

Denver, Colorado,
January 4, 1917.

AMENDMENT RESPECTING RETIREMENT OF GREENBACKS.

FEDERAL RESERVE BOARD MEMORANDUM NO. 909,
DECEMBER 22, 1916, AS REVISED.

The plan for retirement of greenbacks outlined in this memorandum suggests that the Board has in mind the following general scheme of currency reform:

1. That National Bank Notes be retired and replaced by issues of Federal Reserve Bank notes.
2. That greenbacks be retired and replaced by issues of Federal Reserve Bank notes.
3. No reference being made to silver certificates, I assume no change is contemplated in their status, except possibly as to denominations.
4. That the elastic element in the currency is already provided by Federal Reserve notes.

This means if our currency is not reduced from its present volume that there will ultimately be about \$1,000,000,000 of Federal Reserve Bank notes in circulation, the principal part, if not all, of which would require the maintenance of no reserve beyond the 5% redemption fund. The scheme does not impress me as being sound, nor in the direction of a simplification of our complicated currency. I believe it would be vastly better to retire the greenbacks by issuing Federal Reserve notes instead of Federal Reserve bank notes, giving each Reserve Bank the right to use the proportion of government bonds received in the transaction and no more as security for Federal Reserve notes.

Retirement of Greenbacks.

January 4, 1917.

Other comments on this matter are contained in my former memorandum. The changes between the first plan and the second plan are not of great importance except in two respects. The new plan will give the Reserve Banks long time 3% bonds of the government only. This has the advantage that all the bonds held will be of a character that can be sold without any obligation to re-purchase (as in the case of the one year notes), but the interest being fixed at 3% may result in losses to the Reserve Banks and I am convinced they have no right to accumulate such an extensive holding of low rate government bonds at this time without certainty of being able to resell them. The other important change is in the amount of tax to be paid. This is a serious injustice in my opinion to the Reserve Banks - constitutes an evasion of the government's obligation or, worse than that, a forcible transfer of it to the Reserve Banks, which I do not think the government has any right to impose upon them. It is bad business and from the government's standpoint bad morals.

The United States government borrowed \$346,000,000 by a note issue, on which it paid no interest and which had fictitious currency value by reason of its legal tender qualities. The notes should have long ago been retired and funded. This plan to transfer the obligation to the Reserve Banks by requiring them to purchase a bond carrying 3% interest and then taking 2-1/2% interest back in the form of a tax perpetuates an unsound financial expedient of the Civil War period, and allows to the Reserve Banks a revenue of one-half of one per cent for all the risks and expenses imposed upon them by the assumption of this great government debt. An honest retirement of the greenbacks would

Retirement of Greenbacks.

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necessitate the government's selling bonds to the public at whatever rate of interest was necessary and using the proceeds to pay off the greenbacks, which would cost the government not less than 3% interest upon the bonds to be issued. Paying the Reserve Banks only one-half of one per cent could only be justified upon the theory that the right of note issue which is coupled with this plan will produce a revenue to the Reserve Banks and is a valuable franchise. That is not the case. The Reserve Banks cannot possibly gain one dollar of added revenue by reason of the right to issue Federal Reserve Bank notes, secured by these government bonds, the issue having already been made simultaneously with the acquisition of the bonds and all of the profits being confiscated by the government through the 2-1/2% tax.

If the greenbacks are retired by issues of Federal Reserve notes instead of Federal Reserve Bank notes, the status of the note issue at the present time would be roughly as follows:

Gold with Federal Reserve Agents -	\$282,523,000.
Add Trust fund -	152,977,000
Add United States bonds -	<u>195,958,000</u>
Total -	\$631,458,000
Present note issue, say -	\$282,523,000
Add for United States notes -	346,681,000
Add for Treasury notes -	<u>2,254,000</u>
Total	\$ 631,458,000

Taking the note issue alone without regard to the general reserves of the Reserve Banks, this statement shows a gold reserve of exactly 69%.

If we consider that immediately upon the assumption of the liability for the greenbacks that they are at once converted in fact into Federal Reserve notes, the subsequent problem of handling the United States bonds

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it seems to me is greatly simplified. The Reserve Banks each year will acquire, say, not less than \$25,000,000 of United States bonds for the purpose of retiring National Bank notes. Each year therefore arrangements should be made for the Reserve Banks to make a sale of say \$50,000,000, or possibly more, of their holdings of government bonds. This sale would include all of the 3% conversion bonds acquired as the result of purchases of 2's, say \$15,000,000 and say \$35,000,000 of the 3's acquired in the greenback transaction. The proceeds of the sale would be used as to \$15,000,000 to reimburse the Reserve Banks for the gold lost in acquiring the 2's, and as to \$35,000,000 as additional reserves for Federal Reserve notes. This will cause a general contraction of that part of the currency secured by United States bonds, substituting gold as collateral, and creating a vacuum which can be partly filled by issues of silver certificates, ^{now held by banks} the denominations of which should be constantly reduced and of course to some extent, as seasonal demands required, by issues of Federal Reserve notes, secured by bills and commercial paper.

^{fundamental}
The sentimental weakness in the proposed plan seems to be first in the use of Federal Reserve Bank notes, which I greatly deplore, and, second in the arbitrary rate of 3% to be allowed on the United States bonds.

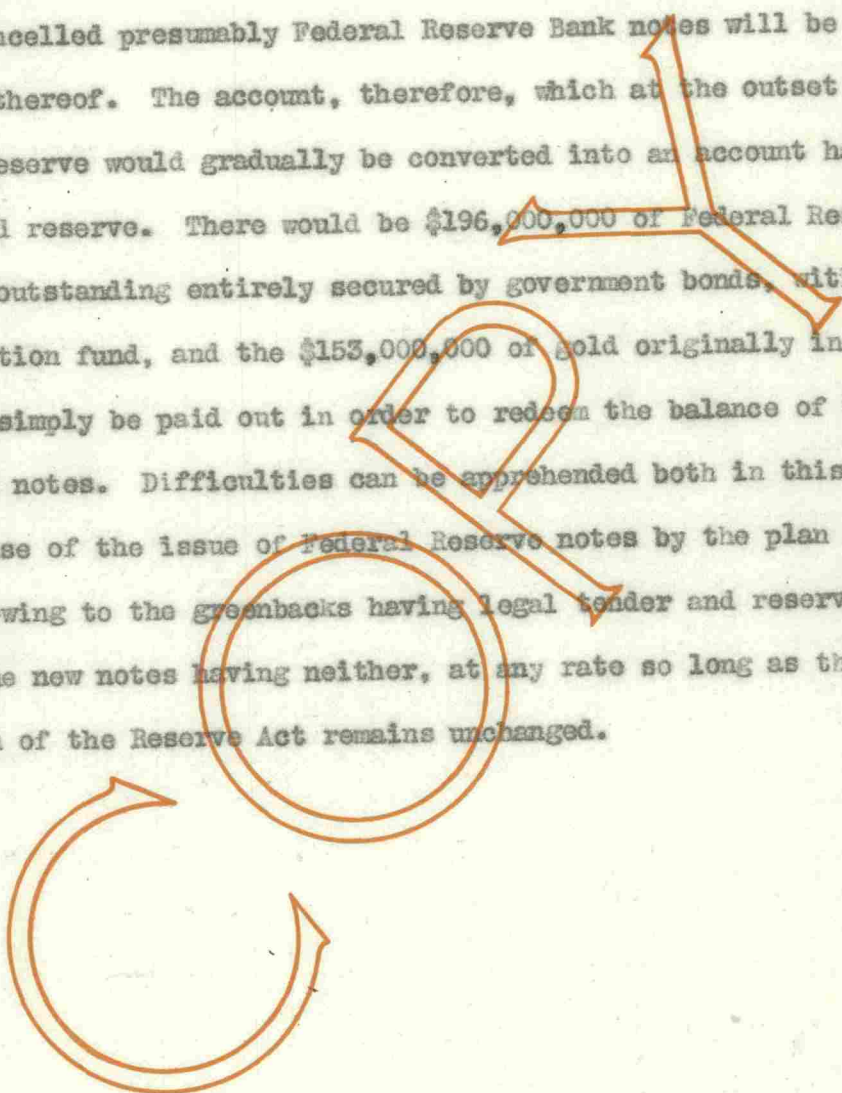
The bond holdings of the Reserve Banks will become so enormous, if freedom of sale is not preserved, as to jeopardize their liquid condition and to risk shrinkages in values which banks of this character cannot afford to risk.

Has the Board observed one effect of the use of Federal Reserve

Retirement of Greenbacks.

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Bank notes? In the first instance, the Reserve Banks will receive \$153,000,000 gold and \$196,000,000 United States bonds. As greenbacks are cancelled presumably Federal Reserve Bank notes will be used in place thereof. The account, therefore, which at the outset had a 44% gold reserve would gradually be converted into an account having only 5% gold reserve. There would be \$196,000,000 of Federal Reserve Bank notes outstanding entirely secured by government bonds, with only a 5% redemption fund, and the \$153,000,000 of gold originally in the account would simply be paid out in order to redeem the balance of the United States notes. Difficulties can be apprehended both in this plan and in the case of the issue of Federal Reserve notes by the plan I am suggesting, owing to the greenbacks having legal tender and reserve qualities, and the new notes having neither, at any rate so long as the note provision of the Reserve Act remains unchanged.



1/6/17.

connections.

Trusting that we may soon have the pleasure of receiving from the Board copies of such correspondence or other January 6, 1917. has received indicating a desire for a connection with the Federal Reserve

Dear Governor Harding:

I acknowledge receipt of your letter of January 4th suggesting that this bank should consider the further development of its foreign operations, asking me to discuss the matter with our board, and requesting that I give you my own views in this connection.

I will take pleasure in presenting your letter to our board at its next meeting and will write you my own views in a few days, just as soon as I have had an opportunity of conferring with my associates.

Honorable In the meantime I may say that I believe you have been advised of the preliminary communications which Governor Strong has had with the governor of the Bank of France, more active discussion having been delayed until a decision had been reached by the Board with regard to the Bank of England matter. You have also been advised that we have been acting for the Nederlandsche Bank in earmarking gold, although we have refrained from making any public announcement of our acting for this bank or of the nature of the transactions. We have also had letters from one or more other government banks during the past year to which we have replied but have not heard further from them.

I note that it has been indicated to the Board from several quarters that a connection with the Federal Reserve Bank of New York would be desirable, and we should be very glad to have the persons making such inquiries referred by the Board directly to this bank in order that we may discuss with them the possibility of establishing the desired

1/6/17.

connections.

Trusting that we may soon have the pleasure of receiving from the Board copies of such correspondence or other data as the Board has received indicating a desire for a connection with the Federal Reserve

Dear Governor Harding:
Bank of New York, I am,

I acknowledge receipt of your letter of January 4th suggesting that this bank should consider the further development of its

Respectfully yours,

foreign operations, asking me to discuss the matter with our board, and requesting that I give you my own views in this connection.

Chairman.

I will take pleasure in presenting your letter to our Board at its next meeting and will write you my own views in a few days, just as soon as I have had an opportunity of conferring with my associates.

In the meantime I may say that I believe you have been advised by the Board of Directors which Governor Strong has had with the governor of the Bank of France, were active discussion having

PJ/RAH

been delayed until a decision had been reached by the Board with regard to the Bank of England matter. You have also been advised that we have been acting for the Nederlandsche Bank in earmarking gold, although we have refrained from making any public announcement of our acting for this bank or of the nature of the transactions. We have also had letters from one or more other government banks during the past year to which we have replied but have not heard further from them.

I note that it has been indicated to the Board from several quarters that a connection with the Federal Reserve Bank of New York would be desirable, and we should be very glad to have the persons making such inquiries referred by the Board directly to this bank in order that we may discuss with them the possibility of establishing the desired

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Denver, Colorado,
January 19, 1917.

My dear Governor Harding:

I am most grateful to you for your courtesy in sending me printed copy of the bill proposing certain amendments to the Federal Reserve Act and the Board's statement in regard thereto.

These are all, in my opinion, in the right direction, although, as I wrote Mr. Warburg some weeks ago, in certain particulars I had hoped to see the details worked out a little differently in some of the amendments.

I am frank to say that it will be a great disappointment to me if it proves to be impossible to secure legislation in regard to the retirement of United States notes at this session of Congress, as well as a modification of the present currency laws in respect to denominations of gold certificates, but of course the Board is in much better position to judge than I am as to the possibilities of legislation of that character.

I hope that the meetings with the New York bankers will result in their support and cooperation in this movement to perfect the Federal Reserve Act.

With kindest regards and wishing you every success, I am,

Very truly yours,

Hon. W.P.G. Harding,
Federal Reserve Board,
Washington, D. C.

BS/CC

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To - Governor Harding.

January 26, 1917.

Denver, Colorado,
January 26, 1917.

course, in order to be fortified against a possible demand for gold certificates from member banks, it would be highly desirable that the
My dear Governor Harding:

Sub-Treasury in New York should carry on hand a stock of gold certificates sufficient to make a large issue on comparatively short notice. Denver during my absence and I am only writing you now to supplement a and we could arrange to furnish suggestions as to the recommendations of former letter which I judge will shortly be sent from the bank, to emphasize certificates.

phasize the urgency for the making of arrangements at an early date which will enable the Federal Reserve Bank of New York to deal with the question of gold bars which may later be required for export.

For the present, the only cooperation desired from the Treasury Department will be in two respects, the first being the most important at the moment.

It is the practice of the Assay Office to make a melting charge of \$1.00 per 1000 ounces for bars which are turned in at the Assay Office for conversion into gold coin or gold certificates. I have recommended to the Federal Reserve Bank that we should at once commence the accumulation of gold bars, securing if possible the total value of \$50,000,000. Ultimately the other Reserve Banks may feel willing to share with us in making similar accumulations, in which case the total

might easily be increased to \$100,000,000, or more. If we can arrange with the Assay Office to have the privilege of turning in these gold bars without any melting charge, or other charge, it might be possible for us to arrange to accumulate United States standard mint bars, resulting from present imports from Europe, and hold them under an obligation by which they would not go out of our possession in case at any time it should become necessary to surrender them for coin or certificates. Of

To - Governor Harding.

January 26, 1917.

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January 26, 1917.

course, in order to be fortified against a possible demand for gold certificates from member banks, it would be highly desirable that the Sub-Treasury in New York should carry on hand a stock of gold certificates sufficient to make a large issue on comparatively short notice, and we could arrange to furnish suggestions as to the denominations of such certificates.

The object of this suggestion is to enable us at the present time to accumulate gold bars of a character suitable for export without incurring possibly heavy charges in case export should be unnecessary. These are the bars which we might ultimately expect to ear-mark for foreign correspondents, and, as you will appreciate from the above statement, if the arrangement is suitably safe-guarded, it will impose not only no expense upon the Treasury, but will in fact relieve the Treasury and the Mint from considerable expenses for coinage and issues of gold certificates. Failing such an arrangement, it would be necessary for us to ask our correspondents to assume charges in connection with our relations, which we on our part would not be asked to assume by them as similar charges are not imposed or contemplated in the arrangement under discussion.

The second facility relates to the present practice by which immediate payment of 99% of the assumed value of imported gold is made by the Treasury in the form of Assay Office checks. If this practice were discontinued and depositors of gold were required to await returns from the Assay, we could at once notify all of our member banks, as well as domestic producers of gold, that we stood ready to buy gold at a fixed price for cash, allowing to them a percentage of the total value, pending returns from the assay office. This would direct a stream of gold to the Reserve Banks

Re - Governor Harding.
To - Governor Harding.

January 25, 1917.
January 26, 1917.

course, in order to be fortified against a possible demand for gold in somewhat similar fashion to that which now prevails in England. certification from member banks, it would be highly desirable that the

I fully appreciate how busy you and your associates, and particularly the Secretary of the Treasury, must be at this time, but it seems to me that the matter is of importance to warrant immediate consideration. and we could arrange to furnish suggestions as to the arrangements of such certificates.

If details respecting the bearing of this particular matter upon our foreign relations are required, I will be very glad to prepare and send you a statement.

I beg to remain,

Very truly yours,

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/CO

February 2nd, 1917.

Dear Governor Harding:

I have your favor of January 31st asking for copies of the correspondence by cable between the Federal Reserve Bank of New York and the Bank of England which followed the announcement by the Reserve Board on December 26th, 1916, I beg to advise that the only direct cable between the Federal Reserve Bank of New York and the Bank of England which has passed in connection with the announcement by the Reserve Board was as follows:

December 29, 1916.

"Cunliffe, Governor, Bank of England, London.
Strong instructs us to express his deep regret at
premature announcement. Will continue negotiations
by mail. (Signed) Treman, Deputy Governor."

In addition to this direct cable, I would state that after the announcement of the Reserve Board on December 26th, we sent through the courtesy of Mr. J. P. Morgan, the New York member of the Federal Reserve Advisory Council, an informal inquiry which was forwarded to the Bank of England reading as follows:

December 27, 1916.

"You will have seen that the Federal Reserve Board yesterday published the authority for the Federal Reserve Bank of New York to make an arrangement with the Bank of England. This is simply the formal statement of authority granted and has nothing to do with the terms or conditions of the arrangement, but both Strong, who is away ill, and the officers of the Federal Reserve Bank of New York ask if you will be kind enough to express to the Governor their chagrin and regret at the premature publication by the Federal Reserve Board,

2/2/17.

"which was made without their knowledge and which is, of course, contrary to the spirit of the last clause in the agreement between Strong and the Governor. The Federal Reserve Bank officials have issued no statement as yet and before making one would like to learn the Governor's wishes in this connection, since they desire greatly to do nothing which could in any way embarrass the Governor of the Bank. They earnestly hope that no inconvenience has resulted from the Board's action which was made without consultation with them. They would not for the world have had this happen in this way, and want the Governor to know it."

To this cable we received a reply through the same source, dated December 28th, as follows:

"The Governor surmised exactly what had happened and was in no way put out by the premature announcement, nor does he consider that it need interfere with the continuance of discussion as to the terms eventually to be submitted to the respective Boards, but he thinks it would now be best neither to contradict the announcement nor to confirm or explain it, but to let the matter rest exactly as it is for the present."

Regretting the delay in forwarding the above cables in accordance with the agreement made by the Committee when in Washington, I am,

Very truly yours,

Deputy Governor.

Hon. W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

RHT/VCM

SERVICE DESIRED	
Fast Day Message	
Day Letter	
Night Message	
Night Letter	

Patrons should mark an X opposite the class of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.

WESTERN UNION TELEGRAM



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

Check
Time Filed

and the following telegram, subject to the terms on back hereof, which are hereby agreed to

Denver, Colorado,
February 2, 1917.

W. P. G. Harding, Federal Reserve Board,
Washington, D. C.

Confidential. If you have any reason to think it would be desirable please do not hesitate to telegraph suggesting my return to New York as I could return for a short period without any injury to health.

Benjamin Strong.

Chg. Benj. Strong,
4100 Montview Blv.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TERMS:

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. For one-half the unrepeatable telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND IS SUBJECT TO THE FOLLOWING TERMS:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, and 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 observations.
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, when caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this 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 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 other 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 filed with the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

FAST DAY MESSAGES

A full-rate expedited service.

NIGHT MESSAGES

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 ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard day message 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.

SPECIAL TERMS APPLYING TO DAY LETTERS:

In further consideration of the reduced rate for this special "Day Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters is, in all respects, subordinate to the priority of transmission and delivery of regular telegrams.

B. Day Letters shall be written in plain English. Code language is not permissible.

C. This Day Letter may be delivered by the Telegraph Company by telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.

D. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

Letter shall be delivered on the day of its date absolutely and at all events; but that the Company's obligation in this respect is subject to the condition that there shall remain sufficient time for the transmission and delivery of such Day Letter on the day of its date during regular office hours, subject to the priority of the transmission of regular telegrams under the conditions named above.

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

NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the next ensuing business day, at rates still lower than standard night message 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.

SPECIAL TERMS APPLYING TO NIGHT LETTERS:

In further consideration of the reduced rate for this special "Night Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Night Letters may at the option of the Telegraph Company be mailed at destination to the addressees, and the Company shall be deemed to have discharged its obligation in such cases with respect to delivery by mailing such Night Letters at destination, postage prepaid.

B. Night Letters shall be written in plain English. Code language is not permissible.

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

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Phoenix, Aug -

February 5, 1917.

My dear Governor Harding:

It was most discouraging to learn of the adverse action by the House Committee on the amendment to the note provisions of the Federal Reserve Act. Of all the proposed changes in the law, none are nearly as important to the country at this time, as this one, which would give the Reserve Banks a real and effective control of our gold. Could not Mr. Glass now be persuaded that as a matter of national preparedness, Congress should at once adopt the amendment prepared by the Board?

There are certain to be many attempts by Congress to make all sorts of changes in our currency laws, such as the proposal of Senator Thomas of Colorado, and, no doubt, some most important financial legislation will soon be necessary. Will it not be possible for you and your associates to advise in all these matters, or still better, yourselves prepare a comprehensive financial plan of procedure in which the Reserve Banks might be employed as real fiscal agents of the Treasury.

I hope you will pardon the above suggestions, prompted only by my interest in your work, and which I take the liberty of sending to you personally.

Born in Aug

Thank you for your kind telegram. I am now
so well, stronger no doubt than for some years past,
that a bit of work might be a good thing if I am needed
at home.

Hoping that you are much better, and with
kindest regards, in which Mr. Curtis joins, I am
Faithfully yours,

Hon. W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

To could not Mr. Glass now be persuaded that as a
Hon. W. P. G. Harding, Congress should at once
Federal Reserve Board, by the Board
Washington, D. C. certain to be many proposals by Congress
to make all sorts of changes in our currency laws, such as
the proposal of Senator Thomas of Colorado, and, no doubt,
some most important financial legislation will soon be
necessary. Will it not be possible for you and your
colleagues to advise in all these matters, or still better,
yourselves prepare a comprehensive financial plan of
procedure in which the Reserve Banks might be employed
as real fiscal agents of the Treasury.

I hope you will pardon the above suggestions,
proposed only by my interest in your work, and which I
trust the liberty of sending to you personally.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

Receiver's No.

Check

Time Filed

Patrons should mark an X opposite the class of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

Feb 10th

1917

To Now W. P. G. HardingFederal Reserve BoardWashington, D.C.

House bill 20539 amending paragraph "E" Section fourteen omits words quote Exclusive of days of grace end quote.

If passed as drawn will prevent our buying bills in London under proposed plan Hope this can be corrected.

Benj. Strong

SENDER'S ADDRESS
ANSWER

SENDER'S TELE-
PHONE NUMBER

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND SUCH 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 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 amount 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 of 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 the sum of FIFTY DOLLARS, at which amount this 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. 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 other 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. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all the foregoing terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

FAST DAY MESSAGES

A full-rate expedited service.

NIGHT MESSAGES

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 ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard day message 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.

SPECIAL TERMS APPLYING TO DAY LETTERS:

In further consideration of the reduced rate for this special "Day Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters is, in all respects, subordinate to the priority of transmission and delivery of regular telegrams.

B. Day Letters shall be written in plain English. Code language is not permissible.

C. This Day Letter may be delivered by the Telegraph Company by telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.

D. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

Letter shall be delivered on the day of its date absolutely and at all events; but that the Company's obligation in this respect is subject to the condition that there shall remain sufficient time for the transmission and delivery of such Day Letter on the day of its date during regular office hours, subject to the priority of the transmission of regular telegrams under the conditions named above.

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

NIGHT LETTERS

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B. Night Letters shall be written in plain English. Code language is not permissible.

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

March 16, 1917.

Federal Reserve Board,

Washington, D. C.

S i r s :

I beg to report on the business of the bank for the month of February, 1917, as follows:

DEPOSITS.

Deposits at the end of January	- - - - -	\$240,806,752.65
" " " " February	- - - - -	242,771,814.61
Increase	- - - - -	\$ 1,965,061.96

Govt. deposits at the end of January	- -	\$ 2,648,063.95
" " " " February	-	2,743,232.25
Increase	-	\$ 95,168.30

Sixteen member banks submitted thirty-one applications for rediscount aggregating \$1,961,001.05, an increase over the preceding month of four in number and \$1,384,060.61 in amount.

REDISCOUNTS.

Rediscounts at the end of January	- - -	\$ 1,592,466.45
" " " " February	- - -	1,872,693.29
Increase	- - -	\$ 280,226.84

Rediscounts maturing within 10 days	- -	\$ 1,381,005.77
" " " 30 "	- -	115,993.42
" " " 60 "	- -	213,190.77
" " " 90 "	- -	162,503.33
Total	- - - -	\$ 1,872,693.29

No changes were made in the discount rates; viz., 3% for 15 days, 4% 15 to 90 days, 5% over 90 days, and trade acceptances 3 1/2%.

The bank purchased for its own account bankers acceptances for \$20,228,314.18, and for other Federal reserve banks \$21,619,726.70.

The high rate was 3 3/4%, low 2 7/8%, and average 3.1258%.

Acceptances owned at the end of January -	\$ 25,297,805.58
" " " " " " February -	32,046,833.36
Increase -	\$ 6,749,027.78

ACCEPTANCES.

Acceptances maturing within 10 days - - -	\$ 8,466,241.67
" " " 30 " - - -	6,424,974.45
" " " 60 " - - -	10,103,961.94
" " " 90 " - - -	7,051,655.30
Total - - -	\$ 32,046,833.36

The bank purchased for its own account warrants amounting to \$2,175,000., and for the account of other Federal reserve banks, \$3,225,000.

The high rate was 3 1/4%, low 2 5/8%, and average 3.02299%

Warrants owned at the end of January - -	\$ 3,693,807.78
" " " " " " February - -	5,534,104.09
Increase - -	\$ 1,840,296.31

WARRANTS.

Warrants maturing within 10 days - - - -	\$ 106,162.21
" " " 30 " - - - -	228,781.25
" " " 60 " - - - -	145,338.92
" " " 90 " - - - -	75,203.15
" " over 90 " - - - -	4,978,618.56
Total - - -	\$ 5,534,104.09

COLLECTION SYSTEM.

No. of items sent to Transit Dept. in Feb.	865,394
" " " " " Clearing House " "	82,533
Average number of items daily - - - - -	43,087
Amount sent to Clearing House - - - - -	\$348,895,349.43
" " " Transit Dept. - - - - -	276,546,957.76

The daily average in January was 42,232; the total sent to the Clearing House was \$383,380,298.70, and to the Transit Department, \$303,108,880.65.

Federal reserve notes amounting to \$201,880,000. were delivered to the bank by the Federal reserve agent up to March 1, 1917, when notes outstanding were \$140,161,215. The decrease of

FED. RES.
NOTES.

FED. RES.
NOTES.

\$61,718,785. in gross amount represents the notes sent to the Comptroller of the Currency for destruction. There were paid out to sixty-two member banks \$40,294,000., and to fifteen nonmember banks \$3,914,500. Of these, \$33,942,500. were in new bills and \$10,266,000. sorted bills. New York City banks deposited \$4,000,300., notes of this bank, and out-of-town banks sent in \$1,298,675. The Treasurer of the United States sent in \$620,300. Notes of other Federal reserve banks, amounting to \$1,318,900., were also received.

MONTHLY STATEMENT OF INCOME EARNED AND EXPENSES PAID FOR FEBRUARY.

Income from bills discounted - members - - -	\$ 4,741.19
Acceptances bought in open market - - - - -	78,270.62
U. S. Bonds and Treas. notes - - - - -	1,882.84
Municipal warrants - - - - -	12,103.18
Profits realized on U. S. securities - - - -	1,505.02
Deficient reserve penalties (inc. int.) - -	4,658.09
Commissions received - - - - -	5,882.49
Total - - - -	\$109,043.43

Current Expense:INCOME AND
EXPENSE.

Assessment Federal Reserve Board - - - - -	\$ 5,930.04
Governors' conferences - - - - -	19.94
Federal Advisory Council - - - - -	25.00
F. R. Agents' conferences - - - - -	85.95
Salaries - - - - -	21,254.60
Directors' fees - - - - -	520.00
Per diem allowance - - - - -	140.00
Traveling expenses - - - - -	170.00
Officers' and clerks' traveling expenses - -	305.81
Rent - - - - -	3,758.34
Telephone - - - - -	43.49
Telegraph - - - - -	40.65
Postage - - - - -	426.71
Expressage - - - - -	26.84
Insurance and premiums on fidelity bonds - -	315.06
Printing and stationery - - - - -	784.86
All other expenses, n. s. - - - - -	2,324.77
Cost of F. R. notes issued to the bank - - -	25,800.00
Total - - - -	\$ 61,972.06

Income over expense - - - - -	\$ 47,071.37
As compared with income over expense in Jan.	67,328.15

In the absence of any definite movement in speculative stocks the call money market was dull throughout the month of February, with rates slightly firmer than in the preceding month. The prevailing range was $2 \frac{1}{4}\%$ to $2 \frac{1}{2}\%$, with renewals being generally quoted within the same limits. Rates for time money on collateral were also slightly firmer, quotations for 60 days to four months ranging from $2 \frac{3}{4}\%$ to $4 \frac{1}{2}\%$, and for six months to twelve months 3% to 5% . Rates for eligible bankers acceptances remained steady in February, ninety-day bills being quoted from 3% to $3 \frac{5}{8}\%$. Early in March, however, an easier tendency was noticeable with slight declines in rates. Trading in commercial paper was quiet. On February 1st quotations were 3% to $3 \frac{1}{2}\%$ but gradually strengthened, and on March 5th were $4 \frac{1}{2}\%$ to 5% .

MONEY RATES.

In sterling exchange circles at closing rates demand bills exhibited slight weakness towards the close of February, and on March 1st were quoted at 4.75. Exchange on Paris also showed an easier tendency, franc checks selling at 5.84 $\frac{7}{16}$ at the beginning of February and gradually declining to 5.85 $\frac{5}{8}$ in the first week in March. Mark checks ranged from 65 $\frac{3}{4}$ to 70 $\frac{1}{4}$. The striking feature in the Continental exchanges was furnished by the steady decline in lire. Demand bills on Italy dropped from 7.12 on February 7th to a new low record 7.77 on March 2nd, and at the latter figure were at a discount of 50%. Guilders recorded slight declines, and at the close of the month were selling at 40.31 $\frac{1}{4}$ for checks, a premium of .2%. Roubles closed the month at 28.25 against 28.35 on the last day of January, but declined early in March to 27.70.

FOREIGN
EXCHANGE.

Business in this district continues on a large scale for this period of the year, and there is every indication of a very

active spring trade. The restraining influence exerted by the break of diplomatic relations with Germany and the imminence of war, is gradually lessening. The serious congestion on the railroads, which hampers nearly every branch of industry, has been improved to some extent and decided progress is looked for in the near future. According to figures compiled by the Commission on Car Service of the American Railway Association, the railroads on February 24th were holding 138,679 cars which could not be moved, as compared with 171,207 cars on February 17th, a reduction of 19% in one week.

GENERAL.

An improvement in manufacturing conditions has been effected in the iron and steel trade. Production in both pig iron and finished steel has increased in the past week. The output of pig iron in February, however, showed a marked falling-off due, to a great extent, to the serious shortage in coke. The total production, which was the lowest since July, 1916, amounted to 2,637,042 tons, a decrease of 450,170 tons from February, 1916. Steel prices continue to advance. The average price of eight leading steel products, according to a compilation made by one of the leading trade journals, is now \$81.05 a ton, which represents the highest price ever reached. It is reported that the recent advance is based on the prospect of large, Government orders. Inquiries for finished steel, both foreign and domestic, continue in large volume. The steel plate mills are overwhelmed with orders from shipbuilding interests.

Manufacturers of machinery report a very heavy domestic business but a decrease in foreign orders, buyers for foreign account being unwilling to place orders until shipping facilities are improved.

In mercantile lines there has been a slight lull during the

past month, due to the fact that the trade is between seasons. The volume of business, however, is very large for this season of the year. In some cases buyers have shown hesitancy in making forward commitments, owing to the uncertainty of our international relations. Most manufacturers and merchants in lines where delivery is prompt are not deterred by the prospect of war. Wholesale drygoods houses report that business is excellent. One firm states that the market is sold out and expects this condition to prevail for some time to come. Another large house, however, finds a tendency on the part of buyers to await lower prices. In the retail trade, sales are running ahead of the corresponding period last year and collections are good.

The silk trade has experienced a slight falling-off in business. A large, wholesale concern finds a desire on the part of manufacturers who were well stocked at the beginning of the year, to cancel orders wherever possible.

GENERAL.

The textile industries are very busy. The market for woolen goods has been disturbed by the prospect of orders for uniforms from the United States Government, in case of war.

