regard to the price paid by the Bank of England for American Eagles delivered at Ottawa, and certain questions on which the "Gold Fund Committee" desires information, having to do with the price allowed by the Bank of England for gold delivered in Ottawa.

SIXTH: A statement of the objects and the terms and conditions of the so-called "Cotton Loan Pool" of $135,000,000, and of the method by which the cotton crop and its movement to market is financed, with certain suggestions.

SEVENTH: A statement in respect of the Federal Reserve Bank of New York now in course of organization, and its bearing on the matter under discussion.

EIGHTH: A statement in respect of a possible credit of $20,000,000, the Committee's opinion in regard thereto, and a suggested plan which might be adopted at a later date.

These statements are submitted for consideration and discussion and are put forward for the information of the conference as an expression of the belief and opinion of the Committee.

At the general conference between the Honorable the Secretary of the Treasury, and the Federal Reserve Board, and the full Committee representing the bankers of the United States, at which this Committee was appointed, with the information then at hand, it was expected that this Committee, after conference with you, and a careful canvass of the financial situations in England and in the United States, would have some specific proposals to submit for the consideration of the English Government, or of the financial interests in England.

With the New York City Gold Syndicate and the Gold Fund Committee funds aggregating $180,000,000 (only a small amount of which has as yet been availed of), and with the completion of the Cotton Pool Loan Syndicate, all in this country, and with the expected early conclusion of arrangements to reopen the New York Cotton Exchange, with full protection to its members as to existing contracts, and with the arrangements made by the English Government to discount pre-moratorium acceptances of English banks and accepting houses, and to postpone pre-moratorium liabilities to post-moratorium business, and the resultant facilities offered for new acceptance business in London, this Committee is of the opinion that the only additional step necessary at the present time to adjust the international commercial situation and enable bankers, corporations, and business firms of the United States to meet obligations as they mature at normal rates of exchange, is an understanding that the free purchase of American cotton by English spinners and merchants shall be encouraged by the bankers and government authorities of England, and that arrangements should be promptly made to open the usual channels for advances against cotton or for the discount of cotton acceptance bills.

The Cotton Loan Pool is estimated to provide funds to enable the banks and merchants of the South to carry over four million bales of cotton until February 1, 1916. The best expert opinions estimate the excess over the consumption at not over five million bales. This Committee is of the opinion that the present low price, being considerably under the cost of production, will tend to induce cotton merchants and spinners of America and Europe to buy somewhat in excess of their needs, and that this inducement will result in the absorption of considerably more cotton than the amount generally estimated.

No separate statement has been made in regard to the international

security markets, or to the opening of the New York or London Stock Exchanges. The measures above enumerated we believe are adequate and will eventually correct the international commercial situation, but would be entirely inadequate should any considerable volume of securities be thrown upon this market on the opening of the New York Stock Exchange. Until, therefore, the commercial situation has been adjusted, and the exchanges have turned in our favor, any discussion on bearing on the opening of the New York Stock Exchange to a free and unrestricted market for American securities owned abroad would be premature.

Respectfully yours,

(Sgd.) James Brown,
Benj. Strong, Jr.,
A. H. Wiggin.

FIRST:

THE POSITION OF THE NEW YORK BANKS

At conference of New York bankers held immediately prior to the declaration of war by England, opinions were unanimous that the banking position in this country would shortly develop along lines similar to those experienced in the fall of 1907. Up to the time of these conferences gold to the amount of about $130,000,000, had been exported from the country and it was feared that, in addition to the contraction of credit resulting from this large loss of gold reserves, a further and larger contraction would be imposed upon the New York banks by reason of the withdrawal of funds by banks throughout the country who might be inspired through fear to strengthen their position by increasing their reserves. In 1907, after the crisis of the panic had passed (on December 2nd), the reports of the National Banks to the Comptroller of the Currency indicated that even at that time, country banks, as distinguished from the Reserve City and Central Reserve City banks, still held excess cash reserves of $115,000,000; and it must be borne in mind that this leaves out of consideration the accumulation of reserves doubtless made by about 18,000 state banks, as to which figures have not been compiled. In order to meet the strain imposed by this probable development, the New York Clearing House Association decided to issue Clearing House loan certificates for the settlement of clearing balances between members, and the Secretary of the Treasury announced his intention of issuing Aldrich-

Vreeland notes, as authorized by existing law. These measures afforded protection to the Banks of the City of New York, both National and State, and enabled them to retain about $240,000,000. gold reserves which they held at that time.

Of these gold reserves, $80,000,000 was shortly pledged for the payment of the debt of the City of New York, and, of that amount, about $60,000,000 is still to be furnished, less such amount as is furnished in exchange. Of about $20,000,000 already paid, $15,000,000 has been by shipment of gold and $5,000,000 by purchase of exchange.

Of the $100,000,000 contributed to the gold pool, $45,000,000 was pledged by the banks of New York City, of which $11,250,000 has now been called. $26,250,000 has therefore been taken to date, leaving $93,750,000 still to be furnished out of the present New York City bank reserves. At the present time the Clearing House banks show a small excess cash reserve. When these obligations were entered into, the New York banks were from $15,000,000 to $40,000,000 under their legal reserve.

When the Federal Reserve Bank of New York is organized, it is estimated that a total of about $128,000,000 will be withdrawn from New York City National Banks to make capital and reserve payments both for their own accounts and for those of their out-of-town correspondents. Simultaneously, the reserve requirements will be reduced from 25% to 18%, and it is estimated that, after making these payments of $128,000,000, the reduction of reserve requirements will leave excess reserves in the vaults of the National Banks of New York City aggregating about $60,000,000. If this calculation is correct, we must consider the result of the completion of the three operations referred to, namely, the withdrawal of the entire amount of gold which may be called for on account of the City of New York and the Gold Fund, and the payments and reserve reductions resulting from the organization of the Federal Reserve Bank. The total payments to be made, aggregating about $93,750,000., will be partially offset by the $60,000,000. gained in reserves, due to reduction of reserve requirements, leaving the New York institutions possibly $35,000,000. to $40,000,000. below the required legal reserve. The amount of deficiency in reserve may, by the terms of the Federal Reserve Act, be further offset if member banks are allowed and avail of the privilege of rediscounting commercial paper, at the time of opening of the Federal Reserve Bank.

Statement of the Members of the New York Clearing House Association

From Reports as required under Article III of the Constitution.

For Week ending Saturday, August 1, 1914.

NOS.	MEMBERS.	*CAPITAL	*NET PROFITS	LOANS AND DISCOUNTS Average.	SPECIE Average.	LEGAL TENDERS Average	On Deposit with Clearing House Members carrying 25% Cash Reserve	LEGAL NET DEPOSITS Average	CIRCULATION Average	NOS.
1	Bank of New York N. B. A...	$2,000,000	$4,346,800	$22,317,000	$4,224,000	$1,218,000	....	$20,668,000	$772,000	1
2	Bank of the Manhattan Co....	2,050,000	4,719,900	36,130,000	9,482,000	1,541,000	....	41,900,000		2
3	Merchants' National Bank.....	2,000,000	2,097,700	20,489,000	4,254,000	1,457,000	....	21,158,000	1,888,000	3
4	Mech. & Metals Nat. Bank....	6,000,000	8,874,600	80,745,000	15,416,000	5,882,000	....	85,528,000	4,930,000	4
6	Bank of America............	1,500,000	6,186,600	26,538,000	5,052,000	1,749,000	....	26,499,000		6
8	National City Bank..........	25,000,000	32,916,900	198,630,000	42 089,000	13,252,000	....	196,234,000	3,679,000	8
12	Chemical National Bank......	3,000,000	7,755,000	28,644,000	4,357,000	2,218,000	....	24,790,000	397,000	12
13	Merchants' Exch. Nat. Bank..	1,000,000	761,800	8,954,000	2,115,000	205,000	....	8,858,000	475,000	13
15	Nat. Butchers & Drovers Bk..	300,000	111,100	1,973,000	516,000	57,000	....	2,171,000	48,000	15
17	Greenwich Bank	500,000	1,070,100	9,649,000	2,520,000	205,000	....	10,822,000		17
21	American Exch. Nat. Bank....	5,000,000	4,693,300	47,846,000	10,217,000	1,552,000	....	47,890,000	3,883,000	21
23	National Bank of Commerce..	25,000,000	16,690,600	140,272,000	21,903,000	6,231,000	....	117,971,000	7,912,000	23
28	Pacific Bank	500,000	1,009,800	4,871,000	728,000	840,000	....	4,927,000		28
30	Chatham & Phenix Nat'l Bk...	2,250,000	1,357,900	21.247,000	3,696,000	1,579,000	....	21,852,000	1,173,000	30
31	People's Bank	200,000	435,800	1,967,000	409,000	148,000	....	2,313,000		31
33	Hanover National Bank.......	3,000,000	15,054,800	77,634,000	21,082,000	2,582,000	....	88,412,000	50,000	33
36	Citizen's Central Nat. Bank...	2,550,000	2,371,200	22,339.000	5,111,000	611,000	....	21,819,000	1,531,000	36
42	Market & Fulton Nat. Bank...	1,000,000	1,948,100	9,221,000	1,498,000	984,000	....	9,257,000	56,000	42
44	Metropolitan Bank	2,000,000	1,779,400	11.717,000	2,603,000	312,000	....	11,595,000		44
45	Corn Exchange Bank.........	3,500,000	6,916,000	63,823,000	15,850,000	3,269,000	....	75,814,000		45
53	Importers & Traders' Nat. Bk.	1,500,000	7,676,000	26,591,000	3,759,000	2,387,000	....	24,077,000	50,000	53
54	National Park Bank..........	5,000,000	14,344,700	90,034,000	19,503,000	2,572,000	....	91,241,000	3,497,000	54
59	East River National Bank.....	250,000	65,200	1,561,000	452,000	107,000	....	1,766,000	49,000	59
63	Second National Bank........	1,000,000	2,870,500	13,867,000	3,102 000	123,000	....	12,625,000	669,000	63
65	First National Bank.........	10,000,000	23,177,700	115 527,000	25.158.000	2,159,000	....	106,457,000	4,936,000	65
67	Irving National Bank.........	4,000,000	3.468,600	45,247,000	9.082,000	3,063,000	....	48,208,000	1,579,000	67
70	Bowery Bank	250,000	789,000	3,163,000	786,000	71,000	....	3,403,000		70
71	N. Y. County Nat. Bank.......	500,000	1,916,800	8,667,000	1,536,000	768,000	....	9,127,000	197,000	71
72	German-American Bank	750,000	706,200	4 215,000	979,000	212,000	....	4,180,000		72
74	Chase National Bank.........	5,000,000	9,645,700	102,020,000	23,462,000	5,460.000	....	115,201,000	446,000	74
76	Fifth Avenue Bank...........	100,000	2,091,600	12,928,000	2,610,000	1 062,000	....	14,425,000		76
77	German Exchange Bank......	200,000	803,800	3,219 000	509,000	367,000	....	3,481,000		77
78	Germania Bank	200.000	1.000,300	4.901,000	1,137,000	253,000	....	5,582,000		78
80	Lincoln National Bank........	1,000,000	1,789,800	15.027,000	2,963,000	1,169,000	....	15,522,000	877,000	80
81	Garfield National Bank........	1,000,000	1,290,100	9,293,000	2,332,000	142,000	....	9.586,000	343,000	81
82	Fifth National Bank..........	250,000	505,000	3.998,000	779,000	244,000	....	4,241,000	245,000	82
83	Bank of the Metropolis.......	1,000,000	2,089,900	12,968,000	2.120,000	926,000	....	12,784,000		83
84	West Side Bank.............	200,000	759,700	3.761,000	706,000	520,000	....	4,752,000		84
85	Seaboard National Bank......	1,000,000	2,598,500	25,099,000	5,950,000	1,752,000	....	29,267,000	346,000	85
91	Liberty National Bank........	1,000,000	2,844,800	24.400,000	5,218,000	1,433,000	....	26,680,000	495,000	91
92	N. Y. Produce Exch. Bank....	1,000,000	928,300	9,317,000	2,271,000	666,000	....	10,795,000		92
96	State Bank	‡1,500,000	‡750,700	19,134,000	5,891,000	309,000	....	24,115,000		96
97	Security Bank	1,000,000	345,500	10,832,000	1,880,000	1,276,000	....	12,753,000		97
99	Coal and Iron Nat'l Bank.....	1,000,000	604,800	6,981,000	1,083,000	618,000	....	6,987,000	394,000	99
100	Union Exch. National Bank...	1,000,000	1,008,000	10,017,000	2,145,000	350,000	....	10,125,000	394,000	100
118	Nassau Nat'l Bk., Brooklyn...	1,000,000	1,121,700	7,927,000	1,430,000	180,000	....	6,720,000	267,000	118
102	Brooklyn Trust Co...........	1,500,000	3,706,700	26,451,000	2,193,000	939,000	2,696,000	20,788,000		102
103	Bankers Trust Co............	10,000,000	13,065,500	126,045,000	14,824,000	375,000	11,028,000	102,559,000		103
104	U. S. Mortgage & Trust Co...	2,000,000	4,211,400	36,838,000	3,432,000	785,000	7,156,000	28,179,000		104
105	Astor Trust Co..............	1,250,000	1,201,300	21,422,000	2,097,000	108,000	1,576,000	15,590,000		105
106	Title Guarantee & Trust Co...	5,000,000	11,614,000	33,045,000	2,618,000	490,000	2,322,000	20,843,000		106
107	Guaranty Trust Co..........	10,000,000	21,222,100	187,702,000	18,729,000	1,140,000	17,988,000	141,517,000		107
108	Fidelity Trust Co............	1,000,000	1,307,900	7,534,000	842.000	46,000	981,000	5,900,000		108
110	Lawyers Title Ins. & T. Co....	4,000,000	5,388,900	15,877,000	1,218,000	613,000	1,388,000	11,883,000		110
111	Columbia Trust Co...........	2,000,000	7,348,300	48,628,000	5,501,000	280,000	4,448,000	38,688,000		111
113	Peoples Trust Co............	1,000,000	1,566,800	16,360,000	1,839,000	376,000	2,251,000	15,156,000		113
114	New York Trust Co..........	3,000,000	11,545,300	45,951,000	3,946,000	527,000	3,338,000	29,554,000		114
115	Franklin Trust Co............	1,000,000	1,165,500	10,708,000	997,000	129,000	1,042,000	7,541,000		115
116	Lincoln Trust Co.............	1,000,000	555,700	9,901,000	1,049,000	223,000	1,016,000	8,669,000		116
117	Metropolitan Trust Co........	2,000,000	5,892,600	29,899,000	2,746,000	250,000	2,223,000	20,436,000		117
119	Broadway Trust Co...........	1,500,000	848,500	14,129,000	1,384,000	692,000	1,642,000	13,940,000		119
	Totals, National Banks	112,600,000	173,907,700	} 1,425,700,000	299,965,000	74,081,000		1,454,578,000	41,578,000	
	" State Banks	16,450,000	32,382,600							
	" Trust Companies	46,250,000	90,640,500	630,490,000	63,415,000	6,973,000	61,095,000	481,243,000		
	Totals, all members...........	175,300,000	296,930,800	2,056,190,000	363,380,000	81,054,000	61,095,000	1,935,821,000	41,578,000	
				Decrease	Decrease	Decrease	Decrease	Decrease	Decrease	
				2,286,000	21,692,000	451,000	3,677,000	21,394,000	163,000	

*As per official reports
29 National June 30, 1914
17 State, June 30, 1914
15 Trust Co's, June 30, 1914.
‡As of July 18, 1914.

Banks: Cash Reserve in Vault, $374,046,000 — Cash Reserve Required, (25%) $363,644,500 — Excess, $10,401,500 — Decrease, $13,430,250

Trust Co's: " " " 70,388,000 — " " " (15%) 72,186,450 — Deficit, 1,798,450 — Decrease, 3,094,550

Aggregate .... $444,434,000 — $435,830,950 — Excess, $ 8,603,050 — Decrease, $16,524,800

Trust Companies' Reserves with Clearing House Members, $61,095,000 Decrease, $3,677,000

			LOANS AND DISCOUNTS	SPECIE	LEGAL TENDERS	On Deposit	LEGAL NET DEPOSITS	CIRCULATION
Actual figures this morning:								
Totals, Nat. and State Banks			1,423,407,000	272,752,000	71,646,000		1,422,749,000	41,737,000
" Trust Companies ...			635,348,000	60,137,000	7,045 000	56,547,000	488,790,000	
Totals, all members			2,058,755,000	332,889,000	78,691,000	56,547,000	1,911,539,000	41,737,000
			Increase	Decrease	Decrease	Decrease	Decrease	Increase
			1,182,000	53,065,000	3,234,000	10,692,000	46,776,000	3,000

Banks: Cash Reserve in Vault, $344,398,000 — Cash Reserve Required, (25%) $355,687,250 — Deficit, $11,289,250 — Decrease, $35,004,250

Trust Co's: " " " 67,182,000 — " " " (15%) 73,318,500 — Deficit, 6,136,500 — Decrease, 8,595,250

Aggregate.................. $411,580,000 — $429,005,750 — Deficit, $17,425,750 — Decrease, $43,599,500

Trust Companies' Reserves with Clearing House Members, $56,547,000 Decrease, $10,692,000

Clearings for Week ending	August 1, 1914,	$1,838,183,016.11
" " "	July 25, 1914,	1,588,913,808.47
Clearings this Day	August 1, 1914,	296,815,972.90
Balances for Week ending	August 1, [illegible]4,	$109,601,810.65
" " "	July 25, 1[illegible]	95,095,253.82
Balances this Day	August 1, [illegible]4,	23,383,391.37

SECOND:

GOLD SHIPMENTS PRIOR TO AUGUST 3rd.

An exact statement of the shipments of gold during the first seven months of 1914, and of its destination, would require considerable investigation, which time does not permit. In general, it may be said that in that period the banks of the City of New York exported, in round figures, $130,000,000. of gold, largely in Eagles, the principal amount having been taken by the Bank of France, and, indirectly, by the Reichsbank. The inducements offered by those institutions to attract gold in settlement of international balances were understood in this country to have deprived the Bank of England of the opportunity afforded at that time to strengthen its gold holdings, and undoubtedly was occasioned by the willingness of the English market to continue to extend accommodation to its customers in the United States in the accustomed volume. It is possible that the occurrences of the past few months in international exchange may be explained by the fact that France and Germany did not renew current American indebtedness as freely as the English market did. Investigation conducted by a special committee appointed at the request of the Federal Reserve Board in the latter part of September disclosed the fact that, as of September 12th, the total ascertainable current international debt maturing between that date and January 1, 1915, amounted to about $450,000,000. The items investigated included bank balances, maturing securities, interest and dividend obligations, commercial credits, finance bills, and indebtedness for securities sold. As to some of these accounts, estimates were necessary, and it is recognized that information of this character is inaccurate and liable to be misleading. The offset accounts were shown to be about $150,000,000. leaving the net indebtedness as of that date maturing before January 1st, in round figures, $300,000,000. due to England, France, Germany, Canada, and, to some extent, other European countries. The amounts maturing were about equally proportioned over the fall period of the year. It should be understood that a considerable portion of the American indebtedness to the London market, maturing in the period between October 1st and January 1st, was created in anticipation of the purchase of cotton bills, which have always been considered cash in the London market.

No further data has been obtained in connection with the present amount of the current international indebtedness, but opinions asked of bankers conversant with this matter would probably justify the belief that over one-half of the net indebtedness has been paid at the present time.

The foreign trade, exclusive of gold and silver shipments, was $20,000,000. adverse to the United States in August, $17,000,000. in its favor in September, and will probably be $60,000,000. in its favor for October. Last year, and in 1912, for these months, the balances in favor of the United States were:

	1912	1913
August	$13,000,000.	$50,000,000.
September	54,000,000.	47,000,000.
October	77,000,000.	139,000,000.

THIRD:

THE SETTLEMENT OF INTERNATIONAL BALANCES IN GOLD FALLS ENTIRELY UPON THE BANKS OF NEW YORK CITY.

The international exchanges reflected fears of the effect of the outbreak of war, by the latter part of July, and even before August 3rd there developed in America an insistent demand for exchange to meet maturing obligations to Europe. The declaration of war, and the suspension of shipping facilities, caused such an interruption of the American export trade as to dangerously reduce the supply of exchange. The following statement is made at some length in order that the position taken by the New York banks with respect to gold exports may be better understood.

About 80% of the foreign commerce of the Atlantic seaboard passes through the Port of New York. It is the largest manufacturing and banking center in the United States, and is the market where the quotation for foreign exchange is made, and where foreign bills are assembled for remittance to Europe for collection or discount. There is no city in the United States which can make a quotation for exchange, without a quotation from New York. The burden imposed upon the reserves of the banks of New York, when the gold movement is adverse in both the foreign and domestic exchanges, has at times under our old banking system, proved tobe too heavy for the banks to carry without employing emergency relief measures. In 1907 the only such measure available was to issue clearing house loan certificates for settling balances between members,

which, however, afforded no relief to the rest of the country. The New York banks in 1907 suspended free shipment of currency to their correspondents, and the immediate result was a maximum premium of 3-1/2% on both currency and gold.

This year the Aldrich-Vreeland Currency Act permitted the prompt use of an emergency currency which was acceptable to the people of the country. Within a few days after August 3rd, the New York banks were able to freely supply their correspondents with currency, and at no time since that date has there been a premium on either gold or currency in this country nor, in fact, has New York exchange in other parts of the country indicated distrust of the ability of the New York banks to promptly meet their obligations to their correspondents. This currency not being available for the settlement of international balances, and it having been impossible for the banks to ship gold to Europe, London exchange reached a premium equivalent to a very considerable premium on gold. Had this situation occurred in our domestic exchanges, distrust of the ability of the New York banks to meet their commitments and the demands of their depositors might have arisen and with serious consequences. London exchange, after the first violent rise to a maximum of seven dollars for cable transfers, gradually reacted until a fairly level price was established, in the neighborhood of five dollars to the pound, with fluctuations within a range of about five cents either way. In normal times exchange at this level would have caused a large export of gold, the burden of which would have fallen not only upon the banks of New York City, but indeed upon the comparatively few large banks which draw exchange or which carry the accounts of private firms which draw exchange, but which do not themselves carry gold reserves. At the

suggestion of the Federal Reserve Board, a committee of bankers formulated a plan for assembling $100,000,000 of gold for export, in order to make exchange and to thereby distribute the burden among institutions all over the United States instead of imposing it upon a few of the banks of New York City. The banks of New York City pledged $45,000,000 of the amount. This $100,000,000 was in addition to the $80,000,000 pledged by the banks of the City of New York for the payment of New York City obligations maturing in Europe during the balance of this year. The necessity for pursuing this course, instead of allowing a free movement of gold, arises:

FIRST: From the fact that the gold reserves of the United States are scattered among about twenty-five thousand national and state banking institutions;

SECOND: From the fact that those banks in New York which might ship gold would be unable to recoup their gold reserves by calling loans; and,

THIRD: From the fact that it is impossible for a bank which parts with its gold for export to recoup itself through the exchanges from other banks, and because the proceeds of sales of exchange, as well as of loans paid, are payable in New York funds through the Clearing House and have since August 1st been settled either in Clearing House loan certificates or Aldrich-Vreeland notes.

FOURTH:

THE NEW YORK CITY DEBT.