Business in the cloak and suit trade has been very active. Some difficulty has been experienced in obtaining certain fabrics and labor conditions have caused considerable trouble, but in spite of these the trade has been very prosperous and looks forward to a record spring season.

There has been no change in the past few months in the large volume of business in heavy chemicals. Railroad congestion has hampered manufacturers to some extent but has not been a very serious difficulty. Although sales in the drug trade are also very large,

5/16/17.

manufacturers are suffering from an insufficient supply of raw materials.

A shortage in the supply of refined sugar in this market was caused recently by strikes in refineries at New York and Philadelphia. These disputes have now been adjusted and the situation at present is much improved.

Business in the hardware trade is very active and collections are good. Prices of raw materials continue to advance, with no immediate prospect of relief.

In the hide and leather trade the outlook for a heavy spring business in the Middle West and West is very bright. In the East, conditions are more uncertain as buyers are apparently nervous concerning our foreign affairs. It is generally felt that the recent British embargo on importations of shoes and leather will not prove a serious handicap to exporters. The concensus of opinion seems to be that these articles will be classed as necessities and admitted under licenses.

GENERAL.

The statement of the New York Clearing House Association, dated March 3, 1917, shows loans, etc., \$3,532,495,000., deposits \$3,780,857,000., and excess reserve \$164,427,270. Since February 3, 1917, loans increased \$20,958,000., deposits increased \$6,405,000. and excess reserves decreased \$1,042,270. New York City bank clearings in February totaled \$12,794,087,245., an increase of \$1,687,349,968. over February 1916.

New incorporations in Eastern States for February, involving concerns capitalized at \$1,000,000. and over, amounted to \$283,615,000., a decrease of \$62,180,300. compared with February 1916. The volume of stock transactions on the New York Stock Exchange during the month of

3/16/17.

February, amounted to 13,668,769 shares, an increase of 1,588,633 over the same month last year. Transactions in bonds in February were on a restricted scale. There were few offerings of new municipal issues and incorporation financing the only important offerings were \$50,000,000. Bethlehem Steel Company 5% secured notes due February 15, 1919, and \$25,000,000. Southern Railway 5% secured gold notes maturing March 2, 1919. The par value of bonds sold on the Stock Exchange during the month amounted to \$75,971,000., a decrease of \$4,419,000. over the same month last year.

Failures in New York State during February numbered 189 with liabilities of \$3,301,400., a decrease from February 1916, of 71 in number and \$251,400. in liabilities.

GENERAL.

Building permits in New York City during February aggregated \$10,852,177., an increase of \$1,734,057. from February 1916.

Foreign trade at the Port of New York in the four weeks ended February 24th, compared with the corresponding period a year earlier, shows exports \$224,896,767., an increase of \$72,712,948., and imports \$97,527,148., an increase of \$949,526.

Postal receipts at New York last month were \$2,697,455., a gain of \$47,754. over the same month last year.

Sales of the F. W. Woolworth Company for February, were \$5,643,719. compared with \$5,347,262. in February 1916, a gain of 5.54%.

Trade between the United States and Latin-America for the seven months' period ending with January, amounted to \$756,403,000., a gain of \$191,441,000., or approximately 34% as compared with the same period of the previous year. Exports to these countries for the seven months showed a gain of 47%, and imports a gain of 26%.

Since my last report, the changes in statements of the Bank of England, the Bank of France and the Imperial Bank of Germany, are as follows:

BANK OF ENGLAND

<u>Date</u>	<u>Gold</u>	<u>Reserves</u>	<u>Deposits</u>
Mar. 1, 1917	£ 54,296,090	£34,161,000	£215,838,000
Jan. 31, 1917	56,664,712	35,513,000	213,541,000
	£ 2,368,622	£ 1,352,000	£ 2,297,000
	Decrease	Decrease	Increase
	<u>Other Securities</u>	<u>Ratio of Reserve</u>	
Mar. 1, 1917	£117,383,000	15.83%	
Jan. 31, 1917	35,727,000	16.65%	
	£ 81,656,000	.80%	
	Increase	Decrease	

BANK OF FRANCE

<u>Date</u>	<u>Gold</u>	<u>Silver</u>	<u>Circulation</u>
Mar. 1, 1917	F5,148,881,450	F270,512,000	F18,097,436,000
Jan. 31, 1917	5,131,163,150	279,288,000	17,514,326,000
	F 17,718,300	F 8,776,000	F 583,110,000
	Increase	Decrease	Increase
	<u>Deposits</u>	<u>Bills Discounted and Advances</u>	
Mar. 1, 1917	F2,548,247,000	F1,804,166,000	
Jan. 31, 1917	2,392,654,000	1,978,448,000	
	F 155,593,000	F 174,282,000	
	Increase	Decrease	

IMPERIAL BANK OF GERMANY

<u>Date</u>	<u>Gold</u>	<u>Circulation</u>
Feb. 23, 1917	M2,526,081,000	M7,847,641,000
Jan. 15, 1917	2,522,260,000	7,826,954,000
	M 3,821,000	M 20,687,000
	Increase	Increase

Reports on conditions in this district have been received from bankers as follows:

3/16/17.

FROM NEWBURGH

There is no change of importance in business conditions in our vicinity. Our industries continue to be worked to capacity; our merchants are having fine trade, some of them say better than last year, and altogether things are not very different from what they were a month ago or at this time last year.

We see frequent evidence of additional capital required because of the high cost of materials and merchandise both on the part of the manufacturer and merchant. Sales that represent the normal volume of business total one-third more in actual results.

We find our business men disposed to be cautious about making commitments for the future, although there is no evidence of uneasiness on account of the international political situation.

FROM BINGHAMTON

The only change that I find in conditions from those reported as of February 1st, is a slight tendency toward hesitation or halting in business, which would be quite natural, as well as wise, under present conditions.

FROM ELMIRA

The situation in this vicinity continues with very little change. However, there has been one small strike which has failed of its purpose. Most of the business men feel that whatever may be the outcome of the international complications, there will be but little let-up in business. There is a good demand for money.

FROM SYRACUSE

Business conditions have not changed materially since last month.

Manufacturers of agricultural implements report business

quiet; sales about as a year ago. The embargo on the railroads hampers them in shipments, while the high cost of labor and materials does not give much encouragement for the coming year.

Manufacturers of automobiles and parts of same report business very good. The embargo on the railroads is easing up, and they hope within a short time to make their shipments in regular order.

Building Trades: Show an improvement, an increase of 30% over the same period a year ago.

Farming Industry: Conditions continue most prosperous for the farmer. Prices are abnormally high. With the exception of hay everything raised this last year will be cleaned up. There will be a surplus of hay carried over, owing to the large crop the past year. It is estimated that there will be a much larger production the coming season and much more land cultivated. It is stated that one-third of the farming land of the State is at present idle and uncultivated.

Manufacturers of Hosiery and Underwear: Report an excellent business. Orders are now in for all they can manufacture until November.

Manufacturers of Clothing: Business conditions are good; sales larger than a year ago. The difficulty of getting raw material may, however, reduce future business.

Mercantile Houses, both jobbers and retailers, report collections good and a continual increase in sales over a year ago.

Shoe Manufacturers: Report business quiet, not much new business coming in, owing to the fact that many of the buyers have overbought, and are becoming more conservative.

Steel Manufacturers: Report business as last month. Owing to the embargo on the railroads they have greater difficulty in getting coal and raw materials.

BANK CLEARINGS:

February, 1916	-----	\$13,376,798.51
February, 1917	-----	14,678,224.24

FROM UTICA

Can see no material change in conditions in this vicinity since my last letter to you, except some slackening in the munition factories. The demand for money is about normal for this season of the year, except that it of course takes more to supply the various manufactories than usual, because of the higher prices of raw materials. Deposits in the various institutions continue to increase, although I think, as I reported before, that the savings of all classes are not in proportion to the increased income.

FROM WATERTOWN

There is still an abundance of money here in Watertown, and on the other hand our loans have not been as large in a number of years as they are to-day. The merchants are all having a good trade, and the manufacturers are all behind on their orders.

FROM JAMESTOWN

The month of February this year in Western New York will be long remembered on account of the severity of the weather. Three full months of continuous sleighing this winter; many days when thermometers registered below zero. Cities and a number of villages in this region use natural gas for fuel; during the coldest weather in February the

demand for gas exceeded the supply and to aggravate the situation sufficient coal was not to be had even though the mayor of Jamestown commandeered carloads of coal in transit. There was much real suffering, and economic loss also because industrial institutions were compelled temporarily to close and decreased production ensued.

Bank funds in this section of the state are well loaned at legal rates, and with spring activity in near prospect there is no likelihood of idle dollars.

Manufacturers are optimistic. They not only had unprecedented prosperity in 1916 but are now working on orders that will keep them busy for weeks. Collections are reported easy.

Farmers feel the high prices of grain even though their products sell at figures not known since the Civil War. They will be handicapped for seed, especially potatoes, because last year's crops were short and the prices were so tempting they were unable to withstand the pressure to sell more than they should have done. Then, too, thousands of bushels of potatoes were frozen during the zero periods of February.

The outlook for building operations as soon as moderate weather is assured, was never more promising and demands for labor will give work to all available forces.

FROM NEWARK, N. J.

Business conditions in Newark show little change during the past month except for somewhat greater difficulty in doing business, due to such things as the railroad congestion, the demands of labor, the high prices of raw material and the general business uncertainty as to the future. The statements received since the first of the year show almost without exception very satisfactory profits for last year, and in some cases extraordinarily heavy profits. There have been comparatively

3/16/17.

few labor troubles in Newark but many increases of wages have taken place without a contest. In the building trades notice has been served on the bosses that demands will be made for a number of further increases on the first of May. Retail trade keeps good, as there is no lack of employment at high wages.

FROM PATERSON, N. J.

Conditions are about the same as they were a month ago, savings banks and other banks having large lines of deposits. Trade, however, seems to have lost its buoyance. Both manufacturers and consumers complain of the high cost of everything and this, we think, has had somewhat of a reaction upon trade in general.

FROM NEW BRUNSWICK, N. J.

Business conditions in New Brunswick and vicinity have maintained unusual activity for this time of the year.

All of our manufacturing industries are producing to the limit of their capacity and under a little better labor conditions than prevailed before the cold weather shut down operations in open air work. They are, however, looking forward to the spring time with considerable concern, believing that labor will be shorter in this vicinity than it was last year.

Building operations promise to be exceedingly active, notwithstanding the high cost of construction.

The farmers in this vicinity report that last year they had the most profitable year in the memory of the present generation, and they are looking forward to more intensive cultivation for the coming year. Bank deposits maintain their high average with, however, a more satisfactory demand for money.

15. Federal Reserve Board.
FROM ENGLISHTOWN, N. J.

3/16/17.

Business conditions in Monmouth County are probably more satisfactory for this season of the year than usual. Deposits in all of our banks are far in excess of a year ago.

In the interior sections the farmers are somewhat handicapped by the high price they are required to pay for their seed potatoes and the things necessary to the planting of crops; fortunately, a good many purchased their seed last fall and saved considerable on the cost. In view of these high prices, it is doubtful if the acreage for potatoes will be as great as in past seasons.

Respectfully,

Chairman.

JEC/HAB

4/21/17.

For Mr. Strong.

is not so available as at present. To place a large loan with us at a time when market funds are so abundant would seem to be a waste of money. March 21, 1917.

system in the primary position of a bank of discount rather than in the secondary position of a bank of rediscount, which we have always considered it was intended to be.

Dear Governor Harding:

We have been discussing among ourselves in the bank to-day the matter of the prospective 70-day loan of the United States Government, of which you advised us yesterday, and we all feel very glad of your assurance that the System will have some official connection with the placing of the loan.

As to whether we should serve merely as the agent of the government in disposing of the loan or should be actual purchasers of it with or without the idea of possibly redistributing it, which you will remember we discussed at lunch yesterday, we have looked at the matter from various angles and feel that it would be preferable for us to act as agent rather than as purchaser. We think the effect on the public would be about the same in either case. The public would understand that the Federal reserve banks were, very properly, assisting the government. But it is our feeling that the excellent effect produced on bankers and thoughtful men generally by our recent investment policy which, as you stated in your address last night, has brought our reserves up from 68% to 80%, and has put us in a strong position to assist our member banks when necessary, would be dispelled if the government, without ^{first} going to the general money market, should draft us directly to its assistance by borrowing a round sum of money from us. We

believe it would be a better and sounder policy for the government to regard us not as a primary but rather as a secondary source of borrowing, to be availed of temporarily and within reason when the outside market

3/21/17.

is not so available as at present. To place a large loan with us at a time when market funds are so abundant would seem to put the Reserve system in the primary position of a bank of discount rather than in the secondary position of a bank of rediscount, which we have always considered it was intended to be.

We have been discussing among ourselves in the bank to-day the matter of the prospective 70-day loan of the United States Government Reserve System than in the open market does not seem to us a compensation, of which you advised us yesterday, and we all feel very much the advantage for the unfavorable impression we believe would be created by the government's direct use of our funds. While the Secretary may feel that we should lend at a low rate because we have government balances without interest possibly he will recognize, on the other hand, that we do present in disposing of the loan or should be actual purchasers of it considerable government work without compensation.

But the views which we have formed are based, not on the rate, but on the principle above outlined. While as officers of the bank we should be extremely glad of the added income the loan would bring, we feel that we must consider the subject from the broader point of view of a sound relationship between the Treasury and the System. From that point of view we are convinced that it would be wiser for us to act, perhaps without any compensation, as agents for the government in placing the loan rather than to become purchasers or even underwriters of it.

We believe that 2 1/2% would be a fair rate for the loan. Possibly it might be taken at a fraction lower, but it should be remembered that the extent of the market for money at 2%, the rate you thought the Secretary had in mind, is quite limited.

Very truly yours,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Chairman.
Dear Governor Strong: The outside market
Many thanks for your letter of
March 12th written from the Blackstone.

CLASS OF SERVICE	DESIRED
Fast Day Message	<input type="checkbox"/>
Night Message	<input type="checkbox"/>

Senders should mark an X opposite the class of service desired; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

Form 1217

Receiver's No.
Check
Time Filed

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

Denver, Colorado, March 23, 1917.

W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

I congratulate you heartily on your expression of views in New York in regard to position we should assume toward Allies in financial matters.

Benjamin Strong.

Chg. Benj. Strong,
4100 Montview Blv.

Form 1217

SERVICE DESIRED

/ Message

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Message

Night Letter

Patrons should mark an X opposite the class of service desired: OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY MESSAGE.

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

Receiver's No.

Check

Time Filed

Send the following telegram, subject to the terms on back hereof, which are hereby agreed to

Denver, Colorado,
April 3, 1917.

W.P.G. Harding,
Federal Reserve Board,
Washington, D. C.

It is becoming increasingly difficult for me to remain here with any comfort in view of developments stop. Feel very strongly that it is such a serious deprivation for me to be away at a time when I might be of some service that even considerations of health would not influence me any way stop. Could you telegraph me just how you and your associates feel in regard to financial plans in which I might be interested or of some service so that I can judge of the wisdom of returning now.

Benjamin Strong.

Chg. Benj. Strong,
4100 Montview Blv.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING TERMS

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for comparison. One-half the unrepeatable telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID FOR. 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 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 the sum of FIFTY DOLLARS, at which amount this 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. 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 other 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. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all the foregoing terms.

8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY

INCORPORATED

NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

FAST DAY MESSAGES

A full-rate expedited service.

NIGHT MESSAGES

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 ensuing business day.

DAY LETTERS

A deferred day service at rates lower than the standard day message 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.

SPECIAL TERMS APPLYING TO DAY LETTERS:

In further consideration of the reduced rate for this special "Day Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Day Letters may be forwarded by the Telegraph Company as a deferred service and the transmission and delivery of such Day Letters is, in all respects, subordinate to the priority of transmission and delivery of regular telegrams.

B. Day Letters shall be written in plain English. Code language is not permissible.

C. This Day Letter may be delivered by the Telegraph Company by telephoning the same to the addressee, and such delivery shall be a complete discharge of the obligation of the Telegraph Company to deliver.

D. This Day Letter is received subject to the express understanding and agreement that the Company does not undertake that a Day

Letter shall be delivered on the day of its date absolutely and at all events; but that the Company's obligation in this respect is subject to the condition that there shall remain sufficient time for the transmission and delivery of such Day Letter on the day of its date during regular office hours, subject to the priority of the transmission of regular telegrams under the conditions named above.

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

NIGHT LETTERS

Accepted up to 2.00 A.M. for delivery on the morning of the ensuing business day, at rates still lower than standard night message 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.

SPECIAL TERMS APPLYING TO NIGHT LETTERS:

In further consideration of the reduced rate for this special "Night Letter" service, the following special terms in addition to those enumerated above are hereby agreed to:

A. Night Letters may at the option of the Telegraph Company be mailed at destination to the addressees, and the Company shall be deemed to have discharged its obligation in such cases with respect to delivery by mailing such Night Letters at destination, postage prepaid.

B. Night Letters shall be written in plain English. Code language is not permissible.

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

THE ASSOCIATION OF THE BAR
OF THE CITY OF NEW YORK
42 WEST 44TH STREET

New York, April 19, 1917.

Dear Governor Harding:

We have just added up the various lists of subscriptions to the 2-1/2% \$200,000,000. loan and find that we have slightly over \$93,000,000 subscribed. We have heard from all but a few of the smaller banks in this city and shall probably hear in the morning from some of our member banks in the other cities of over 25,000 inhabitants with whom we have communicated. It is probable that from banks and bankers we shall be able to bring the amount up to \$100,000,000. Included in this amount is \$5,000,000 subscribed by the United States Steel Corporation, and it is possible that we may be able to get a few subscriptions tomorrow from other industrial concerns and from individuals of large means.

Mr. Treman and I have called on most of the important institutions personally and have communicated with the rest over the telephone. Without exception we have found the attitude of the bankers to be that the loan was not attractive on a business basis. They expressed themselves as desirous of cooperating in every way with the Government in the present loan and in the large financing plans which are coming, but they feel that bank-

Hon. W.P.G. Harding---2---4/19/17.

ing transactions with the Government should be at a fair market rate, a rate which would make Government paper as attractive as other paper of the highest grade and not an unwelcome addition to their portfolios. On the authority of your statement to me this morning we advised in each case that the rate had been fixed by the Secretary. Their unanimous reply was, "As a business proposition we do not care for any of this loan but we agree with you that under the circumstances it should be taken and we will subscribe to whatever you tell us is our fair proportion." In other words, the Federal reserve bank has been put in the position of offering a piece of financing to its member banks and to other institutions and houses on terms which made it burdensome. The impression created by the initial transaction of the larger volume to come later has been distinctly and unanimously unfavorable. The subscriptions made by some of the banks already well loaned up have somewhat extended them. One of the large institutions has already asked us to take over an equal amount of their acceptances and another has spoken of the probability of borrowing on the notes at our fifteen day rate; namely, 3%. At 2-1/2%, these certificates will be frozen loans in the portfolios of the banks, which they cannot dispose of or turn without loss.

Hon. W. P. G. Harding---3---4/19/17.

At 3% the borrowing would have been very cordially received and the subscriptions would have been both voluntary and larger.

It is our conviction that Government short time financing would be much facilitated by the development of an open market for the certificates similar to that for bankers' acceptances, and they should be placed at rates which will enable them to be dealt in in the open market without loss to the banks making the initial subscriptions.

I am writing you thus frankly concerning the day's work because I feel it my duty to tell you exactly the situation and because I am convinced that today's work has been very detrimental to future treasury financing. I recognize that this was a sudden and perhaps unexpected piece of borrowing, and the bankers as well as ourselves have felt that the Secretary's requirements in this first and perhaps emergency call should be met if possible. But I should be negligent if I did not report to you that unless money conditions should become much more favorable, which seems unlikely in the near future, our work of today could not be repeated; and if I did not express to you the conviction of all our officers that it is of the utmost importance that a comprehensive plan for the management of short time Government financing should be developed in conjunction with

Hon. W. P. G. Harding---4---4/19/17.

those who will be responsible for carrying it out in the important centres.

Very truly yours,

[Jay?]

CHAIRMAN.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

89

May 1, 1917.

Dear Governor Harding:

Your kind note of April 27th was awaiting my arrival when I reached the bank yesterday and was indeed a most welcome greeting.

Possibly I will see you before this acknowledgment reaches you, as I am expecting to take tonight's train to Washington; but I do want to write at once and tell you what has been much in my mind for the past year; that is, the extent of my appreciation of the consideration which you and your associates have shown me during my illness.

You do not need my assurance that every possible service that I can perform to facilitate your work during these difficult times, will be always at your command and most cheerfully so.

With warmest regards, believe me

Sincerely yours,

Honorable W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

MAILING DEPT.

MAY 14 1917

FEDERAL RESERVE BOARD

May 12, 1917.

Dear Governor Harding:

Further referring to the savings bank matter on which subject I have your letter of May 11th, I believe an amendment to the Federal Reserve Act should be considered which would permit savings banks and associations of that character not to become members of the system to the complete extent now provided by law, but to take a special membership which will permit us to carry their cash reserves to some extent and which will permit us to protect them, if necessary, in the matter of furnishing currency. There may be considerable uneasiness developing among these institutions and, possibly, their depositors, as the volume of Government loans increases.

The president of the largest savings bank in New York told me last night that he thought it was indispensable, for their protection during the period of the war, that they be permitted to become members of the Federal Reserve System. This is the third statement of that character that has been made to me by men of importance in New York and I believe the matter should receive careful consideration.

Very truly yours,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/RNH
Dictated by Mr. Strong
but signed in his absence.

89
FILING DEPT.

JUN 20 1917

FEDERAL RESERVE BOARD

June 19th, 1917.

PERSONAL-CONFIDENTIAL.

Dear Governor Harding:

The enclosed letters explain themselves. Won't you be good enough to return them to me after reading and, if you please, show them to no one. I thought you would be interested in this little episode.

My heartiest congratulations upon the outcome of the struggle over the Federal Reserve Act amendments. It has lifted an immense load from my mind and I feel sure now that we can be ready for anything.

I am writing you separately about gold certificates.

Very truly yours,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/VCM

Encls.

SYMBOL

Blue

Message Nite

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



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.

NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, FIRST VICE-PRESIDENT

RECEIVED AT

16 BROAD ST. N.Y.

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1917 AUG 7 PM 1 03

MC WASHINGTON DC 1205P 7

GOV G P HARDING

1881

FEDERAL RESERVE BANK NEWYORK

LIEUTENANT CLEMENTS AVIATION CORPS OFFERS THIRTY SIX HUNDRED SIXTY

SIX YOUR HOUSE ELEVEN MONTHS OCTOBER FIRST ONE CHILD FIFTEEN MONTHS

IF POSSIBLE WIRE DECISION TODAY

STORY AND COBB.

89

August 8th, 1917.

Dear Governor Harding:

The enclosed letter was opened through error by my secretary who assumed that it was for me. The contents have not been read and I greatly regret the mistake.

Very truly yours,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

VCM

89
PERSONAL

FILED DEPT.

AUG 29 1917

FEDERAL RESERVE BANK

August 24th, 1917.

Dear Governor Harding:

This letter is quite personal, and once more I must explain that I am going entirely out of my province in writing on this subject.

You have been informed of Mr. Jay's illness. I think sometimes he gets a bit discouraged about his progress in the bank. In all of my experience I have never been associated with a man who sacrifices and subordinates himself so completely as he does. There is not a grain of selfishness in his disposition. This impresses me personally very much because I feel that, unfortunately, credit is given to me for much of the work in the bank during the past three years, to which he is really entitled. His ability and intellectual attainments are of such a high order that I am frank to say that without his partnership and friendship the task would at times have been almost impossible.

The object of this letter is to urge most strongly that the Reserve Board consider a substantial revision of his salary. I did not myself raise this question with the directors at their meeting on Wednesday, but they brought it up voluntarily and asked me if I could not find some way of impressing the Reserve Board with the importance of doing something about it. Possibly you were not informed of the fact that during the past year, while I was away, he had an opportunity

8/24/17.

to accept a position at a considerably higher salary and declined it both because of his interest and loyalty to the work of the bank and his unwillingness to leave during my absence.

Mrs. Jay is on her way to join him in New Mexico and I fear his illness is somewhat more serious than our advices indicate.

This letter is not intended to express any official attitude or action by the bank, but the personal views of the writer which are endorsed by all of his associates.

Cordially yours,

Honorable W. P. G. Harding,
Care Federal Reserve Board,
Washington, D. C.

BS/RAH

Dictated by Mr. Strong but
signed in his absence.

opinion that such operations should be permitted only as an essential part of a comprehensive plan for the financing of the commerce and industry of the country during the war, which plan itself should be placed in operation at the earliest possible moment." November 7, 1917.

S i r s :

Respectfully,

At a meeting of the board of directors of the bank held to-day the chairman stated that the officers of the bank had been advised by certain bankers in New York of the proposed financing of large corporations for approximately two years by means of ninety-day notes with the necessary number of renewals, and added that there are evidences in this and other Federal reserve districts that the proposed method of financing will be undertaken in very large amounts and for many companies. After a thorough discussion, the directors viewed the matter with considerable apprehension and referred the subject of financing of this character to the executive committee for immediate consideration, and directed that the matter be brought to the attention of the Federal Reserve Board in an appropriate manner.

At a meeting of the executive committee of the bank held later in the day I was directed to forward to you the views of the committee in this regard substantially as follows:

"This committee recognizes that the industrial and commercial needs of the country are creating a problem with respect to the financing of many large corporations, especially those doing war work for the Government, which requires prompt solution. The plan for financing large corporations for approximately two years by means of ninety-day notes, with the necessary number of renewals, in such manner as to be eligible in form for rediscount at Federal reserve banks, already being undertaken in certain instances, is being put forward as a partial solution of the problem.

"Financing of the character suggested would obviously be violative of the fundamental principles of the Federal Reserve Act, and, consequently, in normal times should not be permitted. However, this committee conceives that the proposed plan may possibly be justified by existing war conditions; but if so, the committee is clearly of the

11/7/17.

opinion that such operations should be permitted only as an essential part of a comprehensive plan for the financing of the commerce and industry of the country during the war, which plan itself should be determined upon and placed in operation at the earliest possible moment."

Respectfully,

At a meeting of the Board of Directors of the bank held on the day the chairman stated that the officers of the bank had been advised by several bankers in New York of the proposed plan. Secretary. The corporation for approximately two years by means of ninety-day notes with the necessary number of renewals, and added that there are evidences in this and other Washington, D. C. districts that the proposed method of financing will be JFC/RAH in very large amounts and of many companies. After a thorough discussion, the directors viewed the matter with considerable apprehension and referred the subject of financing of this character to the executive committee for immediate consideration, and directed that the matter be brought to the attention of the Federal Reserve Board in an appropriate manner.

At a meeting of the executive committee of the bank held later in the day it was directed to convene to hear the views of the committee in this regard substantially as follows:

The committee recognized that the industrial and commercial needs of the country are creating a problem with respect to the financing of many large corporations, especially those doing war work for the Government, which requires prompt solution. The plan for financing large corporations for approximately two years by means of ninety-day notes, with the necessary number of renewals, in such manner as to be eligible in form for rediscount at Federal reserve banks, already being undertaken in certain instances, is being put forward as a partial solution of the problem.

Financing of the character suggested would obviously be violative of the fundamental principles of the Federal Reserve Act, and, consequently, in normal times should not be permitted. However, this committee recognizes that the proposed plan may partially be justified by the conditions, but if so, the committee is clearly of the

CONFIDENTIAL

March 30, 1918.

Dear Governor Harding:

I wish to confirm my telephone conversation with you yesterday afternoon in which I advised you that we were on the point of taking some conclusive steps towards acquiring property for a bank site for which we had been negotiating, and ask you if you would be so good as to ascertain whether there was any likelihood that we should be able in the near future to obtain the Sub-treasury site, the unoccupied site of the Assay Office, and the Assay Office itself. The ground now occupied by these buildings, if supplemented by a small building on Pine Street, would give a plot roughly 150 x 180 feet, which would seem to be a feasible plot for us to use, and we should appreciate your advising us as to whether there is any likelihood of our being able to obtain this site from the Government in the near future. If so, we might wish to consider abandoning our present efforts to secure the other site; but if not, it is our feeling that we should proceed with our present negotiations.

Trusting that you will let us have your views on this point as soon as convenient, I am,

Very truly yours,

Chairman.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

PJ/RAH

592
FILING DEPT.

MAR 2 1918

FEDERAL RESERVE BANK

February 28, 1918.

2/21/18
Dear Mr. Harding:

The telegram from your Board, suggesting an increase in rates by the Federal Reserve Bank of New York, was received too late to submit to our directors at their meeting held last week, but has been considered at a meeting of our executive committee held since then, and was yesterday submitted for discussion at our board at its regular meeting.

After full discussion our directors have decided that it would be unwise to make any change in the rate at the present time and are of the opinion that when any change is made all of our rates should be reviewed and brought into conformity and that this should be done in concert with the other Federal reserve banks, so that a uniform policy may be established in general harmony with the financial policy of the Treasury Department.

Our present rates are:

4 1/2% for the discount of ninety-day paper;

4% for the discount of ninety-day notes secured by Liberty Loan bonds;

4% for the purchase of indorsed member banks' bills of first grade, which is shaded 1/8 in the case of very short maturities;

3 1/2% for fifteen-day collateral loans which with the addition of the stamp tax, makes the cost to the borrower about 4%;

and as a substitute for the fifteen-day transactions we are pursuing the policy of purchasing United States Treasury certificates of indebtedness under contract of resale at the rate which the certificates bear.

In order that the action of our board may be understood, I beg to submit herewith the general statement which I have made to the board on the subject of our rates, which no doubt led to the board's taking the action above reported.

Our policy should be considered with regard to the banks in this city as representing one situation and the banks in the district, outside of New York City, where the situation is somewhat different.

As to New York City member banks, reports received this week disclose that sixty-five of the largest banks and trust companies, out of one hundred and thirty-seven institutions in the greater city of New York, hold a total of \$752,500,000 of Treasury certificates of indebtedness in addition to those which they have already distributed to customers, and the total of all the banks in the city doubtless exceeds \$800,000,000. This naturally presents a situation somewhat different than any prevailing in other financial centers, such as Chicago where, I understand, the banks hold but \$40,000,000 of these certificates. Of all the issues made by the Government since our entrance into the war, this district has purchased 61 per cent., excepting the last one sold, of which they purchased nearly 50 per cent. The present offering allots \$194,000,000 to this district. The program calls for four more issues within the next eight or nine weeks, and if the 2 per cent. distribution suggested by Secretary McAdoo is maintained on future issues, the banks in this city will be called upon to take about \$140,000,000 additional every two weeks hereafter, making in fact a further commitment by the banks in this city aggregating about \$750,000,000.

Subscriptions to the pending issues now total \$175,000,000 by 679 subscribers. Naturally, with the rate now established at $4\frac{1}{2}\%$, it may be assumed that none of the present 4% certificates can be sold without loss by the New York City banks, and although a considerable portion of the new issues can be distributed to customers, nevertheless those which they now hold, bearing 4% interest, must be employed to some extent, and possibly to a large extent, for credit at the Reserve bank.

About two weeks ago the surplus reserve of the clearing house banks was only \$29,000,000 and last week it was \$56,000,000. This is the lowest surplus reserve held by the banks of the city since, I believe, last September. To purchase ~~in~~ certificates of indebtedness aggregating \$750,000,000 will necessitate large

borrowings at the Reserve bank as rapidly as the Government deposits, resulting from these borrowings, are withdrawn and disbursed. In addition to that every time an issue of certificates is made, the interior banks withdraw money from New York in order to pay for their subscriptions, thereby increasing the burden of the New York City banks. When the last sale was made, \$252,000,000 was withdrawn in four days.

To meet this situation an arrangement has been effected by which sixty-seven banks and trust companies of the city act in concert through the direction of a committee, of which I am chairman, and these banks in the past six or seven months have placed at our disposal from \$350,000,000 to \$400,000,000, which has been used to effect the readjustment of loans resulting from these Government transactions. We are now in course of concluding a similar arrangement with the same banks for a credit of about \$200,000,000. Therefore, the banks of this city are in fact facing demands, which will almost certainly be made upon them prior to the next Liberty Loan, aggregating not far from one billion dollars. These operations have resulted in a quite general curtailment of credit in other directions, banks withdrawing loans and reducing purchases of commercial paper, and particularly reducing loans which are ineligible, in order that they may furnish the Government with money as required. This operation has a tendency to increase the interest level so that to-day collateral loans and commercial paper are pretty generally on a 6% basis.

I think it is safe to conclude from the above statement that an increase in our rates will mean a general increase in interest rates and may result in a situation making it increasingly difficult for the Government to borrow money even at 4 1/2%. In fact, in my opinion the increase made last December was one of the contributing causes - and possibly an important one - to the necessity for the present increase in the Government rate to 4 1/2%.

I have discussed the New York position at great length with members of

of the subcommittee of the Liberty Loan Committee, who have managed the money transactions above referred to, and they are unanimous in their views that an increase in our rate will have serious consequences to the Government's borrowing program. Unfortunately, it was necessary practically to require the New York banks to take a total of \$241,000,000 of the last issue of 4% certificates. A day or two following payment for these certificates, announcement was made that hereafter they would bear $4\frac{1}{2}\%$ interest. While I had explained to the Liberty Loan committee that this was likely to occur and gave reasons which were convincing and satisfactory to them, it was impossible to make the situation clear to all of the New York banks, and a great many of them feel that they have taken a large share of the certificates, which should have been taken in other parts of the country, at the lower rate. They were now, in fact, "hung up" with these certificates and the banks of the country which had held back are in a position to get $4\frac{1}{2}\%$ on the bulk of their loans to the Government. Under these circumstances an increase in our fifteen-day rate to 4%, making the cost to the borrowing bank $4\frac{1}{2}\%$, and a corresponding increase in our purchase rate to $4\frac{1}{2}\%$, would have the effect of penalizing the New York city banks by $\frac{1}{2}$ of 1% on all of their borrowings on the outstanding certificates. Their recommendation, in fact, has been very strongly that our rate should be $3\frac{1}{2}\%$ to the member banks for these transactions, and they stated very positively that there is no tendency observable on the part of the banks in this district to abuse the facilities of the Federal Reserve Bank simply for the purpose of making money on the differential. In general, I think this is true.

In resume the situation in New York City is such that an increase in our rates, which would make borrowings at the Reserve Bank on Government certificates of indebtedness cost $4\frac{1}{2}\%$, would create an exceedingly unfavorable sentiment, would interfere with the Government's program, and might involve an increase in its rate to 5%.

As to the situation outside of New York City, the rate now charged

for advances upon certificates of indebtedness has not been as important a factor because the certificates have not been so largely purchased outside of the city and because a fifteen-day loan is for too short a period for many country banks to avail themselves of.

We now have an organization created under a plan which has been put into operation for effecting a wide distribution of certificates throughout the district and for conducting certain other operations with both member and non-member banks. This plan is succeeding beyond our expectations and is resulting in very large subscriptions compared with those formerly made by country banks. These banks are not in position to readjust their affairs by curtailing loans in other directions as rapidly as are the banks of New York City; they have not the benefit of the operations of the money arrangement above referred to; they are very largely loaned to their legal limit, and with the slower process of readjustment it is inevitable that they must resort to the Reserve banks for accommodation if they are to subscribe for the proportion of certificates now being allotted to them. I am told by Mr. Gregory, President of the Central Bank of Rochester, who has been in charge of this organization, that if we should increase our rate it would make it absolutely impossible for him to carry out the program laid out for this organization, and he would feel obliged to resign the undertaking. It must be borne in mind that payment by credit for these certificates of indebtedness by country banks cannot be employed with any profit to the country banks as in the case of the city bank. Their loans are not as liquid, and they cannot readjust their reserve when the Government withdraws the deposit as rapidly as the city banks, and their only recourse is to borrow from the Reserve Bank.

When the Federal Reserve Bank of New York increased its rate last December, it led to a feeling of uncertainty and distrust throughout the district because many commitments had been made for loans on Government bonds at 4%, and the member banks became uncertain at once as to whether our rate policy

might not force them into a position where their loans on Government securities would cause them a direct loss in addition to the reduced return on such loan below the rate at which they would otherwise employ their funds.

To summarize the situation as to rates, I think we must recognize that to place the \$750,000,000 of certificates of indebtedness in this district in addition to those now held, will necessitate borrowings by the banks in order to set up reserves as the Government deposits are withdrawn to a total of \$100,000,000 or \$150,000,000. Beyond this they would undoubtedly find it necessary to borrow from us to make good reserve in vault as a result of withdrawals from the interior, and I would not be surprised to see our loans account increase from \$200,000,000 to \$250,000,000 within the next two months. And I cannot help believe in general that an increase in our rates, at a time when this expansion is really imposed upon the banks, is an unwise policy; that it will not only cause dissatisfaction, but necessitate an increase in the Government rates, and will cause a general increase in all rates, which will embarrass the Government in placing its short loans and selling its long bonds.

We are facing an important readjustment of credit involving curtailment of unnecessary loans in order that the Government borrowings may be effected without unnecessary expansion of bank loans and deposits. The necessary program for Government borrowings from banks in the interval between its bond sales, must, of course, bring about an expansion of bank loans and deposits for a huge amount. The expansion can only be reduced, as we view it, by three methods:

One is to educate the banks as to what loans they should curtail. Our organization above referred to has been instructed on this point, and its influence, I think, will gradually be felt, but large results cannot be expected until some months have elapsed.

The second method which may later become necessary, might be by a direct control of bank credits. If that does become necessary, we have an organization already established which could be used no doubt with success.

The third method - which we would, of course, expect to employ in time of peace - would be a general increase in the interest rate.

I cannot believe that it is wise to employ this third method and ignore the consequences. There would be no reasonable limits to the level of rates which might result from the policy of successively increasing the rate of the Reserve banks, then the rate paid by the Government, and so on indefinitely, until money conditions became intolerable.

It is the feeling of our board that the establishment of a uniform consistent policy as to rates in the interval between sales of Government bonds and for a similar uniform policy for loans upon Government long-time bonds at the time of sale, is imperative in the Government's interest, and that the decision as to the rate policy of the Federal Reserve Bank of New York is of more importance to the Government than that of any other reserve bank.

My object in writing this long description of the position in this district, is to ask that the board may consider the desirability of expressions of views from this district before any definite policy is adopted and that we may have an opportunity to discuss the whole subject with the board and with representatives of the Treasury Department before any change is undertaken, either in this or other districts.

Respectfully,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/EL

(SPECIAL DELIVERY)

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APR 17 1919

FEDERAL RESERVE BANK

FILING DEPT.

APR 3 1919

FEDERAL RESERVE BANK

Washington,

March 28, 1919.

Dear Governor Harding:

The stenographic report of the proceedings at the Governors conference is about completed and at your convenience I would be glad of an opportunity to discuss it with you. Two topics on the program were referred to me for special verbal report to you.

The other point not included in the program was briefly discussed at the meeting and Governor McDougal now asks me to make a special report upon that subject. It relates to the present form of statements of Federal Reserve Banks which are now discounting paper with other Federal Reserve Banks. It was the feeling of those who discussed the matter that it would be desirable to have the fact of such rediscount plainly shown in the statements of the individual reserve banks and indicated in some form in the consolidated statement.

Very truly yours,

Hon. W.B.G. Harding, Governor,
Federal Reserve Board.

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PERSONAL:

November 22, 1918.

Dear Governor Harding:

I have just finished reading your circular letter of November 19th, X-1274, in regard to conservation of credit. Of course this is a matter which has had very constant and urgent attention in this district on account of the enormous size of the transactions conducted here and the necessity for what would appear in ordinary times to be excessive and unusual borrowings by certain of the member banks. We are, as you realize, confronted with the necessity on the one hand of urging, in fact almost requiring, member banks to subscribe to the Government certificates of indebtedness with full knowledge that, in order to take them, they must borrow to some extent, and, at the same time, carrying out a policy which we have right along, of urging the conservation of credit. We are running the risk of appearing to take an inconsistent and conflicting position with regard to their transactions at the reserve bank!

I am glad, however, to find that the Board, by the terms of this letter, does not consider it necessary to exercise restraint so much upon the amount of member banks' borrowings as to exert an influence upon the character of the loans which they make. The distinction is an important one because if we approach the banks to restrict their borrowings from the reserve banks, we are, necessarily, causing some timidity in dealing with the Government's financial program.

The particular point in your letter which impresses me as containing possibilities of difficulty is in regard to direct or indirect ac-

11/22/18.

commodation to nonmember banks. Your letter definitely states that nonmember banks should not be permitted to use a member bank as a medium or agency for the purpose of procuring accommodations from Federal reserve banks unless the facts are submitted to the Reserve Board and approved. Most of the nonmember banks of the country carry accounts with member banks in New York City and at seasons of the year are borrowers from them. In fact, in the case of some of our largest member banks, this is a very important, and, possibly, the largest department of their business, and where these New York City member banks borrow from us at the same time that they are lending to their nonmember correspondents, we are indirectly extending accommodation to nonmember banks and I really see no way to avoid it. Technically, a strict compliance with this paragraph of your letter would involve our requiring every member bank which borrows from us disclosing by a statement on its applications whether it is lending to nonmember banks or not, and if it is lending to nonmember banks, denying accommodation to our member bank except the circumstances were submitted to the Federal Reserve Board.

From time to time paper may be offered to us for discount which has reached New York banks as the result of discounts for their nonmember correspondents. This can only be disclosed by indorsements, and even though we discriminated against paper indorsed by nonmember banks, the object of the Board's suggestion would not be accomplished as it would simply result in the member banks' submitting paper which did not bear such indorsements.

Frankly I see no way out of this difficulty. It might be held that a nonmember bank in some cases effected a specific arrangement for employing a member bank as an intermediary for discounts with the Federal reserve bank. It would make little difference whether that transaction was brought about by the direct discount of paper belonging to the nonmember bank and indorsed by the member bank, or whether it was brought about indirectly by the dis-

11/22/18.

count of the nonmember bank's paper with the member bank and the latter again discounting its paper with us, so long as our member bank gets the indorsement of its correspondent and we, in turn, get the indorsement of our member bank. It makes no difference whether it is on one or another piece of paper, the effect is identical and the legal responsibilities are the same.

It has always seemed to me that the danger of abuse of the facilities of the Federal reserve banks lies in deliberate, persistent, and intentional discounting by member banks for the purpose of making a profit between the rate at which they lend money and the rate at which they borrow from us. Restraint upon those transactions under present conditions is, and will be, very difficult so long as the Government is a huge borrower on short paper. The borrowing bank will always select the paper which it can discount at the lowest rate, and one can not well identify the proceeds and so restrict its use in the hands of the member banks as to insure that it is not simply a profiteering transaction. When the Government retires from the money market, I apprehend that our rates can be employed to deal with that situation effectively, but just now we seem to be between the upper and the nether mill stones, and will probably continue there for some months longer.

May it not be possible, either formally or informally, to somewhat modify the requirements contained in the paragraph of your letter to which I refer.

Very truly yours,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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431
November 25, 1918.

Dear Governor Harding:

I am grateful to you for your letter of November 23rd in regard to bank expansion. My difficulties I think you fully realize and your assistance in meeting them is greatly appreciated.

Very truly yours,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/MSB

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APR 7 1919

FEDERAL RESERVE BANK

Washington, March 31, 1919.

*Sent to Pierre Jay
submitted to Directors
on April 2.*

Dear Governor Harding:

Replying to your note of this date I am expecting to be in New York for our Directors meeting on Wednesday of this week when the Board will take action in regard to the arrangement with Mr. Trowbridge.

Yours very truly,

Hon. W.P.G. Harding, Governor,
Federal Reserve Board.

THE SECRETARY OF THE TREASURY
WASHINGTON

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November 5, 1919. X-1718 a

Dear Governor Harding:

I hope that the Federal Reserve Board will not allow the Governors of the Federal Reserve Banks to rely wholly or too heavily, for the prevention of the abuse of the facilities of the Federal Reserve System, upon the increase in rates now established with the approval of the Board, myself included.

2. The experience of all European countries (and Japan), including those countries which have been neutral in the war and those which have maintained a high central bank rate, supports the view that discount rates will not suffice in these extraordinary times.

The Reserve Banks' rates should, of course, scientifically be above the commercial rate and not below it. That cannot happen until the independent resources of the banks suffice for the normal requirements of their customers for commercial, industrial and Government purposes. Banks cannot be expected to meet these requirements habitually at a loss. Their dependence upon the Federal Reserve System should be seasonal or occasional and not habitual. Until that condition comes about as a result of the production and saving of wealth the tendency will be, as Reserve Bank rates are increased, for the rates to the Government and rates to the commercial borrower to be increased in turn. The world has been for five years consuming or destroying more than it has produced. My own belief has been and is that with the curtailment of export demand consequent upon the curtailment of foreign credits and with industrial production proceeding full steam ahead we should soon have reached an equilibrium in this country at least. In the meantime, however, the

labor situation has become so acute as gravely to threaten production and the speculative mania has developed to such an extent as gravely to threaten our credit structure.

The conditions under which changes in the Reserve Banks' rates of discount would operate effectively do not exist here today. An increase in the discount rate will not result in the importation, nor curtail the exportation, of gold to any material amount. It will not result in a curtailment of the importation of goods nor in increasing our exports materially. In the present position of the international balances and of the foreign exchanges and because of gold embargoes the Federal Reserve Bank rates cannot function internationally, and will operate solely upon the domestic situation. In that condition an important further increase in Federal Reserve Bank rates might have the effect of penalizing and discouraging the borrower for commercial and industrial purposes, thus curtailing production and distribution and increasing the shortage of goods, and consequently the price of them, and thus, in turn, stimulating speculation. (An increase in rates (per cent. per annum) falls very lightly upon the borrower for speculative purposes, who figures a very large profit on the turnover in a day, a week, a month or some other short period). It might have also a very grave effect upon the Government's finances.

In consequence of the war the Government has issued some \$25,000,000,000 of interest bearing securities which are of prime eligibility. Before the war, when the Government's debt was only \$1,000,000,000 and that all stored away in strong boxes, the possession of eligible paper was very strong presumptive evidence of the right of a member bank to borrow. Now and for the life of this great war debt the possession of eligible paper will be no evidence at all.

Therefore, I believe it to be of prime importance that the Federal Reserve Board should insist upon and that the Governors of the banks should exercise a firm discrimination in making loans to prevent abuse of the facilities of the

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Federal Reserve System in support of the reckless speculation in stocks, land, cotton, clothing, foodstuffs and commodities generally.

We cannot trust to the copybook texts. Making credit more expensive will not suffice. There is no precedent in history for the great war which we have been through nor for the conditions now existing. The Reserve Bank Governor must raise his mind above the language of the textbooks and face the situation which exists. He must have courage to act promptly and with confidence in his own integrity to prevent abuse of the facilities of the Federal Reserve System by the customers of the Federal Reserve Banks, however powerful or influential.

Speculation in stocks on the New York Stock Exchange is no more vicious in its effect upon the welfare of the people and upon our credit structure than speculation in cotton or in land or in commodities generally. But the New York Stock Exchange is the greatest single organized user of credit for speculative purposes. It is the organized instrument of a countrywide speculation. I believe that the practice of financing speculative transactions in stocks by loans on call, with daily settlements, is unsound and dangerous to the general welfare. Call money loaned to carry speculative transactions in stocks is only liquid when there is no need. The paper is not self-liquidating and, in the case of an emergency, as, for example, upon the outbreak of the European war, and throughout the period of our participation in the war, such loans are in the mass uncollectible. The use of Liberty Bonds, Victory Notes and Treasury Certificates as collateral for borrowings made by member banks from the Federal Reserve Banks for the purpose of carrying speculative transactions in stocks makes it the right as well as the duty of the Federal Reserve authorities to see to it that the methods of financing such transactions are reformed and reformed immediately.

Open and notorious manipulation of stocks has been taking place during the period of, say, nine months, since the removal of the control of the Sub-committee on Money of the Liberty Loan Committee. This manipulation, which

takes the form of putting up the price first of one stock and then of another, no matter what may be the conditions, for the purpose of stimulating interest on the part of the uninitiated public, is, I imagine, contrary to the law of the State of New York and the rules of the New York Stock Exchange. In any event, it needs only vigorous action to put an end to it. [The Federal Reserve Bank of New York in its relation to the Subcommittee on Money of the Liberty Loan Committee, which Committee was at all times in touch with the officers of the Stock Exchange, naturally sought the views of the Treasury by reason of the fact that its prime duty concerned the sale of Liberty Bonds. A control now put into effect will be primarily for the conservation of the general credit situation and should therefore be initiated and supervised, not by the Treasury, but by the Federal Reserve Board.

I need not say that such steps should be taken not only firmly but with discretion and in such a way as not to involve grave hardship to individuals or injury to the general welfare.]

I have written this letter believing that you and the other members of the Board are in general accord with the principles and views expressed in it and that it might be of some assistance to you in dealing with the problem with the Governors of the Banks to have this written expression of the views of one of the members of the Board whose other official duties prevent his frequent attendance at your meetings.

I need scarcely add that this letter is written in no spirit of criticism. The Governors of the Federal Reserve Banks have served their country with devotion, courage and wisdom during the trying period that is past. It would be difficult for me to give adequate praise to the patriotic spirit of self-sacrifice which has actuated them or adequate appreciation to the skill and sagacity with which they have performed their duties. [During the war they ^(the Governors) have naturally turned for leadership to the Treasury since its operations were the dominating factor

in the financial situation. It would, however, be a great misfortune if, now that the Treasury operations are on a diminishing scale, the Governors of the Federal Reserve Banks are allowed to feel that the problems of the future were for them to solve each according to his own best judgment. The need of leadership is no less great, the need of examining the situation from a broad national and international point of view is no less imperative. I look to see the Federal Reserve Board, not critically nor aggressively but patiently and persistently, provide this leadership."

Very truly yours,

CARTER GLASS.

Hon. W.P.G. Harding,
Governor, Federal Reserve Board.

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X414E

November 6, 1919.

Dear Governor Harding:

I am in receipt of your telegram of the 6th instant in regard to the policy of the banks in this district in raising the interest charged for loans upon Government securities. In general, I should say that the rates here are fair to the borrowers, - a recent questionnaire disclosed that, - and if any criticism should be made possibly it is that too low rates are charged in view of present money conditions in certain special instances.

One difficulty in this district lies in the fact that loans upon Government bonds are now far from being confined to original subscribers. The banks entered into an obligation a year ago to carry bonds of the Fourth loan for one year, and six months ago to carry bonds of the Victory loan for six months. These undertakings now having been completed, I am rather of the opinion that we would be doing harm rather than good by systematically introducing our views into the management of all the banks in the district. The excessive rates that I have heard being charged are largely in other parts of the United States, rather than in this district, where, if any mistake has been made at all, it might be said to be on the side of liberality than otherwise.

I hope the board will not understand any lack of sympathy on our part with the effort which they are making, which may be needed in

some sections of the country, but which I firmly believe is not applicable here.

Very truly yours,

BENJ. STRONG,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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NOV 7 - 1919
FEDERAL RESERVE BANK

November 6, 1919.

Dear Governor Harding:

You have heard me reiterate my belief that the control of credit in New York must, primarily, rest upon rate adjustments, and that effective control cannot be exercised through arbitrary curtailment of loans to specific institutions beyond a very moderate degree.

In discussing the situation with a banker in New York, he made the following statement: His institution, during the period of the operations of the Money Committee, was lending about \$40,000,000 to \$45,000,000 on stock exchange collateral, that being its proportion of the total stock exchange loan account. When the money committee dissolved, it reduced its stock exchange loans so that now it is carrying considerably less than one-half of that amount. On the other hand, while it had formerly been lending for out-of-town correspondents on stock exchange collateral say \$20,000,000 or \$25,000,000 as the normal amount, it is now lending about \$90,000,000 for correspondents but has had the reports of all of these institutions examined and finds that in no single case do they report bills discounted with the Federal Reserve Bank of their respective districts.

As you know, the reports of our member banks and trust companies indicate that the total fund loaned on the stock exchange by out-of-town institutions is pretty nearly \$700,000,000. This is an inevitable development of such a situation as now exists and, to me, affords convincing evidence of the necessity that rates of discount by the Reserve Banks alone may be relied upon to secure ultimately the character of control that is required if we are to have an orderly restoration of normal credit conditions.

11.6.19

Meantime, feeling the obligation of meeting the views of some of our associates in Washington, we are taking steps to develop a little more aggressively our policy of scrutinizing the borrowings of member banks with a view to gradual curtailment of borrowings in this district.

Very truly yours,

Bd.

BENJ. STRONG,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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Dear Governor Harding:

I have just received your letter of November 8th, enclosing copy of a letter from Secretary Glass, dated November 5th, for which I am greatly obliged.

Inasmuch as the letter outlines a fairly definite policy for adoption by the Federal reserve banks, it would seem to me desirable that this letter should be placed in the hands of the Governors of all the reserve banks so that it may be understood that the policy of the System shall be in conformity with this request, which I assume meets with the approval of the Federal Reserve Board and that the Board is willing to assume the responsibility for the program outlined. As you say, however, there are references in the letter to the policy of this bank, and I would, therefore, appreciate the Board's considering whether a copy of this letter should not also be furnished to the governors.

It is, I am sure, quite unnecessary to assure either you or Secretary Glass of the desire and intention of this bank to cooperate to the fullest extent in all proper methods to check the speculative mania, to which his letter refers, which has now extended its unwholesome influence into almost every field of business activity. Our recent conferences have shown, indeed, that we are entirely in agreement as to the causes which underlie this development. In this district speculation may be more largely evidenced in the security markets, in corporation

purchase cotton, oil, metals, food stuffs and other commodities or real estate, but, whatever be its form, it is based upon the use of credit to buy things in the expectation of selling at higher prices. The control of such a tendency, common enough in the past and only accentuated in extent at the present time, therefore, seems to depend upon the control of credit.

I am also in hearty accord with Secretary Glass when he states that reliance for the control of credit and for a check upon speculation cannot be wholly left to interest rates if results are to be immediately attained, although in the long run, I believe it will be found that the old rules still work and that a higher cost for credit, and only that, will provide the necessary check.

It seems, therefore, that I should frankly state to the Federal Reserve Board the views which are held by my associates and myself as, in some particulars, I fear that the policy which we would now recommend might not exactly meet the expectations implied from Secretary Glass's letter.

Since the outbreak of the war, the loans of the banks and trust companies of New York City have increased from \$_____ to \$_____. Of the amount of this increase somewhat less than one-quarter is shown to be made up by increased loans to stock exchange houses, and more than one-half of the increase in loans to member of the exchange is known to be caused by loans made by banks located in other Federal reserve districts. In fact, this great loan expansion is

common to all Federal reserve districts and appears to be based upon, if not,

in fact, to have been a cause in part for the general expansion of values of all kinds, - securities, commodities and real estate, - which has occurred in all parts of the country, indeed throughout the world, as a consequence of the war.

The credit expansion which has caused, or resulted from, higher prices is, in fact, widespread. This volume of new credit was first permitted by a great addition to our gold reserve coming from abroad, and, later, by loans of reserve banks to their members to enable them, directly or indirectly, to make advances to the Government.

So long as the Treasury was increasing its volume of loans, some expansion of bank credit was inevitable, but once the volume no longer increased, or, in fact, was reduced, as in last September, it became necessary to stimulate, if not to enforce, a process of reduction of bank loans and deposits. Our problem now is to determine and adopt a method or methods to achieve this which will prove helpful, or at least as little harmful as possible, to the business of the country and yet be effective in checking a further expansion of loans and increasing prices.

There seem to be three courses open to the management of the reserve banks:

1. We may exert our influence with individual institutions which borrow heavily from us, seeking thereby to curtail their borrowings, or even appeal directly to certain classes of their customers, such as the stock exchange houses

We may actually limit the amount of advances to each borrowing bank, in other words, reduce our loans to a rationing basis and establish a line of credit for each borrower.

3. We may further increase our rates.

As to the first, undoubtedly a wholesome influence can be exerted upon the officers of a limited number of member banks which seek accommodation from the reserve banks and appear to be abusing this privilege. For a year or more it has been our policy to employ this method where we believed that the borrowings of any specific institution justified our doing so. But such methods are open to various objections in the present conditions. It may be, and often is the case, that institutions which borrow the largest amounts, actually and relatively, are, in fact, employing little or no credit in furtherance of speculative operations, whereas other institutions which borrow the least, sometimes not at all, are furnishing large amounts of credit for such purposes. The president of one New York bank informs me that his institution is now lending on the stock exchange for its out-of-town correspondents three times as much as it was a year ago, the total equaling probably 5% of the entire stock exchange loan account. But he also says that an examination of the statements of these correspondents disclosed that not one of them is a borrower from the reserve bank of its district. Again, it must be realized that borrowings from the reserve banks, except possibly in connection

with the Government's loans, are rarely for specific purposes determined in advance, but generally to restore depleted reserves which become reduced below the legal minimum from a variety of causes. To identify the purpose of such borrowings and restrain the member bank in advance of the demand upon us would involve a scrutiny and understanding of all the causes and purposes which influence each borrowing bank to use our facilities. This becomes quite impossible with 750 banks, as in our district, or for 8,000 member banks in all reserve districts. At best, such direct influence can only apply to member banks, and usually only to those that borrow. A judicial and just administration of the system, where restraint is made to apply fairly and equally to all, seems to us to be well nigh impossible by such direct methods. It certainly would result in reducing borrowings by some banks, but probably, and I believe certainly, such borrowings would soon be transferred to other banks, thus driving the infection from one place to another without eradicating it. You will realize how serious a condition might arise if all reserve banks exerted influence upon members to reduce loans upon the New York Stock Exchange and thereby caused the withdrawal of a considerable part of the \$700,000,000 now loaned the stock exchange houses by out-of-town institutions. The gravity of the consequences involved by such a course must be carefully considered before it is adopted in any unregulated or haphazard fashion.

We do believe, however, that this first method ^{which} will gradually educate the

member banks to the real purpose of the System, and which we have employed for some time past, should be discreetly continued; that it is wholesome and necessary in certain specific instances; but that it will not be effective in accomplishing a broad result such as we seek.

The second method is the logical outcome of the application of the first method carried to a uniform conclusion. It means setting a fixed limit upon the borrowing of each member bank based upon some formula relating to resources. It would render the Reserve System as inelastic as was the old system and we believe the sentimental influence of such a policy, even if it were not publicly announced, might be disastrous to the business of the country and to the Federal Reserve System. In fact, as to both the first and second plans, the chief immediate result of private remonstrance with those banks which borrow from us, or in limiting the amount of their borrowings, will be a calling of loans and curtailment of credit which will result in a disorderly money market with high rates being bid for accommodation by borrowers who have existing obligations and who may develop panicky feelings by the creation of a sentiment that the Federal Reserve System has reached the end of its resources. In fact, either the first or second method, if producing any result at all, I believe will do so by the creation of a much higher level of interest rates, and even a panicky condition in the money market, such as would be avoided by the third method.

As to the third method, we regret very much to differ so considerably from the views expressed by Secretary Glass on the general subject of interest rates.

It is our understanding that the experience of the European countries to which he refers has been that the central bank has completely lost control of the money market in almost every instance because of heavy Government borrowing and the creation of artificial rates for money due to special rates made at the central bank for loans upon Government securities in one form or another. This has been the experience of the Bank of England, and I believe it to be the view of the management of that bank. We are, in fact, dealing with two separate and distinct influences as to money rates: one is the influence of the special rate made for the benefit of the Treasury, which has been the controlling rate so long as it was below the bank rate. I cannot believe that every economic law, not only those with which we are familiar in the text books, but those which we understand through our personal experience, has been suspended, or must be ignored.

The speculation which is now taking place throughout the country is leading to the accumulation of an undue volume of goods and securities by those who buy them for profit and carry them with loans. Such a speculation constitutes an interruption in the flow of goods from producer to consumer, and an interruption in the transfer of securities from investor to investor without employment of credit.

And such a speculative movement invariably reaches its crisis when supplies of credit become either too expensive or absolutely exhausted. // To attempt to influence 25,000 or 30,000 banks, or, in fact, the vast number of people who are directly or indirectly contributing to this movement in one form or another, except by the wholesome, uniform and just plan which can be adopted by the reserve banks, - namely increased discount rates, - seems to me to be courting failure either by attempting something which will be ineffective, or, on the other hand, if adopted so vigorously as to be effective, to be dangerous as leading to panic and disasters. //

PERSONAL AND CONFIDENTIAL

November 28, 1919.

My dear Governor Harding:

Your favor of the 26th instant is received, and the action taken by the Federal Reserve Board upon rates submitted in my letter of November 24th is duly noted.

Our directors have instructed me to submit the following representations to the Federal Reserve Board, which seem to be made necessary in view of its determination in the matter of rates:

The directors of the Federal Reserve Bank of New York, in my letter of November 24th, have submitted their views as to the action which they believe is required in this district, and we now understand that it is the decision of the Board that further increases in rates shall not be made for the purpose of exercising the control suggested in my letter but that, nevertheless, as stated in your letter of November 26th, "direct restriction upon the use of credit by the borrowing banks is essential to any effective control."

So far, the principal efforts of this bank have been directed toward the restriction of the speculative employment of credit in stock exchange transactions conducted upon the New York Stock Exchange. The result of representations which have been made to member banks in this city, and to some extent in other parts of the district, has been to effect a reduction in the total amount of funds that are loaned upon stock exchange collateral (both by New York and out-of-town banks) by \$163,275,000 between November 10th and November 25th. During the period November 1st to November 25th, however, the amount loaned upon the New York Stock Exchange by out-of-town banking institutions has increased from \$686,000,000 to \$739,264,000. This is a development which we are

powerless to control by any action undertaken in this district, and the directors of the bank instruct me to point out to the Federal Reserve Board the difficulties inherent in such a situation and the possibilities of danger which might result from attempts to restrict loans on the stock exchange through the uncoordinated effort of the managements of the other eleven Reserve banks.

Should representations be made to member banks of other districts who are in the habit of lending on the stock exchange and who, at the same time, are borrowing from their reserve banks, it might result in a sudden withdrawal of credit from New York in such proportions as to precipitate a panic in money, with all of the consequent disorders in the security markets, with certain injury to the announced program of the Treasury, and likely heavy selling of bonds of the United States. On the other hand, if efforts to curtail the loan account on the New York Stock Exchange are confined to those attempted by this bank, it is likely to result in a continuance of the development noted above - a reduction of loans by our member banks with a corresponding increase of loans by out-of-town banks. This is one of the most serious aspects of the speculative loan account. Furthermore, even a very moderate and cautious representation to banks of other reserve districts in regard to their New York Stock Exchange loan account might result in bringing great pressure upon the credit situation in New York, resulting in a large increase in our loans in order to protect the New York situation, causing either impairment in our reserve, or, in order to avoid an impairment, a large amount of rediscounts and borrowings from other reserve banks.

It must not be overlooked that a large number of the out-of-town banks which now lend money on the New York Stock Exchange, according to reports we have received, are not borrowers from their local Reserve banks, and it is difficult to see how control of their loans of that character can be effected through the Reserve Banks.

You and Mr. Strauss have had opportunity to examine the system which

Stock Exchange Loan Account is concerned, it has been carefully watched for a long period and every reasonable effort has been made to control it without employing methods which, in the opinion of the management of this bank, would be disastrous in their results.

Various further methods of dealing with the situation have been suggested to us: - one is the proposal that we should undertake, either directly or through the New York Clearing House Association, to induce banks of the city to require larger margins upon stock exchange loans. The so-called Money Committee did impose such restrictions in the latter part of 1918. They resulted in serious complaint and the committee finally became convinced that it was a discrimination of a character which they felt unwilling longer to be responsible for, and, as you know, abandoned the requirement after some months of experience with its operation. The defect in that plan is that it fails to reach the real offender, who is the margin speculator, and simply imposes upon the stock exchange houses of larger capital the necessity of furnishing out of their own resources the added margin required by the lending banks, and, of course, drives the stock exchange speculative business more largely into the hands of houses of larger capital.

Another suggestion is that, either through the New York Clearing House Association or by direct representation, this bank should undertake to influence the management of the stock exchange to require its members to exact larger margins upon speculative accounts. Such a course of procedure might, indeed, be productive of restriction upon the employment of credit for speculation, but we are strongly of the opinion that it is not the function of the Reserve bank to deal directly with the stock exchange, nor desirable for us to do so, and that the responsibility for bringing about such a radical change in stock exchange custom in New York really rests upon the lending banks who deal directly with the stock exchange members. Some such course we have already suggested to the members of the Clearing House Committee of the New York Clearing House and asked them,

upon their own initiative, to discuss this with the management of the New York Stock Exchange. And we understand that they already have had at least one meeting with the officers of the Exchange for that purpose. It is, however, the writer's personal opinion that urging any effort in that direction at the present moment might result in great disorder in both the money and security markets, as bad, if not worse than that which occurred quite recently, and that the reflex upon the Treasury program, as well as the market for Government bonds, would be more serious than would likely arise from an increase in our rates.