The City of New York has for many years been authorized, by the terms of its Charter, to borrow money in anticipation of the payment of taxes. With the growth of the City, and the enormous increase in the tax levy, the amounts of these borrowings have increased to such an extent that at times the City is indebted to the market on short loans to the extent of $100,000,000, which loans are ordinarily liquidated at the time taxes are paid in the fall, and, in recent years, in both the spring and fall, as the tax levy is now divided into semi-annual payments. The movement of the cotton crop in the fall of the year ordinarily furnishes such a large volume of exchange at that season that borrowers have been able to count with reasonable certainty upon lower rates in the fall than in the spring, and advantage has been taken of that fact not only by the City of New York, but by other municipalities which make similar loans to borrow large sums of money in the London market. On August 3rd the City of New York had so borrowed a total of $82,000,000, a small portion payable in Paris, but the greater part in London. The breakdown of international exchange imposed upon the City of New York the necessity of meeting this large obligation by the export of gold. The City carries its accounts in a large number of institutions, both national and state, located in the City of New York, and, under ordinary circumstances, would have had no difficulty in obtaining gold in large amounts from those institutions. The conditions existing early in August, however, made it impossible for the City's bankers to furnish the amounts of gold required, and, had the City been obliged to purchase exchange at the rates recently prevailing, the loss would have been enormous. It was therefore determined by the bankers who undertook the solution of this problem to ask all the banks in the City to contribute to a fund of gold amounting to about $80,000,000, in proportion to the amount of their respective gold holdings. The contracts entered into between the City, the contributing banks, and the Mangers of the transaction (J.P.Morgan & Company, and Kuhn, Loeb & Company) provided for the sale of $100,000,000 of obligations of the City maturing in one, two and three years. The banks which underwrote the issues undertook to furnish the Managers, if required to do so, eighty per cent. of the amounts of their subscriptions to the syndicate in gold, having the option, however of furnishing sterling exchange in place of gold at the rate of $4.90 a pound. The practically unanimous response of the banks of the City to the call made upon them, as well as the universal approval of the transaction, indicates that the bankers were correct in their belief that a postponement or default in the payment of this indebtedness of the City could not be contemplated, and that the consequences would be so serious as to justify the pledge of gold involved. While it is now recognized that the City could have extended a large part of this indebtedness in London by the offer of an issue of new notes payable in London in sterling, the City authorities nevertheless felt, no doubt influenced by the pressure of public opinion, that it was to the City's advantage to extinguish the debt at once, and avoid the possibility of loss at a later maturity, rather than to advance its position and to take the chance of being able to get gold six months or a year later. The contract so made by the Banks of New York placed one-third of their entire gold holdings under contract for export, at least to the extent, that exchange could not be furnished. Attention is here called to the fact that the privilege of furnishing exchange in place of gold permits any contributor to this fund to avoid the loss of gold by purchasing exchange, and therefore, contributors to this fund are, to some extent, competitors in the market for the purchase of sterling exchange.

FIFTH:

THE $100,000,000. GOLD FUND.

Statement "third" largely explains the necessity for providing a fund of gold by the method adopted, and it is the belief of the Committee that the success of the plan affords evidence of the willingness and intention of the banks of the United States to furnish the means to their customers for paying foreign indebtedness which the banks of New York alone, without endangering the situation, were unable to provide.

Voluntary contributions were obtained from national and state banks in all central reserve and reserve cities (52 in number), those cities, under the law, being required to hold 25% and 12½% cash reserves, respectively, as against 6% in other cities. Contributions of gold to the fund were received from 1,494 different banks, located in all parts of the United States. An amount in excess of $100,000,000. was promptly pledged through the co-operation of the Secretary of the Treasury and the Federal Reserve Board. Pending the payment of the first call of $25,000,000., nine New York institutions advanced $10,000,000. in gold for shipment to Ottawa. This enabled the Committee to promptly meet the urgent demand for exchange, which was selling at about $5.02½.

The Committee desires to call attention to the fact that the gold fund was not created for the purpose of making a profit, but rather to meet an emergency and thereby exert an influence in bringing about a decline in the rate of exchange. The policy of the Committee has not been to sell exchange freely. This would certainly have resulted in the accumulation of exchange by debtors who desired to insure the protection of future maturing obligations, and, unfortunately, might also have

resulted in releasing exchange to the contributors to the fund provided to meet the obligations of the City of New York. It was rather the policy of the Committee to use the fund to prevent an undue advance in exchange rates, but, nevertheless, to permit rates to follow fairly normal fluctuations and thereby induce American obligors to arrange for renewals in the expectation that the creation of exchange following a restoration of export trade would avoid the necessity of exporting any considerable portion of the gold fund. This Committee, of which two members are also members of the Gold Fund Committee, is convinced that the policy adopted was a wise one, and that the purposes of the gold fund have already been largely accomplished. After allowing for certain large payments made for account of the United States Government, for which the Government reimbursed the Gold Fund Committee in gold, the total amount of the fund has been reduced by not over one million pounds, and is substantially intact.

PROFITS AND LOSSES OF THE GOLD POOL.

Misunderstanding is liable to arise with regard to the ultimate profit and loss account of the Gold Fund Committee, and we are informed that the attitude of the Bank of England later referred to was possibly due to the belief that large profits will accrue to the Gold Fund contributors. Consideration of the following will, we trust, make clear the Gold Fund Committee's position:

ABRASION.

The legal limit of tolerance on American gold coin is one-half of one per cent. Eagles furnished by the Sub-Treasury at New York will rarely show an abrasion exceeding one-quarter of one per cent. Eagles shipped from Western points, however, where gold coins circulate much more

freely, show a larger percentage of abrasion. The Committee must figure on a loss of from one-quarter to three-eighths per cent. for abrasion.

INTEREST AND EXPENSES.

The gold furnished for the purpose of this fund is taken out of bank reserves and held in safe deposit in New York, and is not held as a part of the reserves of the New York banks. The contributors are called upon to make payments in installments of 25%. The first payment of 25%, in anticipation of which $10,000,000 was advanced by certain New York banks, was made as soon as the fund was completed, and the expense of transferring this fund from all parts of the country was paid out of the fund. In order to arrive at the cost of exchange, it is also necessary to make allowance for the interest during transmission, and during the period when the gold is held in storage in New York, for all the expenses of shipment to Ottawa, as well as for abrasion; the gold being received by the Committee at its face value, and sold to the Bank of England at its bullion value. It is impossible to estimate the interest cost involved in shipments which have not yet been made, but a calculation has been made as to the first shipment, with allowance of interest to November 30th, and it is found that London exchange on the basis of this calculation costs the contributors about 4.92-3/4. The average price realized for exchange sold to date will slightly exceed 4.93, and, after making allowance for 2% interest allowed by the London banks, it is probable that if the account was closed at the present time by selling exchange against balances now in London, the result would be a loss to all the contributors to the fund. This is occasioned by the decline in exchange after the first transfer to Ottawa was made, and before the entire balance was exhausted.

At the time the fund was created, the Committee desired the

co-operation of the Bank of England on two points only, pending a discussion of other matters of importance which could not be then taken up by cable.

First: A better understanding of the basis on which the Bank was purchasing gold shipped to Ottawa:

Second: An arrangement for advances, without interest, upon advice and guaranty of shipment from New York to Ottawa.

AS TO THE PRICE PAID FOR AMERICAN GOLD:

The value of the grains of gold in the English sovereign in American currency is $4.86656

One ounce of American gold coin contains fine gold of the value of $18.6046

$18.6046, at the rate of $4.86656, equals ....76sh. 3½d.

which is the value, expressed in sterling, of one ounce of American gold coin.

This is the exact price which the Bank of England was paying for American Eagles just prior to the outbreak of the war.

Reductions were made to a net price of..........76sh. 3½d.

3d. being further deducted for American Eagles shipped to Ottawa.. 3d.

making the net price for Eagles delivered in Ottawa.........76sh. ½d.

It has been stated to us that the reduction of 3d. was made in order to cover the following items:

(a) An allowance for the cost of melting and minting:

(b) An allowance for the cost of transferring Eagles from Ottawa to London.

As to the first item, inquiry arises as to whether the price which the Bank of England is required by law to pay for bars (77sh. 9d.) does not make allowance for the cost of coining bars into sovereigns, and that, therefore, a shipper of Eagles should not be required to make this

additional allowance, which is already covered in figuring the equivalent of the bullion value of the gold contained in American Eagles.

As to the second item, the question arises as to whether the Bank of England should not, if the exchanges turn before the gold is shipped to London, then allow in the price at which it resells the gold to New York, a rebate of the charge which it has collected for the conversion of Eagles into sovereigns. The same question will arise as to 3d. deducted from the price allowed for standard bars.

The Gold Pool Committee feels that the deduction of 5d. on Eagles and 3d. on bars is not justified under the circumstances, but a clearer understanding of the reasons for these deductions may change the Committee's views.

As to an arrangement for advances without interest, the request which was made for this accommodation at the time of the first shipment grew out of an emergency. Exchange was selling above five dollars a pound, and the Committee desired to be in a position to draw exchange at once before the gold shipped could be received and weighed at Ottawa and credits confirmed. The necessity for accommodation on that account is now passed.

With exchange approaching the point where gold exports become unprofitable and without a better understanding with the Bank of England as to the rate which they will make on Eagles exported to or from Ottawa the Gold Fund Committee will find it impossible to make any considerable shipment of gold at one time without the risk of loss on a postion of such shipments.

The Committee desires to be in a position where it may furnish exchange so long as it may profitably cover with gold, but not to run the

risk of a rapid decline in the exchange market.

SIXTH

THE COTTON LOAN POOL.

It has been generally estimated, and this Committee believes with reasonable accuracy, that this years American cotton crop will somewhat exceed 15,000,000 bales, and that the world's reduced consumption of cotton will leave an unused balance of the American product of about 5,000,000 bales. At the conference in Washington, it was suggested that the maximum credit to finance the cotton crop would be required at the time when the maximum of the crop has been picked, and the minimum marketed, that is to say, about December 1st, at which time it was suggested that a credit of $300,000,000 might be required. This does not take into account two factors inthe situation.

First: The method of financing the growing and gathering of the crop;

Second: The difference in price between this year and last year.

As to the method of financing the crop, it may be generally stated that the initial advances are made before the crop is planted. They are largely made to the farmers by merchants and supply houses, and are increased as the work on the crop advances, the merchants taking a lien on the growing crop and borrowing money from their banks. By the time the cotton is gathered, the last advance is made. The marketing of the crop through the ginning and compress companies and the cotton factors

is a process of liquidation, and the problem confronting the South at this season is not that of arranging new credits with which to finance the cotton crop as a whole, but rather of providing a temporary credit to be employed in facilitating the liquidation of that portion of the crop which can be marketed, by enabling banks to extend or renew the loans that have already been made, and thereby assist in financing the surplus which may not be promptly marketed. This may be described as a process of clearing or shifting loans rather than as a process of creating new credits. As to the second point, namely, the price, it is, of course, evident that with cotton selling at six cents, those banks which loan on cotton could carry two bales this year against one bale, at twelve cents, last year.

In order to facilitate the process of liquidation, which contemplates that 10,000,000 bales will be sold and 5,000,000 bales will be carried, a credit is in course of being arranged, amounting to $135,000,000 to be handled by the following plan; $100,000,000 of the advance is to be secured by a first lien upon cotton pledged at not exceeding six cents a pound, middling grade. $35,000,000 is to be secured by a second lien on the pledged cotton, thisportion of the loan to be provided by the banks of the cotton growing states, to whom, or through whom, the loans will be made. A fund amounting to three per cent. of the amount of the loans made is to be set aside to cover the expenses of managing the transaction, and to pay any lossesincurred. The fund is to be administered under the direction of a Committee consisting of members of the Federal Reserve Board; the business, however, to be conducted by an operating committee, and, under its management, by local committees, the machinery for the appointment of which has already been devised. This Committee believes that the cotton loan fund will be inadequate to restore normal conditions in the market for raw cotton, or in the cotton manufacturing industry, unless it is supplemented by energetic measures to bring about better facilities, both in the United States and abroad, for marketing, financing, and manufacturing cotton. Last year, sales of cotton to Europe furnished this country with $534,000,000 of exchange. Anything which retards the free purchase or the free sale of cotton, or the restoration of stable prices for raw cotton, will also retard the restoration of normal conditions in the international exchanges, and work injury both in England and in the United States. In the opinion of this Committee, it seems desirable that the following measures be adopted:

__First:__ That the fund of $135,000,000 be completed and its administration undertaken at once.

__Second:__ That the New York and Liverpool cotton exchanges should be opened. Plans for opening the New York Cotton Exchange have reached a point where it may be reasonably expected that the exchange can open at an early date provided necessary co-operation is afforded by the Liverpool Cotton Exchange and by the English banks. A fund has been pledged which will enable the members of the New York Cotton Exchange, who are committed for the purchase of cotton at high prices, to margin their contracts down to 7-½ cents.

with this relief, confidence is expressed that they may safely open the exchange with a reasonable expectation of being able to meet the market conditions which will arise. Co-operation by the Liverpool Cotton Exchange on similar lines is necessary before it will be feasible to open the New York Cotton Exchange.

THIRD : It is also essential that no question as to contraband be permitted to arise in regard to export cotton. The Committee notes with great satisfaction that the British Government has already recognized this situation.

FOURTH Any restraint which may have been imposed upon English merchants or spinners in the purchase of cotton should be removed. Reference has been made to some agreement or understanding which we had been advised exists in England in this respect. It is not understood that the British Government has brought about any such understanding, nor, in fact, is it understood that English purchasers of cotton have any definite agreement among themselves in this regard. Advices have reached this country however, to the effect that some of the English banks have exerted a strong influence in restraining the free purchase of cotton by English cotton merchants and spinners, and it is hoped that the

English banks may be induced to encourage the purchase of cotton within reasonable limits.

FIFTH: That the usual means of financing purchases of cotton by English merchants and spinners should be reopened through advances against cotton bills through the discount market.

SEVENTH:

FEDERAL RESERVE BANK.

The first installment is to be paid for the capital stock of the Federal Reserve Bank on November 2nd. The plan announced provides for the transfer of reserve deposits to these banks, commencing with November 16th. If the operation is successfully concluded, the Federal Reserve Bank of New York, within a period of six months (and possibly at the end of three months) will have received payment for over $10,000,000 capital stock in gold, and will have received on deposit at least $100,000,000 of the reserves of the National Banks of New York State, and possibly much more.

The Federal Reserve Act provides that not exceeding 50% of the initial reserve deposits may be made out of the proceeds of commercial paper which the banks may allow the member banks to rediscount. It is therefore impossible, at this time, to forecast the condition of the Federal Reserve Bank of New York resulting from the initial transactions, as the amounts of discounts allowed to the member banks will depend,--

(1) Upon the rate of discount established by the bank;

(2) Upon the rate of interest prevailing in the City of New York,

(3) Somewhat upon the extent to which the New York City Banks are required to make payments for account of their correspondents located in Federal Reserve Districts and

(4) The extent to which they may deposit 5/18 of their reserves, the deposit of which is optional.

The Federal Reserve Banks of the United States are in the course of establishment. Calls for payment on the capital stock have already been made. The ability of this bank to furnish gold is a matter for future consideration, and should not, at this time, be made the basis of any transaction or proposal.

EIGHTH.

CREDIT OF £20,000,000 STERLING.

Your Committee has been informed that about a month ago, when the visit of Sir George Paish and Basil P. Blackett, Esq. was first proposed, one of the subjects to be considered at the conferences would be a possible credit which would, in effect, afford means for extension of the obligations due in England by bankers and merchants in the United States. If it had been possible to arrange such a credit by exchange of cables at that time, your Committee would have approved of the transaction. It would have supplied exchange at a moment when the demand was urgent; and it would have insured us against any serious drain on gold reserves for the time being, and given this country a period for readjustment during which local conditions could have been brought to meet the extraordinary situation.

Since the date when the suggestion of a credit was made, exchange in large quantities has been supplied to the market, and confidence has been greatly restored by the knowledge that the New York City Syndicate and the Gold Pool Committees' operations have been effective. From information which your Committee has gathered, it is strongly of the opinion that a continually increasing supply of exchange is in prospect. The export of food products and raw and manufactured materials that Europe needs in the present crisis (not to mention munitions of war) must continue; mills and manufacturing

companies are working overtime on orders for goods which, in many cases, will not be ready for shipment for some months, and which will make a corresponding supply of exchange. The opening of the New York and Liverpool Cotton Exchanges, coincident with the completion of the Cotton Loan Pool, if accompanied by assurances to the merchants and spinners of England of the willingness of the English banking community to finance reasonable purchases of cotton from the United States will also add to the supply of exchange.

For this, and other reasons that it is not necessary to elaborate here, your Committee is convinced that the adoption and employment of any extraordinary or unusual measures at this time are unnecessary, as such action might, in fact, be interpreted as an expression of the belief of this Committee that the present situation requires such measures, and because unusual measures are likely to bring about unexpected and possibly undesired results.

It will be noted that the foregoing relates entirely to the commercial situation. No account has been taken of the possible opening of the New York Stock Exchange, and the additional demands that might arise if any considerable amount of English owned American securities were resold in this country. Your Committee is firmly of the opinion that it is premature to discuss the opening of the New York Stock Exchange until the adjustment of the commercial situation has been demonstrated. In the meantime, however, and, with a view to this step, it is recommended that a Committee from the New York Stock Exchange be appointed, which Committee should visit London for conference with a like Committee from the London Stock Exchange, and

for a careful study of the situation there. A tentative arrangement for a large sterling credit, predicated on the understanding that its repayment will not be made in gold, but in commodities and manufactured goods, would make it possible to consider the opening of the Stock Exchange sooner than it would otherwise be safe to do, should other conditions permit. As this step is recognized to be a desirable one from the point of view of both countries, a present discussion of the form of such a credit and a tentative agreement as to its terms, at this time, would be beneficial. A memorandum supplemental hereto, outlining a plan discussed with Sir George Paish and Basil P. Blackett, Esq., is attached.

(6) Drafts to be drawn only as required to supply exchange to take the place of gold remittances.

(7) Drafts to be covered at maturity in the usual way if exchange can be purchased at or below the cost of exporting gold.

(8) If exchange cannot be purchased as above, and payment of the bills would require the export of gold, further 90 day renewals to be granted provided that, in the opinion of the Federal Reserve Board, a further loss of gold would be detrimental to our financial situation.

(9) The grantors of the credit to be entitled, after the first renewal, to require payment, in whole or in part, in New York exchange. Such dollar balances, however, to be used only in the purchase of American products.

EIGHTH (Supplement):

Conditioned upon the understanding suggested in memorandum "Eighth," and with a view to assistance in meeting conditions which may arise through excessive sales of American securities held in Europe, the following has been tentatively discussed with Sir George Paish and Basil P. Blackett, Esq.:

That a revolving sterling credit of, say, £20,000,000. shall be granted by or through the Bank of England, or other British bankers, on the following plan:

(1) The credit to be available as a supplement to and only after the $100,000,000 Gold Fund has been shipped, in order to avoid further gold shipment.

(2) Drafts at 90 days, with one agreed renewal, on an acceptor, or acceptors, to be designated by the grantors.

(3) Drafts to be forwarded direct to England for discount under an agreed arrangement, and demand or cables to be sold against them.

(4) Drafts to be drawn by the Gold Fund Committee, or a new committee representing guarantors, consisting of banks, trust companies and banking firms in the United States acceptable to grantor.

(5) Proceeds of sales of exchange to be loaned upon security of approved bonds and stocks as collateral, with the obligations of borrowers, who are satisfactory to the guarantors, to maintain a margin of not less than twenty per cent. (20%) of the face value of the loan.

SEVENTH.

SUPPLEMENTAL MEMORANDUM

AS TO THE FEDERAL RESERVE BANK OF NEW YORK CITY.

It must be borne in mind that there is no certainty as to the amount of gold which will be paid into the Federal Reserve Bank at the commencement of its operation. The capital payments which must be met within a period of from ninety days to six months, in gold, total about $10,000,000. The payment of reserves, aggregating $100,000,000. may be made in United States notes and silver certificates. While it is hoped that the banks of the New York District will make a considerable portion of their reserve payments in gold, it is nevertheless quite possible that a large proportion will be made in legal tender notes, and the ability of the Federal Reserve Bank to accumulate gold from other sources than the United States Treasury will therefore depend upon:

(A) The degree of confidence which the bank enjoys from its member banks, which now hold the principal gold reserves.

(B) A change in the present currency laws, readjusting the various forms of gold certificates and legal tender notes so as to force the withdrawal of small denominations gold certificates from circulation.

No transaction involving the present pledge of the credit of the Federal Reserve Bank to furnish gold would be justified until the bank has been in operation a sufficient length of time to demonstrate its ability to accumulate sufficient gold reserve to justify such a transaction.

November 2, 1914.

Hon. C. S. Hamlin, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Sir:

The reports relative to the conferences with Sir George Paish and Basil B. Blackett, Esq., of which copy was left for you with Mr. Warburg, requiredcorrection in some particulars and the language had to be improved after a little quiet study of some of the matters discussed.

Fresh copies have just been received from the stenographers, and I am enclosing one copy to you herein before I have had opportunity to read it over.

I am enclosing one copy also to Mr. Warburg. Unfortunately our stenographic arrangements here will not permit making more than four copies, one of which will be signed by Mr.Wiggin, Mr. Brown and myself on Wednesday, and forwarded to you formally, and the other, I am obliged to retain as a record.

If, therefore it is desirable to place one copy of the memorandum in Sir George Paish's hands on Wednesday as was discussed, I trust that you will explain to him that it was obliged to be a tissue copy in anticipation of the signing of the permanent copy, which I hope to have done on Wednesday.

Very truly yours,

S-W. G
Enc-

WESTERN UNION TELEGRAM

Form 260

ORGE W. E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

ECEIVER'S No.	TIME FILED	CHECK

SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to

November 4, 1914.

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

Please refer my letter Monday supplement second headed Gold Shipments last paragraph page 2 foreign trade balance October should be ~~thirty four~~ 60 millions. Kindly make correction.

Benjamin Strong, Jr.

(Charge Federal Reserve Bank)
(Government rate)

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TE.

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for co For this, one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRA.. PAID FOR AS SUCH, in consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty ti the sum received for sending the same, *unless specially valued;* nor in any case for delays arising from unavoidable interruption in the working of its lines; n *errors in cipher or obscure telegrams.*

2. In any event the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-delivery, of this gram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, u a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid b on such value equal to one-tenth of one per cent. thereof.

3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary reach its destination.

4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such office in othe cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent and at his expense, endeavor to contract for him for such delivery at a reasonable price.

5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is sent to such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.

6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.

7. *No employee of the Company is authorized to vary the foregoing.*

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT TELEGRAMS

Accepted up to 2.00 A.M. at reduced rates to be sent during the night and delivered not earlier than the morning of the next ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard telegram rates as follows: One and one-half times the standard night letter rate for the transmission of 50 words or less and one-fifth of the initial rate for each additional 10 words or less. Subordinate to the priority of transmission and delivery of regular telegrams. Must be written in plain English. Code language not permissible. Telephonic delivery permissible. Day Letters received subject to express understanding that the Company only undertakes delivery of the same on the day of their date subject to condition that sufficient time remains for such transmission and delivery during regular office hours, subject to priority of the transmission of regular telegrams.

NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the next ensuing business day, at rates still lower than standard night telegram rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less. Must be written in plain English. Code language not permissible. Mail delivery, postage prepaid, permissible.

WESTERN UNION TELEGRAM

WESTERN UNION

Form 2

Parish

GE W. E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

CEIVER'S No.	TIME FILED	CHECK

SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to

November 6, 1914.

Hon. C. S. Hamlin, Governor,
Federal Reserve Board,
Washington, D. C.

Copies report being prepared Hope to mail tomorrow.

Benjamin Strong, Jr.

(Charge Federal Reserve Bank)
<u>Government Rate</u>

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176

January 7th,1915.

My dear Governor Hamlin:-

You asked me to write you in regard to the influence of the New York rate in other districts, and while there has not yet been sufficient experience to justify any very definite conclusions, yet so far as our experience goes, gathered largely from conversations with officers of large banks in New York, I am convinced that the result has been as I stated to you. The great bulk of bank borrowing throughout the country is effected at New York. Correspondents of the member banks of this district in all the sections of the country are, at times, borrowers from their New York reserve agents. The effect of a reduction of our discount rate, while only directly affecting the relations between the New York banks and their correspondents throughout New York State, indirectly, I believe, has the effect of reducing the cost of borrowings to their correspondents in other sections of the country.