A further suggestion has been made that we should endeavor to influence the management of the New York Stock Exchange to introduce a system of fortnightly settlements, similar to that in operation by the London Stock Exchange. I would respectfully submit that no such system as a fortnightly settlement is possible under the present organization of the stock exchange and the methods of trading which prevail in this city. The fortnightly settlement in London, I understand, is made possible by the development of two classes of brokers, one the jobber and the other the commission broker, whereby each unmargined account is underwritten by the jobber during the intervening period before the fortnightly settlement. And, in order to adapt a system of fortnightly settlement to our own custom of trading, it would be necessary either to develop a new type of stock exchange house; which is regarded as quite impossible, at any rate until after long years of experience; or to require margins in the first instance, as at present, on all transactions, which would, in fact, be no change from the present system of trading.

On the other hand, our directors desire me to draw the Board's attention to what is regarded as the most important feature of the present situation in the matter of credit control. It is their opinion that the great expansion of credit now taking place, which is only represented in part by transactions upon stock exchanges, is principally occurring in many forms of credit, arising out of the great expansion of the agricultural, industrial and commercial business of the

country at the present high level of prices, and which is bound to continue unless means are found to effect a general control in all lines of business activity which are overextended.

Needless to say, the problem is no less that of production, if, indeed, as much as it is one of wasteful and extravagant consumption of goods, due, we fear, in part, to the great expansion of all forms of credit.

Figures taken from bank reports, which are in the hands of your Board, indicate that while there has been some slight increase in collateral loans upon stock exchange securities during the past few months, the great bulk of the increase in the loan account of reporting banks has actually been in miscellaneous loans other than stock exchange loans, notwithstanding the reduction in loans upon Government securities and investments in certificates of indebtedness. It is our belief that all the indications point to a continuance of this expansion in the general loan account of the country unless it can be curtailed by some more general measure of control than can possibly be exercised by the direct influence of the Reserve bank upon a limited number of borrowing banks. To summarize, it is the opinion of our directors that the control of credit, and through the control of credit the corresponding consequent influence upon the price level, can only be justly and effectually exercised through the rate of discount of the central bank, which has been the experience in banking ever since central banks have been established and which is not altered by reason of the unusual conditions of the war, except where the operations of the Treasuries of belligerent countries have placed the central banks in positions where they cannot exercise that control.

It is our intention to carry out the policy outlined by the Federal Reserve Board and exercise our personal, direct influence upon those banks which are large borrowers from us to the end that they shall use our facilities cautiously and properly and to refrain from borrowing from this bank simply for the purpose of realizing a profit. To execute such a policy fairly and impartially, it

should be necessary for us to submit a statement of policy to all the member banks of the district. Under present conditions, we regard that course as fraught with the utmost danger, as liable to create a serious misunderstanding as to the position and security of this bank, and one which we would be unwilling to adopt except at the direction of the Federal Reserve Board, and then most reluctantly.

We feel, therefore, that we should now ask the Federal Reserve Board to define as exactly as possible the extent and nature of the restrictions which they believe should be employed by Federal reserve banks in order to control credit, and, if they will, to advise whether the Board contemplates any action in other Federal reserve districts where the facilities of the Federal Reserve System may be abused by banks which are borrowing from the Reserve banks in their districts and, at the same time, as mentioned above, are lending funds on the New York Stock Exchange, on the other stock exchanges of the country, or otherwise employing funds so borrowed simply for profit. We repeat our suggestion of the possible hazards of such a policy.

I believe it is only right that I should submit to the Board the following facts which influenced our directors in arriving at the decision to submit a new schedule of rates. We were advised by Mr. Hepburn, at the meeting when this matter was submitted, that every member of the Federal Advisory Council favored a further advance in the discount rates, but recommended that rates should not be changed at the present time because of their understanding that it would be detrimental to the program of the Treasury Department. We have consulted a large number of New York bankers generally in regard to the situation, and I believe without exception every one of them stated that they believed rates should be advanced, and, if necessary, that the Government should pay higher rates for short accommodation in order that our rates should be advanced.

11.28.19

My own impression, from the discussions at our Governors' Conference, in Washington, indicated that most of the governors of the Reserve banks held the same view.

At the time of the conference of governors of the Federal reserve banks in Washington, I had in my possession, but did not read, a letter signed jointly by every large dealer in bankers acceptances in New York City, urging that we advance our rates in order to correct the present situation.

In fact, I think it may be generally said that it is almost the unanimous judgment of experienced bankers and those conversant with the present situation that rates should be advanced and that such rate advances only will prove adequate in meeting a situation which contains many elements of danger, although the direct influence we are exerting upon certain borrowers will be partly or wholly effective in many individual cases.

I do not need to assure you and your associates that it is the intention of the directors and officers of this bank to do their utmost to give effect to the policy outlined in your letter of November 28th, but I must submit the views of our directors that the last paragraph of your letter suggests that some method other than rate advances be immediately applied to effecting a control of credit, without, however, indicating how this should be done. We are at a loss to discover any method which will be effective and which will at the same time avoid dangers to the general situation, as well as to the Government bond market and its program, which we believe are likely to be far more serious than would result from a moderate increase in rates, and even further increases if they seem to be necessary.

Very truly yours,

BENJ. STRONG,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

X 431.2

P. S. Since dictating the foregoing, I am in receipt of the telegram urging that we make every effort to make a success of the current issue of Treasury certificates, which concludes with the statement that the Board does not look with favor upon a policy of forced liquidation of Government securities nor any denial of credit to institutions which are holders of such securities which might result in their liquidation, the Board, as I understand it, considering that such a program will do much harm and can do no good.

Of course the Board must understand that practically every banking institution in this city, and particularly the large ones, are considerable holders of the Government's war bonds of the various issues; and I believe much more of the Victory notes than of the earlier issues. We do not believe that they are generally selling these bonds, but we do believe that the selling comes from a large number of institutions and individuals that are now borrowing money from the banks and trust companies, which some time ago started to mark up the rates at which they were being carried upon the expiration of the agreements for one year, in the case of the Fourth Loan, and 6 months, in the case of the Fifth Loan, entered into at the time those loans were placed.

Frankly, your telegram has thrown us into some confusion as to the policy which this bank should pursue, and emphasizes the necessity for a better understanding of policy than now exists. The necessity for this seems to be indicated by the fact that our loans today increased by about \$50,000,000 to the highest figure which they have so far reached.

Very truly yours,

BENJ. STRONG,
Governor.

PERSONAL AND CONFIDENTIAL

November 28, 1919.

Dear Governor Harding:

Your telegram of the 26th instant, advising that the Federal Reserve Board has voted to disapprove the rates of discount established by our directors on November 24th was duly received, and we will, of course, be governed accordingly.

The suggestion in regard to rates at which acceptances are purchased presents considerable difficulty. The discount rate for bankers and trade acceptances is now $4\frac{1}{2}\%$; the rate at which bills are purchased is established at a minimum of 4%, with no maximum, and purchases are generally being made at around the level of the rate established for discounts of bills.

Should we make any material advance in the rate of discount for acceptances, it would put that rate above the present $4\frac{3}{4}\%$ rate for commercial paper, which, of course, is not to be thought of. And, should the rate for commercial paper be advanced, say to 5% or above, it would necessitate, likewise, an increase in the rate for 6 months' agricultural paper. In other words, no change can very well be made in the rate for discounting bills unless corresponding changes are made in the rate for discounting 90 day and 6 months' commercial paper.

We are proposing to advance the rates at which bills are purchased in the open market, if necessary above the rate of discount, which may, indeed, force us to discount more bills than at present at $4\frac{1}{2}\%$ and purchase somewhat less from the dealers. At any rate, Mr. Jay and I agree that it would be better to work along as best we can with rates as they are now rather

11.28.19

than to submit a new schedule of changes in discount rates which I gather from your telegram would not be likely to receive the Board's approval.

Very truly yours,

BS

BENJ. STRONG,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS.M3P

ORIGINAL AND CONFIDENTIAL

FEDERAL RESERVE BANK OF NEW YORK

PRIVATE WIRE - OUTGOING

December 10, 1919

HARDING - RESERVE BOARD - WASHINGTON

Your telegram of this date is received and has been submitted to our Executive Committee stop I am authorized to report establishment of the following rates which are now submitted for review and determination by the Federal Reserve Board

For advances not exceeding 15 days to member banks on their promissory notes secured by

- (a) United States Certificates of Indebtedness - 4-1/2%
- (b) Liberty Bonds, Victory Notes and customers notes secured by either of the foregoing - 4-3/4%
- (c) Eligible Commercial paper - - - - - 4-3/4%

For notes, drafts and bills of exchange having a maturity at time of rediscount of not more than 90 days - - - - - 4-3/4% (including rediscounts, for periods not exceeding 15 days, of eligible paper having a maturity at time of rediscount of more than 15 days)

For notes, drafts and bills of exchange having a maturity of not in excess of 90 days secured by Liberty bonds or Victory notes - - - - - 4-3/4%

For trade acceptances and bankers acceptances having a maturity at time of rediscount of not more than 90 days - - - - - 4-1/2%

For agricultural paper having a maturity at time of rediscount of more than 90 days but not more than 6 months - - - - - 5%

Members of our Executive Committee attending the meeting authorize me to say that in view of this further development along the general line of rate recommendations which have heretofore been discussed with the Federal Reserve Board they feel it is not now urgent to hold the conference arranged for next Wednesday stop They suggest therefore if it meets with the views of the

B.S. Personal File
see attached letter
of 12/24-19 of B.S.
in explanation of
certain paragraphs in
policy.

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December 17, 1919.

FEDERAL RESERVE BANK

My dear Governor Harding:

You asked me for a statement of the policy of the Reserve Bank in making purchases of bills in the open market, the effect of which has been to very largely increase the Reserve Banks' holdings of bills during the last six months - at the same time, however, that the amount of loans made by Reserve Banks, secured by Government obligations, have been somewhat reduced, or, at least, have not increased in amount.

Original and handwritten
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The explanation lies entirely in the relation between our various rates of discount. From the very beginning of the Federal Reserve System, when bankers acceptances began to appear in the market, it was deemed necessary to establish a more favorable rate either for the discount of these bills by member banks or for their purchase in the open market than was established for the discount of commercial paper. The reasons were, partly to stimulate the development of the new business with which our bankers were unfamiliar and which was regarded as essential to the Federal Reserve System and, particularly, to the financing of the foreign commerce of the United States by American banks instead of, as heretofore, by foreign banks. But this preferential rate was also established in recognition of the fact that a bill drawn against an actual shipment of commodities and accepted by the largest and richest banks and bankers of the country was a credit instrument of greater value commanding a lower rate than the average of the commercial paper which would reach us from the banks of the district in the ordinary course of their discount operations. In other words, a preferential discount and buying rate was established in order to stimulate a necessary banking development in the country and in recognition that this particular type of paper was a better asset than any other line of

commercial paper.

So long as our rate of discount for commercial paper and for bankers bills was at or above the rates at which this paper sold in the market, it became necessary for us to purchase bills in the open market at lower rates than our discount rate. You will recall that we did this, not only for our own account but for all of the banks of the System, for the first two or three years. Gradually, however, during the period of the war, as money rates advanced our own rate for the discount of bills (of bankers bills, particularly, and for the various other paper that we discounted) became increasingly below the market rate. The question therefore arose as to this department of our business, "Shall we advance our discount rate and with it our buying rate?"

The answer was, inevitably, that we could only do so if we advanced our other rates. Were we to advance our other rates, including our rate for commercial paper, leaving the rate for Government securities as then established, the Federal Reserve Banks would have been out of the market entirely for bankers acceptances, and the successful marketing by our merchants and bankers of this most important credit instrument, just being developed for the aid of our foreign commerce, would have depended entirely upon the willingness of the bankers of the country to buy them. They undoubtedly would have had a market, but I have no doubt that the rate would have advanced so considerably that it would have deferred for a long period the development of our foreign banking.

The reason why so large a proportion of these bills reached us as open market purchases, rather than as discounts, is because we have consistently, and I believe properly, maintained the rate at which we buy bills below the rate at which we discount them, in order that the dealers in bills may have the benefit of a market in which bills can actually be sold and, at the same time, in order that banks holding portfolios of these bills may convert them at favorable rates when they need to build up their reserves. The policy of the Reserve Banks in this respect has, I believe, been successful in developing this field of banking in the short period

a few years, whereas had we not stimulated the business, it would have had only a negligible development.

It must be borne in mind that so long as the rate established by the Reserve Banks is below the general level of interest rates our discounts, in one form or another, are bound to increase unless we adopt the policy of absolutely denying credit without regard to rates. The most favorable rate has been that established for loans upon Government securities, therefore, the largest amount of our discounts have been of that character. The next most favorable rates have been the buying and discount rates for bankers bills, therefore, quite naturally, the largest percentage of our discounts and purchases, other than Government-secured paper, has been of this character. The highest rate has been that for commercial paper, and, therefore, the smallest amount of our discounts has been of that character.

You will recall that I advised you when we advanced our rates for Government-secured paper that we were quite likely to be forced to buy large amounts of bankers bills in the open market or else to abandon that market and put our banks at a great disadvantage in competing with foreign banks and developing this important business. The present large holdings of bills by the Reserve Banks are no less than I anticipated and they are liable to increase until our whole level of rates is advanced and until our rates are made uniform.

After the past five years' experience with the rate policy of the Reserve Banks, I am now prepared to recommend without qualification that the time has arrived, or will shortly arrive, when the Reserve Banks should have one rate of discount; -- certainly the Federal Reserve Bank of New York should -- that rate applying to all kinds of paper and for all periods of time, with the sole exception of the rate at which we buy bills in the open market. That rate, if our discount rates are about at the market, can well be somewhat under our discount rate, but, as the purchases are made voluntarily, we would then be in position to go into the market and buy, or, if we preferred, decline to buy, and, in the latter case, bills would come to us for

With one rate for discounts, there might, however, develop the tendency to abuse the privilege of borrowing upon eligible collateral for periods of fifteen days or less. Should such a development arise, it might be necessary to adopt a policy of making the fifteen day rate very slightly higher than the ninety day rate, say $1/4$ of 1%. This would have a tendency to check borrowing by constant renewals and, I should hope, would gradually educate our bankers to the idea that the use of the Reserve Bank is, primarily, for seasonal demands rather than for constant borrowings in order to make profits.

At no time since the Reserve Bank was established have I felt more confident of the possibility of our developing a workable rate policy as I have recently, since we have somewhat increased our rates. A few more changes will put us in control of the market in the same fashion as the Bank of England controls the London market in normal times. When that time arrives, I believe we can confidently assert that the Reserve System has successfully established itself in the American money market!

Faithfully yours,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS.MSB

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December 23, 1919.

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Dear Governor Harding:

As you know, we have made representations to the New York Clearing House Committee as to the method which now prevails for determining the rate of interest allowed upon out-of-town bank balances by New York banks which are members of the Clearing House Association. It has seemed to us that the provision for an automatic increase in the rate when our 90 day discount rate advances is an unwise one. A general increase in rates allowed on out-of-town bank balances by the New York banks is liable to start competition for deposits between New York and other centers, - an unwholesome banking development at any time, and, I believe, particularly so at this time.

I have been sounding the sentiment of the Clearing House a little bit on this matter and find that they have the feeling that having put through the present plan upon our urgency and yours, the position of the New York banks will be a most difficult and unsatisfactory one under any other arrangement than the present, unless similar understandings are arrived at with the clearing houses in the other banking centers of the country, principally Boston, Philadelphia, Chicago, St. Louis, and possibly Cleveland and Pittsburgh.

The feeling seems to prevail in New York that the clearing house banks here are the only ones that have an interest understanding on out-of-town bank balances and that no further change should be made in the arrangement until they can have some assurance that other banking centers will be subjected to the same disciplinary rule. Do you think it would be possible to make some general progress in the other reserve districts? Of course I would be most reluctant to attempt any move in this direction from New York as we feel here that develop-

ments in other reserve districts in these matters should proceed upon recommendations made by the Board rather than as the result of any influence which we can exert.

Mr. Jay and I both feel that the present situation in this regard is an unfortunate one because while our rate in a measure controls the rates allowed by clearing house banks, it is likewise true that our action in the matter of rates is somewhat influenced by the fact that it brings about a general change in the interest situation.

Mr. Kenzel just draws my attention to an inaccuracy due to faulty diction in my letter of December 17th in regard to the bill market. I stated that it had been our policy to buy bills at rates below our discount rates. That was true during the period when we were developing this business, and I was referring to the policy of the past. For some time now we have, as you know, been buying bills in the open market at rates somewhat above our discount rate, notwithstanding which they keep piling in on us. Mr. Kenzel has written Mr. Strauss a further letter on this subject which I hope you will be good enough to read.

Faithfully yours,

RA

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS. MSB

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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X 505

CONFIDENTIAL

December 24, 1919.

FILING DEPT.

DEC 26 1919

FEDERAL RESERVE BANK

12/23/19
"compare"
Stay open
submit
non-

Dear Governor Harding:

As you know, we watch the Stock Exchange loan account with the most scrutinizing care, getting daily reports and endeavoring by other means in our power to exercise a reasonable restraint upon the use of credit obtained from this bank where we believe it is indirectly intended for use on the Stock Exchange in speculative loans. In order that you may be informed of recent developments, I am enclosing a memorandum from Mr. Case which gives a little picture of the situation. This is sent in confidence, as the figures are furnished to us in confidence.

There has seemed to be a tendency for out-of-town institutions to withdraw balances from New York just now and two days this week it has looked as though we might have a real money situation on the board as the result. Of course these money flurries are now the great restraint upon speculation. The fever of speculation has subsided, and I consider that the Stock Market, if controlled with reasonable care, is no real menace to our position. On the other hand, there is always the danger of disturbances to the money situation all over the country if rates be permitted to soar without limit. Money has loaned this week as high as 18% and it may be that before the end of the year it will go considerably higher than this. I am sometimes fearful that it may have a serious effect upon the Treasury's program of financing. But you can be sure that we are watching it with the greatest care and doing everything in our power to prevent anything in the nature of a money panic before the year closes.

Faithfully yours,

AFTER 5 DAYS, RETURN TO
FEDERAL RESERVE BANK OF NEW YORK
CORNER PINE AND NASSAU STREET
NEW YORK CITY

PERSONAL AND CONFIDENTIAL

File as is in Mr. Strong's personal file

Letter to Governor Harding re 1920 leave of
absence granted Mr. Strong.

Letter dated December 29, 1919.

PERSONAL AND CONFIDENTIAL
(To be Filed as is)

[Personal & Confidential]

December 29, 1919.

Dear Governor Harding:

It was a great satisfaction to spend the evening with you at your house, and I only wish we could have done more of it during the last few years.

I hope you realize the extent to which I have become dependent upon your support in the various matters of policy affecting the Federal Reserve Bank of New York. I think I should say frankly what possibly some others may not realize, - that I have not the slightest desire in the world to dominate anything in the Reserve System or the Treasury Department outside of the Federal Reserve Bank of New York and the New York banking situation generally. Such a bank as ours, and such a situation as exists in New York, cannot be managed unless some one man has strong enough views to take the leadership, and enough courage to insist upon leading. I suppose this applies to any business.

My fears about the Federal Reserve System are practically confined to two or three important questions of policy: The first is that by a gradual process the Federal Reserve Board will become an operating body, rather than a supervising body. When that happens, as it well may in future years, the initiative of the local banks is gone, and the temptation to make political use of the system will become almost irresistible. Your own attitude in this matter has, in my opinion, done more to safeguard the system than any other thing, and I only hope that you continue in office long enough so that tradition and a sound public opinion will protect the system against any such un-

fortunate development.

My second fear has been that having no function of management, but rather of supervision, positions on the Reserve Board will not prove attractive to able men and the Reserve System will, in time, become subject to the whims of an incompetent board, and have its policy dominated by the Treasury Department. This calamity would be equally serious with the first. There is, however, a middle ground. I see every evidence that you appreciate all of these matters and realize that a combination of a strong board, supervising banks having strong local managements, is the one desirable development, and I hope that you stay in your present position indefinitely and find it possible to carry out such a policy.

My third fear for the system has been that experiences during the unusual period of the war might lead to a tendency to amend the Act in a radical way, so that the solid, sound structure on which the Reserve System is now being built will be weakened. Such amendments, for instance, as giving greater powers to the Board in fixing rates, or greater powers to the Treasury Department in using the Reserve Banks, or, on the other hand, circumscribing the autonomy of the banks, - all of these things I believe would weaken what is now a sound, balanced division of functions and authority.

This is simply preliminary to explaining my attitude in regard to the leave of absence granted to me by our directors. My first desire was to resign actually and finally, but I felt obliged, as I stated to you the other night, to let the directors have some voice in this decision. They were unanimous in their desire, as I understand it, that I should take a leave of absence rather than resign, and they seem to have their own good reasons for having passed the resolution that they did. I have considered matters and have decided, of course subject to the decision of the Reserve Board, that it is wiser and better for me to accept their decision, and, selfishly, I am led to do

it somewhat by my desire not to sever finally my connection with the Bank until more development work is finished, and until the system has had experience in adjusting to new conditions following the war, - in other words, until we crossed more of our bridges. If you think it is unwise for me to take this position, I want you to let me know.

It is perfectly obvious that some members of the Board are opposed to the plan. Possibly some of them think it would be better for me to resign. I cannot help but feel that the decision as to that lies between the Federal Reserve Board and our directors, because, after all, it is the directors of the bank who must in the first instance determine what is best for the bank, and their opinion in that matter was expressed in the resolution they passed.

As I also explained to you, I would be disappointed if I felt that the terms of my leave of absence might establish a precedent which might possibly in the future be to the great detriment of others who suffered bad health. If the Board feels that some special ruling on that matter should be made with relation to me, in regard to my present circumstances, which would not apply to others, of course they will see that this is done.

I have written this letter for your eye only, so feel willing to say in conclusion that I took up the work of the bank to make a success of the bank and not for any personal profit or advantage, and if the success of the bank will be promoted by appointing some one in my place, I hope the Federal Reserve Board and our directors will promptly agree upon doing so.

I wish you the greatest possible success in what you are doing, which is splendid in every way and will bring its own reward.

Faithfully yours,

Honorable W. P. G. Harding,
1336 - 19th Street, N. W.,
Washington, D. C.

BS.MSB

(Encl. 4)

Memorandum for Governor Harding on the effect upon American business and American industry of prevailing discounts in foreign exchanges.

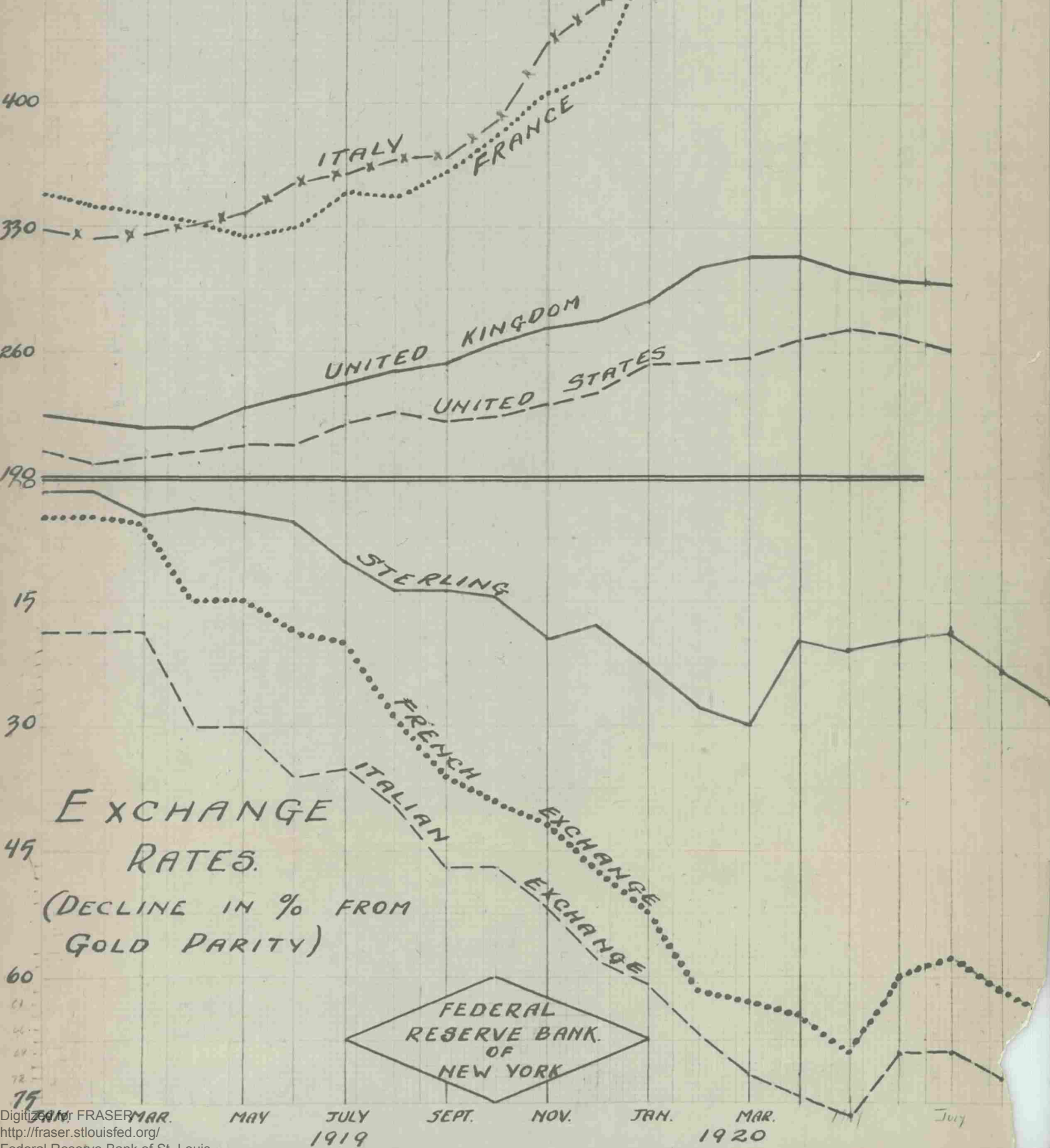
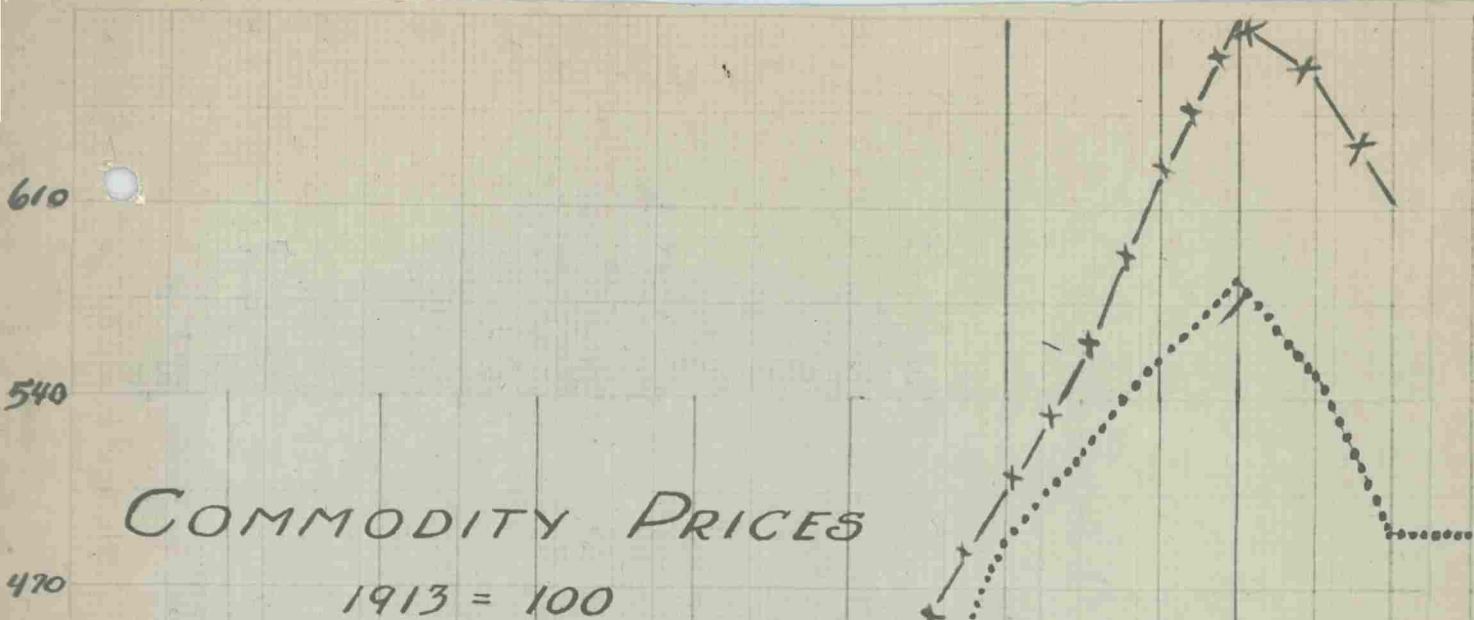
In ordinary times and under normal conditions of trade, the fundamental principle holds that a fall in the exchanges operates to retard exports and to encourage imports. A fall in the exchanges tends to close the door through which exports flow out, and to open the door through which imports flow in. Rising exchanges work in the opposite way and open the door for exports and close the door for imports. It might be deduced from this that the present heavy discounts in foreign exchanges would have the effect of accelerating imports and retarding exports, with the result that a period of readjustment would set in, not only in prices but in wages. The production in American industries making goods of the sort that come in from abroad would be curtailed, as would also the production in American industries now engaged largely or in part in making such goods for export.

But present times are not ordinary, nor have conditions in trade been normal. The primary and most important variation from normal conditions is that the former European belligerents are off the gold basis. The old exchange rates, which we know as "parity," were stated in terms of gold - or with respect to countries which were not entirely on the gold basis upon a fairly fixed and standardized basis of currency. With the inflation of the foreign currencies the old parity rates do not apply, and they are at a discount which approximates the discount of those currencies from gold. We have in fact a new parity, not fixed but fluctuating in much the same way as the value of the foreign currencies fluctuate in relation with ours. This principle was cited as long ago as 1861 in

Goschen's Theory of the Foreign Exchanges, in which he speaks of this new parity as "a new standard." Speaking of it he says:

"We have thus discovered an influence which apparently affects the fluctuations in the Foreign Exchanges far more powerfully than any previously discussed;—interest of money, a balance of debts over claims, panic, distance, and so forth, practically cause the exchanges to vary within a few per cents.; a variation of ten per cent., owing to all these circumstances combined, is considered something extraordinary, and only occurs under rare combinations. But, as soon as the element of currency is introduced, we have had at once an instance before us in the Vienna exchange of a variation of fifty per cent. So in the Russian exchanges, owing to the enormous amount of paper money afloat, which is practically inconvertible, the most violent fluctuations are constantly occurring."

This new parity, fluctuating in accordance with the buying power of the currencies of the nations in relation to our own, bears a close resemblance to the rise or fall of the price indices of foreign nations in relation to our own. The intimate bearing of commodity prices upon foreign exchange rates is seen on the attached chart, in which the movement of commodity prices is compared with that of foreign exchange rates from January of 1919 up to the most recent dates for which figures are available. The commodity price indices have been reduced to a common base, that of 1913. It will be seen that when the price increases in the United States are offset against the price increases in other countries, the movement of exchanges is very closely the same.



The operation of trade under this new parity is simple and depends ^{in the main} upon the common rules of commerce. Whether a British merchant, for instance, will continue to buy in the New York market when sterling has declined 30 per cent. from its old parity depends ^{mainly} ~~simply~~ upon his chances of profit—that is, whether he can pay for New York goods in sterling converted into dollars and secure in his own market a price in sterling above that paid, plus the costs of transportation and handling.

~~In addition~~ ^{Besides} to the important factor of currency ~~and~~ inflation abroad, as relating to the course of American foreign trade, is that of European necessity for American goods. It is obvious that during the war and for some time after it the European nations were willing to pay any price (or to commit themselves to the future payment at any price) for American goods. With the passing of the emergency of war and the conditions which immediately succeeded it, this factor is likely to give way before the normal demands of trade, and Europe will look to us for goods and materials which it cannot secure elsewhere at better prices. A third and less important ^{factor} ~~element~~ has been the prohibition on the part of certain European countries against the importation of luxuries from the United States; and finally, the embargoes upon the exportation of gold. The highly important results to be anticipated from this policy and from the fact, also, that foreign gold supplies are limited, will be spoken of below.

All of the factors mentioned above have worked to prevent the operation of the fundamental principle governing the movement of exchanges and trade. Otherwise the readjustment of trade would have been violently initiated in March of 1919, when the exchanges were unpegged. On the contrary the volume of exports rose to unprecedented heights and continued so for some months. The rise in prices since the

beginning of the war has been so violent that all comparisons in money values have led to distorted conclusions. Actual computations of import and export tonnage made by the United States Shipping Board furnished the basis for estimates made by the Harvard Bureau of Economic Research, and these agree closely with estimates made independently by the Federal Reserve Bank of New York. These latter computations, after eliminating price distortion and seasonal variations show that, on the average exports for the year 1919 were about 5 per cent. above those of 1917, and for the first seven months of the present year are practically the same as the average for 1917, and are about 16 per cent. below the first seven months of 1919, in which the exports were preponderantly heavy for that year. In the same way, taking the imports of the calendar year of 1917 as a base, the actual volume of imports in 1919 was about 8 per cent. above, and for the seven months of 1920 were about 35 per cent. above those for the average for 1917.

The following table also prepared by the Federal Reserve Bank of New York, gives the index figures of exports and imports since the Armistice, with 1917 as a base, corrected for price distortion and seasonal variation.

<u>Exports</u>			<u>Imports</u>
1918 -	November	70.	67.9
	December	71.7	71.6
1919 -	January	95.1	72.0
	February	105.4	65.3
	March	101.2	65.5
	April	130.4	93.2
	May	115.3	115.5
	June	136.	104.3
	July	114.1	119.8
	August	114.	99.3

	<u>Exports</u>	<u>Imports</u>
1919 - September	91.5	148.1
October	75.3	128.1
November	86.9	133.1
December	74.4	111.4
1920 - January	88.2	131.0
February	91.6	133.7
March	110.3	133.3
April	95.1	129.1
May	107.4	115.4
June	97.3	151.1
July	109.2	155.8

An examination of the progress of the foreign trade of the United States since 1880 suggests that while exports and imports varied greatly from normal during the war period, nevertheless they are now reverting to the normal line of increase carried through the forty years. The accompanying chart, which is drawn in units of one hundred million dollars and from which price distortion has been eliminated, shows the course taken by our foreign trade since 1880, and *indicates* *that* while exports increased in great volume during the war and imports declined they are now nearly at the normal line, *in* ~~with both exports and imports~~ *though* slightly below ~~them~~ *them*.

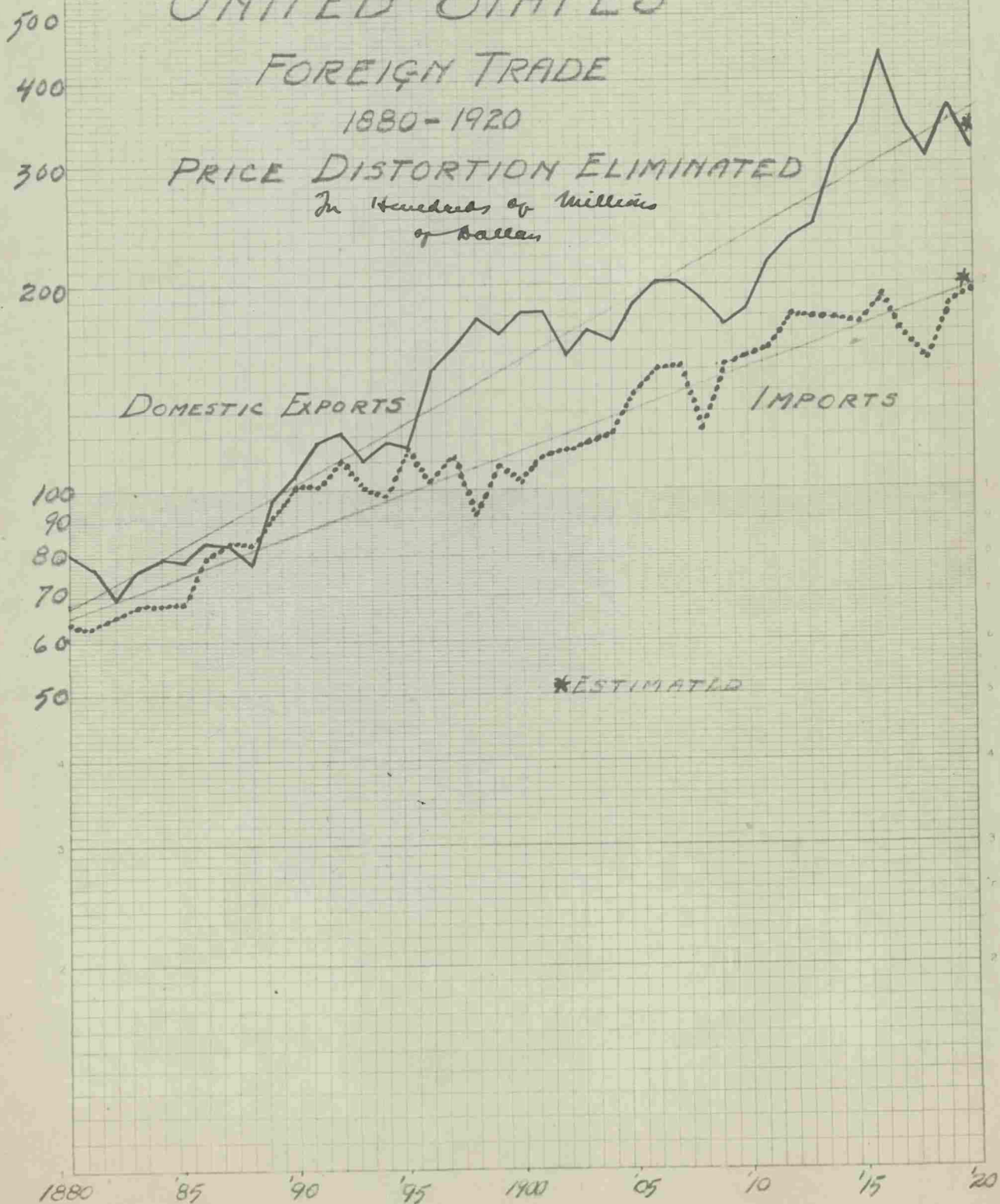
Naturally the greatest change in our foreign trade during the war years was in our European commerce. Taking 1917 as a base, the volume of imports from Europe in 1918 decreased nearly 50 per cent., whereas in 1919 they were about 8 per cent. above ~~the base of~~ 1917, and for the seven months of 1920 they were *about* ~~nearly~~ 60 per cent. above the ~~imports for the corresponding months of~~ *average* 1917. Similarly the volume of our exports to Europe in 1918 fell about 14 per cent. from the 1917 base while in 1919 they were about 8 per cent. above, and for the seven

40 YEARS OF UNITED STATES FOREIGN TRADE

1880-1920

PRICE DISTORTION ELIMINATED

In Hundreds of Millions
of Dollars



months of 1920 they were nearly 20 per cent. below ^{the} ~~these~~ for the corresponding ^{average} ~~months~~ of 1917. In other words, Europe has been buying less of us and had been selling us more as she has gained relief from war conditions. Her necessitous buying has been much reduced, she has been able with the restoration of sea trade to tap the stocks of foods and materials in distant countries like Argentina, Australia, India and China, and at the same time has been able to ship goods to this country. The following table shows index figures since the Armistice for exports from the United States to Europe and ^{for} ~~and~~ imports from Europe to the United States, on the basis of the average for 1917. Seasonal variation and price distortion have been eliminated in both cases:

	<u>Exports</u>		<u>Imports</u>
1918 - November	61.0 **		38.0 **
December	70.2		46.4
1919 - January	84.6		39.3
February	103.0		57.9
March	99.9		71.2
April	139.6		77.3
May	113.6		88.2
June	200.7 *		100.7
July	124.5		108.5
August	112.7		115.3
September	85.1		162.5
October	74.3		153.1
November	89.7		172.8
December	72.2		151.2
1920 - January	87.5		164.6
February	83.5		162.2
March	95.8		169.6
April	77.2		154.0
May	85.1		130.7
June	70.1		172.1
July	87.1		183.2 *

* High

** Low

That a reversion to normal implies a great increase in our imports from Europe appears from the fact that in 1914, 48 per cent. of our imports came from Europe, whereas in 1919 our imports from Europe were scarcely 20 per cent. On the other hand, 60 per cent. of our exports in 1914 went to Europe as against 63 per cent. in 1919--almost no change. *With respect to Latin America* ~~the proportion of our exports to Latin~~ ~~America~~ remained almost static--14 per cent. in 1914 and 13 per cent. in 1919, *but* Our imports, ~~however~~, increased in greater degree--from 19 per cent. in 1914 to 24 per cent. in 1919.

The variation in the classification of our exports ~~during the war with that~~ *from that during the war* in recent months ~~from that during the war~~ shows striking changes. Exports of food-stuffs, including both raw foods and food animals and foods partly or wholly manufactured, have declined. Crude materials for use in manufacturing have as a rule been much more heavily exported since the Armistice than during the war. Exports of semi-manufactured articles for further use in manufacturing have been somewhat lower than in the war period. Exports of manufactured articles declined in the latter part of 1919, and since then have risen again. In these figures are reflected the growing independence of Europe from America as a source of food, her greater demands for crude materials with which to rehabilitate her manufacturing enterprises, and the continued and latterly growing demand for manufactured articles, among which are machinery and labor-saving devices. In the following table the exports are classified according to *these* ~~their~~ four groups. The figures given are index figures on a base of 1917, with price distortion and seasonal variation eliminated.

CLASSIFICATION OF EXPORTS.

INDEX FIGURES (base 1917)

(Price distortion and Seasonal Variation Eliminated)

Date	Manufactured Articles	Semi-Manufactured Articles	Crude Material for use in Manufacturing	Food Stuffs.
<u>1917</u>				
Jan.	127.19	111.68	119.09	123.18
Feb.	122.88	94.10	81.46	96.87
Mch.	130.39	115.27	80.18	107.65
Apr.	121.28	112.65	66.83	127.01
May	118.04	121.63	90.82	134.50
June	127.01	128.31	85.49	154.51
July	87.93	87.55	93.05	84.85
Aug.	93.70	110.26	147.04	102.40
Sept.	82.57	88.68	114.28	67.61
Oct.	76.94	79.20	111.81	68.37
Nov.	65.45	76.38	94.80	76.11
Dec.	73.23	94.48	107.72	87.08
<u>1918</u>				
Jan.	70.91	85.52	112.25	83.06
Feb.	58.95	79.02	109.62	99.24
Mar.	70.05	74.40	96.47	164.94
Apr.	70.64	78.44	82.00	177.39
May	86.02	96.77	120.96	187.45
June	80.82	88.76	125.94	152.68
July	90.08	92.90	109.40	179.52
Aug.	84.35	83.03	126.89	153.05
Sept.	71.89	72.28	125.67	125.51
Oct.	51.29	45.35	98.41	94.80
Nov.	57.18	54.89	87.93	100.60
Dec.	46.48	41.68	123.56	122.70
<u>1919</u>				
Jan.	66.65	61.44	165.97	135.99
Feb.	84.98	60.77	148.44	165.00
Mar.	75.25	51.87	137.66	184.94
Apr.	91.11	63.97	139.16	253.32
May	91.36	53.80	148.93	206.08
June	134.04	93.58	260.50	338.62
July	72.78 76.68	64.16	208.93	186.29
Aug.	85.56	73.36	185.05	171.83
Sept.	72.78 72.78	68.00	111.01	140.54
Oct.	64.08	44.19	112.42	107.71
Nov.	63.32	42.13	222.20	110.62
Dec.	50.95	35.96	194.44	89.37
<u>1920</u>				
Jan.	61.36	46.15	233.75	105.17
Feb.	75.53	52.45	200.08	98.12
Mar.	89.33	64.06	244.00	118.85
Apr.	84.49	57.29	195.74	95.29
May	103.18	66.47	154.80	129.90
June	95.35	60.48	133.77	114.76
July	101.08	62.54	162.73	

It may be deduced from the foregoing that other forces have upset in a very large degree the normal working of the fundamental principle of foreign exchange given at the beginning of this memorandum. The rule, however, as modified by Viscount Goschen, apparently does apply and may be expected to apply in future, namely, that in so far as the exchanges are concerned our exports are accelerated or retarded according to the degree that the rates are above or below the "new standard." They may be expected to operate, however, within narrow limits, because a variation, as Goschen says, "within a few per cents." from the new parity will, of course, affect very seriously the profits of the foreign buyer. Further, it will be difficult at any time to determine precisely what the new parity in any of the exchanges is, ^{mainly} because of the varying factor of currency inflation abroad. Possibly the most practical index to it will be found to be the price movements as shown in the foreign commodity price indices as compared with our own.

It may well be expected that a far more dominant factor than exchange rates, as determining the course of our foreign trade, will be the amount of capital which the United States may be able to export, either in the form of credits for foreign purchases here or in American investments made abroad. Increased imports of goods may also be a means of maintaining our export trade. We have become a creditor nation, and when foreign countries find themselves able to pay interest and amortization charges on their debts held by us, an adverse trade balance may develop. Clearly it will be in goods and not to a preponderant extent in gold that foreign nations will settle their balances with us. But it will be largely for these reasons and not to any great degree because of a decline in exchanges from the old parity, based as it was upon the gold standard, that a readjustment of our foreign trade may be expected.

FEDERAL RESERVE
BANK OF NEW YORK

Office Correspondence

Date Dec. 23 - 20To Mr. Harding and governors other FR bks.From Case, N.Y.

Subject:

telegramFILING DEPT.
24 1920
FEDERAL RESERVE BANK

Gov. Strong cables love and Merry
Christmas to you and your colleagues



McNamee
Attention to
NS
12/23

December 1, 1920.

My dear Governor Harding:

I take pleasure in enclosing a letter, addressed to you, together with a copy which Mr. Strong would appreciate to have you pass on to Senator Pittmann.

The pair of silver anklets will be forwarded to Senator Pittmann as soon as they are received at this end.

Yours respectfully,

Encls. (2)

Secretary to Mr. Strong.

Hon. W. P. G. Harding,

Treasury Department,

Washington, D. C.

-6422, 20

See Trip 8/1920
Index

I shouldn't suppose that you would ever be unduly influenced by monetary considerations, but if it should happen to feel that this is an opportunity which will not be within reach, say a few years hence, I think I can assure you that there will never be a time, in my opinion, when there is not an opportunity equally favorable.

PERSONAL:

January 20, 1921.

Dear Governor Harding: Yesterday, quite late, just as I was leaving the office to attend a meeting, I learned that you were to be offered the presidency of the new Edge Bill corporation, and this morning's papers seem to confirm the fact that this offer has been or will be made.

Of course it is attractive, not only in money, in association, and, even more, in the opportunity to take part in a constructive work of tremendous value to the world. Without having the slightest intimation from you of what your attitude may be toward this proposition, I feel that I must, nevertheless, write you at once to express my alarm and concern at the mere suggestion that you may be willing to accept the offer.

Honorable W. W. C. Harding,
Governor, The Federal Reserve System seems to have successfully met the test of war finance, and at least of the first phase of post-war liquidation. It has not yet, however, passed through the trying and possibly bitter experience of political attack and attempts which might well now arise to make fundamental changes in the law. Frankly I regard this coming period of the next year or two as most critical in the history of the System, and you are needed more than any man in the System right there in Washington. I tremble to think of the consequences of your leaving. More than that, - and I hope the argument will appeal to you personally, - there is nothing which would be so discouraging to your associates in all the reserve banks as to have you leave the Board. One cannot lay out very well in a dictation of words anything satisfactory in the way of a description of one's feelings of discouragement in the face of such an occurrence. I would, personally, feel like quitting the job myself just as soon as I could do so with decency.

I shouldn't suppose that you would ever be unduly influenced by monetary considerations, but if you should happen to feel that this is an opportunity which will not be within reach, say a few years hence, I think I can assure you that there will never be a time, in my opinion, when there is not an opportunity equally favorable with this one, to come to New York and take the leadership in some big institution or in large affairs, but, in the meantime, this country needs you in Washington, your associates need you there, and I know that I am expressing most inadequately both my own feelings and those of all of the officers of the bank in New York, and of the other reserve banks, when I say that we would regard it as a calamity of the first magnitude to have the head of the System resign just now.

Sincerely yours, a work of tremendous value to the world.

Without having the slightest intimation from you of what your attitude may be toward this proposition, I feel that I must, nevertheless, write you at once to express my alarm and concern at the mere suggestion that you may be willing to accept the offer.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

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BS.MSE
(Dictated but not read) I tremble to think of the consequences of your leaving. More than that, - and I hope the argument will appeal to you personally, - there is nothing which would be so discouraging to your associates in all the reserve banks as to have you leave the Board. One cannot lay out very well in a dictation of words anything satisfactory in the way of a description of one's feelings of discouragement in the face of such an occurrence. I would, personally, feel like quitting the job myself just as soon as I could do so with decency.

August 11, 1922.

Dear Harding:

See file 090
Your telegram came at the same time that I learned that you were coming to New York, so I have deferred writing you an acknowledgement until after we had our chat yesterday.

First, let me assure you that I have a great deal of confidence that within a short time your nomination will go to the Senate, and I have equal confidence that your appointment will be confirmed; so I am hoping very earnestly that you will sit quietly by and await this outcome with assurance that we all realize the trial you have been through and that it will continue until the matter of your appointment is definitely settled.

Looking back over the past eight years, I feel that no one realizes quite so fully as I do what an earnest and successful effort you have made during those years to build up a real system.

The Governors of the Reserve Banks have great confidence in you, they have always relied upon you as their friend and confidant because of your sympathetic point of view, and we shall all feel deeply grieved and shocked if you are not reappointed and if our association should terminate. Please, therefore, accept from me a great many thanks and good wishes. They are due to you from the entire country.

Yours very sincerely,

W. P. G. Harding, Esq.,
1336 - 19th Street,
Washington, D. C.

BS.NM

CONFIDENTIAL

August 2, 1922.

Dear Governor Harding:

I have to acknowledge and thank you for your favor of August 1, advising of the views of the Federal Reserve Board respecting my attending the conference of representatives of banks of issue to be held in London probably in October.

While I believe our directors assume that I should attend the meeting, they thought it was a little wiser to defer formal action until later, and of course the Federal Reserve Board will be promptly advised.

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS.MM

Strong Harding

July 27, 1922.

CONFIDENTIAL

My dear Governor Harding:

During my visit in Washington this and last week, I had opportunity for a short talk with both Secretary Hughes and Secretary Mellon in regard to the proposal that I should attend a conference of representatives of banks of issue to be held in London probably in October. Neither Secretary Hughes nor Secretary Mellon could see any objection to my doing so. They have both read the tentative draft of the Agenda for the meeting.

I gather that Secretary Hughes felt that there might be some advantages in my attending the meeting, especially in view of the declaration at the end of Part 2 of the proposed Agenda, which obviously made the calling of a Monetary Convention an impossibility, or at least very unlikely under present conditions.

He seemed to think that that declaration was an advantage rather than otherwise, and he agreed with me that it would be quite unlikely at the present time that our Government would be willing to call a Monetary Convention - or even possibly to participate in one were it called.

He indicated that purely financial questions should be passed upon by Secretary Mellon, but from the point of view of the Department of State he saw no difficulties in the Agenda, and no objection to my attending the meeting.

He did, however, ask that I make arrangements to keep him fully informed by cable upon arrival in London.

This is in order that you may be fully informed of what has transpired. I repeated this verbally to Dr. Miller, but was unable to do so with you owing to lack of time.

Yours very truly,

BS.

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS.MM

PERSONAL

November 9, 1921.

Dear Governor Harding:

I was very much interested indeed by your personal letter of November 8th received this morning, commenting upon the description of the new Federal reserve bank building at Richmond.

Your letter came just after I had been examining a plaster model of a section of our new building as it will appear from the west end of Liberty Street. My particular impression of the building was its simplicity and the general air of restraint with which the architects have dealt with the designing of the building. I suppose in due course we will issue some sort of a description of the building, but it will be no "Temple of Banking," and I am inclined to think on the whole if we are criticised for adopting a building of this character and design, it will be because the building is too simple, has too little ornamentation, and is not sufficiently impressive and distinctive for the home of an institution of the importance of this one.

It is amusing to speculate as to the reasons for the Ex-Comptroller's picking on the New York building as the object of his abuse when he might so well have turned his attention to a subject much nearer home.

Did you ever hear of his opposing the construction of the building at Richmond, and especially opposing the erection of a building which will be in fact a marble temple?

Yours very truly,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

October 31, 1921.

Dear Governor Harding:

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

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

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

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

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

Yours very truly,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM
Enc.

October 31, 1921.

My dear Governor Harding:

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

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

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

Yours faithfully,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM

October 22, 1921.

My dear Sir:

I am directed by Mr. Strong to send you the enclosed letter (with our translation) for such attention as you may wish to give it.

Yours very truly,

Secretary to Governor Strong.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

GB:MM

Enc. (Letter written in French received from "Crab, Hotel Clarij, Paris" translated. Of no interest)

August 27, 1921.

Dear Governor Harding:

Mr. Jay, as you know, is planning to reach home about October first. It seems very desirable, in view of the matters we have been discussing with Governor Norman, that he and Mr. Jay should have opportunity for a little visit after Governor Norman's return to London, and I know that Mr. Jay is anxious to spend a few days in Amsterdam so as to become acquainted with Dr. Vissering.

I am writing now to advise you that our executive committee has asked Mr. Jay, subject to your approval, to arrange to stay on for a few weeks longer than originally planned, but we have advised him of the date of the Joint Conference of Federal Reserve Agents and Governors and he cables that he expects to be back in ample time to attend the meeting. I gather that he will be here about the middle of October.

Would you mind advising me if this is quite in accordance with your own views, and greatly oblige,

Yours very truly,

Benj. Strong
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/RAH

copy on
conf. Alpha
Harding

July 14, 1921.

of this bank to determine what are proper salaries, and what salaries must be paid in order to maintain an efficient organization.

Broadly speaking, I think our officers receive probably not more than half of what men in similar positions are receiving in the large banking institutions in New York and other cities. There is no question of economy involved in this matter. The best economy is always dependent upon efficient supervision, and that cannot be had except by the employment of efficient men.

I am now writing in pursuance of the desire of the directors of the bank that we should have a definite reply from the Federal Reserve Board.

I beg to remain,

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

ES:MM

PERSONAL

July 14, 1921.

Dear Governor Harding:

The directors of this bank submitted certain recommendations for changes in the salaries of officers at the beginning of the year, many of which were approved, but some of the more important were neither approved nor disapproved, but held in abeyance pending further consideration. Shortly after the first of March, those salary changes which had not been approved were again recommended by our directors, and I was informally advised that they would not be approved by the Board, and that it would be desirable to submit each case for approval, or disapproval, by the Board on the anniversary of the employment of each officer by the bank.

Since then no word has been received from the Board in regard to these changes, and I am in receipt of inquiries from the directors from time to time as to what is being done in the matter.

Permit me, most respectfully, to suggest that the morale of our organization will suffer if recommendations of this character are not acted upon one way or the other. In both cases now pending before the Board, offers of much higher salaries have been made, and are likely to be renewed at any time to these men by other institutions. I am in a position, and have been for some time past, of indicating to these gentlemen that they have a future with the Federal Reserve Bank which would justify their remaining, notwithstanding these offers. Naturally, I am unwilling to continue any such policy to their detriment.

Is it not reasonable that our directors should ask that the Federal Reserve Board should trust the judgment of the Chairman, Governor, and directors

July 8, 1921

Dear Governor Harding:

I have concluded reading the synopsis of your Western addresses with greatest possible interest, and I do not need to tell you I am in hearty accord with everything you said. Various reports indicate how much this has helped us, and while I know the trip was an exceedingly tiring one, you must feel repaid by the splendid results.

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM

PERSONAL

March 17, 1921.

Dear Governor Harding:

I hope you don't mind my writing to Elliot Goodwin such a letter as I have, a copy of which is enclosed.

What has always offended me about the criticisms emanating from the Chamber of Commerce, as well as from some other economic organizations, is the lack of intelligent inquiry upon which conclusions stated by these gentlemen are arrived at. They are misleading and do harm.

We are just now greatly concerned with these discussions of our policy and I firmly believe that good can be done by anticipating such discussions; and harm will result if these gentlemen will make charges against the System which are unfounded or unenlightened.

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM

Enc.

March 14, 1921.

Dear Governor Harding:

-2105
Your favor of the 12th instant, advising of the approval given by the Federal Reserve Board of the proposed establishment of a fund of \$10,000, outlined in our letter of March 10, has been received.

I am asked by the officers of the bank to express the satisfaction which we all feel in having this matter arranged. It will be a most useful arrangement, and be a protection of the interests of the bank.

Yours very truly,

Benj. Strong,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MM

In the opinion of our counsel, the payment of \$10,000 into the fund in question may properly be made, subject to the approval of the Federal Reserve Board, under the terms of those provisions of Section 4 of the Federal Reserve Act which authorize each Federal Reserve Bank "to exercise, by its Board of Directors or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act," and which specify that "any compensation that may be provided by boards of directors of Federal Reserve Banks for directors, officers, or employees shall be subject to the approval of the Federal Reserve Board."

In view of the importance of this fund to the proper and safe administration of the Bank, it is respectfully requested that the payment of the sum of \$10,000 recommended by our Board of Directors for the establishment of a special and confidential fund to be administered by the Bank's officers solely for the purpose of making loans to needy employees in the manner described be approved by the Federal Reserve Board.

I am enclosing for your information and consideration a copy of the report of the special committee appointed to consider the general subject of loans to employees, upon which is based the action of our Managing Committee and Board of Directors. You will note that the committee is unanimously of the opinion that the establishment of the fund described is better calculated to promote the efficiency of the Bank's employees than other means which have been tried by other corporations, such as the prepayment of salaries, loans through savings and loan associations, loans through credit unions, etc.

Very truly yours,

BENJ. STRONG,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

PERSONAL AND CONFIDENTIAL

March 10, 1921.

Dear Governor Harding:

At a meeting of our Board of Directors yesterday morning it was voted to approve a plan recommended by the Managing Committee for the establishment of a cash fund to be confidentially administered by the Personnel Department of the Bank, under the joint control of a deputy governor, a controller, and the manager of the Personnel Department (who shall report directly to the Governor) for the sole purpose of making advances or loans to needy employees of the Bank.

Many instances have been called to the attention of the officers where employees receiving limited salaries have found themselves temporarily pressed for funds, either because of sickness or death in their families, or because of the accumulation of other necessary expenses. In the past whenever cases of this character have been called to the attention of the officers, they have either assisted in procuring loans for the employee in question, or have directly made the loans themselves. It has been felt, however, that assistance of this character is only a makeshift and that in order suitably to protect our employees from the distress and temptations incident to temporary needs of this character, and to relieve the Bank from the resultant risks, a fund of the kind referred to should be established.

While the Managing Committee recommended that the fund should be fixed in the sum of \$5,000, the Directors are strongly of the opinion that that amount is too small to provide for the proper administration of emergency relief of this character, and it was, accordingly, voted by the Directors to set aside out of current earnings, subject to the approval of the Federal Reserve Board, a sum of \$10,000 to be administered confidentially by the officers of the Bank upon such terms and conditions as may appear to them to be warranted in each individual case.

PRIVATE AND CONFIDENTIAL:

February 2, 1921.

*Bras & Sons Co.
Feb. 1. 1921
#49. News slip.*

Dear Governor Harding:

You may have seen the enclosure, and I am bringing it to your attention because you should see it if it does not reach you in the usual course.

I do not know to what extent this discussion is taking place, nor have I made inquiry lest it be enlarged upon or given undue prominence. One or two bankers have said something of that kind to me and in each instance I have said that so far as I was aware you had made no answer, no commitment, and I was satisfied you had taken an absolutely correct attitude.

Information now reaching me from two or three officers indicate that subscriptions for the stock in this city will be very slow in coming in, and it is thought that the amount actually received, in some cases at least, will be very much less than the quota which purports to be assigned to each bank.

Very truly yours,

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS:MSB

PERSONAL:

January 24, 1921.

My dear Harding:

Your personal note of the twenty-second is just received, and I am really much disturbed by what you write, and not alone because of my great interest in the Federal Reserve System! I am wondering whether in the long run the work that you are proposing to undertake if the organization materializes will be just what you yourself would like, and on that point I hope to have opportunity soon, in Washington, to have a little chat with you.

What you write is greatly appreciated indeed. I shall feel very badly if our association for any reason should be broken.

Sincerely yours,

Honorable W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

BS_MSE

WARREN G. HARDING

1865 - 1923

A Brief Biography

FOR THE INFORMATION OF
SPEAKERS AND WORKERS
===== IN THE =====
MEMORIAL CAMPAIGN



ISSUED BY THE
HARDING MEMORIAL ASSOCIATION
1414 F STREET NORTHWEST
WASHINGTON, D. C.

Born at Blooming Grove, Ohio, November 2, 1865.

Newspaper publisher, November 26, 1884.

Married, July 8, 1891.

Elected Ohio State Senator, November 6, 1898.

Elected Lieut. Governor of Ohio, November 3, 1903.

Elected United States Senator, November 3, 1914.

Nominated for President, June 12, 1920.

Elected President, November 2, 1920.

Inaugurated President, March 4, 1921.

Died at San Francisco, August 2, 1923.

WARREN GAMALIEL HARDING, twenty-ninth President of the United States, was born November 2, 1865. He was ushered into a world that was just catching its breath after a long and bitter war. Fifty-five years later, on November 2, 1920, he was elected President at a time when his country was staggering under the burdens of another great conflict in which it had played no small part.

He came to the office of Chief Executive of more than one hundred million people at a time when they were weary of the distractions of the world conflict, torn by the inevitable dissensions of post-war reaction, eager for a return to the ways of peace, yet distrustful of the efficacy of almost any plan proposed.

As a nominee for the Presidency, Mr. Harding had promised his utmost effort toward a return to normalcy. While generally unknown to the people at large when named for the office, the unprecedented plurality with which he was elected stands as a signal tribute to the immediate confidence which the character and personality of the man, as disclosed in his campaign utterances and appearances, engendered in the electorate. This recognition of qualities that won for him the confidence and affection of all men later on, was no surprise to those who had known him in the intimacy of his home life in Ohio and in the United States Senate. But the steadiness of his temperament, the fine bal-

ance of his judgment, the justness of his purposes and the simple, wholesome, lovable qualities of his nature had already made impress on the public mind before election day, and the judgment of the people expressed at the polls was abundantly justified in the quality of service Mr. Harding gave as President.

The career of Warren G. Harding is an inspiring romance—not of the sensational and meteoric flight of a barefoot boy to the Presidency; but of the typical American boy of good stock and parentage, who obtained an education not without labor and struggle, made his way steadily, and through his own sterling character and efforts, filled the offices to which he was elected creditably and honorably, and through a logical course of hard work, just thinking and loyal serving achieved the Presidency.

There can be no more inspiring example to the young men of the country than a career so conceived and so admirably followed.

Warren G. Harding was born on his grandfather's farm in Blooming Grove, Ohio. His father, George T. Harding, was the village physician and at that time, and for some years afterward, was in moderate circumstances. Warren attended the village school, and, like the other boys of the town, had his chores to do before school and had to help with the farm work during vacations. It was not play-farming, either. The boy's labor was needed in those days, in clearing land,

planting corn, cultivating crops—and he learned not only to do his work well and thoroughly, but gained in bodily vigor.

At the age of fourteen he was entered at Ohio Central College. He did not show any special aptitude for political life during the early years, his only office on record seeming to have been the editorship of a college paper. But it was a very significant period. From time to time he had to stop school to earn money. An untrained boy had to accept the work he could get; and he must have laid the foundation at this time of that characteristic of his public career which enabled him to make enduring friendships and lead others without antagonizing them—a gift that is best described in the homely phrase, “getting along with people.” In these intervals of schooling he cut corn, drove a team for a contractor grading the roadbed of the Toledo and Ohio Central Railway, raised wheat on a half acre of ground his father had given him, and for a short time taught a district school. He came to know people and to be fond of them.

The doctor's son played an alto horn in the Iberia brass band for a time; but never for a moment did he lose the inherent dignity of person and character on which no one ever sought to presume.

Dr. Harding moved to Marion in 1884. Marion then had a population of about 4,000, and supported three newspapers. Warren got a job in the

office of the Marion Mirror, a weekly.

Like Benjamin Franklin, his first contact with journalism was through the medium of printing. He had learned to set type at the village printing office, but at the Marion Mirror he was required at times to take in hand any sort of work that the day brought forth, from setting type or soliciting subscriptions to writing editorials.