Two of the largest banks in New York have stated to me that they have felt obliged to make some reductions in rates on account of our rate. If a bank in Georgia or Texas is able to borrow money from its New York reserve agent at 4½%, which is our rate for short paper, they naturally will make use of that accommodation rather than

Hon. C. S. Hamlin. January 7, 1915.

discount short paper with the Federal Reserve Bank of their own district/ at a higher rate.
On the whole, this is not a bad result with conditions as they are at present. The discount rate at New York ought to be lower than it is at Georgia or Texas, and the member banks of those districts ought to be able to borrow the cheapest money available.

Later on as banking relations are gradually re-adjusted to the new system, the whole rate situation may take a different aspect, but at the present time, with the great bulk of the surplus bank reserves in New York, it may be just as well to have the member banks of other districts deal directly with the cheapest market without impairing the lending power of the Reserve Bank system which I am confident will come into play later on and perform a useful service to the country.

Yours very truly,

Governor.

Honorable C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BSJr/MVH-1

8 2/5

March 24th, 1915.

My dear Governor Hamlin:

Your note of the 22nd is received and indicates that you are about well again. Please accept congratulations from your friends in this bank.

I hope you will follow the course I have decided to adopt and get away for a change.

I am leaving to-day for Hot Springs, Va., to recuperate from a somewhat similar attack which started the last time I was in Washington.

With kindest regards, believe me,

Very truly yours,

Hon. C. S. Hamlin, Esq.,
Governor, Federal Reserve Board,
Washington, D. C.

Copy #1
Bk. file

8 V

Aug. 9, 1915.

Dear Governor Hamlin:

Your note of the 5th instant is on my desk this morning and I am sorry that my absence practically all of last week has made it impossible for me to write you until to-day.

My remarks at our meeting last week were based largely upon the belief that there is, in fact, a possibility of our becoming involved in the European War even though that possibility is quite remote, and that a certain amount of study should now be given to the problems which would likely arise should that unfortunate event occur and how they should be dealt with.

No one will deny that the terms of the Federal Reserve Act as finally passed by Congress were not and could not have been prepared with the view of the possible outbreak of a war of such proportions as the present one. We must, therefore, somewhat readjust our ideas to meet the possibilities of the present situation and some of the matters that should be dealt with, I think, are the following:

1. FEDERAL RESERVE NOTE ISSUES.

The present machinery, although cumbersome, for issuing Federal reserve notes against the security of gold certificates should be further developed by arranging with the Secretary of the Treasury that the issue of all gold certificates of ten and twenty dollar denominations be discontinued. This need not be given publicity. The mere discontinuance of their issue will enable us to judge of the results and, if any harm results, the Treasury can resume their issue without arousing any comment.

2. ACCEPTANCES.

This matter has been so thoroughly discussed that it is hardly necessary to review the suggestions already made. I think the regulations of the Reserve Board and the whole method of dealing with this matter should be liberalized.

3. FISCAL AGENCY.

(a) It would be well to study and develop plans by which the available general fund of the United States Treasury might on short notice be turned over in whole or in part to the Federal reserve banks.

(b) As our Government might find it necessary to make an issue, or issues, of bonds, a preliminary plan by which such bond issues could be made and distributed with the least disturbance to financial conditions should bd developed in advance of the need arising.

4. AMENDMENTS TO THE FEDERAL RESERVE ACT.

There are a number of possible amendments to the Federal Reserve Act which, it seems to me, should be studied in connection with the circumstances which we discussed in Washington. The principal ones which now occur to me are the following:

(a) A simpler process should be provided by which Federal reserve banks can issue Federal reserve notes directly against deposits of gold.

(b) Any possible doubt or ambiguity as to the measing of Section 13 in regard to the power of national banks to accept drafts and the power of the Federal reserve banks to discount accepted drafts (as well as to purchase under Section 14) should be removed. The Statute might give clearer recognition to finance drafts.

(c). Some consideration should be given to the possible necessary or wisdom (as an emergency measure only) of giving power to Federal reserve banks to lend money upon collateral security.

(d) Also as an emergency measure, at any rate for the present, consideration should be given to some plan by which Federal reserve notes might serve as cash reserves for member banks.

Suggestions "c" and "d", it seems to me, could be dealt with by having a study made of the language of proposed amendments so that a general agreement would exist in advance as to the terms of any amendment which it might be thought wise to recommend to Congress.

Please do not understand that I recommend the adoption at once of the various matters suggested. I do think they should be carefully studied now and an understanding arrived at in case action along these lines or any other should later prove necessary.

I hope you will be good enough to give me an expression of your views on these points, and beg to remain,

Very truly yours,

Governor.

Honorable C. S. Hamlin,
Governor, Federal Reserve Board,

Washington, D. C.

BSJr/PE

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Very truly yours,

Governor.

Honorable C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BSJr/PE

PERSONAL -----CONFIDENTIAL.

January 25th, 1916.

Dear Governor Hamlin:

Your favor of the 21st inst. is just received and I am indebted to you for the confidential advice as to plans of the Federal Reserve Board which might be classed to some extent, as preparation for emergencies.

The enclosed suggestion for amendments are those which have been considered from time to time by the officers of this bank and, to some extent, discussed with Governors of other of the reserve banks at the various Conferences during the past year. I am not prepared to say that in this form I would finally recommend them, but they contain suggestions which may be of value in connection with work along this line by the Federal Reserve Board.

A careful study of the procedures taken by England, France and Germany and by the central banks of those countries in connection with the war, brings to light very strongly what functions such institutions as the Federal reserve banks will be called upon to perform in the event of any great national calamity. These have unmistakably proven to be

First: Almost unlimited extension of credit to banking institutions,

Second: Unlimited issues of notes to take the place of gold in circulation which rapidly disappears.

To Hon. C. S. Hamlin.

To take care of the demands of the character first mentioned, Federal reserve banks should be in a position to discount with freedom and without encountering technical obstacles, all paper of every character offered for that purpose by solvent members, within, of course, the limits of business prudence and the limitation of the statute as to reserves.

To meet demands of the character described as second, it is highly important that the process of accumulating gold should be vigorously continued, giving note issues of the Federal reserve banks a quality by reason of the large gold backing which can be obtained by no other process than that which now prevails. The use of gold being impounded by the present process as a part of the bank's reserves, will greatly assist in making the notes acceptable for circulation and in justifying their use,(possibly only under emergency conditions), as reserve money.

One of the consequences of developments which would lead to sudden expansion of the reserve banks, as above described, might prove to be a demand for gold, and ability to meet this demand will depend upon the gold resources of the Federal reserve banks. It seems to me, therefore, that the steps now contemplated by the Board in recommending various amendments are absolutely essential to the preparation of our banking system to meet emergency strains.

It had occurred to me that some of the legislation mentioned in your letter might be favorably received by Congress during the present session where some other features, such as the reserve qualities of Federal reserve notes, might be dealt with by having the necessary legislation prepared and ready for submission should occasion arise which would require it.

I very much appreciate you writing me so fully and will hold your letter in confidence.

Very truly yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-5

Aug. 11, 1915.

My dear Governor Hamlin:

I enclose for your perusal a report of Labor's Loose in fil National Peace Council and its work. Since this was prepared, in fact only yesterday and this morning, statements appeared in the papers to the effect that First Vice President Snellings is thoroughly disgusted with the whole affair and is retiring. I regret the delay in furnishing you with this report.

Very truly yours,

Governor.

Charles S. Hamlin, Esq.,
Mattapoisett, Mass.

BSJr/PE

Enc.

LABOR'S NATIONAL PEACE COUNCIL AND ITS WORK.

The organization known as Labor's National Peace Council was formally launched at a meeting held in the Willard Hotel in Washington on the evening of June 22, 1915. The meeting lasted, according to the statement of one of the organizers, until early in the morning of June 23. Announcement of the organization and the meeting was made by sending to various newspaper offices carbon copies of a statement giving the named of the officers chosen and stating the purposes of the organization. The names of the officers were given as follows:

President:	FRANK BUCHANAN, Chicago, Ill, Bridge and Structural Iron Workers' Union.
First Vice-President:	MILTON SNELLINGS, Washington, D. C. Stationary and Steam Operating Engineers' International Union.
Second Vice-President:	WILLIAM F. KRAMER, Chicago, Ill., International Brotherhood of Blacksmiths.
Third Vice-President:	RUDOLPH MODEST, New York City, Amalgamated Meat Cutters of America.
Fourth Vice-President:	JACOB C. TAYLOR, East Orange, N. J., Secretary-Treasurer of Central Federated Body of the States of New York and New Jersey.
Secretary:	L. P. STAUBE, Chicago, Ill., Commercial Portrait Artists' Union.
Treasurer:	ERNEST BOHN, New York City, Secretary Central Federated Union.
Sergeant-at-Arms:	FRED LOHN, Chicago, Ill., Leather Workers' International Union.

General Counsel: Ex-Congressman H. ROBERT FOWLER, Harrisburg, Ill.

PURPOSES OF THE ORGANIZATION AS DESCRIBED IN STATEMENT

The purposes of the organization were given as follows:

To get the U. S. Government to take over the manufacture of all munitions of war.

To have a proclamation issued stopping the shipment of arms and ammunition to the belligerent nations of Europe.

International cooperation between the labor unions of all countries to compel the stoppage of the war.

To have the Government acquire the patent rights to all munitions of war, so that there would be no desire for war on the part of private manufacturing concerns by reason of their ability to profit thereby.

Calling of an extra session of Congress "to promote universal peace."

BUCHANAN GAVE THE FIRST HINT OF IT

Although this organization was not formally launched until June 22, there is reason to believe that the period of incubation began a month or two before that date. Early in June, several days before the resignation of William J. Bryan as Secretary of State, Buchanan appeared in Washington and gave the Chicago Tribune representative an interview. He talked about a "labor peace movement" and hinted at the formation of an organization. He indicated that he would see Bryan and get him interested. One of the inferences drawn from Buchanan's talk at the time was that the labor union men in the House of Representatives and the peace-at-any-price men would be gathered together in a special organization for the purpose of embarrassing the Administration and promoting the general peace propaganda. The New York Sun printed such a story with some display. Buchanan said he would see Bryan the next day and confer with him about the peace movement. At this time Bryan, probably unknown to Buchanan, was mulling over the question of his resignation and refused to see Buchanan, Buchanan went away and attended a meeting of the executive committee of the American Federation of Labor at Atlantic City. It was reported that Buchanan tried to get that committee interested in the peace propaganda but failed. What happened at that meeting is not known. Buchanan afterwards said that the subject was not brought up. One of the questions that he said was considered was the calling of a strike in the building trades at Chicago. As press reports show, this was afterwards called. Buchanan came to Washington again and once more departed.

<u>MEETING IN BEETHOVEN HALL, NEW YORK CITY.</u>

Nothing more was heard of the peace movement, so called, until on the night of June 17 a meeting of 50 or more labor leaders was held, according to New York newspaper reports, at Beethoven Hall, New York. Buchanan was quoted as saying that Bryan would head a delegation of 50 labor leaders to the White House in the interest of peace. The date for this pilgrimage was to have been June 22. Bryan never seemed to fall in with this plan, for it was not carried out, but on Saturday night, June 19, he spoke at Carnegie Hall, New York, and one of the leading spirits at the meeting is said to have been Bohn, afterwards listed as treasurer of the Peace Council.

Apparently, the scheme was -- Bryan had resigned at the time - to have the persons interested in the "peace" movement come to Washington on June 22 and with Bryan go to the White House and make known their views under circumstances favorable for much publicity. Then the organization was to have been perfected on top of this. Bryan had been selected, evidently, for publicity purposes. This programme was carried out on June 22 in so far as the organization work was concerned. The scheme to go to the White House and call on the President was deferred until June 23. White House officials had a tip as to the nature of the organization, for when a dozen men, headed by Buchanan and Fowler, called there on June 23, they were told that the President was "engaged". As far as known, they never made any subsequent effort to get an interview at the White House. Bryan did not accompany the delegation.

THE DELEGATION CALLS ON JOSEPHUS DANIELS

On the afternoon of June 23 they showed up at the Navy Department and were permitted to see Josephus Daniels a few minutes. It was surmised that they attempted to see other members of the Cabinet, but this is not at all certain. Buchanan is a member of the House Committee on Naval affairs. After the delegation emerged from the Secretary's office none of the men would say anything as to what was discussed, but Fowler after much urging stated that they had discussed their proposition for government manufacture of arms and ammunition and that Daniels said he was in favor of this. Presumably nothing was said about the scheme to stop the shipment of arms and ammunition to Europe. Daniels of course has been advocating government manufacture of munitions of war for some time past and this subject touched a responsive chord. Fowler's description of the conversation seemed plausible.

One of the men in the party whom Fowler seemed anxious to advertise was H. F. Oehler of Washington, D. C., a labor union man. Fowler passed his card around and said he hoped the newspapers would print something about Oehler. Oehler, it appears, is a binder in the Government Printing Office and of very little account.

ENTER PARTIN AND SCHULTEIS OF THE ANTI TRUST LEAGUE.

The most interesting thing about this visit to Daniels' office was the appearance of Herman J. Schulteis, otherwise known as the "Baron," and Henry B. Martin, respectively counsel and secretary for the American Anti-Trust League. Schulteis and Martin have been hanging around Washington twenty years. They have a keen scent for any proposition that has about it the aroma of money. Schulteis is or was a practicing lawyer and is still a member of the bar. Schulteis and Martin always work together. They are frequently seen in the Capitol when Congress is in session. Their chief business for a long time has been to gather in strangers and make what they can out of them by telling them that they are "on the inside" and have secret understandings with Senators and Representatives. Business men coming to Washington for the purpose of opposing legislation, often fall into their clutches. One of Schulteis' favorite tricks, when having a "prospect" in tow, is to enter a Representative's office in the Capitol and use his telephone. He leaves the "prospect" in the corridor outside and the "prospect" is thus led to believe that Schulteis is on intimate terms with the Congressman. It is surprising how many strangers are taken in by this game. Martin's part in this is to hold the "prospect" outside while Schulteis is telephoning. It is related that Martin and Schulteis were found leading an ex-Governor of Pennsylvania around in this way when friends came to the rescue.

SOMETHING ABOUT THE ANTI-TRUST LEAGUE

Several committees of Congress have tried to find out something about the Anti-Trust League, but the only tangible objects in it were Martin and Schusteis. The League was evidently trotted out before 1900. One of its early achievements was to protest against the nomination by Theodore Roosevelt of of Philander C. Knox to be Attorney General. The League pestered Representative Martin W. Littleton, when a member of the steel trust investigating committee in 1911, to such an extent that he was compelled to denounce Martin and Schulteis on the floor of the House the opening day of the session of Congress in December, 1911. At that time Martin and Schulteis had fastened themselves to Representative A. O. Stanley of Kentucky, Chairman of the Investigating Committee, and were really on the "inside" of the steel investigation. For Martin and Schulteis those were evidently halcyon days.

Littleton in his speech in the House December 4 - he arose to a question of personal privilege - denounced Martin as a blackmailer and called him the tool of David Lamar. At that time Washington was not particularly interested in Lamar. Real interest in Lamar was not aroused until two years later.

In his speech Mr. Littleton said: "And let me say right here and now to my Democratic brethren, with respect to service on any committee in this House, that if in that service my loyalty to my party requires me on the one hand, to be obedient and do as I am bidden, either by a corrupt alliance such as that represented by Henry B. Martin, Herman J. Schulteis, David Lamar and the Anti-Trust League, or, on the other hand, on the outside and far away, by the intolerant attitude and influence represented by the Commoner and its editor, or any other newspaper, or the combined influence of both, then I tell you I shall refuse to obey the mandate of my party and forswear my allegiance to my committee x x x".

Mr. Littleton said that Lamar's "unclean record smells to heaven".

Not much was heard of Schulteis and Martin until the tariff revision of 1913. They were apparently busy with "prospects" who came to Washington regarding tariff revision. Then came the Senate lobby investigation and the Lamar episode.

David Lamar when he was on the stand, testified that he had been "a regular contributor to the American Anti-Trust League" and that he had "a very strong personal friendship for Mr. Martin." Whether Lamar and Martin were intimate before they conceived the idea of having the steel trust investigated, does not appear.

Martin, when he was called to the stand, testified that the league had been formed "fourteen years ago this June". That would have made the date 1899, but he afterwards said the date was 1901. He named Schulteis as one of the original organizers. As far back as that time Frank S. Monnett, a former attorney general of Ohio, had been connected with the League.

EASY TO BECOME A MEMBER OF THE LEAGUE.

The only real qualification for membership in the League, Martin testified, was the ability to give "intellectual support" to its principles. Martin wasn't certain how often the League met or when it elected officers - he said he was secretary - or who the members were. He said the League once held a convention in Chicago. He declined to give a list of the membership on the ground that the members would thereby be exposed "to the vengeance of the trusts". Martin read the names of the officers of the League from a letterhead as follows: President, M. L. Lockwood; secretary, H. B. Martin; treasurer, Cotter T. Bride; counsel, H. J. Schulteis. Martin said the League was responsible for the creation of the Bureau of Corporations, for the Department of Labor and many other great reforms, and had given the Department of Justice valuable information about the Harvester Trust. The League, he said, was also responsible for the introduction of the resolution to investigate the steel trust, but he swore he didn't know that Lamar had "hawked" it about New York. The word "hawked" was supplied by Senator Walsh who was interrogating him. He declared he had no knowledge of that at all

The following is a sample of Martin's testimony on that occasion:

Senator Cummins. How long has your office been in the Munsey Building?
Mr. Martin. About two years.
Senator Cummins. Where was it before that?
Mr. Martin. In New York.
Senator Cummins. For how long?
Mr. Martin. For a brief time. We were at 1229 Pennsylvania Avenue most of the time. Those are the two places.
Senator Cummins. Who kept the records of the league?
Mr. Martin. I did, mainly.
Senator Cummins. And whatever records there are will be found in your office in the Munsey Building, will they?
Mr. Martin. No; I would not say that they could all be found there.
Senator Cummins. Where are the others?
Mr. Martin. I could not tell you at the moment.
The Chairman. Who was the treasurer?
Mr. Martin. Mr. Bride.
The Chairman. Does he live in Washington?
Mr. Martin. Yes.
The Chairman. What were his duties?
Mr. Martin. Those which are customary for an officer of that kind.
The Chairman. Did he pay you a salary?

Mr. Martin. No; I am not receiving a salary now.

The Chairman. Did he pay out the money?

Mr. Martin. Yes; he paid out a good portion of it.

The Chairman. Have you received the money?

Mr. Martin. I have received most of the money. I was the active officer and attended to the gathering of the funds in support of the organization and to the conduct of its general work. I devoted a large portion of my time to that.

The Chairman. The treasurer's office was a purely nominal office, was it?

Mr. Martin. Largely; yes.

The Chairman. You have done the work - collected the money and conducted the correspondence?

Mr. Martin. Exactly.

The Chairman. And have been the legislative agent?

Mr. Martin. I have been one of them.

The Chairman. Almost the only one?

Mr. Martin. No; from time to time other members of the committee have been here, but I have done it probably a great deal more than any one else.

The Chairman. Are you willing to produce for the inspection of the committee what papers and accounts you have, showing the collection of money, as well as the disbursement of money?

Mr. Martin. For the reason that I gave, I do not think that I ought to be asked to do that. I do not think we ought to jeopardize the interests and the safety of honest men who are endeavoring to do something patriotic for the good of the country.

Senator Cummins. I wish to submit to the committee for the committee to determine whether these things ought to be made public or whether they ought to remain secret.

Mr. Martin. I do not think I would have a right to do that without consultation with the men who --

Senator Cummins. Very well; consult your counsel, and we will take it up again. How much of the money that you have collected has been paid to officers of the association for their compensation?

Mr. Martin. Only a small portion of it; probably 10 or 15 per cent of it.

Senator Cummins. I do not know how much has been collected, so I do not know how much 10 or 15 per cent. of it would be.

Mr. Martin. That would be only about $2,000 or $3,000, or possibly $4,000 altogether; not over $5,000, I should say, in the whole 10 or 12 years. The payments to officers were practically nominal. What they were paid they turned right around and spent in the work.

Senator Cummins. You pay your own expenses out of that fund here, do you not?

Mr. Martin. No; sometimes I pay traveling expenses, and sometimes I pay a portion of my local expenses, but largely not. The funds are used principally for the maintenance of a headquarters, the circulation of literature, and the conducting of correspondence-work of that character.

Senator Cummins. I would like to know, though, how much of it goes in that way and how much of it goes in the other?

Mr. Martin. The great bulk of it goes in that way, for the maintenance of headquarters and the conduct of the work.

Senator Cummins. Do you maintain these headquarters and spend this money for the purpose of influencing officers of the Government, either in their legislative duties or administrative duties?

Mr. Martin. By presenting the facts to them.

Senator Cummins. Certainly; I am not suggesting that you are doing it in any corrupt way.

Mr. Martin. I assure you we do not. We do not do it in any but an open and public way, the manner of which is simply to influence their judgment by presenting facts and arguments.

Senator Cummins. You represent, however, in all your literature and in your approaches to Members of Congress that you are the secretary of the Antu-trust League?

Mr. Martin. Yes, sir.

Senator Cummins. Do you tell the people how many men you actually represent?

Mr. Martin. I do not think that a single Member of Congress ever asked me that question - either a Senator or Member of the House or any other executive officer of the Government. Most of the men I have talked with in Congress and the Government have known me a great many years, and, I believe, have confidence in my work.

Senator Cummins. But I simply ask you whether you do tell them. You say now that you do not?

Mr. Martin. Not voluntarily, so far as I remember.

Senator Cummins. Is there anything upon your letterheads to indicate the extent of your league?

Mr. Martin. Nothing except the members of the national committee, who are from about eight or nine different States, I believe.

Martin and Schulteis were evidently not displeased with the notoriety they got in the lobby investigation. Evidently they liked to be in the limelight and considered it would assist them in their business. They were always on hand at the hearings and seemed to enjoy themselves.

MARTIN AND SCHULTEIS FRIENDS OF FOWLER.

Their acquaintance with Fowler dates back, apparently, to the time (about a year ago) when he introduced a resolution in Congress for an investigation by the Interstate

Commerce Commission of the Baltimore and Ohio Railroad's acquisition of the Cincinnati, Hamilton and Dayton road. Previous to this they had been active with Lamar in efforts to have the New Haven Railroad investigated. The investigation is not believed to have been the result of any of these efforts, but they tried to make it appear so in conformance with their usual programme. The investigation of the Baltimore and Ohio which Fowler was seeking through the introduction of his resolution, he was successful in obtaining. Whether Martin persuaded him to take this up is not known. They were frequently seen together about this time.

It should be noted that ever since the lobby investigation, persons at the Capitol have not taken either Martin or Schulteis seriously. The average newspaperman, Congressman or attache regards them as permanent nuisances who however are harmless.

Consequently, when Martin and Schulteis appeared with "Labor's National Peace Council" in the office of the Secretary of the Navy, the Peace Council immediately came under suspicion. Several New York newspapers published reports very broadly intimating that this was a peculiar business, but the Peace Council never replied to the insinuations. Fowler has been asked if the German were supporting the organization, but he always denied this and said "friends of peace are making small contributions."

Having been defeated for re-election, Fowler left Washington about March 4, evidently not expecting to return here. When he did return in the interest of "peace" it was not long before he was seen on the streets with Martin and Schulteis, but whether he sought them our or whether they fastened themselves to him, cannot be ascertained. Wherever Fowler goes nowadays about Washington, either Martin or Schulteis is seen with him constantly. Fowler spends a few days in Washington, then goes west, then returns. He stops at the Willard Hotel and seems well supplied with money.

BUCHANAN A REPRESENTATIVE OF ORGANIZED LABOR.

Buchanan is now serving his third term in Congress. He served in the sixty-second and sixty-third congresses and was re-elected to the sixty-fourth congress (which will convene in December). He is what might be described as an organized labor man in Congress - nothing else. Most members of Congress seem to realize the diversities of their constituencies, and the necessity for accommodating their political conduct to the various interests of their districts, viz: capital and labor, employer and employe, different races, religions, political organizations, etc. Buchanan never makes any secret of the fact that he has one object, namely, to promote the interests of organized labor. He talks about trusts and corporations incessantly. He seems obsessed with the idea that life is just a struggle on the part of the masses to protect themselves against predatory corporations.