There is an amusing anecdote of the uncompromising though youthful Republican, who joined the local James G. Blaine club and insisted on wearing to the office of the Democratic Mirror a high and shiny Blaine hat. Harding left the Mirror, not as was rumored, because of the practice, but only after his employer suggested that he purchase the nearly expiring Marion Star.

"I've nothing to buy it with," Harding told him.

"You go over and do what I tell you; it will work out all right," he was advised.

And on the following day this simple announcement appeared in the Star: "We have purchased the Star, and will stay."

Harding had become the owner of a newspaper at the age of nineteen.

The immediately ensuing years were full of difficulties. Until the newspaper itself began to bring in returns its youthful owner sold insurance on the side to meet his obligations. He had to fight competition and the bitter attacks of his rival editors. Yet through it all he kept the

loyalty and respect of his staff and of a growing circle of friends. The men on the Star always referred to him affectionately as "W. G." During these years of effort, Mrs. Harding, to whom he was married in 1891, worked with him. Her sympathy with all that he undertook, her advice and her practical help in taking charge of the management of the circulation and the newsboys remains an inspiring chapter in the life of this man who set the influence of women and the home foremost among the inspirations of America's life. The paper came to have the largest circulation of any paper in a city of thirty thousand in the Middle West; it came to be very prosperous, but it remained to the last true to the creed formulated by its owner:

"Be truthful. Get the facts. Be decent. Be fair. Be generous."

Newspaper work is not directly connected with public life, but it enabled the young Harding to make many friends, and it was possible, through the vehicle of his newspaper, for the people of his county and its vicinity to learn of his views and the manner of man who was its editor. In addition, he had attracted the attention of the Republican leaders by his fine ability as an orator and was asked to speak with such men as McKinley and Foraker.

In 1898 he was elected to the State Senate by the voters of Hardin, Logan, Marion and Union Counties. This was his first public office. He served a

second term in the Senate, rather against precedent, and was elected Lieutenant Governor in 1903 on a ticket headed by Myron T. Herrick. It is a significant comment on his service in the capacity of Lieutenant Governor that Herrick was one of his chief supporters in the Presidential campaign of 1920. Mr. Harding declined renomination for the office of Lieutenant Governor and returned to his newspaper.

In 1914 he was elected United States Senator from Ohio, and so made his entrance into National politics. Visitors to the Senate were always impressed by his commanding presence and pleasing bearing and by his speeches, but even during the six years that followed he did not really become known to the country at large, because he never sought public attention or indulged in spectacular efforts that attracted it. But always he continued to widen the circle of his friendships, for his personality was attractive and admirable to all men.

He was nominated for President on June 12, 1920, and elected in the following November by an unprecedented plurality, after a campaign in which he announced from the porch of his home at Marion his views on the Nation's needs and his promise of a sane and business-like administration that should restore the country to a state of normalcy.

When President Harding took up his duties as Chief Executive he expressed plainly his purpose to keep

Government expenditures within the limits of the National income and to lift the burdens of war taxation from the American people. He spoke of these things in his first address to the Congress which met on April 11, 1921.

The Budget Bureau of the Treasury was an outgrowth of this determination and to its adoption he gave unflagging support when the measure came up in Congress.

He sponsored the Washington Conference on the Limitation of Armaments, attended by the representatives of nine Powers, which resulted in an agreement for limiting the number of capital ships and in a series of treaties designed to prevent trouble in the Far East. Another great achievement of his administration was the refunding of the National debt on a basis which insured substantial reduction in the taxpayers' burdens, and again a notable service was the readjustment of the British debt.

There were many other achievements in the short time that was given him: The Four-Power Treaty, revision of the tariff, settlement of the coal and railroad strikes, comprehensive planning for the rehabilitation of the Merchant Marine, abolition of the Excess Profits Tax, and advocacy of America's participation in the so-called World Court.

These mark but the beginning of the things he planned to do in the vision of a service he had set himself to give to his country and to humanity. Each thought and purpose grew out

of his love of his fellowman, out of his desire for peace, out of the gentleness and goodness of his nature.

His sudden death at San Francisco on August 2, 1923, two years and five months after his inauguration, brought home to the Nation not only realization of the part he had already played in getting his country "back to normalcy" and in restoring peace and goodwill among men, but of a sense of personal loss that reached deep into the hearts of the people. He had been their friend—understanding, fair, sympathetic, human. The tribute they paid on that last journey was to one they had learned not only to trust but to love.

The purpose is to perpetuate such a memory as a treasured possession of the people—

First, by providing a fitting resting place for his remains at Marion, Ohio;

Second, by making of the home which he so long loved and occupied an enduring shrine for the preservation of his books and personal belongings and the mementos of affection bestowed upon him;

Third, by establishing in some approved University a department of instruction that shall fit men and women for intelligent, efficient business and diplomatic government service;

Fourth, by providing a fund sufficient to maintain these several memorials adequately and in perpetuity.

It is estimated that the sum of \$3,000,000 will be sufficient to meet these purposes.

The Harding Memorial Association has been incorporated under the laws of Ohio to carry out these purposes as trustees of the people.

The week of December 9 to 16, 1923, has been set aside for public observance and the securing of contributions to the fund. These may be made through local representatives of the Memorial Association, through religious, educational, civic or fraternal organizations and banks throughout the country, or—

They may be sent direct to the Treasurer of the Association, the Honorable Andrew W. Mellon.

Each contribution of one dollar or more will entitle the giver to an associate membership in the Association and will be acknowledged with an appropriate and attractive certificate bearing an engraved portrait of President Harding.

Contributions will be free from taxation under the general ruling that gifts of this nature are exempt up to fifteen per cent. of one's income.

Checks should be made payable to—

THE
HARDING MEMORIAL ASSOCIATION,
1414 F St., N.W., Washington, D. C.

HARDING MEMORIAL ASSOCIATION

HEADQUARTERS: 1414 F ST. N. W.

WASHINGTON, D. C.

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(C O P Y)

FEDERAL RESERVE BOARD

WASHINGTON

January 4, 1917.

Mr. Pierre Jay,
Chairman, Federal Reserve Bank,
New York.

Dear Mr. Jay:

Since authority has been given your bank to open an account and to establish an agency with the Bank of England, it seems proper to suggest, that your bank consider the further development of its foreign operations. While it will be difficult, under existing conditions, to establish active business relations in belligerent countries, it appears that there are no great obstacles in the way of forming connections in some of the neutral nations, and I write to ask whether your Board will not consider favorably opening negotiations with some of the Government banks in such countries. It has been indicated to the Board from several quarters that a connection with the Federal Reserve Bank of New York would be desirable, particularly for the purpose of enabling foreign banks to have gold earmarked in New York with the Federal reserve bank. For example, we have been informed that in the olive oil business it might be convenient for the Bank of Spain to have gold ear marked in New York - gold that would be paid in on this side by some importers - while the Bank of Spain would make advances in pesetas on the other side.

As you are no doubt aware, a representative of the Norwegian government has been here recently to look into the same question of having gold ear marked and kept in custody for that nationality.

It has been suggested further that in view of the difficulties ex-

perlienced in Argentina in arranging for shipments of gold to that country, the Banco de la Nacion of Buenos Aires might entertain the suggestion that it have gold earmarked with the Federal Reserve Bank of New York. Incidentally, it seems to us that it might be well to write such government banks that you are in a position to arrange for them forward discount rates for any bankers acceptances that they might wish to send you for discount. The Board believes that it will be desirable to open correspondence with some of these government banks, informing them that the Federal Reserve Bank of New York is ready to consider reciprocal relations, making the foreign banks agents of the Federal Reserve Bank of New York and to serve in a similar capacity for them here. Such correspondence will soon bring out what the possibilities are for the development of such business that may be properly engaged in by the Federal reserve banks with their foreign agencies.

I will be glad if you would discuss this matter with your board, and request that you give me the benefit of your views in this connection.

Very truly yours,

(Signed) W. P. G. Harding,

Governor.

FOR RELEASE IN MORNING PAPERS, JANUARY 14, 1917.

PRESS STATEMENT.

January 13, 1917.

After having given much attention to the problem of controlling and regulating the gold supply of the United States and to the question of bank reserves in general, the Federal Reserve Board has prepared and transmitted to the Chairmen of the Committees on Banking and Currency of the Senate and House of Representatives recommendations for the amendment of the Federal Reserve Act. While it is not deemed desirable to give out the text of the amendments transmitted, since they will probably soon be introduced in Congress, the following general statement concerning them is made public.

When the Federal Reserve Act was drafted its principal object was to deal with national problems of banking and currency. Since its enactment financial and economic conditions in the United States have undergone far-reaching changes which were not foreseen three years ago. The United States has grown to be a world power in financial affairs and it seems necessary that the Act, which has proved of such great value in the treatment of our domestic problems, should now be amended in order to enable us to deal effectively with the new international problems which seem destined to play so important a part in our economic life. The banking system of the United States should be prepared to meet effectively two conditions of opposite character - one, the excessive and uncontrolled inflow of gold, the other the excessive and unregulated outflow of gold. The amendments proposed are designed to provide means of controlling an over-extension of loans based on new accretions to our gold stock and to provide for the mobilization and concentration of the gold holdings of the United States so that the flow of gold back into Europe, or to South America or to the Orient, may be arranged without forcing any violent contraction of loans or causing undue disturbance to legitimate business.

Of approximately two and three-quarter billions of gold in this country there are held or controlled by Federal reserve banks about \$736,000,000, of which Federal reserve agents hold \$283,000,000 as security for Federal reserve notes outstanding, and \$453,000,000 is reserve money and must therefore be used conservatively. But even assuming that the Federal reserve banks were willing to reduce their gold reserves to 40% of their deposits and note liability

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(which would be regarded as a minimum and in normal times would be inadequate) the amount of free gold, i. e., the amount of gold that the Federal reserve banks would lose before reaching this 40% minimum, would be a little more than \$375,000,000. While this is a very large sum its sufficiency can not safely be assumed when we consider the wide scope of our transactions in world finance and the phenomenal growth of our own credit structure.

It is estimated that there are now in the hands of the public, i. e., outside the Treasury and the banks, over eight hundred million dollars in gold and gold certificates, and that there are at present held in the vaults of member banks about \$815,000,000 of reserve money of which \$540,000,000 is gold coin or gold certificates. There should be added to this estimate about \$600,000,000 of lawful money in the vaults of nonmember State banks and trust companies.

NOTE AMENDMENT.

The Federal reserve note, which is an obligation of the United States secured by an ample reserve of gold and commercial paper, is accepted as willingly by the public as a national bank note or as any other form of currency, and the public does not discriminate between different forms of United States currency. Federal reserve note circulation has been substituted for gold certificates to the extent of about three hundred million dollars.

Under the present law this gold is deposited with the Federal reserve agents in redemption of the Federal reserve notes issued against it. The note so provided for thereby in effect ceases to be an obligation of the Federal reserve bank; but as the gold does not figure as an asset of the Federal reserve banks, the Federal reserve banks are unable to show the greater strength which might be evidenced if the law permitted, as proposed in the amendments, the issuance of Federal reserve notes not only against commercial paper, but also against gold or against either, provided always that every Federal reserve note must be covered by at least 100% of commercial paper or gold, and that there must always be a gold reserve of not less than 40% against all outstanding Federal reserve notes.

RESERVES.

The control of gold by Federal reserve banks in times of abundance such as at present, will decrease the danger of inflation of domestic credits and at the same time will enable the country when the tide turns to part with large sums of gold with less inconvenience or shock, thus enabling us more safely and effectively

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to proceed with the development of our foreign trade and to give the necessary credit facilities for its extension. The United States should be in a position to face conditions which may call for an outflow of gold without any disturbances of our own or to the world's business, and without making necessary drastic changes in our interest or discount rates. The amendments suggested by the Board are designed to enable the Federal reserve banks to withdraw gold from actual circulation while enabling member banks at the same time to release gold which at present is tied up in their own vaults. The amendments are based upon the theory that all of the individual banks should strengthen the gold holdings of the Federal reserve banks. The country's holdings of gold are not used most effectively when they are in the vaults of a large number of banks scattered all over the country, but its greatest use would come from concentrating it to a greater degree in the vaults of the Federal reserve banks, where it can be effectively protected when not required and effectively used when needed. The member bank does not require gold with which to supply the ordinary demands of its depositors so much as currency.

It is from this point of view that the Federal Reserve Board has proposed that Congress increase the required reserves to be maintained by member banks with the Federal reserve banks. On November 17, 1916, the cash holdings of all member banks were about \$815,000,000. Under the proposed amendment of Section 19, \$250,000,000 of this amount would be transferred to the Federal reserve banks. Hence the Board believes that ultimately the law should require of member banks no more than that they should maintain a specified balances with the Federal reserve banks in amounts adequate to supply the necessary reserve basis, and that the Federal reserve banks must have sufficient reserves of gold with which to protect all obligations, but that there should, however, be no legal requirement as to the amount of currency that a member bank should carry in its own vault. This is a matter of business judgment that might well be left to the discretion of each member bank. It was thought, however, that if this principle were carried into full effect at this time, the step might be considered too extreme, particularly under present conditions, and nothing should be done that might tend to a further release of reserve money.

A minimum amount of currency that the member banks should be required to keep in their vaults is, therefore, prescribed. The amount suggested is 5% of the demand deposits, so that the total requirements - cash and reserve - will remain practically unchanged. While the effect of some of the proposed

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changes will be to reduce somewhat the reserve requirements, the reserves will be increased by the abrogation of the practice hitherto observed of counting items in transit or "float" as reserve. The permission given member banks to use their own discretion as to the character of currency in their vaults, will enable them to release the gold they now hold, with the important result that the substitution of Federal reserve notes for gold and gold certificates will be facilitated by this change in the law. Without some such change member banks will continue to ask for gold certificates in small denominations, because as long as they must have gold or lawful money to count as reserve it would be impossible for the banks to exchange them for Federal reserve notes.

OTHER PROPOSED AMENDMENTS.

Besides the proposed changes relating to note issues and to reserves the Board has suggested also the following:

Amendment of section 11 so as to permit the Federal Reserve Board to raise reserve requirements in emergencies, just as it is now empowered in certain contingencies of a different kind to lower those requirements.

This provision would, if adopted, enable the Federal Reserve Board in prolonged periods of extreme ease in the money market to check any tendency toward excessive loans or other forms of undue extensions of credit.

Amendment of Section 16 to permit nonmember State banks and trust companies, even though too small to be eligible for membership in the Federal reserve banks, to avail themselves of the clearing and collection facilities of the Federal reserve banks, provided that they cover at par checks on themselves sent for collection by the Federal reserve bank, and provided further that they keep a compensating balance with the Federal reserve bank in an amount to be determined under rules prescribed by the Federal Reserve Board. This is not intended to operate as an extension of any of the privileges of the Federal reserve system to nonmember banks at the expense of members, but on the contrary the amendment is proposed primarily for the convenience of the public and incidentally for the benefit of the member banks. It is contemplated that the compensating balances which nonmember banks participating in the clearing plan will be required to keep with Federal reserve banks, will be sufficiently large to protect member banks and justify Federal reserve banks in undertaking the service. Any clear-

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ing and collection plan to be effective must be so comprehensive as to include all checks. At present the par lists of the Federal reserve banks include the names of banks checks on which can be collected in any circumstances at a minimum of time and expense, but do not embrace a large number of towns in every State where there are no member banks; and in order to make collections on such points many banks are obliged to maintain accounts in addition to their reserve accounts with the Federal reserve banks. A necessary factor in any successful clearing plan is the offset, whereby balances only require settlement instead of the total volume of transactions. As long as the clearing system does not embrace all of the banks this offset is lost in a corresponding degree and the value of the system diminished in proportion.

Amendment of Section 22 - the penal statute - so as to define more clearly the rights and limitations of directors in the matter of accepting fees or compensation other than the ordinary fees paid directors for legitimate services rendered in the regular course of business, the performance of which service is not incumbent upon them in their capacity as directors.

Amendment of Section 13 to restore the provision which was by error stricken from the Act in the amendments of September 7, 1916, thus restoring to national banks, with the approval of the Federal Reserve Board, the right to accept up to 100% of their capital and surplus in transactions involving imports or exports.

Amendment of Section 17 to cancel the provision of the National Bank Act which requires national banks to maintain a minimum deposit of Government bonds with the Treasurer of the United States. National banks are no longer required to keep outstanding a minimum amount of circulating notes, and a newly organized bank is not obliged to purchase or carry any bonds of the United States; but there are a number of national banks organized before the passage of the Federal Reserve Act which have retired their national bank circulation in full, yet they are, under a construction of the old law, required to keep on deposit with the Treasurer of the United States, a certain minimum of United States bonds. The Board feels that it is just to these banks that they be relieved of this obligation.

Amendment of section 25 to authorize member banks located in cities of more than 100,000 population and which have

a capital and surplus of more than \$1,000,000 to establish branches in the same city, provided the State laws do not prohibit State banks and trust companies from establishing branches.

Amendment of Section 9 to authorize mutual savings banks not having capital stock to become associate members of the Federal reserve system under certain prescribed conditions. The principal beneficiaries of this amendment would be the mutual savings banks of the eastern and New England States, which can not become members of the Federal reserve system under the present law owing to the lack of any provision enabling them to subscribe for capital stock of a Federal reserve bank, as they have no capitalization of their own upon which a percentage could be based. They would be required to carry a reserve balance with the Federal reserve bank against their time deposits in the same proportion as member banks; and the accommodations proposed for mutual savings banks are limited strictly to the discount of their thirty-day obligations properly secured.

Amendment of Section 18 so as to give to United States one-year 3% gold notes in the hands of Federal reserve banks the circulation privilege for the issuance of Federal reserve bank notes, such circulation to be taxed at the same rate as circulating notes, which are secured by 3% bonds of the United States. In the opinion of the Board it is desirable to extend this privilege to the Federal reserve banks in order that they may have additional means of protecting themselves at times when there is an unusual demand for currency.

Amendment of Section 4 to abolish the title and office of deputy Federal reserve agent, thus having two unattached Class "C" directors instead of one as at present, and to create the position of assistant Federal reserve agent, who shall not be a director of the bank, but who shall be a salaried bonded officer in the Federal reserve agent's department, serving at all times as an assistant to the Federal reserve agent and qualified to act for the agent in his absence. Experience has shown that there is difficulty in filling the office of deputy Federal reserve agent. This officer is required to have the same qualifications as the Federal reserve agent; he must have had banking experience and he must not be an officer, director, or stockholder in any bank. At the same time he is not as a rule a salaried officer, and receives only the customary fees paid directors for attendance upon meetings, and he is obliged to be prepared to assume the duties of the Federal reserve agent in case of the absence or disability of that officer, which involves a transfer and audit of securities and accounts. It is believed that the change suggested will operate to fix responsibility more definitely and will give the Board more latitude in the selection of the Class "C" directors other than the Federal reserve agent.

FEDERAL RESERVE BOARD

WASHINGTON

January 19, 1917.

Dear Sir:

In view of the fact that the rate for bankers' acceptances recently maintained by Federal reserve banks has been somewhat higher than the open market rate, the holdings of acceptances by the Federal reserve banks have been materially reduced during the past weeks.

In consequence the Board has received letters from some of the Federal reserve banks expressing apprehension that their earning assets might be reduced too drastically, and some of the banks have shown some inclination to invest in warrants, even at low rates, and for the full period permitted by law.

The Board therefore has thought it advisable to direct me to address a letter to all Federal reserve agents in order to secure a better understanding of the policy which in its opinion, should be pursued at this time.

During the month of December, and up to January 12, the net gold imports into the United States amounted to about \$169,000,000. Excess reserves have materially increased in consequence. It may be assumed that this plethora of gold is not entirely a natural one and that much of it will be absorbed by impending flotations of new securities, after which we shall probably witness again the same development that has been characteristic of similar periods in the past - that the deposit and loan structure will again expand so as to absorb large portions of the new gold.

There is general agreement that this continuous and rapid growth of deposits and loans is not without danger. With the present ease of money, it would appear, therefore, in the opinion of the Board, to be a wise policy to permit the earning assets of the Federal reserve banks - which combined amounts to about \$206,000,000 - to be reduced by from forty to fifty millions, and thereby to absorb, temporarily at least, an equivalent amount of the newly imported gold. Of course, such a policy must be carried out in a careful and tactful way, and no definite amount can be fixed at this time to which the investments of the Federal reserve banks should be reduced. Changes in conditions may occur at any moment, which may render it necessary to reverse this policy, or to apply it even more radically than is now contemplated. During the past few weeks Federal reserve banks have operated along these lines with very good results, and acceptances and rediscounts have been reduced by about \$40,000,000 since they reached their highest point, early in December. So long as the present ease continues, there should not be any difficulty in continuing the present policy. By permitting the open market to absorb the bankers' acceptances, the additional object is gained of training the member banks to deal in acceptances and to become accustomed to investing in them.

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In expressing to you these thoughts the Board wishes me to add that it hopes that the banks will not become unduly restive because of a temporary reduction of their earning assets. The Board has no doubt that before the year just begun is past, many occasions will arise which will enable the Federal reserve banks to employ their funds actively, but the Board considers it the primary duty of the Federal reserve banks to be mindful of their obligation to do their full part in preventing just now a rapid expansion of credit and in accumulating resources to be used when active demands are made upon them for ordinary commercial credit facilities.

Very truly yours,

Governor.

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FEDERAL RESERVE BOARD

WASHINGTON

January 25, 1917.

Mr. R. H. Treman,
Deputy Governor, Federal Reserve Bank,
New York, N. Y.

Dear Sir:

The Federal Reserve Board this afternoon approved and adopted the report of the Committee of Governors in the matter of making immediately available at par drafts drawn by member banks against Federal Reserve Banks, with one modification, to wit: that all member banks and not merely those which are country banks, may be allowed to participate in the arrangement, the limitation however, in all cases to remain at ten thousand dollars per day as the total that may be drawn by any one bank.

The Board regards the plan suggested by the Governors' Committee as the first and essential step that must be taken, and suggests that the circular which you propose to send out state clearly that it is proposed to develop the plan and that the limitation adopted is not intended to be permanent, but only a temporary safeguard. It might be well to point out also that as the limitation to ten thousand dollars per day would to a great extent prevent the larger banks in the cities from making use of the new facilities, the country banks will be the immediate beneficiaries. The Board would suggest that the circular, which should contain a facsimile of the proposed form of draft, be issued as soon as it can be prepared, and that the plan be made effective as early as possible, and not later than April first. The Board feels it is important that Federal Reserve Banks should get themselves in readiness to extend to their members more of the facilities which have hitherto been given by city banks to their country correspondents, such as the collection of drafts and maturing paper; and the Board believes that it would be well for a statement regarding this to be made in the circular. It is understood that the circular will be prepared and signed by the Committee of Governors who made the report, and that copies of it will be sent by the Committee to each of the Federal Reserve Banks for distribution.

The Board will be obliged if you would kindly have a draft of the circular sent to it for its information before it is made public or distributed.

Very truly yours,

(Signed) W. P. G. Harding,

Governor.

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A meeting of the committee for discussion of the plan to make drafts upon Federal reserve banks acceptable for immediate availability at par in all Federal reserve banks. Meeting held Monday, January 22nd, 1917, at the Shoreham Hotel, Washington, D.C., at 10.25 o'clock a.m.

Present: Messrs. Treman (Chairman), McDougal, Seay, Rhoads, Fancher, McKay and Hendricks. Mr. Hendricks was appointed secretary to the meeting.

At the last Conference of Governors there was a joint session with members of the Federal Reserve Board at which the above mentioned topic was discussed, and at that time the following vote was adopted:

VOTED: That the chairman be authorized to appoint a committee of five to confer with the Federal Reserve Board and assist in preparing a plan in connection with the immediate availability of drafts on Federal reserve banks.

After informal discussion of the plan, as outlined by Governor Seay, it was the unanimous opinion of this committee that when the final transfer of reserves becomes effective, in accordance with the amendment which is now before Congress, some machinery should be in readiness to provide for the transfer of funds for such banks as have been in the habit of using drafts on central reserve cities, and in con-

formity with this view, the committee unanimously agreed upon the following plan:

(1) That the privilege of drawing "Federal exchange" drafts should be limited to the country banks, or, in other words, to those banks carrying a twelve percent reserve,

(2) That the drafts should be limited, as to the amount drawn in any one day by a member bank, to ten thousand dollars,

(3) That the drafts should be drawn by member banks upon their own Federal reserve bank and made receivable for immediate availability at par at any one Federal reserve bank specified in the draft,

(4) That a special uniform form of draft be adopted by all the Federal reserve banks, such drafts when drawn upon this form to be the only ones which are receivable for immediate credit at par,

(5) That the drawing bank be required to give immediate advice to its Federal reserve bank of all "Federal exchange" drafts drawn, and that such drafts be immediately charged to the member bank's account on receipt of advice,

(6) That this plan become operative when the final transfer of reserves has become effective, and be made available to such member banks as may agree to terms formulated by the Federal reserve bank.

A meeting of the -3- committee for discussion of the

The committee then discussed whether it would be necessary to immediately inaugurate daily settlements in the gold settlement fund and, on motion by Governor Seay, it was moved and carried that, in the opinion of the committee, under the existing conditions and the terms above recited, there would be no necessity for daily settlements through the gold settlement fund at the present time.

The committee next considered the advisability of putting into operation at this time the Gidney plan of a silver and legal fund. After discussion, on motion by Governor Seay, it was moved and carried that, under existing conditions, there is no necessity for establishing such a fund at this time.

It was also decided to appoint a committee of five to confer with the Federal Reserve Board and assist in preparing a plan in connection with the immediate availability of drafts on Federal Reserve banks.

After the adjournment of the meeting, a letter was written by Governor Seay to the members of the committee that when the final transfer of reserve becomes effective, in accordance with the amendments which are now before Congress, some machinery should be in readiness to provide for the transfer of funds for such drafts as may be in the habit of being drawn on central reserve banks, and in con-

Mr. Strong

January 31, 1917.

Mr. R. H. Treman,
Deputy Governor, Federal Reserve Bank,
New York.

Dear Governor Treman:

I dislike to refer to this matter again, but the point has been raised by some members of the Board that, in order to complete our files, we should have copies of your correspondence by cable with the Bank of England which followed the Board's announcement on the morning of December 26th.

I trust that you can, without inconvenience, send us these copies, which our stenographic record shows the committee of your directors agreed would be furnished.

Very truly yours,

(Signed) W. P. G. Harding,

Governor.

89

FEDERAL RESERVE BOARD

WASHINGTON

February 3, 1917.

My dear Governor Strong:-

Referring to our exchange of telegrams yesterday afternoon, I wish to say that your offer to return to New York at the risk of a set-back to your health was most patriotic and is characteristic of you, but the Board would not for a minute think of your doing so. There would be too much risk involved and you might lose in a few days all of the good results of your sojourn in Colorado. We are all keeping in close touch with the officials of the New York Bank and we feel assured that the bank has taken all the necessary steps to protect its member banks and the public in any situation that is likely to arise.

As you know, the earning assets of the Federal Reserve Banks were reduced from the middle of December to the last of January by about \$44,000,000, but Germany's note of January 31st caused a stiffening in the rate for acceptances and the bank has resumed its purchases at market rates, which are from 3 to 3-1/4%. The Bank has on hand in Washington \$245,000,000 of Federal Reserve notes and has entered an order this afternoon for the printing of \$75,000,000 additional notes. We will send the bank from here next week a total of \$35,000,000 in daily installments.

Because of the break with Germany we feel that Congress will be more disposed to give us the amendments we desire, some of which have already been reported favorably by the House Committee on Banking and Currency; and on the return of Senator Owen next week we will press for action by the Senate Committee.

Your associates in New York are no doubt keeping you fully advised of matters at their end of the line and my colleagues here join me in kindest regards and in the positive injunction that you must under no circumstances consider returning to New York at this time.

With best wishes, believe me,

Sincerely yours,

Mr. Benjamin Strong,
4100 Montview Boulevard,
Denver, Colo.



89

FEDERAL RESERVE BOARD

WASHINGTON

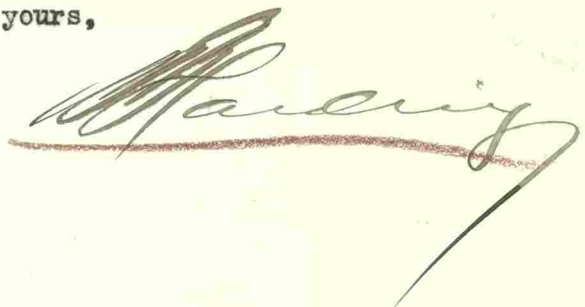
February 3, 1917.

My dear Governor Strong:-

Your letter of the 26th ultimo was received a few days ago, and owing to unusual pressure of official duties I have overlooked an earlier reply.

I will take advantage of the first favorable opportunity of bringing your letter to the attention of the Secretary of the Treasury and have no doubt that he will be favorably impressed with your suggestions regarding the purchase and accumulation of gold bars. In view, however, of the very critical state of our international affairs, it will be useless, for a few days, to ask him to give this matter any attention.

Sincerely yours,



Mr. Benjamin Strong,
4100 Montview Boulevard,
Denver, Colorado.

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
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.

RECEIVED AT

B65GS0X 33 3 EXA

WASHINGTON DC VIA DENVER COLO FEB 3 1917

BENJAMIN STRONG

ADAMS HOTEL PHOENIX AZ

THANKS YOU FOR TELEGRAM NEWYORK SITUATION WELL IN HAND BOARD

WOULD NOT THINK OF HAVING YOU RETURN AT PRESENT AS
OBJECTS GAINED WOULD NOT BE WORTH RISK TO YOUR HEALTH

HARDING

645P

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
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.

RECEIVED AT

B 24 S S 19 GOVT

K WASHINGTON DC 1040A FEB 12 1917

BENJAMIN STRONG

11

PHOENIX AZ

YOUR TELEGRAM CORRECTION SUGGESTED HAS ALREADY BEEN MADE IN BILL
REPORTED BY HOUSE COMMITTEE

HARDING

855 AM

SERVICE	SYMBOL
Day Message	
Day Letter	Blue
Night Message	Nite
Night Letter	N L

If none of the 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, FIRST 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.

RECEIVED AT 915-919 SEVENTEENTH ST., DENVER, COLO. ALWAYS OPEN

201NY OC 44 GOVT

DUPLICATE OF TELEPHONED TELEGRAM

K WASHINGTON DC 340P APR 3 1917

BENJAMIN STRONG

1058

4100 MONTVIEW BLVD DENVER COLO

BOARD DOES NOT FEEL THAT PRESENT CONDITIONS OR ANY SITUATION
 LIKELY TO ARISE IN NEAR FUTURE JUSTIFY YOUR HAZARDING YOUR
 HEALTH AND WRONGLY URGES THAT YOU BE PATIENT AND NOT
 HASTEN YOUR RETURN

HARDING

201PM

Handwritten: JPK 1308
 Sent to Sedg
 By Va 208 P
 to be Mailed

TELEGRAM

Washington, April 19, 1917.

Federal Reserve Bank,

New York.

Secretary of Treasury offers \$200,000,000 Treasury certificates payable July 1st bearing 2 1/2% interest. Should payment for Government war bonds be called prior to that date, these certificates plus accrued interest can be used if desired in that way. Payment for certificates to be made Monday in New York or by transfer through Gold Settlement Fund if preferred. You are authorized to receive subscriptions in your district reserving participation for your bank if desired. Please wire during day impression created and probable amount of subscription through your bank.

Harding.

89
FEDERAL RESERVE BOARD

OFFICE OF THE GOVERNOR

WASHINGTON

April 27, 1917.

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

Dear Mr. Strong:

I have learned from some of the members of the Board that you expect to be back in New York on Monday morning, and I take this occasion to add my welcome to that which you will receive from the officers, directors, and employees of the Federal Reserve Bank of New York.

I sincerely hope that your health has improved sufficiently to justify any risk that you are taking in coming back, and to express the hope that I may soon have the pleasure of greeting you personally.

With kindest regards, I am,

Sincerely yours,



742

FEDERAL RESERVE BOARD

OFFICE OF THE GOVERNOR

WASHINGTON

May 12, 1917.

RECEIVED

FILING DEPT.

MAY 14 1917

AUG 31 1917



FEDERAL RESERVE BANK

Mr. Benjamin Strong, Jr.,
Governor Federal Reserve Bank,
New York.