This is true not only of his speeches but of his private conversation. His conversation the year around is 99 per cent. the same line of stuff. In every economic development he sees the hand of the predatory corporation. In fact, he talks so much along this line that conversation with him is a boresome proposition. Very few of his colleagues care to associate with him.

WAS CONSIDERED A POWER IN THE LAST HOUSE

He is nominally a Democrat, but he takes no real interest in the party except to use it as a vehicle to get into office and to promote his own whims respecting labor legislation. The influence of organized labor in the last Congress was so strong that Buchanan nearly always had his way. He has frequently disarranged the plans of the Democratic leaders of the House because they would not do his bidding in labor matters. Rep. John J. Fitzgerald of New York, has frequently had to bow to Buchanan in the matter of appropriations when Buchanan sought larger appropriations for something labor desired - larger appropriations than the committee desired to give.

He is in no sense a party organization man. In a sense he is a freak. He likes to tell his friends what an independent sort of man he is and how various interests have attempted to punish him for his independence. He has been sometimes referred to as the personal representative of the American Federation of Labor in Congress.

He possesses a fair amount of vanity as evidenced by his tendency to talk about himself and his family and it requires very little effort to induce him to get out a scrap-book and display newspaper clippings about his record.

"WAR MATERIALS TRUST" HIS FAVORITE PHRASE

In his biographical sketch in the Congressional directory he says he was born in 1862. He is a large man of great strength and formerly an iron worker. Attempts made to connect him with the Los Angeles dynamite conspiracy in which the iron workers' union was involved, have failed.

His district in Chicago contains many foreigners and, of course, a large organized labor element. He has been a conspicuous "Little Navy" man. He has frequently made speeches in the House about the "war materials trust". He seems to believe that the Navy exists merely to provide business for the "war materials trust". The fact that the Navy might be used to defend the country in the event of war, does not seem to enter into his calculations.

This phrase "war materials trust" was used by him long before the war broke out. When the war came he frequently said that it was the result of conspiracy on the part of the international war materials trust. This particular theory of his seems to be in line with his general theory that trusts are responsible for all the strife and trouble in the world.

It has been suggested that if the German propaganda is really behind this Peace Council, Buchanan was an excellent choice for president - a labor man who has consistently preached against the war munitions trust both before and after the war. This description does not fit Fowler who himself in congress last winter offered an amendment to the naval bill for a bigger battle cruiser than any other member seemed to want.

FOWLER JUST AN ORDINARY DEMAGOGUE

Buchanan is, of course, not a lawyer. Fowler is a lawyer, and was born in 1861, and has served in both houses of the Illinois legislature. He is an excellent sample of the middle western demagogue who frequently gets a seat in Congress. Gossip at the Capitol describes him as having been an ambulance chaser in former days and this seems to be borne out somewhat by his own sketch in the Congressional directory. The sketch in the directory of December, 1911, says: "Is a lawyer by profession and enjoys personal injury practice, never taking the side of a corporation against labor, etc.

He was a member of the House post office committee and during the past Congress probably got more space in the Congressional Record than any of the leaders. His favorite pastime was to make speeches in favor of larger appropriations for the Capitol scrub women. He denounced cabinet officers for riding in automobiles. He can fly into a fury inveighing against greedy corporations. He has the ability to make demagogic speeches that are plausible enough to be printed in the newspapers. He cultivated the acquaintance of reporters and gradually got to be very skillful in advertising himself.

Withal, he was a hard worker, In order to hamper the work of the committee on appropriations, he would sit up nights hunting for old statutes to serve as the basis of points of order or for reducing salaries or eliminating certain statutory positions which he opposed.

While in Congress he was not regarded as a peace advocate. He has some detective ambitions. He once told a reporter that if he could spare the time, he would obtain a job under an assumed name in a Chicago packing house and find out how the Illinois legislature. He is an excellent sample of the middle western demagogue who frequently gets a seat in Congress. Gossip at the Capitol describes him as having been an ambulance chaser in former days and this seems to be borne out somewhat by his own sketch in the Congressional directory. The sketch in the directory of December, 1911, says: "Is a lawyer by profession and enjoys personal injury practice, never taking the side of a corporation against labor, etc.

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Fowler was believed to be economical. He never went in for society, and it is therefore believed worthy of comment that he now stops at the Willard. When he was in Congress he stopped in a Capitol Hill boarding house. It is believed that he is a fair lawyer, but it is doubted if he ever had much court experience. He was prosecuting attorney of his county in Southern Illinois once. The press matter which he is getting out for the Peace Council shows some traces of knowledge of international law, but it is probable that Fowler is the author of all of it. He is a close student and with a couple of months reading would probably be able to give this matter the appearance of having been prepared by an international lawyer.

He told a reporter that he has been travelling about "on this business ever since I left here in the spring" - meaning March 4 or thereabouts.

He has also stated that he is the "press agent" for the Council.

Milton Snelling, the first vice-president of the Council, is an organizer for the American Federation of Labor, His latest work has been to organize the brewery workers of Washington and not long ago they went on strike. His connection with the Council is believed to be merely that of an inactive officeholder. He lives in a very poor part of Washington and is not regarded as a very thrifty person.

GOMPERS' ATTITUDE TOWARD THE COUNCIL.

Although all the labor men who are listed as officers of the organization are members of organizations affiliated with the American Federation of Labor, Samuel Gompers, President of the Federation, has expressed his opposition to that part of its doctrine which is aimed at preventing the exportation of arms and ammunition to belligerents. This opposition was indicated as far back as June 19, the date of the Bryan meeting at Carnegie Hall. Gompers was invited to address the meeting. He sent a letter regretting his inability to do so, in which he expressed the view that while peace was much to be desired, there might come a time when it would be desirable for the United States to fight to preserve its rights. In other words, Gompers could not approve of a peace-at-any-price policy. The meeting was called obtensibly to consider peace and Gompers did not refer to the subject of exporting arms and ammunition. The letter was to have been read at the meeting, but Gompers gave out copies of it in Washington to the press. He evidently wanted to be sure of publication.

Since that time Gompers has gone further. He has declared that labor is not concerned with the question of shipment of arms and ammunition. He told a reporter in an interview Monday, July 19, that labor is not concerned with the use made of these arms and ammunition. He believes that American manufacturers are making arms for any nation that wishes to buy them, hence there is no discrimination. They are delivered free on board at the factory or at some port of entry. What becomes of them after their delivery is no concern of the laboring man. He expressed the opinion that the U. S. could not refrain from selling arms and ammunition, as if the U. S. were in war we would also have to buy arms and ammunition. It would be dangerous policy, in his opinion, to close the door.

Asked if the Labor Peace Council had the support of the American Federation of Labor, he replied that "they are not only acting independently of us, but are repugnant to us."

Further asked to go into details, he refused to say anything more. He evidently has no authority to prevent the Peace Council from continuing its propaganda and at the same time he does not wish to stir up a fight within the ranks of the Federation itself. The fact, however, that Gompers is opposed to the Peace Council's doctrine will undoubtedly serve to take the sting out of any activities the Council may push in Congress next winter. It is pretty safe to assume Buchanan will be unable to make any progress in the Capitol with his propaganda because the rank and file of Representatives and Senators will know that the Federation is not behind the movement and will act accordingly.

PEACE COUNCIL HAS ACCOMPLISHED NOTHING YET.

As far as is known in Washington, the Peace Council has accomplished nothing except to commandeer some space in the newspapers. Two noteworthy efforts to obtain publicity have been made by it. One was in a statement charging lack of neutrality on the part of the Federal Reserve Board and the other was with respect to exportation of arms and ammunition from the port of New York.

The first named document was a petition to the Federal Reserve Board alleging that a conspiracy was afoot to have the Federal Reserve Banks discount notes for the belligerent nations "and their agents". This was a petition of 7,500 words which was formally presented to the Federal Reserve Board. The prayer sought two forms of relief, namely, that no federal reserve bank be permitted to discount notes which were the result of transactions in munitions of war and also that no member bank discount any such notes, the Federal Reserve Board to admonish them against such practice by circular.

This document contained earmarks of Henry B. Martin's study of the report of the money trust investigating committee.

The petition to the Reserve Board said among other things:

"We charge that through the medium of an extensive conspiracy composed of certain bankers and officers and directors of federal reserve banks and member banks embraced in the federal reserve system, acting in conjunction with officers and agents of the governments of Great Britain, France and Russia, the United States has been involved in very grave and serious breaches of neutrality x x x x x x The persons chiefly responsible for and the dominant factors in, this conspiracy are the members of the firm of J. P. Morgan & Co., and certain other persons now serving as officers and directors of various federal reserve banks and member banks, who secured these positions through the influence of the firm of J. P. Morgan & Co., or other business allies of said firm or who are subject to an under-control of its influence. The members of this firm as early as August, 1914, in furtheran ce of the conspiracy began making personal representations to officers of the governments of Great Britain, France and Russia to the effect that in the event said governments would employ the firm of J. P. Morgan & Co. as agents, said firm would provide facilities in the United States which would enable one or more of these governments to obtain in the United States credits to the amount of at least $500,000,000, said credits to be based upon and secured by obligations of one or more of said governments or by securities of American federal state and municipal governments, or railroad and industrial corporations as might be best available and procurable by or on behalf of the governments of Great Britain, France and Russia x x x x x x x "

The petition goes on to give the alleged details of these transactions and concludes:

"Already the conspirators have drawn from the banks in the Federal Reserve System some $220,000,000 and used these moneys on contracting and paying for the erection of huge factories in different parts of the United States for the manufacture of instruments of death and destruction on a scale hitherto undreamed of, so that even now by the use of these vast sums of money secured from institutions, parts of a banking system only recently created by the representatives of the people in the hope of breaking the grip of the Morgan group upon the finances and money of the country, we have the awful spectacle of the members of the firm of J. P. Morgan & Co. and their confederate conspirators turning our people and our manufacturing industries into one tremendously great aggregation of murder factories, sending forth each day instruments to kill countless human beings and sending to the battlefields of Europe from day to day thousands of poor dumb animals, there to be slaughtered in a most inhuman manner and as we have said before, all this done by the use of the machinery and resources of a banking system created by the people and sustained by the money and credit of the people.

"Once more speaking for the millions of men embraced in the organizations represented by our body, we say to your honorable board these things ought to cease and cease now. We say to you further that if the law against the members of the firm of J. P. Morgan & Co. and their confederates, so as to prevent further use of the moneys of the banks embraced in the Federal Reserve System for the purposes denounced here, your doing so will avoid much trouble and confusion to our country, but as a very last word and stating what we know to be the sentiment of the laboring people of the U. S., we say to your honorable board that end it shall, if not by your action, then by other means."

(The last paragraph is an exact copy of the statement. A word appears to have been left out in the first sentence.)

The Reserve Board took no action on this petition.

The Peace Council also called to the attention of the Secretary of State alleged violations of the neutrality laws in permitting British "transports" to sail from the port of New York with arms and ammunition.

An article in the New York Herald of July 9 describes a petition that was presented to the Secretary on July 8, but on which he took no action.

This article is:

Herald Bureau,
No. 1502 H. Street, N.W.,
Washington, D. C., Thursday.

Labor's National Peace Council, the organization which was launched on the heels of the resignation of Mr. William J. Bryan from the Cabinet, made public tonight a letter to Mr. Robert Lansing, Secretary of State, in which, after the citation of ten alleged specific charges of violation of neutrality, Mr. Lansing is asked to obtain a public investigation of these charges through the Collectors of Ports. The letter is signed by Mr. H. Robert Fowler of Illinois, once Representative in Congress from that State, and Mr. Frank S. Monnett, once Attorney General of Ohio.

The letter sets forth the ten specific charges and then argues that under provisions of the Hague conference and under general international law it is a violation of the neutrality of the United States for transports in the service of the Allies to load munitions in United States ports and it also is illegal to ship submarines or aeroplanes in part or in whole to the Allies.

The charges indicate that the Council is keeping well posted on the maritime business of the port of New York. How the information has been obtained was not divulged, but it is believed here that the information is extremely accurate.

These are the ten allegations of violations of neutrality as set forth in the letter:

"1. The steamship City of Chicago, now at pier 69, Hudson River, New York, is a transport in the service of the British government and is about to sail for Swansea, Wales, with a cargo of ammunition for the British government.

"2. The steamship Lord Erne is now about to sail from pier 84, Hudson River, New York, with a cargo of ammunition, automobiles and other war supplies, intended for the British and French governments. This ship is a transport in the service of the British and French governments.

"3. The steamship Massurian, now at the Bush docks, port of New York, is being fitted up with accommodations for 1,500 horses, the same to be shipped from Newport News, Va., to France, for delivery to military lines of the British and French governments. This ship is a transport in the service of the French and British governments.

"4. The steamship Venicie has left New York for Norfolk, Va. to take on a shipment of horses for France. This vessel is a transport in the service of the British and French governments.

"5. The steamship Virginia is now loading horses at Yonkers, N.Y. for France. This vessel is a transport in the service of the British and French govermments.

"6. The steamship Jethon, now at piers Nos. 36 and 37, Hudson River, New York, is now taking on war supplies for Havre, France. This vessel is a transport in the service of the British and French governments.

"7. The steamship Pascal, now at pier No. 59, Hudson River, New York, is loading with ammunition and war supplies for the British government, and is a transport in the service of the British government.

"8. The steamship Lapland, at pier 60, Hudson River, New York, is now taking on a cargo of gun carriages and other war supplies intended for the British government, in violation of the federal statute as well as of international law.

"9. The steamship Toronto, now at pier 54, Hudson River, New York, is taking on a loan of ammunition and other war supplies intended for the British government. This ship is a transport in the service o f the British government.

"10. The British and French governments have been using the docks of the White Star and Fabre lines to store and ship on their transports explosives, ammunition, submarines and aeroplanes.

The principal argument made by the letter is that the chartered British ships which are carrying arms and ammunition from American ports should, under the Council's interpretation of the Hague conventions and existing treaties, be prohibited from doing that. The Council asserts that in these cases merchant ships may not leave United States ports without violating neutrality.

The letter in closing says:

"We respectfully request that you direct that a public inquiry be held at once by the collectors of the ports or other proper government officials at which oral and documentary evidence can be submitted and opportunity given to the citizens to examine witnesses, to the end that your department be fully informed as to the situation."

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PERSONAL.

August 25th, 1915.

My dear Governor Hamlin:

When I wrote you in regard to the various subjects which it seemed to me should be especially studied just now, with a view to possible future developments, I omitted to mention the matter of credit information in regard to member banks. If any emergency arose, the reserve banks should be in position to meet it promptly. One of the most essemtial requirements would be complete knowledge of the affairs of member banks. Will it not be possible for us to get the final conclusions of the Federal Reserve Board and the Comptroller at an early date so that we may begin the preparation of information if it is to be made available or, if it is not to be available, we may take other steps to obtain it.

Thanking you in anticipation, I beg to remain,

Very truly yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-5

PERSONAL

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August 27th, 1915.

My dear Governor Hamlin:

In reading through our correspondence file, I find in my letter of February 8th addressed to Vice Governor Delano on the subject of trade in contraband articles, that the following expression is used: "Commerce of that character is authorized by our own laws and by international law and convention." That expression may not accurately describe the legal status of the trade in contraband of war, and in Mr. Delano's absence I am writing to express what I now understand to be the present status of the commerce referred to.

Trade with belligerents in articles which are contraband of war and conducted by citizens of neutral nations is, I believe, considered by some authorities to be an unneutral act on the part of the individual, but it is not of a character which impose s upon the neutral government any duty or obligation of restricting or interfering with the trade.

Trade in war munitions is "denounced" by various international agreements or conventions, the penalty of confiscation is imposed and a neutral government can afford no protection or assistance to trade of that character. The situation

To Hon. C. S. Hamlin.

in this country in respect of trade of this character now seems to have been made clear by the following:

1. The circular of the Department of State with reference to neutrality issued October 15th last states: "In the first place, it should be understood that generally speaking, a citizen of the United States may sell to a belligerent nation or its agent, any article of commerce which he pleases. He is not prohibited from doing this by any rule of international law, by any treaty provisions or by any statute of the United States. It makes no difference whether the articles sold are exclusively for war purposes, such as fire arms, explosives, etc., or whether food stuffs, clothing, horses, etc., for the use of the army or naval belligerent. *****"For the government of the United States itself to sell to a belligerent nation would be an unneutral act, but for a private individual to sell to a belligerent any product of the United is neither unlawfulnor unneutral nor within the power of an executive to prevent or control."

2. The note addressed by Secretary Lansing to the government of Austria-Hungary, under date of August 12th, also, contained the following expression in regard to trade in articles which are contraband of war: "***** This government is reluctant to feel that the imperial and royal government will ascribe to the United States a lack of impartial neutrality in continuing its legitimate trade in all kinds of supplies used to render the armed forces of a belligerent efficient *****".

To Hon. C. S. Hamlin.

3. The above quotations supplement and amplify the statement contained in the President's proclamation of neutrality dated August 4, 1914, from which the following is quoted: "And I do hereby warn the citizens of the United States ***** that while all persons may lawfully and without restrictionsby the aforesaid state of war, manufacture and sell within the United States arms and munitions of war and other articles ordinarily known as 'contraband of war' yet they cannot carry such articles upon the high seas for the use or service of a belligerent, nor can they transport soldiers and officers of belligerents or attempt to break a blockade which may be lawfully established and maintained during the said war, without incurring the risk of hostile capture and the penalties denounced in the law of nations in their behalf."

The question having been raised as to the accuracy of my letter of February 8th, I take this first opportunity of submitting the basis of expression of views therein contained.

I beg to remain,

Very truly yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM

8

PERSONAL.

September 2nd, 1915.

My dear Governor Hamlin:

Possibly, the best reply to your favor of the 26th ult., in regard to earnings and expenses of the Federal reserve banks, will be to send you the enclosed memoranda. This was not intended originally to be forwarded in this form, but it will save delay and re-writing to submit exactly the data as prepared in this office.

The views expressed by our auditor, Mr. Jefferson, regarding the policy which we have arrived at, were reached after considerable discussion and we have submitted the whole subject in detail to our Board of Directors and obtained their approval.

I hope it may be of some service in connection with the matter about which you wrote.

Very truly yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-4

~~7AB~~

82

September 10th, 1915.

My dear Governor Hamlin:

I have just received your telegram and am very sorry not to be able to take advantage of the opportunity to have a chat with you this evening. I have accepted an invitation from Mr. Morgan to meet the Committee of English and French bankers at dinner and only on that account find it impossible to join you. It was very good of you to wire me.

Very truly yours,

Governor.

Hon. C. S. Hamlin,
University Club,
New York City.

BS JR/VCM

Dictated by Mr. Strong but
signed in his absence.

8 2

October 11th, 1915.

Dear Governor Hamlin:

We are just harvesting a very satisfactory crop of apples at the farm, notwithstanding the adverse weather conditions, and I am taking the liberty of sending you a sample to show what sort of apples can be grown in Connecticut. I hope they reach you in good order.

Sincerely yours,

Hon. Charles S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS Jr/VCM

The above sent to the following:

F. A. Delano,
Paul M. Warburg,
W. P. G. Harding,
A. C. Miller,
H. P. Willis,
W. G. McAdoo,
J. Skelton Williams,

8 2

Copy in Hamlin 010

PERSONAL -----CONFIDENTIAL.

January 25th, 1916.

Dear Governor Hamlin:

Your favor of the 21st inst. is just received and I am indebted to you for the confidential advice as to plans of the Federal Reserve Board which might be classed to some extent, as preparation for emergencies.

The enclosed suggestion for amendments are those which have been considered from time to time by the officers of this bank and, to some extent, discussed with Governors of other of the reserve banks at the various Conferences during the past year. I am not prepared to say that in this form I would finally recommend them, but they contain suggestions which may be of value in connection with work along this line by the Federal Reserve Board.

A careful study of the proceedures taken by England, France and Germany and by the central banks of those countries in connection with the war, brings to light very strongly what functions such institutions as the Federal reserve banks will be called upon to perform in the event of any great national calamity. These have unmistakably proven to be

First: Almost unlimited extension of credit to banking institutions,

Second: Unlimited issues of notes to take the place of gold in circulation which rapidly disappears.

To Hon. C. S. Hamlin.

To take care of the demands of the character first mentioned, Federal reserve banks should be in a position to discount with freedom and without encountering technical obstacles, all paper of every character offered for that purpose by solvent members, within, of course, the limits of business prudence and the limitation of the statute as to reserves.

To meet demands of the character described as second, it is highly important that the process of accumulating gold should be vigorously continued, giving note issues of the Federal reserve banks a quality by reason of the large gold backing which can be obtained by no other process than that which now pregails. The use of gold being impounded by the present process as a part of the bank's reserves, will greatly assist in making the notes acceptable for circulation and in justifying their use, (possibly only under emergency conditions), as reserve money.

One of the consequences of developments which would lead to sudden expansion of the reserve banks, as above described, might prove to be a demand for gold, and ability to meet this demand will depend upon the gold resources of the Federal reserve banks. It seems to me, therefore, that the steps now contemplated by the Board in recommending various amendments are absolutely essential to the preparation of our banking system to meet emergency strains.

It had occurred to me that some of the legislation mentioned in your letter might be favorably received by Congress during

Jan. 25, 1916.

To Hon. C. S. Hamlin.

the present session where some other features, such as the reserve qualities of Federal reserve notes, might be dealt with by having the necessary legislation prepared and ready for submission should occasion arise which would require it.

I very much appreciate you writing me so fully and will hold your letter in confidence.

Very truly yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-5

Confidential.

May 5th, 1916.

My dear Governor Hamlin:

Mr. Jay and I have obtained from Mr. J, P. Morgan, a verbal statement of the financial condition of the firm of J. P. Morgan & Co. and the allied firms of Drexel, Morgan & Co., Morgan, Grenfell & Co. and Morgan, Harjes & Co., which conforms to the plan authorized by the Board of Directors of this bank and which will justify placing that firm upon the list of those private bankers whose acceptances are eligible for purchase by Federal Reserve Banks. Letters have been exchanged between this office and the firm of J. P. Morgan & Cp. which comply with our requirements for obtaining information respecing specific bills.

The information furnished us includes:

(a) The aggregate capital of the four firms

(b) The personal responsibility of the partners outside of the firms' capital,

(c) The liabilities of the firms,

(d) The amount of their acceptance engagements,

(e) A general statement of the character of the firms' assets.

Our arrangement with Mr. Morgan includes an understanding that any material change in the firms' affairs will be brought to our attention.

To Hon. C. S. Hamlin.

It is understood with Mr. Morgan that his statement is confidential and that no announcement in respect thereto will be made. The knowledge of the eligibility of bills accepted by his firm will become current in the street as soon as we begin to buy them.

It is important for various reasons that approval of the form of statement as above outlined, be given as promptly as possible and Mr. Jay and I would appreciate advice by telegraph on Saturday, if possible, that the information as above outlined is satisfactory to the members of your Board.

Very truly yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM

Confidential

May 5th, 1916. Yellow Cop. in alph file

My dear Governor Hamlin:

Re Messrs. Heidelbach, Ickelheimer & Co.

Messrs. Heidelbach, Ickelheimer & Co. have filed with us an auditor's statement of the condition of their firm in the form enclosed.

In addition to the figures submitted, a member of the firm has made a statement to Mr. Jay and me in regard to their affairs and policy and we have now placed their name upon the list of those fiems whose bills are eligible for purchase by Federal Reserve Banks. We will appreciate your approval of the form enclosed.

This firm has likewise filed with us the necessary letter undertaking to furnish us with information in regard to specific bills if requested and Mr. Ickelheimer has stated that he will inform us of any material change in the firm's affairs.

It is understood that the enclosed statement is confidential and that no announcement is respect thereto will be made. The knowledge of the eligibility of bills accepted by this firm will become current in the street as soon as we begin to buy them.

Very truly yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-4

Confidentiall. — Yellow cop in Gen file Acpt -

May 5th, 1916.

My dear Governor Hamlin:

Re Messrs. E. Naumberg & Co.

Messrs. E. Naumberg & Co. have filed with us an auditor's statement of the condition of their firm in the form enclosed.

In addition to the figures submitted, a member of the firm has made a statement to Mr. Jay and me in regard to their affairs and policy and we have now placed their name upon the list of those firms whose bills are eligible for purchase by Federal Reserve Banks. We will appreciate your approval of the form enclosed.

This firm has likewise filed with us the mecessary letter undertaking to furnish us with information in regard to specific bills if requested and Mr. Naumberg has stated that he will inform us of any material change in the firm's affairs.

It is understood that the enclosed statement is confidential and that no announcement in respect thereto will be made. The knowledge of the eligibility of bills accepted by this firm will become current in the street as soon as we begin to buy them.

Very truly yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM-2

82

CONFIDENTIAL

May 23rd, 1916.

My dear Governor Hamlin:

When I was last in Washington, I left a copy of a confidential memorandum covering my conversations with the Governors of the Bank of England with Mr. Delano in order that it might be available for subsequent discussion and such action as the Board considers desirable.

There are a number of principal points for consideration in this connection:

(a) Paragraph E of Section 14 of the Federal Reserve Act authorizes Federal reserve banks to open and maintain banking accounts in foreign countries, appoint correspondents, etc., "with the consent of the Federal Reserve Board."

The plan suggested by the memorandum cannot therefore, be put into operation without the formal authorization of the Federal Reserve Board, which as I read the statute, should cover the opening and maintaining of a bank account and the establishment of the Bank of England as our correspondent in England.

(b) For reasons which I expressed in some detail while in Washington, it is in my opinion, absolutely necessary that the purchase of foreign bills and the operation of banking accounts in foreign countries by the twelve reserve banks should be conducted as one account. I shall not attempt to repeat the explanation made in Washington, except to say that if the account is to be managed in that way, it should be done under a sufficiently binding agreement so that when the necessity arose for really protective measures to be undertaken to save this country from a drain of gold, the entire burden will not fall upon the Federal Reserve Bank of New York. I regard this feature of the Federal Reserve Act as one of the most important and far-reaching in its effects, so much so that, as I stated to Secretary McAdoo, if the other reserve banks decide not to participate in the arrangement, we would nevertheless undertake it ourselves, provided our Board of Directors authorize us to do so.

(c) The question of neutrality involved must, it seems to me, be taken into consideration by your Board when giving or withholding its consent to the appointment of the Bank of England. I have never believed that a Federal reserve bank is a government institution in the sense that it would implicate the United States Government in an unneutral transaction, if our relations with the Bank of England were considered to be unneutral. Furthermore, the Bank of England is a private institution and in no sense a part of the British Government. It is probably less so than we are, although, as you know, it is the principal fiscal agent of the Government in the management of its domestic financial affairs.

(d) The wisdom or unwisdom of undertaking investments in foreign bills at the present time depends, of course, entirely upon the degree of security afforded by the arrangement made with the Bank of England. After making a very careful study of conditions in England and France, I became convinced that the opening of accounts and purchase of bills abroad during the continuance of the war would not be justified by the Federal reserve banks unless we were especially protected by an engagement on the part of the Bank of England in England and the Bank of France in France to liquidate our accounts in gold, if we require it. No other bank is able to make as effective a gold engagement as is the Bank of England, it being the custodian of the gold of the nation.

(e) There is no occasion at the present time to consider operations, but occasion may arise, however, some time in the Fall and I would like to be prepared before that time arrives. Conditions may alter materially and we might feel unwilling to undertake any transactions, notwithstanding that the arrangement was concluded in all particulars.

(f) Whether we undertake any business abroad before the conclusion of the war or not, it seems to me important that the Federal Reserve Act should be amended so as to provide that Federal reserve banks may receive accounts from such correspondents as they may appoint abroad, otherwise, it would be difficult for us to make the relationship effective.

May I ask the Board to give consideration to the desirability of acting upon this matter in order that I may continue correspondence with the Bank of England and the Bank of France and, if necessary, submit the matter to the Governors of the twelve reserve banks?

Your Board has been advised of the character of the arrangements already established with the Bank of the Netherlands and we are now in correspondence with the Javasche Bank with a view to establishing somewhat similar relations with that bank. You further understand that Mr. Warburg has discussed tentatively with the Banco de la Nacion Argentina the possibility of the establishment of a relationship with them. Our business with each of the institutions named will vary considerably, but it may be desirable for the Board to consider at this time the whole subject of foreign correspondents and whether it may not be advisable to authorize the appointment of the banks named as our correspondents for the purpose of such business as we may be transacting with them from time to time.

I beg to remain,

Respectfully yours,

Governor.

Hon. C. S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

BS Jr/VCM

82

CONFIDENTIAL   May 25, 1916.

Dear Mr. Hamlin:

Governor Strong and I have obtained from Mr. James Brown a verbal statement of the financial condition of the firm of Brown Brothers and Company and the allied firm of Brown, Shipley & Company, which conforms to the plan authorized by the Board of Directors of this bank and which will justify placing that firm upon the list of those private bankers whose acceptances are eligible for purchase by Federal reserve banks. We have received from Messrs. Brown Brothers & Company a letter agreeing to give us such information as we may require respecting specific bills.

The information furnished us includes:

(a) The aggregate capital of the two firms.

(b) The personal responsibility of the partners outside of the firms' capital.

(c) The liabilities of the firms.

(d) The amount of their acceptance engagements.

(e) A general statement of the character of the assets of the firms.

(f) A general statement of the policies governing the conduct of the business of the firms.

Mr. Brown will inform us of any material change in the affairs of the firms.

It is understood by Mr. Brown that his statement is confidential and that no announcement in respect thereto will be made. The knowledge of the eligibility of bills accepted by his firm will become current in the street as soon as we begin to buy them.

We should appreciate advice by telegraph as soon as possible of the approval of the form of statement as above outlined.

Respectfully yours,

Chairman.

Honorable Charles S. Hamlin,
Governor, Federal Reserve Board,
Washington, D. C.

PJ/RAH

92

June 16th, 1916.

My dear Governor Hamlin:

I was just about to write you this morning when you came in. Now I want to thank you for both your fine letter and for coming in to see me to cheer me up. You and your associates and the men in the bank down town have done everything in your and their power to relieve my mind of any anxiety about going away and I am more deeply grateful than I can possibly express.

I hope you get a good rest yourself this Summer. All the members of the Reserve Board have bben working under a tremendous strain and I can now with justice point to myself as a horrible example of going through an experience which all of you must avoid.

With many thanks, I am,

Very sincerely yours,

Hon. C. S. Hamlin,
Care Federal Reserve Board,
Washington, D. C.

BS Jr/VCM

82

Estes, Park, Colo., July 19, 1916.

Hon. C. S. Hamlin,
% Federal Reserve Board,
Washington, D. C.

Dear Governor Hamlin:

Thank you for sending me the Index-Digest of the Clayton Antitrust Act. Please have no fears, however, that I may become entangled in banking alliances here that might violate the law -- there is only one bank in Estes Park, with a capital of $12,500 and, unless my little office my be considered a Federal Reserve Bank, it is a strictly non-competitive district. I am just now engaged in a little proselyting with the Cashier of the Bank, who is also Proprietor of the Lewiston where I am stopping, in an effort to persuade him to remit at par. That seems to be the limit of possibilities for local activities out here.

I am glad to report that I am improving. I want you to give my warmest regards to all of my friends in Washington, and the same to your good self.

Cordially yours,

COPY

[draft 3]

CONFIDENTIAL.

Dear Sir: ?

At the last conference of Governors of Federal Reserve Banks, held in Washington in April, Mr. Strong made a report of his negotiations abroad for the appointment of correspondents for Federal Reserve Banks in London and Paris. Since that date further progress has been made toward the completion of these arrangements in London and the Federal Reserve Board has now been asked to consent to the appointment of the Bank of England as the London correspondent of the Federal Reserve Bank of New York.

The tentative arrangement discussed with the officers of the Bank of England contemplates that each of the Federal Reserve Banks will be invited to participate in transactions in the English market, if they so desire. We are writing you this letter, in strict confidence, in order that you may be acquainted with the terms of the proposed arrangement and for the purpose of obtaining an expression of your views as to the following suggested method of operating an account in which all Reserve Banks that so desire may participate.

Enclosed herewith is:-

1. Copy of a memorandum of conversations between the Governors of the Bank of England and the Governor of the Federal Reserve Bank of New York, prepared in London in March, 1916.

2. Copy of memorandum submitted by the Federal Reserve Bank of New York to the Federal Reserve Board, explaining the proposed arrangement.

Please observe that memorandum No. 1. contains a provision that no statement or announcement respecting this matter will be made without the consent of both parties.

Careful consideration of the character of the business to be conducted convinces us that satisfactory results can only be obtained by cooperation on the part of all Federal Reserve Banks which participate in the account and by the management of transactions as one undivided account. As a tentative suggestion of methods to be pursued, we submit the following:-

(a) The privileges of participation will consist in:-

1. Sharing pro rata in the purchase of bills in London;

2. Sharing in such balances as are carried with the Bank of England at interest;

3. Sharing in purchases and sales of exchange;

all of which transactions are expected to result in profits.

(b) The responsibilities arising from participation will consist of the following:-

1. A pro rata liability for any losses incurred in the purchase of bills.

2. A pro rata liability for any losses incurred in the purchase and sale of foreign exchange.

3. A pro rata liability for losses incurred on gold ear-marked by the Bank of England.

4. A pro rata liability for any losses of gold in transit, shortage of weight on the same, or abrasion resulting from shipments.

5. A pro rata liability for any losses incurred on the storage and ear-marking of gold held for account of the Bank of England, save losses occasioned by the negligence or misfeasance of the Federal Reserve Bank of New York as custodian thereof.

6. A pro rata liability for any losses resulting from the guarantee of bills purchased for account of the Bank of England.

7. A pro rata liability for expenses incurred in conducting the account, except office and general expenses of the Federal Reserve Bank of New York.

(c) The following methods are also suggested for handling the account:-

Each Federal Reserve Bank might, as may be decided, contribute "capital" to the account:-

1. In the proportion which the assets of the contributing bank bear to the assets of all contributing banks;

2. In the proportion which the capital of the contributing bank bears to the total capital of all contributors;

3. In the same proportion which now applies to the division of investments made in New York, or

4. For an arbitrary amount to be determined by each bank, subject to review by either the Federal Reserve Board or by a Committee of the Governors.

(d) The account and all transactions therein to be conducted by the Federal Reserve Bank of New York, which would render an accounting to each participant as soon as practicable after the first of January and the first of July in each year, which account would state the amount of profits realized, or losses incurred, for which settlement would be made forthwith.

(e) The accounts to be rendered by the Federal Reserve Bank to be audited and reconciled by a Committee of the Governors, (or their nominees) named by the banks participating, which Committee of Governors would meet at stated intervals and determine the general policy to be pursued in the management of the account.

(f) Every participant would undertake to be responsible prorata for all losses incurred on all transactions undertaken during the period in which it was a participant in the account and until such transactions were fully liquidated, and withdrawal from further responsibility could only be affected by giving say six months' notice, from which date no further liability could be incurred in behalf of such withdrawing participant.

(g) Weekly advice by mail or telegraph to be given by the Federal Reserve Bank to each participant, stating such particulars of the condition of the account as will enable each participant to make suitable entries on its books, required for the calculation of reserve. This advice would probably be necessary only at such times as ear-marked gold which would count as reserve might be held by the Bank of England for account of the Reserve Banks. Other than such gold, the interest of each bank in the account would probably appear on its books under the ledger heading "Foreign Exchange Account."

(h) The terms of participation, as above outlined, together with any modifications agreed upon at the outset, or subsequently, to be set out in a memorandum and authorized and approved by each participant by resolution of its Board of Directors, in a form to be agreed upon in advance, to be uniform as to each participant, and copy thereof to be lodged with the Federal Reserve Bank of New York.

(i) The benefits and liabilities accruing to each participant to be subject in all respects to the original terms arranged with the Bank of England and approved by the Federal Reserve Board, and of any modifications thereof.

(j) As similar arrangements may in time be effected with the Bank of France, the Bank of the Netherlands and other foreign correspondents, like opportunity to be afforded to each Reserve Bank to participate in such accounts, upon terms similar to the terms applying to the account with the Bank of England.

(k) The Federal Reserve Bank of New York to be allowed as compensation for managing the account the same rate of commission which it now receives for making investments for other Reserve Banks in New York, such compensation, however, to be subject to review every six months by the Committee above provided to be appointed.

You will doubtless realize that considerable responsibility must be assumed in handling an account of this character. The Federal Reserve Bank of New York would undertake to use due diligence in conducting the account, but would assume no responsibility for the results of transactions, which would be handled with the same care as is given to the conduct of its own business.

Will you be good enough to consider the above and submit your suggestions in respect thereof as promptly as possible, in order that no unnecessary delay may arise in concluding the arrangement.

Yours very truly,

COPY

Whereas experience has shown that the payment of debts arising in the course of commercial and financial transactions is often impeded and rendered difficult by reason of circumstances which interfere with and temporarily render impracticable the safe transportation of gold from one country to another, in consequence of which trade is deranged, values are rendered uncertain, and widespread loss and suffering take place, the High Contracting Parties, being desirous to guard against such grave inconveniences, have decided to conclude a convention for that purpose, and to that end have appointed as their respective plenipotentiaries.

who, after reciprocally exhibiting their full powers, which were found to be in due form, have agreed upon the following articles:

ARTICLE I.

With a view to stabilize exchange and facilitate the settlement of balances, the High Contracting Parties agree that all deposits of gold, made within the jurisdiction of any of them for the purpose of paying debts incurred in the jurisdiction of another, in the course of private commercial and financial transactions, shall be treated by their Governments as constituting an international fund, to be used for the sole purpose of effecting exchange.

To this end the High Contracting Parties agree never to appropriate any of the moneys included in such fund; and they furthermore engage, each within its own jurisdiction, to guarantee the fund, in any and all circumstances, in war as well as in peace, against seizure by any public authority as well as against impairment by or as the result of any political action or change whatsoever.

ARTICLE II.

The High Contracting Parties agree to act as trusteesof the fund mentioned in the preceding Article, and for this purpose each of them will designate a bank within its own jurisdiction to hold any part of the fund there existing as joint custodian with such person or persons or such institution as the High Contracting Parties may concur in appointing for that purpose.

Such joint custodians shall hold the moneys so entrusted to them, subject to the order of the creditors for whom it is held.

ARTICLE III.

The details of the practical operations of the fund shall be regulated and determined by agreement between the designated depositary banks, and in order to simplify and facilitate such operations, the High Contracting Parties agree to take into consideration the reciprocal adoption of a uniform exchange standard, permitting the interchangeability of their gold coins, for which purpose they recommend the adoption of gold coins which shall be either a multiple or a simple fraction of a unit consisting of 0.33437 grams of gold 9/10 fine.

ARTICLE IV.

This convention shall be ratified; and the ratifications shall be exchanged at within two years, or sooner, if possible.

In testimony whereof, the respective Plenipotentiaries have signed these articles and have thereunto affixed their seals.

Done in copies, at , this

day of , 1916.

(Seal)

(Seal)

(Seal)

SECRET.

Memorandum of conversations between
the
Governors of the Bank of England
and the
Governor of the Federal Reserve Bank of New York
regarding possible relations between the two institutions.

The following points confidentially and tentatively agreed upon for submission and ratification by the respective institutions, with a view to being put into operation after the conclusion of the War:-

1. The Federal Reserve Bank of New York to act for itself and for such of the other eleven (11) Federal Reserve Banks as join the account.

2. ACCOUNTS. The Federal Reserve Bank of New York to maintain an account with the Bank of England.

As the Federal Reserve Bank of New York can only receive deposits from its own members and the United States Government, any balance maintained by the Bank of England with the Federal Reserve Bank of New York to be held as ear-marked gold.

3. BILLS. The Bank of England to purchase, as and when so requested, prime sterling bills for account of the Federal Reserve Bank of New York, for the payment of which, at maturity, the Bank of England will be responsible, such bills to comply with Section fourteen (14) paragraph "E", of the Federal Reserve Act, which requires that they shall arise out of actual commercial transactions, have no more than ninety (90) ? 93 days to run, and bear the signature of two or more responsible parties. The Federal Reserve Bank of New York,

York, likewise, to sell prime dollar bills of a similar nature to the Bank of England, and to be responsible for their payment at maturity. Such bills to be at the absolute disposal of the purchaser, in either case.

4. The accounts respectively to be kept free of charges and commission - except as regards actual out-of-pocket expenses.

5. INTEREST. When balances with the Bank of England cannot be invested in bills, the account of the Federal Reserve Bank of New York may be dealt with on an interest basis, at rates to be agreed upon.

As the Federal Reserve Bank of New York is not authorized by law to allow interest on balances, or to receive deposits from other than member banks, balances carried by the Bank of England in order to earn interest must be invested in bills.

6. The debtor institution at the request of the creditor institution to set aside and ear-mark gold on a bullion basis representing balances due. Such gold to be clearly identified as to ownership.

7. GOLD SHIPMENTS. The debtor institution to ship gold to the creditor institution, on request, at the cost and risk of the creditor institution. Where gold is shipped by one institution to the other for the purpose of making exchange, and not for the purpose of settling balances, such shipment to be at the risk and expense of the shipping institution. An agreement to be later arranged by correspondence, or otherwise, to cover all questions of abrasion, price of bar gold, price of coin, shipping charges, and other details of that character, so that the effect of the arrangement will be to make all shipments of gold between the two institutions upon exactly equal terms as to each.

8. INFORMATION

8. INFORMATION. It is expected that information will be exchanged by correspondence, respecting credit matters and financial conditions.

9. DURATION. The arrangement to be subject to cancellation by either institution, in whole or in part, except as to transactions in process, on notice by letter or cable, it being understood that any unliquidated balance either way will be settled in gold, if desired, under the terms of the understanding. If circumstances require or justify commencing operations before the conclusion of the War, advice to that effect will be given by the Federal Reserve Bank of New York.

10. It is hoped that the Federal Reserve Bank of New York will eventually reach an arrangement on similar lines with the Bank of France.

11. No announcement directly or indirectly to be made regarding the contents of this memorandum without the explicit consent of both institutions.

SECRET.

Memorandum of Conversations between
the
Governors of the Bank of England
and the
Governor of the Federal Reserve Bank of New York regarding
possible relations between the two institutions.

The following points confidentially and tentatively agreed upon for submission and ratification by the respective institutions, with a view to being put into operation after the conclusion of the War:-

1. The Federal Reserve Bank of New York to act for itself and for such of the other eleven (11) Federal Reserve Banks as join the account.

2. ACCOUNTS. The Federal Reserve Bank of New York to maintain an account with the Bank of England.

As the Federal Reserve Bank of New York can only receive deposits from its own members and the United States Government, any balance maintained by the Bank of England with the Federal Reserve Bank of New York to be held as ear-marked gold.

3. BILLS. The Bank of England to purchase, as and when so requested, prime sterling bills for account of the Federal Reserve Bank of New York, for the payment of which, at maturity, the Bank of England will be responsible, such bills to comply with Section fourteen (14) paragraph "E", of the Federal Reserve Act, which requires that they shall arise out of actual commercial transactions, have no more than ninety (90) ? 93 days to run, and bear the signature of two or more responsible parties. The Federal Reserve Bank

of New York, likewise, to sell prime dollar bills of a similar nature to the Bank of England, and to be responsible for their payment at maturity. Such bills to be at the absolute disposal of the purchaser, in either case.

4. The accounts respectively to be kept free of charges and commission - except as regards actual out-of-pocket expenses.

5. INTEREST. When balances with the Bank of England cannot be invested in bills, the account of the Federal Reserve Bank of New York may be dealt with on an interest basis, at rates to be agreed upon.

As the Federal Reserve Bank of New York is not authorized by law to allow interest on balances, or to receive deposits from other than member banks, balances carried by the Bank of England in order to earn interest must be invested in bills.

6. The debtor institution at the request of the creditor institution to set aside and ear-mark gold on a bullion basis representing balances due. Such gold to be clearly identified as to ownership.

7. GOLD SHIPMENTS. The debtor institution to ship gold to the creditor institution, on request, at the cost and risk of the creditor institution. Where gold is shipped by one institution to the other for the purpose of making exchange, and not for the purpose of settling balances, such shipment to be at the risk and expense of the shipping institution. An agreement to be later arranged by correspondence, or otherwise, to cover all questions of abrasion, price of bar gold, price of coin, shipping charges, and other details of that character, so that the effect of the arrangement will be to make all shipments of gold between the two institutions upon exactly equal

terms as to each.

8. INFORMATION. It is expected that information will be exchanged by correspondence, respecting credit matters and financial conditions.

9. DURATION. The arrangement to be subject to cancellation by either institution, in whole or in part, except as to transactions in process, on notice by letter or cable, it being understood that any unliquidated balance either way will be settled in gold, if desired, under the terms of the understanding. If circumstances require or justify commencing operations before the conclusion of the War, advice to that effect will be given by the Federal Reserve Bank of New York.

10. It is hoped that the Federal Reserve Bank of New York will eventually reach an arrangement on similar lines with the Bank of France.

11. No announcement directly or indirectly to be made regarding the contents of this memorandum without the explicit consent of both institutions.

[Draft ... file]
RHT - Correct
For Gov Strong

CONFIDENTIAL

[1916]

Dear Sir:

At the last conference of Governors of Federal Reserve Banks, held in Washington in April, Mr. Strong made a report of his negotiations abroad for the appointment of correspondents for Federal Reserve Banks in London and Paris. Since that date further progress has been made toward the completion of these arrangements in London and the Federal Reserve Board has now been asked to consent to the appointment of the Bank of England as the London correspondent of the Federal Reserve Bank of New York.

The tentative arrangement discussed with the officers of the Bank of England contemplates that each of the Federal Reserve Banks will be invited to participate in transactions in the English market, if they so desire. We are writing you this letter, in strict confidence, in order that you may be acquainted with the terms of the proposed arrangement and for the purpose of obtaining an expression of your views as to the following suggested method of operating an account in which all Reserve Banks that so desire may participate.

Enclosed herewith is:-

1. Copy of a memorandum of conversations between the Governors of the Bank of England and the Governor of the Federal Reserve Bank of New York, prepared in London in March, 1916.

2. Copy of memorandum submitted by the Federal Reserve Bank of New York to the Federal Reserve Board, explaining the proposed arrangement.

Please observe that memorandum No. 1. contains a provision that no statement or announcement respecting this matter will be made without the consent of both parties.

Careful consideration of the character of the business to be conducted convinces us that satisfactory results can only be obtained by cooperation on the part of all Federal Reserve Banks which participate in the account and by the management of transactions as one undivided account. As a tentative suggestion of methods to be pursued, we submit the following:-

(a) The privileges of participation will consist in:-

1. Sharing pro rata in the purchase of bills in London;

2. Sharing in such balances as are carried with the Bank of England at interest;

3. Sharing in purchases and sales of exchange;

all of which transactions are expected to result in profits.

(b) The responsibilities arising from participation will consist of the following:-

1. A pro rata liability for any losses incurred in the purchase of bills.

2. A pro rata liability for any losses incurred in the purchase and sale of foreign exchange.

3. A pro rata liability for losses incurred on gold ear-marked by the Bank of England.

4. A pro rata liability for any losses of gold in transit, shortage of weight on the same, or abrasion resulting from shipments.

5. A pro rata liability for any losses incurred on the storage and ear-marking of gold held for account of the Bank of England, save losses occasioned by the negligence or misfeasance of the Federal Reserve Bank of New York as custodian thereof.

6. A pro rata liability for any losses resulting from the guarantee of bills purchased for account of the Bank of England.

7. A pro rata liability for expenses incurred in conducting the account, except office and general expenses of the Federal Reserve Bank of New York.

(c) The following methods are also suggested for handling the account:-

Each Federal Reserve Bank might, as may be decided, contribute "capital" to the account:-

1. In the proportion which the assets of the contributing bank bear to the assets of all contributing banks;

2. In the proportion which the capital of the contributing bank bears to the total capital of all contributors:

3. In the same proportion which now applies to the division of investments made in New York, or

4. For an arbitrary amount to be determined by each bank, subject to review by either the Federal Reserve Board or by a Committee of the Governors.