FEDERAL RESERVE BANK
of New York

Dear Governor Strong:

I have your letter of the 11th instant,
and have already discussed with the Secretary of the
Treasury the question that you bring up relating to
the policy which he will adopt in redepositing funds
with banks and trust companies through which subscriptions
for Government bonds were received. He has in view a
statement which I think will be entirely satisfactory,
and I understand it is his intention to make it public
in the course of a day or two.

Very truly yours,

Handwritten signature of H. P. Davis
Governor.

OFFICE OF THE GOVERNOR

FEDERAL RESERVE BOARD

WASHINGTON

FILING DEPT.

JUN 23 1917

FEDERAL RESERVE BANK

June 21, 1917.

Mr. Benj. Strong, Jr.,
Governor Federal Reserve Bank,
New York.

Dear Governor Strong:

I have your letter of the 19th
instant with enclosures, which I have read with great
interest and now return in accordance with your request.

The members of the Board are all feeling
good over the amendments to the Federal Reserve Act which
I understand will be signed by the President late this
afternoon or tonight. The help rendered by your friends
was very effective, and was, in fact, essential.

Sincerely yours,

Handwritten signature

Received
89

Bob E
general

June 27th, 1917.

PERSONAL

Dear Governor Harding:

In the statement which was given to the press by the Board last week reference was made to the earmarking of gold by the Bank of England and as a matter of fact, whether announcement had been made or not, it became quite apparent to the newspaper men just what the transaction consisted of. I am taking the liberty of writing you personally and privately to ask if the Board will not leave out any specific reference to these foreign transactions to the extent of any rate of giving the name of our correspondent bank until I have an opportunity to exchange views with the Bank of England on the subject of publicity.

I understand they are rather sensitive as to any newspaper publicity in regard to their transactions. As you know, they have never published the amount of gold held abroad, in the same way that this item, for instance, has been published in France.

If this suggestion is in accordance with your own views, I will write to Lord Cunliffe at once and ask him just how they feel about giving the public any information regarding our transactions, but of course in any event, we would be required to publish the ^{item} in our statement showing the amount of gold held with foreign agencies.

Very truly yours,

Respectfully,
Federal Reserve Board,
Washington, D. C.

Governor.

FEDERAL RESERVE BOARD
WASHINGTON

PERSONAL.

JUL 3 1917

June 28, 1917

W. A. B.
JUN 30 1917

Mr. Benjamin Strong, Jr.,
Governor Federal Reserve Bank,
New York.

Dear Governor Strong:-

I have your letter of the 27th instant in reference to the Board's press statement of June 23rd. I am going to be perfectly frank with you, in order that you may have a clear understanding of my views, which I am sure will be concurred in by at least a majority of my colleagues.

The consolidated statement of June 23rd showed, for the first time, the item, "Gold with Foreign Agencies, \$52,600,000," and the Board very properly made an explanatory reference to this, and, in order to forestall misleading conjectures, added that it was ear-marked gold in the Bank of England. I will never be a party to a policy which would withhold from the public information to which it is entitled, and it seems to me that if you are at any time embarrassed in any of your dealings with the Bank of England or other foreign correspondents because of any action or statement made by the Board, you could very easily advise them that the responsibility in these matters rests with the Federal Reserve Board.

It seems to me, however, that you lay too much stress upon the sensitiveness of our friends on the other side. I have had the pleasure, with my colleagues, of meeting Lord Cunliffe on several occasions, and he impressed me as being a very sensible and matter-of-fact kind of man. While I strongly believe in ordinary business courtesy, I do not like the idea of being hampered in the discharge of public duty because of the alleged sensitiveness of those with whom we deal. Just at this juncture, the English might very well consider American feelings, and adapt themselves to American ways of

doing business, and the Bank of England should understand, if it does not already do so, that the Federal Reserve Board cannot undertake to throw a veil of secrecy or mystery around its transactions with Federal Reserve Banks.

Should you write to Lord Cunliffe on this subject, I would suggest, in order that he might have a clear understanding of the limitations imposed upon Federal Reserve Banks, that you call his attention to paragraph (e) Section 14, as amended by the Act of June 21, 1917. He will then get an idea of the scope of the Board's authority and responsibility with respect to foreign agencies.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Anderson", with a long, sweeping underline that extends to the right.

June 30th, 1917.

CONFIDENTIAL

Dear Governor Harding:

I am obliged to you for your frank letter of the 28th ult. in regard to the transaction with the Bank of England.

My inquiry was made with a view to avoiding possible embarrassment in future rather than in regard to this particular transaction, and perhaps I should have stated the reasons for it more in detail.

A good deal of jealousy seems to have developed at times between the Bank of England and the Bank of France and we naturally wish to avoid discussions which might interfere with the ultimate conclusion of a triangular arrangement along the lines of the Bank of England agreement. I believe it will serve to fortify this country later on when it is possible that the exchanges now in our favor might turn the other way.

It has been the custom of the European central or government banks to report separately foreign gold holdings which count as part of their reserve in similar status to this gold which the Bank of England now holds for us, as "gold held in foreign countries" without, however, reporting where it is so held or giving any details as to the custodian. This has been done by the Bank of France, Bank of the Netherlands, Bank of Russia and possibly by others.

6/30/17.

It has seemed to me, and I hope that you and your associates will agree with this view, that all possibilities of embarrassment would be avoided if we could report the item of gold held abroad as simply "Gold with Foreign Agencies;" our various exchange accounts when they develop as "Foreign Balances," and our various investments held abroad as "Foreign Long Bills." Such a subdivision of these accounts on our books would indicate how much is held at each agency, how much is in current account and how much in bills, consisting of sterling, francs, or guilders, etc., etc.

At no time have we had any disposition to question the authority of the Board in these matters and certainly Lord Cunliffe would be the last person in the world to do so. My suggestion was inspired simply by the desire to conform so far as possible with those customs and traditions which seem to be uniformly adopted by banks similar to our own abroad, and which policy in my opinion would have a tendency to avoid embarrassment for us.

Certainly, information which the public is entitled to have or which our member banks are entitled to have would be adequately furnished to them by reports of the character that I have suggested and I sincerely trust that this will meet with the views of yourself and your colleagues.

Very truly yours,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS/VOM

FEDERAL RESERVE BOARD

OFFICE OF THE GOVERNOR

WASHINGTON

RECEIVED

JUL 5 1917



July 3, 1917.

Mr. Benjamin Strong, Jr.,
Governor Federal Reserve Bank,
New York.

Dear Governor Strong:

I have your letter of June 30th touching further upon the matter referred to in your letter of the 27th. As a general rule I do not think there would be any difficulty in reporting "Gold with Foreign Agencies" or "Foreign Balances" as you suggest, but occasions are likely to arise, as was the case the other day, when it may be necessary to make a brief explanation in order to forestall conjectures or guesses.

All matters pertaining to Federal Reserve banks are of interest to the public now more than ever, and I think we should be careful to avoid a course which might be criticised as concealment or evasion. I really think if our friends on the other side, - both in England and France - understand that the position of the Federal Reserve bank is not entirely analogous to their own, and that in the matter of the consolidated statements the Board has responsibility to Congress and to the public, they will readily adapt themselves, especially under present conditions, to our methods.

Very truly yours,

A large, stylized handwritten signature in dark ink, likely belonging to the Governor of the Federal Reserve Bank of St. Louis.
Governor.

Eng. Dept.
From File C 261 Apr. 1917 - Oct 1918
Subj.: England - United Kingdom of Gt. Britain & Ireland.

August 9th, 1917.

PERSONAL AND CONFIDENTIAL.

Dear Governor Harding:

The enclosed is a memorandum bearing on the subject we discussed Tuesday morning and is somewhat longer than necessary but I am not taking time to reduce it as I know the matter is pressing. I hope it may be of some service.

Very truly yours,

Honorable W. P. G. Harding,
Federal Reserve Board,
Washington, D. C.

BS/VCM

Enc.

STERLING EXCHANGE.

The consequences of a collapse of sterling exchange should be viewed from two standpoints; one political or military, - and the other economic.

The political or military effect is all comprehended in the statement that it would be regarded in Germany as equal in value to a great military victory.

Germany's credit with neutral countries has been gradually drying up, the most recent evidences of this development being the enforced export of gold by the Reichsbank. On the other hand, the credit of the Allies in neutral markets and particularly in this country, has been maintained largely because of the skill with which the international finances of Great Britain have been managed, but still more because of world-wide confidence in the wealth of Great Britain and the stability of its finance.

A breakdown in sterling in the various markets of the world would be interpreted as a failure of British credit and as evidence that the allied powers had reached the end of their economic resources. The extent of the encouragement to the enemy can hardly be measured. It would reach all classes, would have a correspondingly depressing effect upon home populations, and no doubt considerable effect upon the political attitude of neutrals. This last consideration is not to be ignored at the present time when further economic pressure must be exerted upon the central powers by a vigorous enforcement of the policy of controlling our exports to adjacent neutrals.

The economic consequences of a collapse of sterling would be identical with the effect of a complete suspension of international specie payment by Great Britain. It would for a time reduce the trade of the world to a barter basis and disorganize commerce to such a degree as to seriously hamper the successful prosecution of the war.

In detail, the following developments might be expected:

1. Trade throughout the world, which is largely conducted at prices based upon the rate at which local currencies may be converted into sterling, would halt until other means of settlement were provided in place of the sterling bill.

2. Interruption to commerce would result in goods piling up at seaports, causing congestion of transportation both by rail and water.

3. The citizens of neutral countries would direct goods to the market where cash settlement could be effected, namely, this country, thereby hampering our allies in purchasing supplies which they are now receiving from various parts of the world and forcing them to make all of their purchases in this country.

4. It is quite possible that sufficient distrust of the stability of world finance would develop to lead timid people to hoard gold with the inevitable consequence of a quoted gold premium.

5. All exports by this country to allied countries would increase in cost to the consumer abroad in proportion to the discount on sterling (or premium on dollars) and such restricted trade as continued could probably only be conducted by the use of our government's credit.

In general, it would mean a period of disorder in the world's commerce and finance which could only be gradually restored by the substitution of other means of settlement, doubtless American bills, which

development would be slow because of the lack of adequate American banking machinery in foreign countries. The ramifications of the disorder resulting from any such calamity need not be enlarged upon as they are only too apparent.

In view of the existing situation, two possible courses seem to be feasible. The simplest and most effective would be for the Government of the United States to make sufficient advances to the British Government to enable it to continue its policy of purchasing exchange through the existing machinery, so that no disturbance whatever would arise, nor would any publicity develop which might be interpreted by enemy governments as evidence of growing weakness.

The other alternative, which seems less desirable, would be for the British Government to take over control of the purchase of practically all commodities now being furnished by this country, making all contracts payable in dollars. This might not be feasible in every detail, but as to the principal exports, such as cotton, tobacco and other commodities at present uncontrolled, it doubtless could be done with a minimum of publicity and without necessarily giving evidence of financial or economic weakness. If that were done, it might be coupled with some arrangement with English banks, particularly the "foreign trade" banks, under government initiative, by which long bills, say of sixty or ninety days usance, would be drawn on American banks under credits guaranteed and reimbursed by the British and American Governments. The effect of this arrangement would be to postpone the settlement of export accounts to an amount equal to the volume of bills permanently added to the American bank portfolio.

It will be observed that by the first program this government would be directly advancing to the British Government all the money required to enable not only the British Government, but all British citizens and importers to make payment for the net imports of Great Britain from this country. It would be a direct transaction involving no publicity

and if it is to be controlled as to amount, reliance must be had upon the successful operation of the British embargo on import of unnecessary articles or an American embargo on similar exports.

The second proposal would involve the same thing exactly, but by other methods. Our government would be called upon to advance to Great Britain the entire amount needed to liquidate our favorable British trade balance, less only that sum which would be represented as stated above, by the permanent increase in the American bank portfolio of long bills drawn in dollars. The second plan, however, would involve creating machinery not now in existence. If guarantees of these payments are to be made by the respective governments, to be liquidated out of our advances to Great Britain, the credits under which the exports are arranged must necessarily be handled through some central organization and kept under control. This would be a direct control applied to each transaction instead of an indirect control exercised through a general embargo.

Another consequence of the second plan and one which would require equally skillful control, would be the introduction into our market of large credits to cover transactions between the allied powers and neutral countries and between neutral countries. Whenever, or to the extent that the English bill market is extinguished, finance and trade bills now drawn on London for the purpose of financing neutral commerce must gradually be diverted to this country. It would be an indirect draft upon our banking credit which might develop to a large volume and ultimately result in some export of gold in excess of what is already moving to neutral countries as one of the inevitable results of payment being made in those countries by transfers of dollar credits for that purpose. Our ability to carry this load will depend upon the duration of the war.

While the first plan of direct advances would seem to be the simplest and most feasible, if for political or other reasons it cannot be brought about, the management of this matter should at once be taken over in behalf of the United States and British Governments in such a way as to avoid publicity on the one hand and to avoid on the other hand, the irritation that will be felt by London bankers.

Possibly a wise procedure would be to adopt temporarily the plan of having the British Government take control of all purchases in this country for which machinery can be promptly provided and for our government to supplement this relief by a fixed weekly advance to Great Britain for the purpose of supporting sterling and after a few months experience with that plan it may be found possible to bring about a change of custom which would greatly facilitate the drawing of long bills in dollars. Radical measures in which publicity could not be avoided would be almost as great an evidence of weakness as would be a collapse of exchange.

New York City, August, 8, 1917.

BS/VCM

EXTRACT : GOVERNOR HARDING'S LETTER TO GOVERNOR STRONG OF AUGUST 10, 1917.

Serial 090 W.P. 4. Harding

"In regard to sterling exchange; I would say that I doubt more than ever, since my return to Washington, the feasibility of an extension of credit by the United States to Great Britain in an amount sufficient to insure the support of sterling under present trade arrangements. It seems to me that in order to secure the necessary legislation to make available the large credits which will be required, British purchases in this country should be drawn against very largely in dollars."

TELEGRAM

CONFIDENTIAL:

8:45 p. m.

Washington, D. C.,

February 20, 1918

Governor, Federal Reserve Bank,

New York, N. Y.

Secretary McAdoo will announce offers of certificates of indebtedness at four and one half percent., which should greatly facilitate their being placed. It is feared, however, that in view of the keen competition between banks for deposits which has recently developed, this increase of rate on certificates will lead banks to offer higher rates on deposits. Suggest that you call your clearing house banks together for conference and impress upon them the unwisdom of such procedure.

It appears to us here that banks are holding too nervously to deposits instead of encouraging sale of certificates to their depositors, which would have effect of releasing reserves. This scramble for deposits if unchecked will lead to most unfortunate conditions.

Board suggests consideration by leading banks of European method; namely, that interest rate allowed should be based upon the discount rates fixed by Government banks.

Suggest that you discuss with your clearing house banks allowance on demand deposits interest not in excess of one and one half to two percent. below the fifteen day rate for commercial paper established from time to time by their Federal Reserve Bank.

A similar differential on ninety day rate might be adopted for time deposits. Any marked general increase in rates on deposits likely to force Treasury to demand higher rates on government balances. In this connection it may be timely

to consider adjustment of discount rates to harmonize with new certificate rate.
I hope you will call conference and let us know results.

This telegram sent New York, Boston, Philadelphia, Cleveland, Chicago and
St. Louis.

HARDING

Copy.

592

March 6th, 1918.

2/21/18

Dear Sir:

At the regular weekly meeting of our directors held to-day, further consideration was given to the suggestion contained in your recent telegram as to an increase in the rates of discount by this bank.

Our directors are unanimous in feeling that it would be unwise to make any increase at this time with the possible exception of a slight change in the basis upon which we purchase bankers acceptances.

They do, however, feel strongly the need for a uniform policy in the establishment of rates by all the reserve banks in connection with the financial operations of the Government and particularly in connection with the placing of the next issue of Government bonds.

They have asked me to make the following suggestion on this matter: If a meeting of Governors of all the reserve banks could be held in Washington on or about the 25th of this month, views could be freely exchanged on this subject and the benefit of the views of members of the Federal Reserve Board as well as the Secretary of the Treasury could no doubt be obtained at such a meeting.

It was thought that if the Governors were asked to meet in Washington at about that date, arrangements could likewise be made for a special meeting of the directors of the Federal reserve banks to be held, say,

2/11/18

Governor Harding. March 6, 1918

on the 26th or 27th for the purpose of initiating rates based upon the recommendations of such a conference. These recommendations could be conveyed by telegraph and doubtless a uniform policy could be adopted as to the whole system in conformity with the needs of the Government.

Personally, I would consider it a great advantage at this time to exchange views with the officers of the other reserve banks, partly to get the benefit of their experience in these matters and partly to explain the situation in New York to them. The latter is not clearly understood and I fear at times has been the cause of some little friction.

The establishment of a uniform policy as suggested would by this method overcome all difficulties which developed in the last loan due to the disparity in rates in the different banks.

We hope that the suggestion made by our Board will receive your earnest consideration.

I beg to remain,

Very truly yours,

Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

BS*VCM

ANSWERED

592

APR 1 - 1918

FEDERAL RESERVE BOARD

P. J.

RECEIVED
MAR 23 1918

OFFICE OF THE GOVERNOR

WASHINGTON

ANSWERED

March 27, 1918.

MAR 30 1918

FILING DEPT.

P. J. APR 2 1918

MAIL TELLER
FEDERAL RESERVE BANK
NEW YORK

Dear Governor Strong:-

I have received your letter of the 26th instant enclosing preliminary report regarding interest rates paid by banks in the State of New York. It seems to me that many of the banks are paying excessive rates for deposits, and I agree with you that a determined and systematic effort should be made throughout the entire country to reform the pernicious practice of paying excessive interest on deposits.

I have already taken the matter up with eleven Federal Reserve banks, and if you will kindly let me have an outline of the methods which you propose to adopt in your own district, I will write the other Federal Reserve banks again, making a more definite suggestion as to methods of procedure than I have hitherto done. Our situation here is complicated somewhat because members of the Board are not unanimous as to the merits of the plan adopted by the New York Clearing House. Some of them feel that it is unfortunate that the differential should be as against the ninety day rate instead of the fifteen day rate, and call attention to the fact that in three of the districts, including Chicago, the ninety day rate is already 5%, so that the adoption of the New York plan by the Chicago Clearing House would mean a $2\frac{1}{2}\%$ rate, - an increase of $\frac{1}{2}\%$. Unless the ninety day rate in New York should be raised to 5%, this might mean a flow of bank balances out of New York into Chicago, so it is evident that there is a new factor to be considered in fixing rates, and some members of the Board regard this as unfortunate. In this connection, I would invite your attention to a memorandum which was submitted to the Board this morning by Mr. Warburg. I would very much appreciate an expression of your views regarding it.

From my understanding of the situation in New York, I hardly think that the trust companies and some of the banks could be induced to agree that the Federal Reserve bank rate on ninety day paper should be in excess of 5%, before a $2\frac{1}{2}\%$ rate should go into effect on bank balances. I am afraid, if the matter is reopened, that it might result in the abrogation of the present agreement, without reaching a new working basis. But you of course, are in a much better position to judge this than I am.

You will note that Mr. Warburg favors increasing the ninety day rate to 5%. It was suggested this morning that I send a copy of Mr. Warburg's memorandum to all Federal Reserve banks, but I am not doing so as I think it would be better to reach a definite agreement as to the New York rates before discussing changes with the interior banks.

Very truly yours,

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

OFFICE OF THE GOVERNOR

500
FEDERAL RESERVE BOARD

WASHINGTON

AUG 7 1918

FEDERAL RESERVE BANK

RECEIVED

AUG -8 1918

August 6, 1918.

P. J.

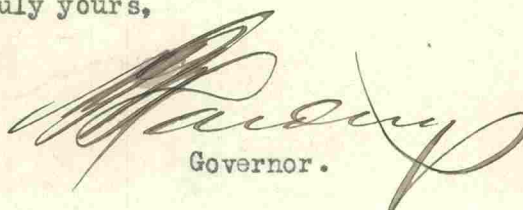
Dear Mr. Jay,

I wired you today as follows, which

I now confirm:

"Adelson's letter was written under misapprehension. Board's letter July twenty-second was not a regulation. Board has under consideration your letter explaining views of your directors and will reply definitely Thursday or Friday."

Very truly yours,



Governor.

Mr. Pierre Jay,
Chairman Federal Reserve Bank,
New York.

MEMBERS
JO
OF THE TREASURY
AIRMAN
ON WILLIAMS
ROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

431
W. P. G. HARDING, GOVERNOR
ALBERT STRAUSS, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN

J. A. BRODERICK, SECRETARY
L. C. ADELSON, ASSISTANT SECRETARY
W. T. CHAPMAN, ASSISTANT SECRETARY
W. M. IMLAY, FISCAL AGENT

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

DEC 17 1918

November 19, 1918.

X-1274

*Sup on
Ad. disp. file answered by
for. Strong
11/27/18 PJ*

SUBJECT: EXCESSIVE REDISCOUNTS BY MEMBER BANKS.

Dear Sir:

The attention of the Federal Reserve Board has been called to the fact that in some instances member banks have applied for and obtained rediscounts which appear to be largely in excess of their actual needs or the requirements of the community served, and that they have used the proceeds of these rediscounts to purchase paper in the open market or to make loans to non-member banks at a substantial profit to themselves.

The Board does not, of course, desire in any way to discourage the proper commercial activities of member banks nor to criticise the very natural desire of bank officers to increase the normal profits and business of their institutions. The Board deems it its duty, however, to caution the bankers, who have rendered and are rendering such efficient service to the Government in the present circumstances, that profit making and business expansion must, for some time to come, continue to be subordinated to the general welfare. There is no assurance that the cessation of hostilities in Europe will be followed by a reduction in demands made upon our banking resources.

credit resources must, therefore, be conserved and used to meet the actual requirements of the country at large, and when the needs of a given community have been supplied, there should be no diversion of resources from other sections merely to increase the profits or the business of the banks in that community.

Rediscounting operations between Federal reserve banks are essential in many cases and are being freely engaged in. They are made necessary by the Government's operations and by the seasonal requirements of the various Federal reserve districts, but they ought not to be engaged in merely for the benefit of member banks of any particular Federal reserve district as a means of enabling them to go outside of their natural field of activity to attract business or to make profits. A member bank which has received from its Federal reserve bank accommodations sufficient for meeting its legitimate local demands should not be permitted to secure additional accommodation merely for the purpose of increasing its profits or expanding its business beyond reasonable limits.

A non-member bank which has contributed none of its resources to the Federal reserve system ought not to be permitted to use a member bank as a medium or agency for the purpose of procuring accommodations from Federal reserve banks, unless upon presentation of the facts to the Federal Reserve Board such a course is found to be necessary or advisable in the public interest.

The duty is expressly imposed upon the directors of Federal reserve banks in extending accommodations to member banks to consider at all times the possible actual needs of all their member banks. Section 4 of the Federal Reserve Act contains a specific provision that the directors of the Federal reserve bank "shall administer the affairs of said bank fairly and

impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks".

Having knowledge of the fact that abnormal demands must be expected to continue, the directors of the Federal reserve banks should exercise a reasonable prudence in extending accommodations to any member bank, and should be satisfied, by proper inquiry or investigation, that the accommodation sought is for legitimate local requirements, and not applied for merely for the purpose of increasing the profits or expanding the business of the borrowing bank. While the directors, with the approval of the Federal Reserve Board, might, by advancing the discount rates, curtail the credits extended to banks seeking rediscounts for the sole purpose of profit-making, such a course might work a hardship upon other member banks seeking rediscounts for their actual needs and might result in an enforced and premature liquidation of legitimate credits.

Section 21 of the Federal Reserve Act provides in part that:

"Every Federal reserve bank may, with the approval of the Federal reserve agent or the Federal Reserve Board, provide for special examination of member banks within its district. The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them".

While it is not desired that member banks should be required to incur any unnecessary expense in the matter of examinations, the Board suggests that in those cases in which member banks are borrowing greater amounts than appear to be justified by the actual needs of the bank, before such lines are further

extended the member bank should be required to make a full disclosure of the lines of credit which it is extending, whether or not it is using the funds obtained from the Federal reserve bank to purchase paper in the open market merely to increase the profits of the bank, and particularly whether it is being used by non-member banks, without the permission of the Federal Reserve Board, as a medium or agency for obtaining accommodations from the Federal reserve bank.

When deemed necessary an assistant Federal reserve agent or a representative of the Federal reserve bank might call personally upon the officers of the member banks whose rediscounts with the Federal reserve bank are out of proportion to their capital and surplus in order that the situation may be fully discussed and understood. In case any member bank should fail or refuse to furnish the Federal reserve bank with full information regarding its lines of credit, an examination should be made by the Federal reserve bank of its affairs and the facts reported to the Federal Reserve Board for such action as may be found to be necessary.

Very truly yours,



Governor.

Mr. Pierre Jay, Chairman,
Federal Reserve Bank,
New York, N. Y.

431

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

November 23, 1918.

NOV 23 1918

Dear Governor Strong:-

I have your letter of the 22nd inst. and note your comments upon the Board's circular letter of November 19th (X1274) regarding conservation of credit by member banks. This letter was sent out after discussion with Mr. Jay, Mr. Wills, and a few other Federal reserve agents who happened to be here, and I explained to Mr. Jay that while it was deemed best to send it to all Federal reserve banks, the Board recognized the fact that conditions in the New York District, particularly as to rediscounts for non-member banks, are essentially different from those which prevail in many of the other districts. For fifty years or more the banks in New York City have made a specialty of country-bank business and have made it a practice to accommodate these institutions in very large sums. It was explained to all the Federal reserve agents that the letter was not to be circulated generally but that it should be used only in those exceptional cases where there was reason to believe that member banks were inclined to take advantage of the spread between the Federal reserve bank rediscount rate and the current rate for the purpose of buying outside paper or of building up their business abnormally by taking over bank accounts which are normally carried with institutions in other districts.


Complaints have been made by the Federal reserve banks of San Francisco, Kansas City and St. Louis that some of their member banks are habitually using them to an extent which does not seem to be warranted, and the Directors of the Kansas City bank have asked the Board to approve a resolution providing for a normal line of credit equal to the capital and surplus of the discounting bank and allowing an excess charge of one-half of one per cent. to be made upon any discount line in excess of the normal line, the differential to apply to each 25% increase in the normal line. The Board is reluctant to approve a plan of this kind. Its object in sending out the letter was to call attention of the Federal reserve banks to their right to obtain accurate information as to the credit lines of member banks and to have them point out this to any banks which habitually carry rediscount lines which appear to be unwarranted by local conditions or by the actual needs of the bank.

I think that distinction should be based upon normal business and seasonal requirements. Some of the Kansas City banks, for instance, have a normal line of country-bank accounts which constitute a legitimate part of their business and there is, of course, no objection to their

discounting in order to take care of the proper requirements of these country correspondents, but if a bank in Kansas City, or in any other interior reserve city, should show a disposition to extend its business by making special inducements to banks which have been in the habit of dealing with Chicago or New York, it seems that it would be a perverted use of the rediscounting facilities of the Federal reserve banks to allow such a bank to extend its business in this way, getting the additional facilities needed from its Federal reserve bank which in turn might have to call upon New York or Chicago for rediscounts which would not otherwise be needed.

I expect by Monday or Tuesday to receive letters from all of the banks on this subject, and will be glad to act upon your suggestion that the intent of the Board be explained to them more definitely.

Very truly yours,

A handwritten signature in dark ink, appearing to read "B. Strong", written in a cursive style.

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

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

May 27, 1919
LIBRARY

MAY 29 1919

FEDERAL RESERVE BANK

Not sent to file

Dear Governor Strong:

Your personal and confidential
letter to Governor Harding under date of May 26th
has been received during his absence from the city,
and will be brought to his attention upon his return
Saturday of this week.

Respectfully yours,

Walter D. Eady
Secretary to the Governor.

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

Copy
Translation

TELEGRAM

No. **A 96644**

19

To

Prepared by.....	Departments Interested
Checked by.....	
Code used.....	

FEDERAL RESERVE BANK OF NEW YORK

PRIVATE WIRE—INCOMING

an DC Dec 31 155p

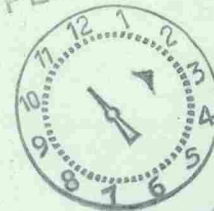
Strong New York.

Please telephone governor Harding at three pm today .

Harding

253p

TELEGRAPH
OPERATOR



DEC 31 1919
F. R. B. N. Y.

FEDERAL RESERVE BOARD
WASHINGTON

The telegram given below is hereby confirmed.

R. G. ...
Assistant Secretary.

FILING DEPT.
NOV 11 1919
FEDERAL RESERVE BANK
November 6, 1919. X-1717

Morss	Boston
✓ Strong	New York
Passmore	Philadelphia
Fancher	Cleveland
Seay	Richmond
Wellborn	Atlanta
McDougal	Chicago
Biggs	St. Louis
Young	Minneapolis
Miller	Kansas City
Van Zandt	Dallas
Calkins	San Francisco

Board hopes you will do what you can to discourage member banks from using advance in Federal Reserve Banks rates as excuse for increasing interest charge to those borrowers on Government securities who are doing what may be reasonably expected in the way of liquidation. In such cases member banks should be satisfied with moderate difference in their favor. Board does not mean to suggest reduction in rates heretofore charged customers on such transactions or to advocate any policy which would result in delay of orderly liquidation of bond secured loans.

HARDING.

FILING DEPT.

NOV 10 1919

FEDERAL RESERVE BOARD

WASHINGTON

RECEIVED

NOV 10 1919

P. J.

November 6, 1919.

X-1717

COPY FOR THE AGENT.

CONFIRMATION OF TELEGRAM

Morss	Boston
Strong	New York
Passmore	Philadelphia
Fancher	Cleveland
Seay	Richmond
Wellborn	Atlanta
McDougal	Chicago
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HARDING.

592

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

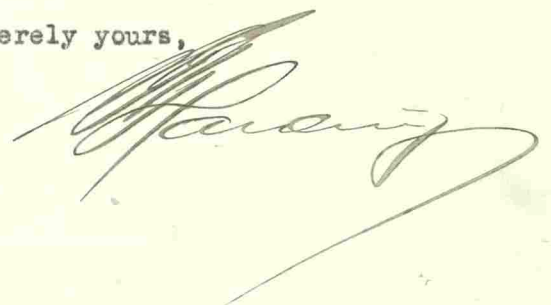
November 8, 1919.

11/5/19

Dear Governor Strong:-

I am enclosing for your information copy of a letter which was sent by the Secretary of the Treasury to the Board while it was in session yesterday. The suggestion was made that mimeographed copies of the letter be made and a copy be mailed to the governor of each Federal reserve bank, but, in view of the ~~extended~~ reference made in the letter to the operations of the Federal Reserve Bank of New York, it is the Board's view that no copies be sent out until you have had an opportunity of reading the letter. No action will be taken until my return here on Wednesday, and I would like to have you tell me frankly when I see you on Tuesday if you have any objection to the letter being sent out in its present form, or whether you would prefer to have merely the substance of it communicated to the other Federal reserve banks with reference to your bank omitted.

Sincerely yours,



Mr. Benjamin Strong,
360 Park Avenue,
New York City.

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

December 2, 1919.

PERSONAL AND CONFIDENTIAL

Dear Governor Strong:-

The Board has given careful consideration to your letter of the 28th ultimo, in which you submit certain representations on behalf of your directors which seem to be necessary in view of the Board's recent determination in the matter of rates.

The Board appreciates fully the fact that the situation is a difficult one and requires most careful handling. "The view of the Board is, or at least that of a majority of the Board, that an advance in rates at a Federal reserve bank cannot alone be an effective corrective of the present situation. It is inclined to agree with the position taken by the "London Statist" in the leading editorial in its issue of November 15, 1919, from which I quote:

"If there was any doubt as to what was the dominant factor controlling the Money market today, that doubt should be set at rest in the light of the events of last week. In pre-War days movements of the Bank rate were eagerly followed by the market, which was quick to respond to the danger signal contained in any advance. Generally speaking, the Bank rate was effective in normal times. Today it is openly admitted that an increase in the Bank rate could not of itself, unless it assumed abnormal dimensions, exercise its old predominating influence over the market. The reins of power have now been transferred, at least in part, to Treasury bill rates. Witness the rapidity with which the one rise followed the other. And lest one should be inclined to regard the latter increase as due mainly to the advance in the Bank rate, read the admission of the Chancellor of the Exchequer in the House of Commons on November 10; 'Let me add,' he declares, 'that, owing to the immense amount of short term borrowing by the Government, no rise in the Bank rate can be effective for the purpose for which such rises took place before the War unless corresponding action is taken by the Government in respect of Treasury bills'."

"The Treasury is still the predominant factor in our financial situation. Notes and bonds of the United States are specifically exempted

X440

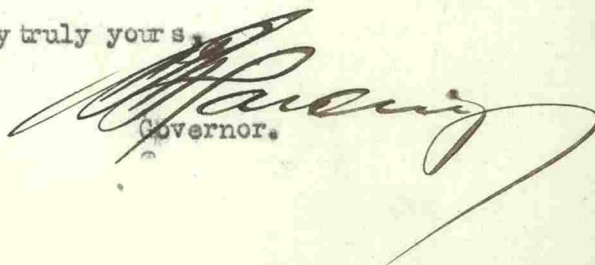
in Section 13 from the investment securities, transactions in which are excluded from the dealings of Federal reserve banks. The Treasury officials have taken a definite stand that no change can be made at present in the Treasury policy of issuing certificates at a low rate and making them attractive by the means of the deposit feature. The Treasury's policy having been definitely announced, the Board has felt it to be its duty to do what it could to cooperate, even though the result has been an unsatisfactory banking situation. It is probable, however, that the situation would not have been altogether satisfactory in any event, for as long as consumption exceeds production and as long as people generally maintain the extravagant mood which has been very much in evidence for several months past, little if any headway can be made in genuine liquidation, which is absolutely essential for the restoration of more normal conditions.

H

The Board has noted your views as to the problem of credit control, and recognizes the fact that the great bulk of the increase in the loan account of reporting banks has been in miscellaneous loans other than Stock Exchange loans notwithstanding the reduction of loans upon Government securities. It would be exceedingly difficult for the Federal Reserve Board to undertake to suggest a policy at this time for the restriction of general credit which would not conflict with the very firm conviction of the Treasury authorities as to the effect upon the Liberty Bond market, in which, as you know, the Treasury feels much interested. I believe that I am expressing the general opinion of the Board fairly when I say that no drastic steps should be taken at this time even though the reserves of the Federal reserve banks should continue to decline.

We may expect rather stringent money conditions between now and the end of the year, but it seems highly important to prevent anything like panicky conditions, and we may reasonably expect a considerable easing in the situation after the first of January. The Treasury officials have already stated that it is their opinion that Treasury requirements need not be given so much consideration in determining the bank rates after the middle of January, and it seems that the time will be more opportune for getting a better grasp on the situation after there has been an easing up rather than to attempt to enforce liquidation at the present time when there are so many disturbing factors to be considered. It is the Board's view that for the next two or three weeks at least the managements of the Federal reserve banks should deal with the situation in detail, treating each case on its merits rather than by the application of a general and inflexible rule.

Very truly yours,


Governor.

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

Telegram

12/10

Strong Newyork

Board believes that in order to discourage speculation and check loan expansion it is necessary to use discriminating judgement in making discounts and advancements as provided in section four, and to have member banks understand that resources of system are not unlimited. Board realizes, however, that advances in rates constitute an important element in making member banks and their customers understand need of such discrimination and limitation.

Treasury position at present is sufficiently favorable as to warrant abolition of preferential rates in favor of Paper secured by liberty bonds and victory notes. Maintenance of four and one half percent rate on treasury certificates seems necessary to insure success of future certificate issues but maintenance of this rate involves no great danger of expansion as that rate affords

no profit to banks carrying certificates but on the contrary offers inducement to distribute certificates among taxpayers and other private investors. Treasury does not ask continuance of four and one quarter percent rate on four and one quarter percent certificates. In bringing these facts to your attention board desires to say that if conditions in your district are such as to render desirable four and one half percent rate on all certificates and abolition of the one quarter percent differential in favor of rediscounts and advances secured by liberty bonds and victory notes. Board is prepared to approve such changes.

Harding

1230p

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

December 10, 1919.

PERSONAL AND CONFIDENTIAL

Dear Governor Strong:-

I have your letter of the 8th instant enclosing copy of a very confidential letter dated November 19th, which I have read with much interest. I shall, of course, respect your injunction that it be treated strictly as a private communication to you.

I received late this afternoon your telegram regarding rates, which will be brought to the attention of the Board at the meeting tomorrow, and you will be advised by wire as soon as action is taken.

I note your suggestion that the visit of your directors to Washington, which had been arranged for next Wednesday, be indefinitely postponed. My personal opinion is that it would be wise to call off the meeting. The Board will, of course, be glad to see your directors or any of them whenever they wish to come to Washington, but, in view of the developments along the line of rate advances, it seems to me that there is no present need from your standpoint of an early conference.

Very truly yours,

Mr. Benj. Strong, Governor,
Federal Reserve Bank,
New York City.

File 2

FEDERAL RESERVE BOARD
WASHINGTON

January 2, 1920

My dear Strong:-

This is just a line to wish you a happy new year and to express the hope and belief that you will devote your thoughts and energies during the year entirely to the restoration of your health. When a man of your strength of will power undertakes to do anything he accomplishes the desired result, and I feel sure that if you will concentrate your thoughts on yourself you will overcome entirely your physical ailment.

With assurances of my warmest personal regards, and best wishes, I am

Sincerely, your friend,

A handwritten signature in dark ink, appearing to read "Benjamin Strong", is written over a horizontal red line. The signature is fluid and cursive.

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

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

August 2, 1920.

My dear Strong:-

I am greatly obliged to you for your letter of July 4th enclosing picture cards from Japan, and I was especially pleased to learn of the continued improvement in your health.

I have been to New York several times since you left, generally on days when the directors were in session, and I have enjoyed my conferences with them very much indeed. I am very much impressed with the efficiency and earnestness of your board, and the cordiality with which they always receive me is most gratifying.

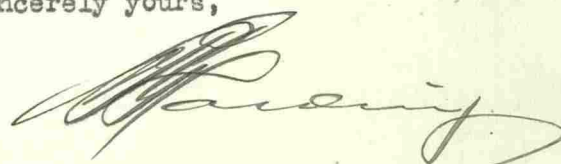
The movement of crops has begun, and while the railroad situation is pretty bad the service is gradually becoming more efficient, and all in all I think general conditions are better than we had anticipated a few months ago. As far as crop movements are concerned I have no fears, for the movement of crops means normal business activity, liquidation - digestion. But prices of staple commodities are falling and owing to the reluctance of producers to sell at lower prices as well as to the inability of the railroads to furnish adequate transportation facilities, I am more concerned about the holding of crops. This is a process which means renewals of loans, increased indebtedness - congestion. However, I do not want to talk too much shop in this letter. Your associates in New York are no doubt keeping you fully advised as to general conditions, and we will pull things through some way or another. Of this I entertain no doubt.

You will be interested and gratified to know that Mr. Jay could have been Mr. Strauss' successor on the Federal Reserve Board had he been disposed to accept the position. Upon his declination Mr. Platt, Chairman of the House Committee on Banking and Currency, was appointed and was duly confirmed by the Senate. Mr. Platt has recently been designated Vice Governor of the Board for the period ending August 10, 1922. He is thoroughly familiar with the legislative history of the Federal Reserve Act and has taken a great deal of interest in the work of the Board; he is proving himself to be a most useful member and is in all respects a most agreeable man to work with.

Hoping that you will let me hear from you whenever you feel disposed to write, I am, with warm regards,

Sincerely yours,

Mr. Benjamin Strong,
c/o Jayasche Bank,
Batavia, Java.



Personal

EX OFFICIO MEMBERS
DAVID F. HUSTON
SECRETARY OF THE TREASURY
CHAIRMAN
JOHN SKELTON WILLIAMS
COMPTROLLER OF THE CURRENCY

ADDRESS REPLY TO
FEDERAL RESERVE BOARD

FEDERAL RESERVE BOARD

WASHINGTON

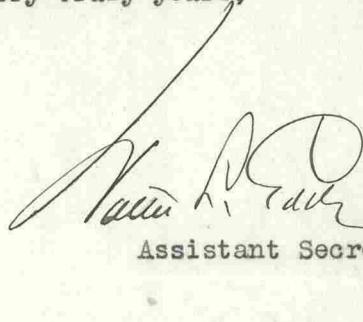
W. P. G. HARDING, GOVERNOR
EDMUND PLATT, VICE GOVERNOR
ADOLPH C. MILLER
CHARLES S. HAMLIN
D. C. WILLS
R. G. EMERSON, ASSISTANT TO GOVERNOR
W. W. HOXTON, SECRETARY
W. L. EDDY, ASSISTANT SECRETARY
W. M. INLAY, FISCAL AGENT

December 2, 1920

Dear Sir:

I acknowledge receipt of your letter of the 1st instant to Governor Harding, forwarding letter addressed to him by Governor Strong, from Darjeeling, India, and also copy of same letter, which I have forwarded to Senator Pittman.

Very truly yours,


Assistant Secretary.

Mr. George Beyer,
Secretary to Governor,
Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BANK
OF NEW YORK

TELEGRAM

PRIVATE WIRE-INCOMING

WIRE TRANSFER
DIVISION

394bd pf Washington Dec 23-20 437p

CASE

NEW YORK,

Please cable Strong Boards Greetings and best wishes for Merry Christmas
and prosperous NewYear.

433p Harding



DEC 23 1920

F. R. B. N. Y.

FEDERAL RESERVE

J. E. G.

DEC 32 1920



DELETED
OPERATOR

DEC 23 1920

Personal file

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

January 22, 1921

PA
JAN 24 1921

PERSONAL

My dear Strong:

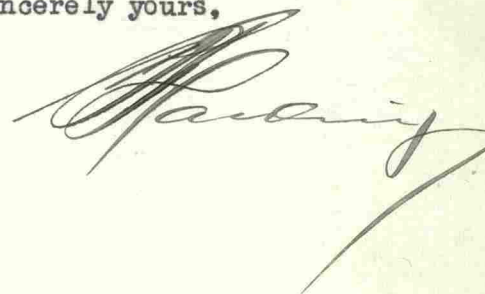
I acknowledge receipt of your letter of the 20th instant, which affects me greatly. For reasons which I shall be glad to explain to you when I see you again, I felt that I should not decline the tender which was made me "if and when organized", and I have signified to the Chairman of the Organization Committee my intention of accepting, subject to that condition.

Naturally, I am most reluctant to leave the Federal Reserve Board at this particular time, but after the closest consideration of the entire matter, both by day and by night, I reached the conclusion that I am not so badly needed here as you seem to think. Very often a man overstays his time. I am going to do all I can to further the appointment of the right man to succeed me and I am sure that you will agree with me as to who that man should be. The legislative end is already well provided for and if the man to whom I refer is available, I am hopeful that it will be practical to secure his appointment. In that case, the executive management of the Board would be better than ever.

I suppose that I will know in the course of the next two or three weeks something definite as to the prospects of completing the organization of the proposed corporation and in the meanwhile will not abate in the slightest degree my interest in the Federal reserve system nor shall I neglect its work in any way. I want you to know how deeply touched I am at your evident appreciation of what I have been trying to do.

With warm regards, I am

Sincerely yours,



Mr. Benjamin Strong,
15 Nassau Street,
New York, N. Y.

OFFICE OF THE GOVERNOR

FEDERAL RESERVE BOARD

WASHINGTON

February 5, 1921

RS1


PERSONAL AND CONFIDENTIAL

Dear Governor Strong:

I acknowledge receipt of your private and confidential letter of the 2nd instant, enclosing Dow, Jones and Company's Bulletin of February 1st, which contains a statement identical with one which I had seen in the Wall Street Journal several days ago.

I note what you have to say in your letter and am obliged to you for the information.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "B. Strong", is written over a horizontal red line. A long, thin diagonal line is drawn across the page from the bottom left towards the top right, passing over the signature.

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

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

March 16, 1921

RA
MAR 17 1921

PERSONAL

Dear Governor Strong:

I acknowledge receipt of your letter of the 15th instant, calling attention to the preliminary outline of subjects to be discussed at the meeting of the Chamber of Commerce of the United States at Atlantic City, April 27th-29th.

I do not know whether or not I have told you that sometime during last October or November the Board received a letter from Mr. Defrees, President of the Chamber, asking for comments on a very critical memorandum or report which had been submitted to the Chamber regarding the responsibility of the Federal reserve system for the tremendous slump in values which had taken place. I believe the memorandum or report was supposed to be a confidential one. Shortly after this, Harry Wheeler made a speech in Chicago in which the criticisms were repeated and which indicated that he was the author or, at least, was connected with the authorship of the report to the Chamber. Sometime when you are down here I will show you a copy of my reply to Mr. Defrees. Since Mr. Wheeler's speech I have heard nothing more of any tendency on the part of the Chamber of Commerce to be critical.

I would prefer not to initiate any new correspondence, but in case I can meet casually some officer of the Chamber I will ask some questions as to the scope of the discussion of discount rates. I think it would be a good idea, if you are in position to do so, if you would institute some inquiries on your own account. Let us each keep the other advised of any information received and we can then consider steps for having some friends of the system take part in the discussion.

Very truly yours,



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

FEDERAL RESERVE BOARD

WASHINGTON

RECEIVED

MAR 17 1934



RECEIVED
GOVERNORS SECY.



FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

March 18, 1921

PERSONAL

Dear Governor Strong:

I have your letter of the 17th instant, enclosing copy of your letter to Elliot Goodwin of the Chamber of Commerce of the United States. I am very glad that you wrote Mr. Goodwin and hope that your suggestions can be carried out.

I spoke to Mr. Miller this morning about the approaching meeting of the Chamber of Commerce and he told me he had given some attention to the matter a month or so ago and had been informed at the time that a report had been virtually agreed upon which would be entirely satisfactory to the friends of the Federal reserve system. He said, however, that his more recent information is to the effect that the report had been amended in some respects and that the final draft had not yet been made.

Very truly yours,

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

FEDERAL RESERVE BOARD

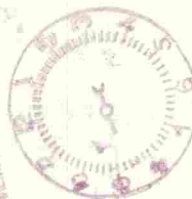
WASHINGTON



RECEIVED

[Faint, mostly illegible text, likely a memorandum or letter body.]

TELEPHONE ROOM
GOVERNOR'S OFFICE



MAR 19 1921

FEDERAL RESERVE BOARD

READ AND NOTED,
B. S.

OFFICE OF THE GOVERNOR

WASHINGTON

November 4, 1921

Dear Governor Strong:

I acknowledge receipt of your letter of October 31st, enclosing copy of letter of introduction which you have just sent to Mr. Eigo Fukai, who, I understand, will be with the Japanese Delegation to the Conference on Limitation of Armament. I shall be very pleased indeed to meet Mr. Fukai and will take pleasure in extending him any courtesies that I can.

Very truly yours,



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

FEDERAL RESERVE BOARD

WASHINGTON

November 4, 1921

I have the honor to acknowledge the receipt of your letter of October 27, 1921, and in reply to inform you that the same has been forwarded to the proper authorities for their consideration. I am, however, unable to give you any definite answer at this time.



NOV 5 1921

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF THE GOVERNOR

November 8, 1921

Personal

ACKNOWLEDGED

NOV 9 - 1921

Dear Governor Strong:

I received this morning from Richmond a booklet entitled "History and Description of the New Building of the Federal Reserve Bank of Richmond".

I am quite sure that this will not be criticized by the late Comptroller, but I cannot help thinking that if a similar booklet should be issued after the building of the Federal Reserve Bank of New York is completed the late Comptroller would be greatly shocked and would give voice to his criticisms in the Manufacturers' Record and in prepared speeches for certain Senators. I have no doubt that Governor Seay sent you a copy of the book and would call your attention to the following extracts from the text:

"The main building is of a monumental and dignified character in keeping with the great institution it was designed to house. The exterior is a ... free adaptation of Greek precedent, more suggestive perhaps of the great Mausoleum at Halicarnassus than of any other single building". "Two carved marble pedestals will later be placed on either side of the main entrance". " ... the clere-story walls being supported by massive Doric columns of Pink Tennessee, which in their proportion and detail suggest those used in the temple of Eleusis. Great care has been taken in selecting the marble used in this room to secure a uniform color." "Above the main entablature are terms surmounted with female heads which support the slender clere-story cornice directly under ceiling. These heads were carved after a model made by Hans Schuler, the Sculptor, being a free copy of an archaic Greek head found at Athens."

Of course, anything of this sort in New York would be outrageous but I have no doubt that the late Comptroller thinks it is eminently appropriate in Richmond. Perhaps this building put in his head the term "temple of banking", which he applied to the Federal Reserve Bank of New York.

Very truly yours,

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

Benjamin Strong

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 Federal Reserve Bank of St. Louis

FEDERAL RESERVE BOARD

X-3317

February 2, 1922.

SUBJECT: Temporary Advances to Dealers Against Victory Notes.

Dear Sir:

You are requested to advise your Executive Committee that until further notice the Federal Reserve Board will not object to any arrangements which your Bank may desire to make for temporary advances to dealers against Victory Notes on the same basis as advances have heretofore been made against Treasury Notes and Certificates. Victory Notes are now so near their maturity that they may be treated as short-time obligations. Your Bank cannot, of course, make loans direct to dealers on the security of Victory Notes, but under its open market powers may purchase them or carry them for dealers under agreements by them to repurchase at stated times.

Very truly yours,

(Signed) W. P. G. Harding
Governor.

Mr. Pierre Jay,
Chairman, Federal Reserve Bank,
New York, N. Y.

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FEDERAL RESERVE BOARD

WASHINGTON

MAILING DIV.

ACKNOWLEDGED

March 30, 1922

APR 1 1922

MAR 31 1922

FEDERAL RESERVE BANK

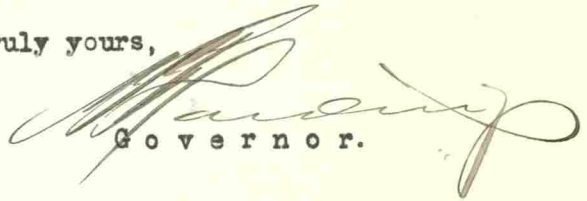
B. S.

Dear Governor Strong:

I acknowledge receipt of your letter of the 28th instant, in which you outline the present practice of the Federal Reserve Bank of New York in making payments of all kinds for account of the Treasury. The attitude of the Treasury, as recently announced, raises, as you say, a very important question. Any principle or precedent which might result in the ultimate surrender by the Federal Reserve banks of the control of their reserves to the Secretary of the Treasury is dangerous, and I agree with you that it would be highly desirable for you to discuss the matter in person with members of the Board and also with Treasury officials. I note with pleasure that you expect to be able to come to Washington some time next week.

At the group meeting in Richmond the other day, the sentiment was unanimous against the Treasury's position as understood by the members of that conference.

Very truly yours,


Governor.

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

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MAR 31 1922

*Confidential
Bank Conference*

FEDERAL RESERVE BOARD AUG 2 - 1922

WASHINGTON

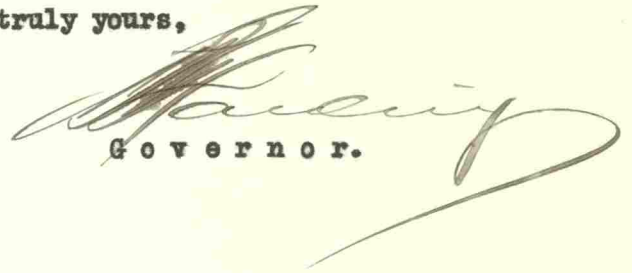
August 1, 1922

CONFIDENTIAL

Dear Governor Strong:

Your confidential letter of July 27th was duly received and was brought to the attention of the Board in executive session today. Assuming that the directors of your bank will give you the necessary leave of absence, the Board, in view of your statements regarding the attitude of the Secretary of State and of the Secretary of the Treasury, sees no objection to your participating in the conference of representatives of banks of issue to be held in London in October.

Very truly yours,


Governor.

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

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FEDERAL RESERVE BANK
OF BOSTON

ACKNOWLEDGED

NOV 24 1924

RS

November 20, 1924.



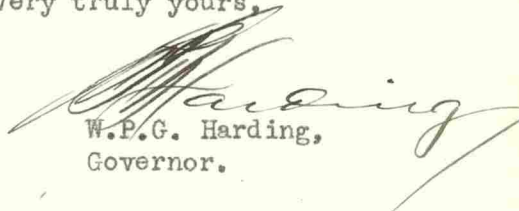
NOV 21 1924

Dear Governor Strong:

I wish to thank you for your letter of the 17th inst. with which you enclosed copy of your letter to Governor Crissinger.

I wish also to add a line to express my appreciation of the fine work you are doing in behalf of the System with the authorities at Washington. It seems to me that your influence, just now particularly, is of inestimable value.

Very truly yours,


W.P.G. Harding,
Governor.

Mr. Benj. Strong, Governor.
Federal Reserve Bank of New York,
New York City.

More Budget check

FEDERAL RESERVE BANK
OF BOSTON

RECEIVED
MAR 20 1925
FEDERAL RESERVE BANK
OF BOSTON

March 19, 1925.

Dear Governor Strong:

I have received your letter of the 17th inst. and am glad to know that you and Warburg are in agreement that the most important matter now to be considered by the Federal Reserve System, is the whole subject of the amendments to the Federal Reserve Act and the Revised Statutes of the United States which are comprehended in the two McFadden Bills.

I cannot see any merit whatever in the latest McFadden Bill. It is especially dangerous for it invites the support of member banks by reducing the percentage of reserve which they must carry with the Federal Reserve Banks. This reduction of 40% would seriously weaken the Federal Reserve Banks and if at the same time the banks are prohibited from issuing notes in exchange for gold or upon security of paper acquired under Section 14, their strength will be seriously impaired. In view of the probability that coming years will witness a continuation of redistribution of our gold supply, I think it very important that the war amendments which McFadden seeks to repeal should be retained.

Our statistical division has furnished me with a statement showing the effect of the new McFadden Bill upon the Federal Reserve System and upon the Federal Reserve Bank of Boston. You will notice that had this bill been effective in 1920, the reserve percentage of the twelve banks combined on November 12 of that year would have been 23.6; while the reserve of the Federal Reserve Bank of Boston would have been 20.5%. On December 31, 1924 our position here would have been still worse for we would have had a reserve of only .9 of 1%, had we conformed to the requirements of the new McFadden Bill.

I have been amusing myself by framing a substitute for the original McFadden Bill, which takes as a basis that part of the bill which passed the House and was approved by the Senate Committee on Banking and Currency. I have indicated by a pencil mark on the margin the new matter which I have incorporated. While there may be a question as to the wisdom of these suggestions, I think they are at least logical.

In the McFadden Bill as it passed the House, provision was made that national banks be given no privileges which were not accorded to State banks. Conversely the new bill should take equal care that national banks, with the approval of the Federal Reserve Board, be given equal privileges with the State banks. With respect to this your attention is invited especially to Pages 3 and 6. The McFadden bill both as it passed the House, and approved by the Senate Committee, provided (Page 6 of my draft) for indeterminate charters for national banks. You will see that I have added a new section which would in the same way extend the charters of Federal Reserve Banks, by proposing that that part of Section 4 of the Federal Reserve Act which relates to the powers of Federal Reserve Banks be amended to read as follows:

FEDERAL RESERVE BANK

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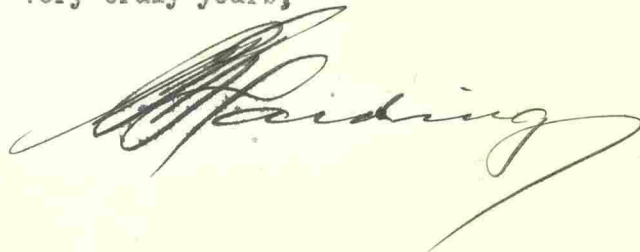
"Second. To have succession until its franchise becomes forfeited by reason of violation of law or until terminated by either a general or special Act of Congress, or until placed in liquidation by the Federal Reserve Board under authority of Paragraph (h) of Section 11 of the Federal Reserve Act."

The caption or short title of the Federal Reserve Act gives as one of its purposes the establishment of "a more effective supervision of banking in the United States". Section 10 of the Act provides that the Comptroller of the Currency shall be a member of the Federal Reserve Board, but the Act is deficient in coordinating the powers of examination possessed by the Comptroller of the Currency and by the respective Federal Reserve Banks. You will remember that some years ago we discussed the advisability of attempting to secure legislation which would abolish the office of the Comptroller of the Currency. Probably our views as to this have changed, and in any event I think we agree that it is impracticable to get any such legislation. It seems, however, that it would be logical to link more closely the powers of the Federal Reserve Agent and of the Comptroller of the Currency. I have, therefore, added, mainly as a suggestion, and not being prepared to advocate it very strongly, (Pages 11 and 12) a section which requires the Comptroller of the Currency to designate each Federal Reserve Agent as District Deputy Comptroller of the Currency for his district. (See Postscript).

The McFadden Bill as it passed the House and as approved by the Senate Committee added four new paragraphs to Section 5209 of the Revised Statutes of the United States. Two of these paragraphs provide penalties for conspiracies to injure national banks by circulating false reports in order to cause withdrawal of deposits, etc.; while two of them provide penalties for assaults on persons having lawful charge or custody of securities, funds or other property of national banks and for breaking into and entering any banking house of any national bank with intent to commit a felony therein. In each of these paragraphs after the words "any national banking association", I have added the words "or Federal Reserve Bank". It seems to me that the Federal Reserve Banks should be given the same protection against assault and robbery as it is contemplated to give national banks.

I understand from your letter that you are having studies made of both the McFadden Bills and that you propose going over them with Warburg before the conference. If you wish I think I can arrange to be in New York on Saturday, April 4, for the purpose of joining in the discussion. I think it of first importance that in any bill which may be agreed upon provision should be made for indeterminate charters for Federal Reserve Banks. The action which was taken by the House, and by the Senate Committee, as to national bank charters, makes it perfectly logical that similar action should be taken with respect to Federal Reserve Banks. With such a provision incorporated in a new bill we would have the advantage at least of testing out Congressional sentiment on the subject without making the extension of charters a burning issue. The Federal Reserve System is a natural outgrowth or concomitant of the national banking system, and there certainly seems to be no reason, if national banks are to be given perpetual charters, why Federal Reserve Banks should not have them also.

Very truly yours,



Mr. Benj. Strong, Governor,
Federal Reserve Bank of New York,
New York.

P.S. My experience in dealing with Congressional Committees has convinced me that in framing a bill to present to a committee, it is a good plan to incorporate in it something apparently important which the committee can strike out without interfering with the main purpose of the bill. This relieves the committee of the impression that it is a rubber stamp.

FEDERAL RESERVE BANK
OF ST. LOUIS

MAR 20 1925 9 45 AM

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[Faint, mostly illegible text of a memorandum or letter, appearing to be a response to a letter from the Board of Governors.]

[Handwritten signature]

November 12, 1920
Present Law McFadden Bill

December 31, 1924
Present Law McFadden Bill

FEDERAL RESERVE SYSTEM:

Discounts for Member Banks	\$2,784,750,000	\$2,784,750,000	\$314,128,000	\$ 314,128,000
Total Cash Reserves	2,180,011,000	926,230,000	3,047,054,000	634,978,000
F. R. Notes in circulation	3,328,985,000	2,784,750,000	1,862,062,000	314,128,000
Total Deposits	1,845,417,000	1,135,872,000	2,310,668,000	1,446,526,000
Reserve Ratio	42.1%	23.6%	73.0%	36.1%

FEDERAL RESERVE BANK OF BOSTON:

Discounts for Member Banks	183,157,000	183,157,000	28,994,000	28,994,000
Total Cash Reserves	264,048,000	53,341,000	233,840,000	1,078,000
F. R. Notes in circulation	289,041,000	183,157,000	207,390,000	28,994,000
Total Deposits	122,301,000	76,478,000	144,042,000	89,676,000
Reserve Ratio	49.6%	20.5%	66.5%	.9%

FEDERAL RESERVE BANK
OF BOSTON

ACKNOWLEDGED

MAR 11 1925

March 10, 1925.

Dear Governor Strong:

I have received your letter of the 9th inst. and note your request that I submit to Mr. Harrison any topics which I wish to have placed upon the program for consideration at the Spring Conference of Governors which has been fixed for April 6.

It seems that the Federal Reserve Board has now taken a position satisfactory to the banks on various questions which it had raised and I do not at the moment think of any routine matters to suggest.

It seems to me, however, that it is important that some consideration be given in advance to some legislative measures which are coming up at the next session of Congress. Perhaps it is not the functions of the Governors to become involved in such matters but in view of the laissez faire attitude of the Federal Reserve Board during the past year or two regarding legislation, it seems to me that it would not be inappropriate for the Governors to call the attention of the Board to the importance of its consideration of these matters with the view of taking if possible a determined stand.

You will recall that the so-called McFadden Bill was framed without consultation with the Board, merely with the Comptroller of the Currency, and that the Board was not asked for its opinion until just before the bill passed the House when Mr. McFadden wrote requesting a statement of its attitude. I am informed that he said that no action would be construed as opposition by the Board, and that the Board informed him that it stood four to three in favor of the bill. This bill did not pass the Senate and there can be little doubt that it will come up again at the next session of Congress. The American Bankers Association figured in framing the bill which passed the House and I assume that the question of a new bill will come up for consideration at the spring meeting of the Executive Council. I think it might be helpful for the Governors of the Federal Reserve Banks to discuss this question among themselves and if there is any approach to uniformity of views as to basic principles, the Federal Reserve Board should be given the benefit of those views.

I think also that it is very important that consideration be given to the new bill which McFadden introduced in the House shortly before the expiration of the recent session of Congress.

FEDERAL RESERVE BANK OF ST. LOUIS

MAR 11 1925 9 45 AM

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GOVERNOR'S OFFICE

FEDERAL RESERVE BANK
OF BOSTON

ACKNOWLEDGED

MAR 11 1925

U S

My dear Sir:

I have the honor to acknowledge the receipt of your letter of the 10th inst. and in reply to inform you that the same has been forwarded to the proper authorities for their consideration.

I am, Sir, very respectfully,
Yours very truly,
J. P. Morgan

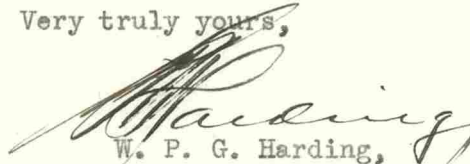
Enclosed for you are two copies of a report of the Committee on the Currency and Finance of the Federal Reserve Bank of St. Louis, dated and captioned as above.

I am, Sir, very respectfully,
Yours very truly,
J. P. Morgan

That bill as you know seeks to repeal the war-time legislation as to note issues and reserves. In my opinion should that bill be enacted into law, the Federal Reserve Banks would be weakened to an alarming extent. As drawn the bill will receive the support of people who think like the Editor of the Financial Chronicle does, and it is likely to receive the support of a large part of the membership of the American Bankers Association. It reduces the amount of reserve which must be carried with the Federal Reserve Banks and permits vault cash to be counted as part of the required reserve. You remember of course how effective these war-time amendments were in 1918, 1919 and 1920. While there may be no occasion at the present time to issue Federal Reserve notes against gold or to use paper secured by Government obligations or bills purchased in the open market as collateral for Federal Reserve notes, I can see no reason why the power to use them in the case of an unexpected emergency should be taken away. I understand that McFadden expects to make many addresses during the summer in favor of his new bill and it may be that the ground could be cut from under his feet if the Federal Reserve Banks should agree as a matter of usual practice to discontinue exchanging Federal Reserve notes for gold and to use only rediscounted commercial paper as collateral for them. If after full discussion of the matter it seems advisable to adopt such a policy the Governors could then request the Federal Reserve Board to issue the necessary regulation, which could in the absence of legislation be rescinded by the Board at any time when there might be occasion to do so. As the Federal Reserve Board has the right under the law to refuse in whole or in part any application for Federal Reserve notes, the operation of this plan need not be uniform in all districts.

If you think that these are subjects which may properly be considered at the next conference of Governors, I shall be glad to ask Mr. Harrison to put them on the program, and if fairly uniform views should be developed, I think it would be desirable also that arrangements be made for you to be invited to attend the spring meeting of the Executive Council of the A.B.A., for I am quite sure that these matters will come up for consideration at that meeting.

Very truly yours,


W. P. G. Harding,
Governor.

Mr. Benjamin Strong, Chairman,
Governors Conference,
Federal Reserve Bank of New York,
New York.

P.S. Would you mind discussing this with Warburg? I have already written him suggesting that he bring these matters up for consideration at the next meeting of the Advisory Council.

FEDERAL RESERVE BANK

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GOVERNOR'S OFFICE

The bill as now amended to require the Federal Reserve Bank to receive the bill will be passed by the House of Representatives. The bill as now amended to require the Federal Reserve Bank to receive the bill will be passed by the House of Representatives. The bill as now amended to require the Federal Reserve Bank to receive the bill will be passed by the House of Representatives.

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