(d) The account and all transactions therein to be conducted by the Federal Reserve Bank of New York, which would render an accounting to each participant as soon as practicable after the first of January and the first of July in each year, which account would state the amount of profits realized, or losses incurred for which settlement would be made forthwith.

(e) The accounts to be rendered by the Federal Reserve Bank to be audited and reconciled by a Committee of the Governors, (or their nominees) named by the banks participating, which Committee of Governors would meet at stated intervals and determine the general policy to be pursued in the management of the account.

(f) Every participant would undertake to be responsible prorata for all losses incurred on all transactions undertaken during the period in which it was a participant in the account and until such transactions were fully liquidated, and withdrawal from further responsibility could only be affected by giving say six months' notice, from which date no further liability could be incurred in behalf of such withdrawing participant.

(g) Weekly advice by mail or telegraph to be given by the Federal Reserve Bank to each participant, stating such particulars of the condition of the account as will enable each participant to make suitable entries on its books, required for the calculation of reserve. This advice would probably be necessary only at such times as ear-marked gold which would count as reserve might be held by the Bank of England for account of the Reserve Banks. Other than such gold, the interest of each bank in the account would probably appear on its books under the ledger heading "Foreign Exchange Account."

(h) The terms of participation, as above outlined, together with any modifications agreed upon at the outset, or subsequently, to be set out in a memorandum and authorized and approved by each participant by resolution of its Board of Directors, in a form to be agreed upon in advance, to be uniform as to each participant, and copy thereof to be lodged with the Federal Reserve Bank of New York.

(i) The benefits and liabilities accruing to each participant to be subject in all respects to the original terms arranged with the Bank of England and approved by the Federal Reserve Board, and of any modifications thereof.

(j) As similar arrangements may in time be effected with the Bank of France, the Bank of the Netherlands and other foreign correspondents, like opportunity to be afforded to each Reserve Bank to participate in such accounts, upon terms similar to the terms applying to the account with the Bank of England.

(k) The Federal Reserve Bank of New York to be allowed as compensation for managing the account the same rate of commission which it now receives for making investments for other Reserve Banks in New York, such compensation, however, to be subject to review every six months by the Committee above provided to be appointed.

You will doubtless realize that considerable responsibility must be assumed in handling an account of this character. The Federal Reserve Bank of New York would undertake to use due diligence in conducting the account, but would assume no responsibility for the results of transactions, which would be handled with the same care as is given to the conduct of its own business.

Will you be good enough to consider the above and submit your suggestions in respect thereof as promptly as possible, in order that no unnecessary delay may arise in concluding the arrangement.

Yours very truly,

Governor.

RHS

MEMORANDUM FOR SUBMISSION TO THE FEDERAL RESERVE BOARD

PREPARED BY BENJAMIN STRONG,

GOVERNOR OF THE FEDERAL RESERVE BANK OF NEW YORK.

Attached is a copy of "Memorandum of Conversations between the Governors of the Bank of England and the Governor of the Federal Reserve Bank of New York," which was prepared in London during the month of March, 1916, as a preliminary step toward the establishment of foreign correspondents for the banks of the Federal Reserve System. The general object of the plan described in the memorandum is to give effect to those portions of the Federal Reserve Act which authorize Federal reserve banks to conduct a so-called "Foreign" business. Those sections of the Federal Reserve Act having applicability are quoted in full as follows:

> "Sec. 14. Any Federal reserve bank may, under rules and regulations prescribed by the Federal Reserve Board, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this Act made eligible for rediscount, with or without the indorsement of a member bank.
>
> "Every Federal reserve bank shall have power:
>
> (a) To deal in gold coin and bullion at home or abroad, to make loans thereon, exchange Federal reserve notes for gold, gold coin, or gold certificates, and to contract for loans of gold coin or bullion, giving therefor, when necessary, acceptable security, including the hypothecation of United States bonds or other securities which Federal reserve banks are authorized to hold.
>
> ***
>
> (c) To purchase from member banks and to sell, with or without its indorsement, bills of exchange arising out of commercial transactions, as hereinbefore defined.
>
> ***
>
> (e) With the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature [illegible] or more responsible parties."

As a Federal res[illegible] obtain the consent [illegible] Federal Reserve Board "to open and maintain banking accounts in foreign countries, appoint correspondents and establish agencies in such countries," this memorandum is submitted to the Board in connection with the application of the Federal Reserve Bank of New York for the Board's consent to the appointment of the Bank of England as its correspondent in the City of London. The following statement is respectfully submitted in connection therewith:

The application should be considered in two aspects:

FIRST, As to its legality.

SECOND, As to its desirability as a business arrangement.

Considered in its legal aspects, the business contemplated to be done seems to conform to the powers expressly conferred upon the Federal reserve banks by those portions of Sec. 14 above quoted. The business would consist of:

A. Opening and maintaining a deposit account with the Bank of England (see paragraph (e) above quoted.)

B. Purchasing, selling and collecting sterling bills of exchange of the character permitted by paragraphs (c) and (e) quoted above.

C. Purchasing dollar bills of exchange, selling the same with the indorsement of the Federal reserve bank, and collecting the same at maturity, all for account of the Bank of England (see paragraphs (c) and (e) quoted above.)

D. Receiving and holding gold coin and bullion for account of the Bank of England. Dealing in gold coin and bullion both at home and abroad (see paragraph (a) quoted above).

E. Purchasing or receiving gold abroad and having same "ear-marked" by the Bank of England (see paragraph (a) quoted above).

All transactions contemplated by the memorandum are authorized by the statute. None of them consist of transactions which may be considered as incidental to or necessarily implied in connection with the business which is expressly authorized. No extreme construction of the law is necessary for this authorization. So far, therefore, as the Federal Reserve Act is concerned, its language seems to clearly provide for the conduct of such business as is described in the memorandum.

The Federal Reserve Board has already ruled that Federal reserve banks may take the custody of gold for foreign banking institutions.

As to the SECOND consideration, that is the desirability of the arrangement from a business standpoint, the objects sought to be accomplished by the statute must be kept clearly in mind. For many years past our foreign commerce has been at times harassed and even seriously impeded as a result of extreme fluctuations of interest rates, accompanied by derangement of the foreign exchanges, either causing or following large shipments of gold. The years 1893 to 1895, 1907 and the two years of the present war afford extreme illustrations of these occurrences. While a continued period of adverse exchanges will generally result in exportation of gold, the principal commercial nations of Europe have developed means by which their banking systems can mitigate the evil consequences and, to some extent, control excessive gold shipments resulting from these conditions. Losses are occasioned by violent fluctuations in exchange rather than by continued high or low quotations. This was demonstrated in the fall of 1914 and again in the late summer of 1915. The object to be attained is to give stability to foreign exchanges.

The United States is the freest gold market in the world. Until the Federal Reserve Act became law, no means existed by which either our banking institutions, in cooperation or a central bank acting for them, could use their resources in a large way to arrest or moderate extreme fluctuations in interest and exchange, or prevent excessive movements of gold. England, France and Germany all maintain a certain degree of control over gold movements through their central banks. The United States has been powerless to do so save by suspension of gold payment, with its serious consequences.

The Federal Reserve Act authorizes Federal reserve banks to invest a portion of their funds in foreign bills for the express purpose of enabling them to carry a large portfolio of bills abroad, so that when the exchanges are adverse these bills may be liquidated and the market supplied with exchange, thereby tempering an insistent demand for export of gold and avoiding the dangers and odium of suspending gold payment. Were the Federal reserve banks able to pay silver as well as gold, as is the Bank of France, or were they able to fix an arbitrary price for the sale of gold bars, as in the case of the Bank of England, they would then enjoy advantages somewhat similar to those enjoyed by the Bank of France and the Bank of England. All bank payments and all redemption of our currency must be made in gold, either directly by the banks or indirectly at the sub-treasuries, and no machinery now exists for deferring or moderating international gold demands, unless the Federal reserve banks are placed in position to put the new law into operation by investing their funds, while exchange is at a discount, in foreign bills. This is what the law contemplated and is an object which all bankers understand and have long agreed is necessary for the further safeguarding of our complicated banking system.

The plan proposed might in normal times be conducted:

(a) Through the Bank of England.

(b) Through the joint stock banks of London.

(c) By the appointment of an agent, or possibly the establishment of an agency to deal directly with the London discount houses and bill brokers.

After considering all three possibilities (a) alone seems feasible.

Action under either (b) or (c) would result in our obtaining service considerably less efficient than that which we could obtain under (a). Dealing with the joint stock banks, (b) would at times place these transactions under the control of the largest competitors of the System in the London market. Dealing with the discount houses would place the System at a disadvantage as contrasted with the local and long established clientele of those houses. In both cases there would be the added disadvantage of being unable to obtain the guaranty of the Bank of England on all bills purchased. The Bank of England is not a purchaser of bills in the open market; bills are simply brought there for discount, and purchases made by the Bank of England for account of the reserve banks would be handled by an agent which was not in active competition with its principal. In view of the foregoing considerations, it hardly seems necessary to discuss either (b) or (c) at greater length.

London is still the financial clearing house of Europe; it is the principal bill and money market of Europe and the principal gold market of Europe. In order therefore that the Federal reserve banks may deal with the problem of gold shipments effectively, it must make arrangements for necessary banking facilities in that market where European financial transactions center, viz. - London. Owing however to the prohibition of export of gold now effectively in operation in London (except through the Bank of England) no contract which Federal reserve banks might enter into with other financial institutions, [illegible] bills and acceptances [illegible] such contract were [illegible] guaranteed by the Bank of England. The gold reserve of [illegible] is held by the Bank of England. It exercises a [illegible] power of control over the reserves of all banking institutions [illegible] and to-day occupies a position of such importance in the financial fabric of the nation that the objects of the Federal Reserve Act can be best accomplished, and possibly only accomplished, through cooperation with the Bank of England, as contrasted with independent and possibly antagonistic operations in the London market. A further reason for dealing with the Bank of England lies in the fact that that institution bears a relationship to the banks and bankers of England which is similar in many ways to that which the Federal reserve banks bear to American banking institutions. It is more dignified and natural that these institutions should deal with each other and in cooperation, rather than independently of each other and in possible opposition.

By dealing directly with the Bank of England the Federal reserve banks obtain a guarantee for the payment of bills of inestimable value. They are able to arrange in advance the price at which gold will be released, they are also able to establish a basis for avoiding the expensive and wasteful melting and re-coining of sovereigns and eagles, and when gold is ear-marked for account of the Federal reserve banks, it is held in the safest custody possible.

It must not be overlooked that the Reserve System, in order to secure the best service, must either employ a disinterested correspondent, or establish an agency of its own. By dealing through the Bank of England we shall not only obtain disinterested service, for, as shown above, competition between the institutions will not exist, but also obtain the advantage arising from an arrangement which will be both mutual and reciprocal. The Federal reservebank will occupy the position of agent in New York and perform similar services for the Bank of England to those it desires performed in London. The two institutions, having the same objects to accomplish, will work in cooperation rather than antagonism.

To-day, every important bank in London has close relationships, of many years standing, with New York banks, while the Bank of England has none. The proposed relationship is the only one the Bank of England would entertain, and, therefore, no conflict of interest with member banks can arise. Moreover, the exclusive character of the arrangement will practically make certain the avoidance of criticism on the part of our member banks.

As an indication that the arrangement proposed is natural and will likely develop in other foreign countries, negotiations already commenced with the Bank of France indicate that a somewhat similar plan can in time be effected with that institution. Limited arrangements of this character have now been started with the Bank of the Netherlands and the Federal Reserve Bank of New York has also been asked to undertake transactions for the Bank of Greece and the Bank of Java.

Financial conditions in London at the present time will enable the Reserve banks to negotiate arrangements with the Bank of England much more favorable than would have been possible prior to the outbreak of the war, and probably more favorable than will be possible after the conclusion of the war. The advantages of the guarantee and of an interest-bearing account are apparent and neither of these features would have been possible under conditions other than those which now exist.

Believing that the provisions of the Federal Reserve Act were intended to apply to just such emergencies as have arisen and will recur as a result of the European war, I believe it to be clearly the duty of the managers of the Federal Reserve System to make ample preparations at the present time, when the exchanges are in favor of the United States, for the strain which will be put upon its banking system at the conclusion of the war, when, as now seems inevitable, the exchanges are liable to run adverse for a long period.

These preparations and the principal transactions proposed, are briefly described as follows: At the present time, or possibly this fall, when there seems some possibility of sterling exchange selling below the present nominal parity of 4.76, the Federal reserve banks (in cooperation) would buy cable transfers and checks on London, the proceeds being deposited with the Bank of England in current account. Out of this account the Bank of England would purchase for the Federal reserve banks 30, 60 or 90 day bills of a character which they are permitted to hold, which would either be held in "pension" or would be shipped to New York for entry and later collection in London. These bills, which would be the highest grade acceptances in the London market, would be unconditionally guaranteed for payment by the Bank of England. The amount of these purchases would be determined by the rate of exchange, the relative level of interest rates, and various questions of security and credit involved. It would be impossible, in advance of actual operations, to determine exactly how much money should be employed in this way. Probably purchases would be made or increased only in cases of sudden and considerable declines in sterling exchange. If exchange continued to sell much below parity after the Federal Reserve Banks had accumulated all of the bills which they felt willing to purchase, the Reserve banks could still, if thought desirable, continue to buy sterling exchange, remit it to London and have gold set aside in special safes and held for account, without shipment to this side. As bills matured the proceeds would be re-invested. This condition of the account might continue for quite a period, possibly until the conclusion of the war. Then (as seems probable) it may develop that a decline in our export trade, increased sales of American securities from abroad, large loans negotiated here by foreign nations, large shipments of manufactured goods to this country and heavy expenditures abroad by travelers, will turn the tide of the foreign exchanges against this country. Before the exchanges became definitely adverse, it is probable that more normal rates for ocean freight and marine insurance will be restored, also that the Bank of England will be forced to reduce its price for gold bars more nearly than at present to the statutory purchase basis of 77 shillings, 9 pence per ounce. The international parity of exchange would thereby be restored to about 4.8665, so that only when exchange rose above 4.88 could exports of gold be made at a profit. When exchange, however, reached a point where it became cheaper to export gold than to buy checks or cable transfers, the Federal reserve banks would begin to supply the market with exchange, drawing first against whatever gold might have been ear-marked for their account by the Bank of England. When the supply of ear-marked gold was exhausted, bills would either be allowed to run off or would be sold and the proceeds checked against in supplying the market with exchange. Upon the exhaustion of both funds the Reserve banks could then, under the proposed arrangement, begin to sell exchange for account of the Bank of England, or the Bank of England in turn could buy dollar exchange (which would be at a corresponding discount in London) and remit it to New York for its account. The proceeds of New York's sales, or of London's remittances in dollars, would be invested in bills in New York for account of the Bank of England, for the payment of which the Federal reserve banks would be obligated. In other words, the Bank of England would then begin to operate in dollars with New York just as in the first instance New York had operated in sterling with London. If it is assumed that the Federal Reserve System is willing to employ twenty-five million dollars in such operations, and the Bank of England five million sterling, it will be observed that fifty million dollars of exchange can be supplied to the market in order to postpone gold shipments before any gold moves. In normal times gold shipments exceeding fifty million dollars in amount rarely occur and the interposition of that amount of exchange for the purpose of arresting or deferring gold movements would be a source of economy and the means of saving many losses to the commerce of both nations.

Assuming also that in normal times all the expense of packing, freight, insurance, abrasion, interest in transit, etc., is covered by the difference between the normal gold export point of say 4.8825, and the normal import point of say 4.85, the direct saving in avoiding shipping ten millions sterling one way would be $325,000. There should also be added to this saving the cost of melting and re-coining such portion of the shipment as might be made in the coin of the exporting nation.

The direct saving, however, is trifling compared to the indirect losses which are avoided. When the exchanges are deranged and violent fluctuations occur, it is almost inevitable that confidence will be shaken, which in turn has its reaction and causes losses in both financial and commercial markets.

The risks involved in conducting this business must be considered before operations are commenced; these are almost negligible. The bills to be purchased will bear the obligation of a drawer in many cases of known financial responsibility. They will be accepted in each instance by the strongest acceptors in the London market; principally the clearing banks. They will almost without exception bear the indorsement of first-class bill brokers or discount houses, such for instance as the Union Discount Company and the National Discount Company. In addition, they will be guaranteed unconditionally by the Bank of England and, under the terms of the agreement, the obligation of the Bank of England will be payable in gold, which can either be ear-marked and set aside in special custody, or shipped to this country.

Profits to be realized on such an account must also be given consideration. There are two elements of profit, one exchange and the other interest and discount. The terms of the agreement insure the Federal reserve banks against loss on exchange so long as purchases of sterling are made below the cost of importing gold from London, nor would the account be operated as a trading account in exchange with the object of realizing trading profits. It would be an investment and insurance account. The balances and investments carried in London would arise from purchases of exchange made below gold parity and these balances and investments would be continued in London until exchange rose above gold parity, when they would be withdrawn and a substantial profit might be realized. For example, if the Federal reserve banks invested ten million dollars at present rates of exchange, say 4.75, and continued these investments until the exchanges turned to the normal gold import point indicated above, say 4.8825, there would be a profit in exchange alone of $245,000. Such a profit of course would be due to the extraordinary situation caused by the war and would be realized only after the account [illegible] for a considerable period of time. The interest profits under present conditions however would be considerable. With a 6 per cent. bank rate, as at present, the Reserve banks would have little difficulty in buying bills of the highest grade in London at from 5 per cent. to 5 1/2 per cent. discount and uninvested balances in the Bank of England would possibly bear as high as 4 per cent. interest, these rates being higher than any rates at which the funds of the Federal reserve banks can at present be employed. It must, however, to borne in mind that this account would not be conducted primarily for profit, but for the purpose of stabilizing exchange and exercising some control over gold shipments in the future.

The arrangements proposed are tentative and experimental, and it is expected that experience will develop in what respect improvements can be effected. Some improvements essential to advantageous management of the account will require amendments to the Federal Reserve Act. These amendments should provide that Federal reserve banks are authorized to purchase bills having 90 days to run exclusive of days of grace, and that Federal reserve banks may receive deposit accounts from such institutions as they select to be their correspondents in foreign countries.

The language of the statute conferring unlimited powers upon Federal reserve banks to deal in gold, would seem to imply that gold held abroad for account of Federal reserve banks would nevertheless count as reserve, for unless the statute so intended, the limitations which would be imposed upon them in their foreign operations would seriously impair their ability effectively to perform this important function.

It has been suggested that it would be more natural for the Reserve banks to purchase in this country 60 and 90 day bills, with documents attached, drawn on English acceptors by American exporters, ship these bills to the Bank of England for acceptance and hold them there in portfolio. Such bills, it is said, would represent solely American commerce and would, therefore, avoid the criticism that funds of the Federal reserve system are being used in the London market for the promotion of English commerce. There are many objections to this course, principally the following:

1st. There is considerable risk attendant upon the purchase of documentary bills prior to acceptance, both as to the financial responsibility of parties, the uncertainty of acceptance by the drawee, the legality and authenticity of the documents, the responsibility of the insurance companies and the safe delivery of the goods. All American bankers who purchase bills of this character recognize the risks involved and have developed, after long years of training, a force of skilled men especially trained to pass on both the credits and the technicalities involved. This the Federal reserve bank should avoid.

2nd. By purchasing bills at the point of origin, it would be difficult to make any arrangement for unconditional guarantee by our correspondent in London. The Bank of England is willing to guarantee bills for the Reserve banks where it passed on the credits itself and knows that the bills are absolutely good. It would not guarantee bills where our judgment alone determined what bills should be purchased.

3rd. If the Federal reserve banks go into the American market to buy long bills, they will be directly competing with their own members and in a department where the profits are already considerably reduced by competition and where it is essential that encouragement be afforded to the member banks for immediate development of their business. The Federal Reserve System was designed, among other things, to promote the extension of our banking system into foreign countries for the benefit of our country's foreign commerce. There will be little inducement for the member banks to do so if at the outset they are met with competition from the Reserve banks. Nor could the member banks meet this competition as they allow interest on practically all the funds which they employ, whereas the Reserve banks pay no interest on their deposits and could always underbid them as buyers of long bills in this country. While some bills would doubtless be drawn on acceptors who would be satisfactory to the Bank of England and such as they would guarantee, it would be impossible to work out a plan by which when the account is reversed the Bank of England could buy bills in the same manner, drawn on American acceptors, as most of the bills now in the New York market are drawn in the East or in South America, or on the Continent, and never reach the London market for negotiation prior to acceptance.

While the law, therefore, authorizes Federal reserve banks to buy long bills in this country prior to acceptance abroad, sound policy would not justify their exercising this power.

In brief, the plan proposes that the Reserve banks shall buy exchange on London when it is below parity and invest the proceeds in London in long bills, the payment of which will be guaranteed in gold by the Bank of England. When exchange is at a premium these bills will be liquidated and the account withdrawn. If sterling continues at a premium (in other words dollars in London at a discount) the Bank of England will then buy dollar exchange and the Reserve banks will invest the proceeds in New York in a similar manner and under similar guarantees.

It is suggested that the full operation of the Federal Reserve Act should not be suspended or postponed until the conclusion of the war, but should be inaugurated at the present time in order to meet the emergencies which are certain to develop as a result of the war.

Consideration has been given to the question of what danger might arise in case of war between the United States and Great Britain. To attempt to guard against such a contingency would involve either

(a) The negotiation of a treaty, or

(b) The inclusion of one or more other parties, with certain trust features embodied in the plan.

As to (a), nothing would go so far toward improperly involving our Government than making the Government a party to the negotiation; and the time required is prohibitive. Even a treaty might not afford protection in case of war.

As to (b), some plan may be possible, after experience, by which three or more banks of as many nations may be brought to join in a plan whereby the interests of any belligerent parties could be safeguarded through the agency of the neutral parties. France, Holland, and Switzerland are about the only European nations with which such negotiations would now be possible or where similar banking arrangements would be justified, and later these may be feasible, or some of them. But the delay involved in such a course would obviously be prohibitive at the present time and any such enlargement of the plan should not, therefore, be seriously considered. No such attempt to safeguard banking interests in time of war has heretofore been made, and the requirement of such unusual measures, carried to a logical conclusion, would imply that all international business was unsafe, and all private property liable to forfeiture in time of war. Such a view of the risks of war foreign business is not justified by past experience, nor are such unusual safeguards contemplated or necessary under the provisions of the Federal Reserve Act.

No arrangement would work satisfactorily, or, in fact, be feasible, unless all twelve of the Reserve banks were included in the account and worked together to accomplish the desired objects. A memorandum outlining the basis of such cooperation will be prepared and submitted later.

In conclusion it should be steadily borne in mind that arrangements of the character above described, entered into first with the Bank of England and later, if possible, with the other great central banks of Europe and South America, will add immeasurably to the prestige and strength of the Federal Reserve System, simplify and stabilize the country's foreign exchanges and carry out the real purposes of the Federal Reserve Act.

SECRET.

Memorandum of Conversations between
the
Governors of the Bank of England
and the
Governor of the Federal Reserve Bank of New York regarding
possible relations between the two institutions.

The following points confidentially and tentatively agreed upon for submission and ratification by the respective institutions, with a view to being put into operation after the conclusion of the war:

1. The Federal Reserve Bank of New York to act for itself and for such of the other eleven (11) Federal Reserve Banks as join the account.

2. ACCOUNTS. The Federal Reserve Bank of New York to maintain an account with the Bank of England. As the Federal Reserve Bank of New York can only receive deposits from its own members and the United States Government, any balance maintained by the Bank of England with the Federal Reserve Bank of New York to be held as ear-marked gold.

3. BILLS. The Bank of England to purchase, as and when so requested, prime sterling bills for account of the Federal Reserve Bank of New York, for the payment of which, at maturity, the Bank of England will be responsible, such bills to comply with Section fourteen (14) paragraph "E", of the Federal Reserve Act, which requires that they shall arise out of actual commercial transactions, have no more than ninety (90) ? 93 days to run, and bear the signature of two or more responsible parties. The Federal Reserve Bank of New York, likewise, to sell prime dollar bills of a similar nature to the Bank of England, and to be responsible for their payment at maturity. Such bills to be at the absolute disposal of the purchaser, in either case.

4. The accounts respectively to be kept free of charges and commission - except as regards actual out-of-pocket expenses.

5. INTEREST. When balances with the Bank of England cannot be invested in bills, the account of the Federal Reserve Bank of New York may be dealt with on an interest basis, at rates to be agreed upon.
As the Federal Reserve Bank of New York is not authorized by law to allow interest on balances, or to receive deposits from other than member banks, balances carried by the Bank of England in order to earn interest must be invested in bills.

6. The debtor institution at the request of the creditor institution to set aside and ear-mark gold on a bullion basis representing balances due. Such gold to be clearly identified as to ownership.

7. GOLD SHIPMENTS. The debtor institution to ship gold to the creditor institution on request, at the cost and risk of the creditor institution. Where gold is shipped by one institution to the other for the purpose of making exchange, and not for the purpose of settling balances, such shipment to be at the risk and expense of the shipping institution. An agreement to be later arranged by correspondence, or otherwise, to cover all questions of abrasion, price of bar gold, price of coin, shipping charges, and other details of that character, so that the effect of the arrangement will be to make all shipments of gold between the two institutions upon exactly equal terms as to each.

8. INFORMATION. It is expected that information will be exchanged by correspondence, respecting credit matters and financial conditions.

9. DURATION. The arrangement to be subject to cancelation by either institution, in whole or in part, except as to transactions in process, on notice by letter or cable, it being understood that any unliquidated balance either way will be settled in gold, if desired, under the terms of the understanding. If circumstances require or justify commencing operations before the conclusion of the War, advice to that effect will be given by the Federal Reserve Bank of New York.

10 It is hoped that the Federal Reserve Bank of New York will eventually reach an arrangement on similar lines with the Bank of France.

11. No announcement directly or indirectly to be made regarding the contents of this memorandum without the explicit consent of both institutions.

ADDITIONAL MEMORANDUM SUBMITTED

TO THE FEDERAL RESERVE BOARD

IN RE FOREIGN CORRESPONDENTS FOR THE BANKS OF THE

FEDERAL RESERVE SYSTEM.

Paragraph (e) of Section 14 of the Federal Reserve Act requires that the Federal Reserve Board must give its consent to the appointment of foreign correspondents and does not limit or circumscribe the power of consent conferred upon the Board, and should the Board feel that it must take into consideration in giving or withholding its approval of the application made by the Federal Reserve Bank of New York, not only the terms of the Federal Reserve Act but of any other law or treaty of the United States, and of international law, before giving consent to the appointment of the Bank of England as a proposed correspondent, the following considerations are suggested as affecting the decision of the Board on these points:

1st. Is the business proposed to be conducted unneutral in character, and

2nd. If it is considered to be unneutral in character, does the conduct of this business between the Federal reserve banks and the Bank of England in any way implicate the government of the United States in unneutral acts?

As to the first consideration, the character of the business would depend upon the construction placed by our government upon financial transactions which are necessary in effecting commercial settlements between citizens of this country and citizens of a belligerent country. The provisions of the Federal Reserve Act, authorizing Federal reserve banks to purchase bills in foreign markets, were designed to facilitate and protect the country's foreign commerce. The necessity for embarking upon the business at the present time arises out of the magnitude of our export trade, a large part of which consists of munitions of war; but the proposed arrangement would not be associated with any particular class of exports. As to the attitude of our government towards the export of munitions and the financing thereof there seems to be no doubt. The transactions proposed do not involve a violation by our government of its recognized obligations of neutrality. Its officers have declared that our citizens are entitled to conduct a commerce with belligerents in munitions of war; that is, articles which are contraband of war and conditional contraband of war, such commerce having been described by the

State Department in one of its circulars as "neither unlawful nor unneutral" and by Secretary of State Lansing in his reply to the Austro-Hungarian Government as "legitimate trade." The conduct of commerce of that character necessarily results in financial transactions between the citizens and banking institutions of this country and those of belligerent nations. If the commerce which gives rise to these financial transactions is "lawful" and "legitimate," it can hardly be held that the financial transactions necessary to the conduct of the commerce are nevertheless unlawful or illegitimate.

Admittedly, the government of the United States can have no part in such commerce, nor can it use its funds or credit for the conduct of such commerce, without being implicated in an unneutral act, and the question really involved, therefore, is whether the Federal reserve banks can be held to be departments, agencies or instruments of our government, and whether the Bank of England can be held to be a department, instrument or agency of the British government to such a degree that the relationship proposed to be established between these two institutions would result in making the government of the United States a party to transactions which might be construed as unneutral, although otherwise "lawful" and "legitimate."

As to Federal reserve banks, they are corporations created by Act of Congress, with which the relations of the government are distinctly set out and limited by the statute itself; they are privately owned and are as distinct from the government as is a national bank.

The points of contact between the government and Federal reserve banks are principally the following:

1. They are created by Act of Congress.

2. They are supervised by a government appointed Board.

3. Their business is conducted by a Board of Directors of nine, three of whose members are appointed by the Federal Board.

4. They are authorized to act as the Fiscal Agents of the United States Government, and are all of them so acting at the present time and hold large deposits of the funds of the government.

5. They are made the instruments for the issue of Federal reserve notes, which the government of the United States is obligated to pay.

6. A specified share of the profits of the bank is required to be paid to the government as a franchise tax.

7. In general, the supervision exercised by the government through the Federal Reserve Board and the three government appointed directors is probably greater than with other corporations created by the laws of the United States, or of any of the separate states, with the possible exception of the national banks and common carriers.

An examination of the law, however, discloses the fact that the Federal reserve banks are no different in substance from the national banks so far as their legal relations to the Federal Government are concerned. Probably no one would hold that a national bank is prohibited, by reason of the existence of war, from opening an account with the Bank of England, from buying bills and making other investments in England, or through the Bank of England, or, in fact, from making direct loans to the British Government for the express purpose of financing that government's purchases of munitions of war in this country. National banks are created by Act of Congress; their business is supervised and they are examined by a government official (the Comptroller of the Currency), whose powers in that respect are similar to the powers of the Federal Reserve Board. (The supervision of national banks does not however extend to the appointment of government directors.) National banks are the instruments for the issue of national bank notes for the payment of which the government is obligated by Section 6, Chapter 708 of the Act of July 14, 1890, just as effectually as is the government obligated to pay the Federal reserve notes. The share of the profits of Federal reserve banks accruing to the government is stated in Section 7 of the Federal Reserve Act to be a franchise tax and was undoubtedly imposed in lieu of other taxes which Federal reserve banks might have been required to pay as consideration for an exclusive and valuable franchise. National banks likewise act as fiscal agents of the United States Government and hold large amounts of the government's funds on deposit. They also pay substantial taxes called "duties" to the Federal Government.

It is difficult to see how in law any difference can be shown to exist between the relations sustained by Federal reserve banks to the government and national banks to the government.

As to the Bank of England, it is a private corporation reestablished by Act of Parliament in 1844. The British Government assumes no control and has no legal connection with the management of the bank; it gets no share of the profits, nor has it any monied interest in the stock of the bank. Relations between the British Government and the Bank of England are those of principal and agent, the Bank of England acting in a most extensive way as the banker and fiscal agent of the British Government, for which it is paid large compensation. It is not, however, an exclusive agency as the government also has dealings with other financial institutions. It is generally understood that in the relations between the British Government and the Bank of England the bank jealously guards itself from governmental interference on the one hand and the government on the other hand carefully refrains from assuming responsibilities in connection with the management of the bank.

DRAFT OF PRESS STATEMENT.

Negotiations for establishing relations between the Bank of England and the Federal Reserve Bank of New York, which were commenced by the governors of the respective institutions some months ago, have now been concluded. The arrangement provides that the Bank of England will act as the correspondent and agent in London of the Federal Reserve Bank of New York and that the Federal Reserve Bank of New York will act in a similar capacity in New York for the Bank of England.

It is not the intent of the plan that these institutions engage in commercial foreign transactions, the relationship established being primarily for the purpose of affording greater stability to rates of exchange by maintaining with each other mutual accounts of deposit, and by representing each other in the purchase of bills. The plan will also create machinery by which transactions in gold and gold coin will be facilitated, which should result, in normal times, in eliminating or reducing the extensive and unnecessary shipments of gold between nations to settle international balances, which have heretofore not infrequently prevailed. The relationship will also establish a means by which it is hoped financing between the two countries can be accomplished in times of emergency without undue strain upon the exchanges.

Provision is made for participation by other Federal reserve banks of the United States desiring to join in the transactions contemplated.

82

Denver, Colorado,
January 2, 1917.

Dear Governor Hamlin:

It was good to hear from you and I appreciated your writing me very much indeed. My progress is satisfactory but slow just now, but, as you realize, my temperament does not fit in very easily with this irksome inactivity.

Governor Harding's letter about that announcement has not yet reached me and I await it with interest. It is, of course, most satisfactory to feel that we are now going to be in position to link up our Federal Reserve System with the Bank of England and ultimately I hope with the Bank of France and with the other great central banks of Europe. It would seem to me that the supreme importance of this relationship had not been fully appreciated, not as to present conditions, but as to the great advantages which will result from such alliances in future years. The only fly in the ointment is the fact that the Board's announcement really violated a very sacred pledge which I had entered into with Lord Cunliffe and having been made as it was might discredit me abroad and worse than that cause him a good deal of embarrassment with his own directors. Concerning all of that, however, I will be able to write more fully a little later.

With warmest regards and every good wish for the New Year, believe me,

Faithfully yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS/CC

COPY

82

Denver, Colorado,
January 15, 1917.

CONFIDENTIAL.

My dear Governor Hamlin:

I was delighted to receive your confidential letter of the 9th. As you may imagine, it is only my correspondence that prevents the development of a mental stagnation out here - that would be about the worst fate that I could contemplate. I am making good progress, although at this stage it is rather slow, particularly as I am disbarred as yet from much active exercise, partly on account of the weather and partly due to the excessive caution of my doctor, but I have added a total of 18 lbs. to my weight by some mysterious process, and that of course indicates progress, if nothing else does.

begin here

In reply to what you say about the foreign arrangements, I am much tempted to write an elaborate account of the situation, but, having already done so to the office, possibly it is better for me not to repeat now. Had the Board's intention to make the announcement been communicated to me, I could have pointed out many reasons why it was unwise as could have been done also from the office in New York, but little good can come from worrying over spilt milk, and I am now hoping that my health and arrangements at the bank will permit me making another trip to Europe this summer and make these foreign arrangements complete and effecting and as comprehensive as present conditions justify.

In conclusion, let me suggest that the establishment of these relations between the System and the great banks of Europe is to my mind

To - Governor Hamlin. January 15, 1917.

the most important development which can now be undertaken for the purpose of regulating after war developments, and I know that that view is shared by some of the most important bankers both in New York and abroad. I hope that no consideration will interfere with their prompt conclusion.

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

Very truly yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS/CC

COPY

Orig of copy in 10th Exhibit

82

Denver, Colorado,
January 26, 1917.

Dear Governor Hamlin:

It was very good of you to write me again and I do not want to seem unresponsive to the needs of any important situation, particularly when I am so far away and out of touch with things, but that announcement, as I wrote you, did give me a great shock.

I am now corresponding with Governor Pallain of the Bank of France and feel quite sure that we can conclude negotiations with that institution, but in Paris much more than in London many difficulties arise in dealing with so important and technical a matter by correspondence. Were I on the ground right now, I am sure the matter could be promptly concluded.

This situation as to foreign correspondents better than any other in my experience illustrates the truth of the saying that a man with money is always popular.

If I live and keep my health, you will see our bank in a close and important relationship with all the great central banks of Europe where such relationships can be of value, and it is one of the matters which has been uppermost in my mind ever since we started our organization. When that part of the work is done maybe I will retire and grow potatoes.

Again thanking you for your letter and your good wishes, I am,

Very sincerely yours,

Hon. C. S. Hamlin,
Federal Reserve Board,
Washington, D. C.

BS/CC

July 11, 1919.

Dear Mr. Hamlin:

It was fine of you to send me that little book, which I will read on the steamer with a great deal of interest and profit, I know.

Also many thanks for your good wishes. I have been looking forward to this trip for a good while and know that it will be most interesting as well as a good rest.

With kindest regards to you and your associates, I am,

Sincerely yours,

Honorable ~~C. S. Hamlin,~~
Federal Reserve Board,
Washington, D. C.

BS/MSB

Hotel Trianon Palace,
Versailles, July 29, 1926.

My dear Mr. Hamlin:

Many thanks for your nice letter of July 16th, which reached me yesterday and which I have read with a great deal of pleasure.

This you will understand to be a private and personal reply.

You understand of course that I have at times, and more recently than formerly, felt a good deal of anxiety about my relations with some of the members of the Board. It will be very difficult for us to accomplish much in an atmosphere of suspicion or mistrust or hostility. The news of your reappointment gave me a good deal of satisfaction and relieved my mind, because you and I have managed to get along so well over so many years and without a hint of any such development in our relations. So I am relieved and pleased, although you may feel that it is a bit out of place for me to say so.

The situation over here is most complex and at times has been filled with peril possibly beyond what is understood at home. I shall not attempt an account of it all in this letter, but await my return to discuss matters verbally to supplement the reports I have made to the Bank.

Mr. Harrison writes me that he has taken opportunity to keep the members of the Board informed of the substance of my reports, which is quite as I wish it, but I was a bit surprised the other day that a resolution had been introduced directing that some sort of inquiry be made of our Directors as to the object and need for my stay over here. Of course I am unaware what may have inspired this, but such inquiries, and especially made in that way, are not calculated to accomplish very much and they appear to overlook the fact that the object of my trip was fully explained to Secretary Mellon and Governor Crissinger and, I am sure, was fully understood and approved.

Unfortunately, it will be a bit longer than I had planned, because of my illness which kept me at Antibes considerably longer than I wished.

In a few days I am leaving for Amsterdam to have a visit with Dr. Vissering. I shall probably see Schacht and then make an effort to visit the Banks at Prague and Budapest. It looks as though I could not complete my trip in time to get home before September.

With best regards and many good wishes, I am

Sincerely yours,

Hon. Charles S. Hamlin,
Mattahoisett,
Massachusetts.

BS:M

FR)

236

FEDERAL RESERVE BOARD
WASHINGTON

September 11, 1914.

B.S.Jr.

no Enclosure J.H.L.

SEP 14 1914

Dear Mr. Strong:

I enclose a letter from Mr. Lawrence Tweedy, who is strongly recommended for a position under the Federal Reserve Bank of New York. Would you quietly find out something about him and let me know.

Very sincerely yours,

C S Hamlin

Governor of the Board.

Benjamin Strong, Jr., Esq.,
16 Wall Street,
New York City.

Enclosure.

FEDERAL RESERVE BOARD
WASHINGTON

September 11, 1914.

SEP 14 1914

Dear Mr. Strong:

I send herewith a note from Mr. Fleming, in charge of one of the Bureaus of the State Department. Will you kindly look it over, and see if there are any suggestions which will be helpful in dealing with present problems.

Very sincerely yours,

C S Hamlin

Governor of the Board.

Benjamin Strong, Jr., Esq.,
16 Wall Street,
New York City.

Enclosure.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE, WASHINGTON, D. C.

32

Ackn'gd SEP 11 1914

DEPARTMENT OF STATE
WASHINGTON

September 4, 1914.

The Honorable C. S. Hamlin,

Governor, Federal Reserve Board.

[See also Hamlin to Stone 9/15/14

Sir:

In compliance with your suggestion made at the informal conference at your office, we are sending you a memorandum of the suggestions touching the possible use of the Consular Service in facilitating trade between the United States and foreign countries.

Very truly yours,

W. B. Fleming

G. L. Brist

Enclosure.

MEMORANDUM.

At an informal conference between Mr. C. S. Hamlin, Governor of the Federal Reserve Board, Mr. W. B. Fleming of the Office of the Foreign Trade Advisers, Department of State, and Mr. G. L. Brist, Chief of the commercial section of the Consul Bureau, Department of State, some suggestions were made which it was thought might interest the Federal Reserve Board.

These suggestions were in reference to affording trade facilities in the way of bank credits or exchanges where the credits or exchanges were disturbed by war conditions.

Pending the establishment of American banks in foreign countries or the reestablishment of former exchange methods, it was suggested that the Consular Service might be brought into use for the purpose indicated by having it act as an intermediary.

For example, if a foreign merchant is prevented from selling goods to an American importer, by reason of the lack of commercial exchanges, let the American importer place the necessary funds for the purchase in his bank and, through the Department of State and its Consular Service, notify the foreign merchant and his bank of such deposit; or, vice versa, if the American seller suffers under the exchange disability, let him and his bank be notified through the

Department

Department of State and its Consular Service of the deposit made abroad by the foreign buyer.

Quasi official information as to the responsibility of the depositary might also be conveyed and, in the absence of a responsible bank, the Consul himself might be made the depositary.

In some cases at least a course like this might tend to bring about that confidence which is necessary for the transaction of business.

If to this were added information by which the credits between the respective countries could be cleared, much might be done to unfetter trade.

This plan, if deemed practicable, could be submitted to the Department of State for its approval.

W el ~~~~

23-~~7~~5

FEDERAL RESERVE BOARD

WASHINGTON

B.S.Jr.

September 12, 1914.

SEP 14 1914

To Messrs. J. B. Forgan,
S. Wexler,
L. L. Rue,
Benjamin Strong, Jr., and
Thomas P. Beal,

Committee on U. S. Clearing House Banks.

Gentlemen:

For your information, and for such suggestions as you may care to make, I am enclosing a copy of a notice given to the press yesterday by the Federal Reserve Board.

Very truly yours,

C S Hamlin

Governor.

Enclosure.

Washington, D. C.,,

September 11, 1914.

The Federal Reserve Board at its meeting today renewed consideration of the report of the committee in favor of establishing a fund of $150,000,000 in gold for protection of the foreign exchange situation. In view of the announcement that New York City has completed arrangements for payment of her maturing obligations and for providing for the necessary gold remittances to Europe, the Board felt that it may not be necessary to create the proposed fund of $150,000,000 in gold, and decided to await developments before giving the matter further consideration, holding itself in readiness to consider any additional suggestions which may be submitted by the Bankers' Committee to meet the altered situation.

FEDERAL RESERVE BOARD
WASHINGTON

235

September 15, 1914.

Dear Mr. Strong:

Many thanks for your two notes of September 14th. I shall be very glad to see you and Mr. Forgan at any time. I have just received a telegram from Mr. Beal in Boston strongly urging the formation of the proposed gold fund. I have hope, before long, ~~to hear~~ from the other members of the committee.

Very sincerely yours,

C S Hamlin

Governor of the Board.

Benjamin Strong, Jr., Esq., President,
Bankers Trust Company,
16 Wall Street, New York City.

2071
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FEDERAL RESERVE BOARD
WASHINGTON

September 15, 1914.

Dear Mr. Strong:

I have your note of September 14th, as to Mr. Fleming's note and memorandum, which I will send to him. I think your suggestion is a very good one.

Very sincerely yours,

C S Hamlin

Governor of the Board.

Benjamin Strong, Jr., Esq., President,
Bankers Trust Company,
16 Wall Street, New York City.

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FEDERAL RESERVE BOARD
WASHINGTON

September 16, 1914.

Dear Mr. Strong:

Many thanks for your note of September 15th, as to Mr. Tweedy.

Very sincerely yours,

C S Hamlin

Governor of the Board.

Benjamin Strong, Jr., Esq.,
16 Wall Street,
New York City.

FEDERAL RESERVE BOARD

WASHINGTON

2315

September 28, 1914.

SEP 29 1914

Dear Mr. Strong:

The Secretary of the Board tells me that the typewritten copy of the letter addressed by the Board to the Chairmen of the Clearing House Associations which I sent you, is the only copy they had and that it is needed for their records.

Will you please be good enough to return this document to me, and oblige

Faithfully yours,

W. Chapman

Private Secretary.

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
New York.

*

POSTAL TELEGRAPH — COMMERCIAL CABLES

CLARENCE H. MACKAY, PRESIDENT.

RECEIVED AT
20 BROAD STREET
NEW YORK CITY
PHONE: 1278, 1279 RECTOR

TELEGRAM

DELIVERY NO. 468

The Postal Telegraph-Cable Company (Incorporated) transmits and delivers this message subject to the terms and conditions printed on the back of this blank.

16NYC—18457

DESIGN PATENT NO. 40529

1k ru 17 Govt.

K. Washn. D.C. Nov 4-14

Benjamin Strong Jr., Esq,

27 Pine St., N.Y.

Telegram received will make correction.

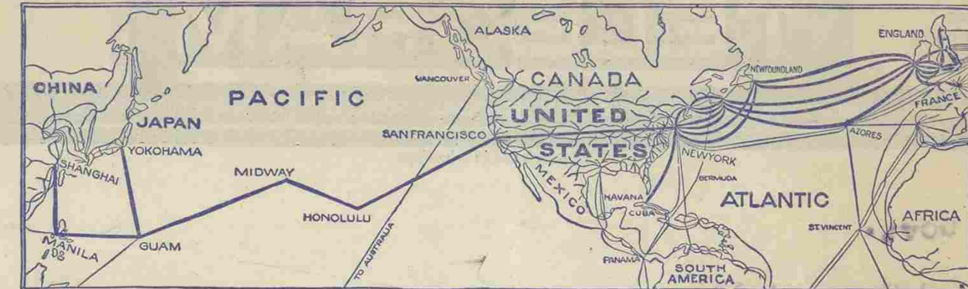
C. S. Hamlin.

$ 60.000.000

235P

POSTAL TELEGRAPH-CABLE COMPANY IN CONNECTION WITH THE COMMERCIAL CABLE COMPANY

[1, 2 AND 16]



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1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, UNLESS SPECIALLY VALUED; nor in any case for delays arising from unavoidable interruption in the working of its lines; NOR FOR ERRORS IN CIPHER OR OBSCURE TELEGRAMS.

2. In any event the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-delivery of this telegram, whether caused by the negligence of its servants or otherwise, beyond fifty times the REPEATED telegram rate, at which amount this telegram, if sent as a REPEATED telegram, is hereby valued, unless a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed to be paid based on such value equal to one-tenth of one per cent. thereof.

3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when necessary to reach its destination.

4. Messages will be delivered free within the established free delivery limits of the terminal office. For delivery at a greater distance a special charge will be made to cover the cost of such delivery.

5. No responsibility regarding messages attaches to this Company until the same are presented and accepted at one of its transmitting offices; and if any message is sent to such office by one of this Company's messengers, he acts as the agent of the sender for the purpose of delivering the message and any notice or instructions regarding it to the Company's agent in its said office.

6. The Company shall not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.

7. The above terms and conditions shall be binding upon the receiver as well as the sender of this telegram.

8. NO EMPLOYEE OF THIS COMPANY IS AUTHORIZED TO VARY THE FOREGOING.

CLARENCE H. MACKAY, PRESIDENT.

CHARLES C. ADAMS, VICE-PRESIDENT. EDWARD REYNOLDS, VICE-PREST. AND GENERAL MANAGER. CHARLES P. BRUCH, VICE-PRESIDENT.

Paid

WESTERN UNION TELEGRAM

Form 168

285

1158

16 BROAD ST.

GEORGE W. E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

RECEIVED AT 16 Broad St. (Stock Exchange Bldg.), N. Y. ALWAYS OPEN

2K TV 36 GOVT.

K WASHINGTON DC 6TH NOV. 1914

BENJAMIN STRONG JR ESQ

727

27 PINE ST NEWYORK.

PLEASE HAVE TWENTY COPIES PREPARED OF THE LETTER OF BANKERS COMMITTEE WITH ALL EXHIBITS MEMORANDA ETC AND SEND TO ME AT EARLIEST CONVENIENCE.

C. S. HAMLIN
GOVERNOR
1155

FEDERAL RESERVE BOARD
WASHINGTON

November 9, 1914.

My dear Mr. Lewis:

I have your note of November 7th, and have received the twenty additional copies of the report of the bankers committee, for which please accept my thanks.

Very truly yours,

C S Hamlin

Governor.

J. H. Lewis, Esq.,
27 Pine Street,
New York City.

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FEDERAL RESERVE BOARD
WASHINGTON

DEC 24 1914

December 23, 1914.

Dear Governor Strong:

I take pleasure in enclosing a copy of the Monthly Bulletin of the Chamber of Commerce of the State of New York, containing my address on the Federal reserve system.

Sincerely yours,

C S Hamlin

Governor.

Benjamin Strong, Jr., Esq., Governor,
Federal Reserve Bank of New York,
62 Cedar Street,
New York City.

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RECEIVED
MAR 23 1915 8 49 PM
FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BOARD
WASHINGTON

March 22, 1915.

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

Dear Governor Strong:

I want to thank you and the other Governors for your very kind thought of me in sending those beautiful tulips. I have had a hard time for the last two weeks but I hope now to go out tomorrow, and I can assure you I look forward to that event with great pleasure.

With best wishes,

Very sincerely yours,

C. S. Hamlin

MAR 2 1915
B. S.

Form 1201

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT
GEORGE W. E. ATKINS, VICE-PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

FEDERAL RESERVE BANK
1915

RECEIVED AT 16 BROAD ST. (STOCK EXCHANGE BLDG.), N. Y. ALWAYS OPEN

Ineq 82

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K WASHINGTON, DC. 1226PM JULY 14TH 1915

BENJAMIN STRONG JR. 1068

16 BROAD ST., N. Y.

FEDERAL RESERVE BANK, NEWYORK.

WILL YOU KINDLY ASK ONE OF YOUR CLERKS TO ENGAGE

TWO OUTSIDE ROOMS ON THE NEWBEDFORD STEAMSHIP LINE FOR FRIDAY

EVENING IF IMPOSSIBLE RESERVE TWO SEATS ON FIVE PM LIMITED FOR PROVIDENCE.

C.S.HAMLIN

1229PM

Afg 1961 7/16

C1 6100

JUL 14 PM 12 37

1322

ANSWERED

JUL 30 1915

P. J.

FEDERAL RESERVE BOARD

WASHINGTON

FILING DEPT.

AUG - 3 1915

FEDERAL RESERVE BANK

RECEIVED

JUL 30 1915 10 08 AM

FEDERAL RESERVE BANK OF NEW YORK

July 29, 1915.

Dear Governor Strong:

I enclose herewith a copy of a letter sent by the Federal Reserve Board this day, dismissing the petition of Mr. Fowler. We wanted to wait until we heard from you, but we felt that delay was inadvisable. Of course our action will not interfere with any investigation you are making into the matter.

I leave for Mattapoisett tomorrow at four o'clock, taking the 11:15 train from New York. I shall be at the University Club, New York, from 9:30 until 10:30, and in case you wish to communicate with me you can send any letter there. If you want to reach me either Saturday, Sunday or Monday, up to three o'clock, I shall be at Mattapoisett. My telephone number is Mattapoisett 40.

Very sincerely yours,

C S Hamlin

Governor.

Hon. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank of New York,
New York City.

Enclosure:

The Federal Reserve Board today sent the following letter.

July 29th, 1915.

Hon. H. Robert Fowler, General Counsel,
Labors National Peace Council,
Care Hotel Willard,
Washington, D. C.

S i r : -

Your petition filed July ninth, nineteen fifteen, on behalf of the Labor's National Peace Council, was duly received and submitted to the Board.

I am directed to say in reply that after analyzing and considering the averments and allegations contained therein, the Board has concluded, under advice of counsel, that it is without jurisdiction to try the case presented and that it is not within its power, under the laws of the United States, to impose by regulation the restrictions which you seek to have imposed upon the operations of either Federal reserve banks or national banks.

Your request for a public hearing is accordingly denied.

I am further directed by the Board to repeat the request contained in its letter to you dated July 21, 1915, that you furnish it forthwith with the names of all directors whom you charge in said petition with having personally profited from rediscount transactions of certain Federal reserve banks.

Respectfully,

C. S. HAMLIN,

Governor.

Form 200

WESTERN UNION TELEGRAM

E. ATKINS, VICE-PRESIDENT NEWCOMB CARLTON, PRESIDENT BELVIDERE BROOKS, VICE-PRESIDENT

NO.	TIME FILED	CHECK

ND the following Telegram, subject to the terms on back hereof, which are hereby agreed to

COPY

89

Mattapoisett, Mass., Aug. 9, 1915.

Governor Strong,
Federal Reserve Bank, Nassau St., New York.

See my telegram to Harding sent your care. Please find him and have him answer telegram immediately. I leave for New York to-night either on New Bedford Line or Fall River Line.

Hamlin, Governor.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLL

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the orig. For this, one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPE PAID FOR AS SUCH, in consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEAT amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED tele the sum received for sending the same, *unless specially valued;* nor in any case for delays arising from unavoidable interruption in the worki *errors in cipher or obscure telegrams.*

2. In any event the Company shall not be liable for damages for any mistakes or delays in the transmission or delivery, or for the non-d gram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereb a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum paid or agreed t on such value equal to one-tenth of one per cent. thereof.

3. The Company is hereby made the agent of the sender, without liability, to forward this telegram over the lines of any other Company when n reach its destination.

4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such offic cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's request, as his agent a expense, endeavor to contract for him for such delivery at a reasonable price.

5. No responsibility attaches to this Company concerning telegrams until the same are accepted at one of its transmitting offices; and if a telegram is s such office by one of the Company's messengers, he acts for that purpose as the agent of the sender.

6. The Company will not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the gram is filed with the Company for transmission.

7. *No employee of the Company is authorized to vary the foregoing.*

THE WESTERN UNION TELEGRAPH COMP
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT TELEGRAMS

Accepted up to 2.00 A.M. at reduced rates to be sent during the night and delivered not earlier than the morning of the next ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard telegram rates as follows: One and one-half times the standard night letter rate for the transmission of 50 words or less and one-fifth of the initial rate for each additional 10 words or less. Subordinate to the priority of transmission and delivery of regular telegrams. Must be written in plain English. Code language not permissible. Telephonic delivery permissible. Day Letters received subject to express understanding that the Company only undertakes delivery of the same on the day of their date subject to condition that sufficient time remains for such transmission and delivery during regular hours, subject to priority of the transmission of regular telegram.

NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the next ensuing business day, at rates still lower than standard night telegram rates, as follows: The standard day rate for 10 words shall be charged for the transmission of 50 words or less, and one-fifth of such standard day rate for 10 words shall be charged for each additional 10 words or less. Must be written in plain English. Code language not permissible. Mail delivery, postage prepaid, permissible.

WESTERN UNION

Form 260

WESTERN UNION

TELEGRAM

84

...RGE W... ATKINS, VICE-PRESIDENT   NEWCOMB CARLTON, PRESIDENT   BELVIDERE BROOKS, VICE-PRESIDENT

...CEIVE...S No.	TIME FILED	CHECK

...D the following Telegram, subject to the terms on back hereof, which are hereby agreed to

COPY

Mattapoisett, Mass., Aug. 9, 1915.

Hon. W. P. G. Harding,
care Governor Strong, Federal Reserve Bank, Nassau St., New York

Have called special meeting of Federal Reserve Board for to-morrow, Tuesday morning, in New York at office at ten o'clock of Federal Reserve Bank. Williams, Miller and Willis will be present. Have also telegraphed Warburg. Wire me on receipt of this saying that you also will be present. My address is Mattapoisett, Mass., care Western Union Telegraph Company, New Bedford.

Charles S. Hamlin, Governor.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJE

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that For this, one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on PAID FOR AS SUCH, in consideration whereof it is agreed between the sender of the telegram and t

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THE WESTERN U

INCORPORATED

NEWCOMB CARLTON, PRESIDENT

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367

MATTAPOISETT
MASS

Aug. 12.

Dear Gov. Strong:

Thanks for the pamphlet on the Fowler petition. Could you kindly send other copies to our secretary so that each member may have one.

Sincerely yrs

C.S. Hamlin

Hon. Benj. Strong Jr.

B.S.Jr.

AUG 13 1915

Lawrence Nat. & Peace Council

247

FEDERAL RESERVE BOARD

WASHINGTON

PCM.

August 14, 1915.

B.S.Jr.

Dear Governor Strong:-

This will acknowledge the receipt of your letter of August 13th, forwarding five copies of a report, copy of which you state has already been sent to Governor Hamlin.

Very truly yours,

Sherman Allen

Assistant Secretary.

Hon. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank,
New York City.

182-292

FEDERAL RESERVE BOARD

WASHINGTON

August 25, 1915.

ackd
JFC

Dear Governor Strong:-

I am directed by the Federal Reserve Board to refer to the Executive Committee of the Council of Governors for its consideration, the question of the desirability of daily settlements between the Federal reserve banks through the Gold Settlement Fund; and if the adoption of such a practice is considered desirable, when it should be undertaken?

That the Committee may have before it, information as to the cost of telegrams in connection with the weekly settlements through the Gold Settlement Fund, I am enclosing a memorandum of such charges to and including the settlement of August 12, 1915.

Very respectfully,

CSHamlin

Governor.

Fel
9/7/15
JC

Hon. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank,
New York City.

82

FEDERAL RESERVE BOARD
WASHINGTON

August 19, 1915.

Dear Governor Strong:

Your note of August 16th, sent to Mattapoisett, has just reached me here. I have read the enclosed slip from the Wall Street Journal with much interest, and will also read the item in "The Statist".

Thanking you for sending the clipping to me, I am,

Very sincerely yours,

C S Hamlin

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

82

FEDERAL RESERVE BOARD
WASHINGTON

October 14, 1915.

Personal

Dear Governor Strong:

I was delighted to receive your letter of October 11th. I have just returned from Indianapolis, where I attended the Bankers' Convention, and I hope I shall find the apples at the house to-night. I am very fond of apples, as perhaps I have told you, and I appreciated those you sent me last winter.

With best wishes,

Sincerely yours,

C S Hamlin

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

DEPT.
JAN 24 1916
FEDERAL RESERVE BANK

FEDERAL RESERVE BOARD

WASHINGTON

H. PARKER WILLIS
SECRETARY

SHERMAN P. ALLEN
ASSISTANT SECRETARY

January 21, 1916.

B.A.S.
JAN 24 1916

Personal and Confidential.

Dear Governor Strong:-

Your letter of January 4th, in which you refer to a letter to me under date of August 9, 1915, came duly to hand. As you are aware, most of the questions which you raise have been under consideration by the Federal Reserve Board. It is this consideration which has seemed to prevent me making an earlier reply.

The Board is generally in sympathy with the view which you express to the effect that it is the duty of the Board and the Federal Reserve system to be prepared for emergencies. I can state to you in confidence, and in fact this entire letter should be regarded as personal and confidential, that with respect to the issue of Federal Reserve notes, the Board contemplates the recommendation to Congress of an amendment substantially on the following lines:-

> During the year 1915 the circulation of Federal Reserve notes has increased to $..........as of December 31, 1915. Believing that the country should be prepared against any contingency, the Board had authorized the printing of about $700,000,000 of these notes. Almost one-quarter of the total supply printed has been placed in circulation. On December 31, 1915, however, $........ secured by commercial paper pledged with the Federal Reserve Agents was outstanding as an obligation of the Federal Reserve Banks. The liability of the Federal Reserve Banks as to the remainder has been discharged by the deposit with the Federal Reserve Agents of a like amount of gold and lawful money. This result has been achieved by the Federal Reserve Banks responding to the requirements for currency by issuing Federal Reserve notes rather than parting with gold. While the gold pledged with

the Federal Reserve Agents represents a very valuable protection in case there should be substantial demands for gold, it must be observed that the process is an expensive one without, at the same time, giving to the Federal Reserve Banks that additional strength and lending power which they would secure in case the law were so amended that the Federal Reserve Banks would remain liable for the outstanding notes but would, on the other hand, retain property title in the gold deposited with the Federal Reserve Agents, which, in that case, would not be paid in for the redemption of the notes but deposited as collateral for the security of the same.

The issue of Federal Reserve notes to Federal Reserve banks should be permitted against the deposit of notes, drafts, bills of exchange and bankers' acceptances acquired under Section 13 and 14 of the Act, or against the deposit of gold, or of commercial paper and gold in such proportion as said Federal Reserve Board may, from time to time, prescribe.

This appears to the Board to be the main measure to be taken at this time, as once Federal Reserve notes are issued freely in this manner we can neither expect to accumulate the amount of gold that we should control nor can the Federal Reserve banks be expected to cover the heavy expense of keeping their notes out unless the collateral advantage be secured of strengthening the system by such issue.

As to acceptances, since you wrote your letter in August, considerable liberalization of the acceptance regulation has taken place, and we now propose to submit to Congress an amendment asking for permission to national banks to accept against certain domestic transactions.

As to the question of fiscal agency, a beginning has been made in turning over the funds of the Government to the Federal Reserve banks and the plan will have to be further developed now from time to time as the development of the machinery of the Federal Reserve banks will warrant.

Under "4", you mention amendments. Points A and B of this have, we believe, been, or are being, disposed of as above outlined. As to C, under which head you recommend that some consideration be given to the possible necessity or wisdom (as an emergency measure only) of giving power to Federal Reserve banks to lend money upon collateral security, the Board proposes to recommend to Congress that Federal Reserve banks be permitted to make short time loans to their member banks against the collateral of eligible warrants and Government bonds.

The Federal Reserve Board feels that, at this time, it should be moderate in asking only for as small a list of amendments as possible, because, otherwise, consideration of the subjects might be delayed and our chance of securing any amendments might be seriously weakened. When this amendment under C has been secured it may be easier to widen this paragraph later on so as to include powers to be exercised in an emergency only.

Under D, also as an emergency measure, you recommend that, at any rate for the present, consideration should be given to some plan by which Federal Reserve notes might serve as cash reserves for member banks.

As you know, this is a much controverted topic upon which public opinion is gradually swinging to the view expressed by you. It would, however, in the opinion of the Board, be a strategic mistake to take up this question at this time. Moreover, the Board has not reached any definite conclusions as to the advisability of such step as some members entertain an adverse opinion concerning the same.

Very sincerely yours,

CS Hamlin

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

RECEIVED

A M

FEDERAL RESERVE BANK OF NEW YORK

1916 JAN 22

FEDERAL RESERVE BANK
OF NEW YORK

Copy
~~Translation~~

TELEGRAM

Prepared by	Departmemts Interested
Check by	
Code used	8 21
	O. K.
	File Clerk

No. A 1102 Wash D.C. May 6 1916

To Benj Strong Jr.

Gov. Federal Res Bank NY

Your three confidential letters May 5th received and will have action of board early Monday.

C S Hamlin
Governor

410

FEDERAL RESERVE BOARD

WASHINGTON

678

June 1, 1916.

Dear Sir:

There is enclosed for your information copy of a letter sent by the Treasury Department, to all Federal Reserve Banks, relative to conversions of United States 2% bonds as of July 1, 1916, and a "Schedule of Conversions of 2% bonds July 1, 1916." } not recd Recd 6/9/16 - Source in file

acly 6/3/16

This schedule and the letter which accompanies it are forwarded for your information and guidance in making such conversions of bonds as you may desire. You will note that applications must be received by the Treasury Department ten full days before the date of conversion.

Very truly yours,

C S Hamlin

Governor.

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

2 inclosures.

82

FEDERAL RESERVE BOARD

WASHINGTON

B.S.Jr.
JUN 16 1916

PERSONAL

June 13, 1916.

Dear Governor Strong:

Mr. Delano told me that he found you under the weather when in New York, but that the Doctors say that six months will bring you up to fighting trim again. I am awfully sorry to hear of this and beg you to feel absolutely free to go off and take a good long vacation, the only condition being that you leave all bank worries behind.

I cannot tell you how delighted I am to learn from Mr. Delano that six months is all you will need to pull yourself together again. I have been through somewhat similar experiences and can feel that if six months is all a man needs to be restored to health he is a mighty lucky man.

With my very best wishes, believe me,

Very sincerely yours,

CSHamlin

It took me once three years and at another time four years to break up attacks of nervous fatigue and sleeplessness. Six months! Nothing at all. Keep your courage up.
CSH.

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

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

CLASS OF SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
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RECEIVED AT WALKER ST., NEW YORK CITY

1916 JUN 28 PM 8 : 0

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A539W 44 NL 1 EX WASHINGTON DC 28

BENJ STRONG JR

X 6 K

903 PARK AVE NEW YORK

THE BOARD AT ITS MEETING TODAY VOTED TO AUTHORIZE ME TO EXPRESS TO YOU ITS SINCERE GOOD WISHES AND HOPE THAT YOUR JOURNEY MAY BE VERY COMFORTABLE AND YOUR VISIT IN COLORAD MAY PROVE EFFECTIVE IN RESTORING YOU TO COMPLETE HEALTH AND STRENGTH

C S HAMLIN GOVERNOR.

Mr. MacFarlane

FEDERAL RESERVE BOARD
WASHINGTON

July 11, 1916.

Dear Governor Strong:

I take pleasure in sending you, under separate cover, a bound copy of an Index-Digest of the Clayton Antitrust Act and the Kern Amendment, just finished by me, and printed as a public document.

Very sincerely yours,

C S Hamlin

Hon. Benjamin Strong, Jr.,
Governor, Federal Reserve Bank,
New York City.

82

FEDERAL RESERVE BOARD

WASHINGTON

August 2, 1916.

Mr. Benjamin Strong,
Governor, Federal Reserve Bank of New York,
Estes Park, Colorado.

My dear Governor:

I was delighted to receive your letter and to learn that you were progressing in health. I am confident that a few months' rest will send you back in perfect health.

Some of the Mississippi banks issued a circular the other day stating that they would test the legality of the clearing system, and they put in the statement they had reason to believe that the Federal Reserve Board regarded this as a friendly suit. We at once issued a public statement that we fully recognized the right of any person to test any portion of the Federal Reserve Act, and that if the meaning of the words "friendly suit" is that both parties are uncertain as to their rights and therefore wish to test it, the Federal Reserve Board will not regard this as a friendly suit, for it has no doubt of its power to act.

You will note that we were obliged to ask the Postmaster General to suspend his order to postmasters to collect checks through the mails. We are making arrangements now for bonding and insuring the postmasters, and it will probably be at least thirty days before that arrangement will be perfected.

I trust that you will not fail to write me whenever you have time. It is always a pleasure to hear from you and I beg you to believe that my colleagues are perfectly satisfied that the bank will run along satisfactorily. They are all hoping that you will not worry but take plenty of time to recuperate.

With best wishes,

Very sincerely yours,

Governor.

82

FEDERAL RESERVE BOARD

WASHINGTON

B.A.K.

JAN 2 191

December 27, 1916.

Dear Governor Strong:

I duly received your Christmas card and want to thank you for your kind thought of me. While I have not troubled you with many letters inquiring as to your health, yet you can be sure I have kept myself informed almost day by day from those who hear from you, and the news I hear is certainly delightful. However, do bear in mind that you must take time, but how ever long that time is before you can come back absolutely cured we shall rest content, so I trust you will not worry about it.

Governor Harding tells me that he has written you about our announcement the other day of authority to the New York bank to appoint the Bank of England its foreign correspondent and agent, so I will not bother you with any of the details. I feel, however, that the news was received with great favor throughout the country as evidencing an indication of the Board to take up the matter of foreign exchange in a practical way.

With best wishes for the New Year, believe me,

Very sincerely yours,

C S Hamlin

Hon. Benj. Strong, Jr.,
41 Montview Boulevard,
Denver, Colorado.

8 2
Hamlin

FEDERAL RESERVE BOARD

BAb.

WASHINGTON

CONFIDENTIAL: JAN 15 1917 January 9, 1917.

Dear Governor Strong:-

I duly received your note of January 2nd and cannot tell you how glad I am that your progress is satisfactory, even though slow. The main thing to achieve is progress and a slow steady gain in the long run is much better than a sudden change which may later give way to further set-backs.

I fully share your gratification at the authorization of the Board to the Federal Reserve Bank of New York to appoint the Bank of England as its foreign agent and to open reciprocal accounts with it, and I hope, with you, that similar action may speedily be taken with the other great central banks of the world.

I cannot, however, quite comprehend your further statement "that the Board's announcement realy violated a very sacred pledge which I (you) had entered into with Lord Cunliffe and having been made as it was might discredit me (you) abroad and worse than that cause him a good deal of embarrassment with his own directors."

I think, on reflection, you will see that the vote which our Board passed and published was really an authorization to the Bank of New York to take up the matter of the appointment of a foreign agent with the Bank of England. The vote contained no reference to any preliminary conversation or understanding which had been had with the Bank of England. On the contrary, the vote clearly relates to future action and not to past understandings. As a matter of fact, the memorandum of your talk with the directors was never read officially at a meeting of the Board. On the contrary, the Board felt that if, acting under its authorization, you were to proceed to enter into any arrangement with the Bank of England, the arrangement itself would be formally submitted to us for our approval.

Speaking confidentially, I would say that the warning the Board felt impelled to give to the banks of the United States as to keeping their affairs liquid and avoiding investments in securities which though nominally short time may ultimately develop into long time bonds, was resented at the first, and some intimation even was given that it revealed a Pro-German inclination on the part of the Federal Reserve Board. It is hardly necessary to say to you that this was a pure banking matter and that the Board in giving its warning simply performed what it deemed to be its duty in warning the banks of the United States as to the necessity of keeping their assets in a liquid condition. When, however, the Board had voted to permit your Bank to appoint the Bank of England as its foreign agent the Board felt that it would be plainly improper to keep such a vote from the public. It was perfectly clear to us that it was our duty to mention the fact in our forthcoming annual report and we felt that the only proper way was to take the public into our confidence and state what the vote was.

So far as any action of the Board is concerned, it would, of course, be open for the Bank of England to decline to enter into any arrangement as to an agency, so far as our vote at least is concerned.

Speaking personally, I do not believe that you will be placed in any embarrassment through the publication of this vote of the Board. It was received with enthusiasm by the press of England and also universally by the press in this country. I only hope, as I have said, that it may be the beginning of many other arrangements with the various great central banks.

With my very best wishes for the New Year, believe me

Very sincerely yours,

CSHamlin

Honorable Benjamin Strong,
4100 Montview Boulevard,
Denver, Colorado.

8-2

FEDERAL RESERVE BOARD

WASHINGTON

January 19, 1917.

B.S. Jr.

CONFIDENTIAL:

JAN 26 1917

Dear Governor Strong:-

I was very glad to receive your note of January 15th. If you have added eighteen pounds to your weight, I am sure you ought to feel that you have made splendid progress.

You say that if the Board's intention to make the announcement had been communicated to you, you could have pointed out many reasons why it was unwise. When I see you I think I can whisper a few words into your ear which will satisfy you, that it was not only not unwise, but was the highest part of wisdom.

By the way, I notice in the Journal of the American Bankers' Association for January, 1917, an interview with the Governor of the Bank of France to the effect that he hopes a similar authority can be given to the Federal Reserve Bank to enter into negotiations with the Bank of France.

I have read many editorials in European papers and every one welcomes the authority to enter into the proposed arrangements as most wise and beneficial both to the United States and Great Britain. I earnestly hope that we can now go farther and make similar arrangements with the other great European and Asiatic banks.

Trusting soon to hear from you again and with the kindest personal regards of my colleagues, believe me,

Very sincerely yours,

CSHamlin

Hon. Benjamin Strong,
Denver, Colorado.

FEDERAL RESERVE BOARD
WASHINGTON

July 10, 1919.

B.S.Jr.

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

Dear Governor Strong:

I take pleasure in sending you a copy of a summary entitled "The War with Germany," which I think you will find very interesting to read on your way across.

With best wishes for a calm sea and a happy voyage, I am,

Sincerely yours,

C S Hamlin

Enclosure.