CONFIRMATION OF TELEGRAM FROM

BANKERS TRUST COMPANY,

16 WALL STREET

NEW YORK CITY

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September 8, 1914

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

Messrs Morgan, Schiff and I planning to be in Washington Thursday morning for conference with Secretary. Have asked him if he desires preliminary conference with me Wednesday evening. If not, do you wish to see me then for any purpose.

Benj. Strong Jr.

Charge
Bankers Trust Co.

236

October 10, 1914.

Paul Warburg, Esq.,
Washington, D. C.

Dear Warburg,

I am doing a little quiet work at my house Saturday afternoon, having spent the morning playing tennis. Sunday and Monday I am going to loaf; and it has just dawned on me that without two or three days rest I might have been obliged to spend more than that.

Mr. Lewis has brought me yours of the 9th. I have a mass of information at the office about cotton, particularly in letters from Mr. Kent as to the situation in England, and this will be supplemented by whatever information we get from Sir George Paish. We mustn't forget that cotton sold in 1908 at 8¢ a pound, that the crop this year, if all harvested, would be one of the largest, if not the largest, crop on record, and in quality probably uniformly better than any former crop. I have heard many astute men in the last few weeks express the belief that cotton would have sold at 8¢ and possibly less this year, even had no war occurred. The country is now encouraging by a piece of sentimental hysteria a tremendous cotton speculation, and naturally the reaction from that is general reluctance of spinners the world over to buy. Somewhat the same deadlock occurred in Texas in 1907. It became so bad that Mr. Kent, who was then in Chicago, went to Texas to attend a meeting of the merchants, and told them the best way to get the crop marketed was to sue the farmers on their accounts. It had a salutary effect. The merchants began to collect and the farmers began to sell.

Last year cotton produced $534,000,000. of exchange. This year cotton shipments in volume are not over 10% of last year, and of course the price is lower. If some part of this crop is not exported, all of our efforts to avoid a gold premium and a really serious situation will be fruitless. It has a direct bearing on the work we are undertaking in starting the Federal Reserve banks. For the last twentyfour hours I have been mulling over the proposition of how a Federal Reserve bank can be successfully launched at a time when there is a premium on gold. The bank must either pay gold or refuse to pay gold. All the other banks have refused to pay. If the Federal Reserve banks refuse, they will be discredited at the outset, and gold will certainly be demanded of them if the banks expand their note issues at a time when gold will be at a premium. Your answer likely is that they can pay in lawful money. That is quite true, if they have it to pay; and those who demand the lawful money will then ask the Treasury Department to furnish the gold. After a good deal of thought I cannot escape the conviction that one of the most serious menaces in the situation is the lack of a free export movement of cotton, and it will continue to be a menace, except exports of foodstuffs and general merchandise, together with a reduction in our imports and a complete embargo on sales of foreign securities in this market, make up the deficit and protect us against an adverse trade balance.

Don't for a moment think that I am going to hold back in the organization of the New York institution. If you and your associates agree that that is the thing to do at once, I am here to carry out orders. But first let us reflect a bit, and we may conclude that negotiations can be effected preliminary to or concurrent with the organization of the bank, which will at once eliminate the premium on gold as reflected in the price of sterling and insure the safety of the new organization.

Of course you may be sure that I will take the first opportunity to reach Mr. Mumford. The past week has been devoted entirely to getting out of everything that I have been connected with, and this has involved arrangements in regard to a successor in some of these matters which are important, all of which take time and interfere with getting promptly at the bank work.

Next week I hope to see better progress made; also to have a visit with you and discuss the program. Mrs. Strong sails on the "Lusitania" on Tuesday. Arrangements about her trip have occupied a great deal of my time, as I naturally want to safeguard the party in every possible way. With cordial regards,

Very sincerely yours,

P. S. - Since dictating the above I wrote you by hand from Greenwich and have your acknowledgment of the 12th. Many thanks. Will also look up Mr.Ward. My comments on the bylaws are about completed and I hope to have them cleaned up today.

November 2, 1914.

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

Dear Warburg,

Yours of the 29th ultimonis received this morning. Miss Walker will co-operate with me in extending the necessary relief to the "old man's" eyes. I am sorry that it was necessary for you to write about it, but, of course, we have to be economical these days, and it saves about 25% of paper used in writing long letters.

I have no new "kicks" this morning on the subject of Federal Reserve Bank matters, so don't worry!

I have some fears, however, that still require being allayed. I am confident that the minute the memorandum reaches your friend Sir George Paish it is likely to be released, unless all signs fail. The "Tribune" seems to get the story pretty straight every day, and it will be up to you and to your associates to guard the contents of that memorandum with your lives, for if it is published it is going to do damage, possibly serious damage at any rate until something more definite is agreed upon between London and New York. Resentment will ~~arisey~~ arise if the New York banks think we are negotiating away their credit without consulting them on particularly so important a matter as this is.

I spent Sunday afternoon polishing up the language in the report which was rather defective in many respects. It is now being copies, and I hope to have two final copies to send you late this afternoon.

Thank you for Fisher's letter. I am writing him about it.

Faithfully yours,

S-W

Sec G. Parish

November 2, 1914.

Hon. Paul M. Warburg,

Washington, D. C.

D ear Sir,

Mr. Strong asks me to send you the eclosed copy of letters and memoranda. This is substantially as it was prepared in Washington, the language having been simply polished up a little in places. [See Hamlin file]

Yours very truly,

WESTERN UNION TELEGRAM

Form 260

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

R'S No.	TIME FILED	CHECK

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

November 4, 1914.

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

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

Benjamin Strong, Jr.

(Charge Federal Reserve Bank)
Government rate.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLL

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

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNRE amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEAT the sum received for sending the same, *unless specially valued;* nor in any case for delays arising from unavoidable interruption in t *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 f gram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this t a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission, and an additional sum 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 ot 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 with cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without liability, at the sender's 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 o 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 writin gram is filed with the Company for transmission.

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

THE WESTERN UNION T
INCORPOR
NEWCOMB CARLTC

CLASSES OF SERVICE

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Telephonic delivery permissible. Da express understanding that the Compa the same on the day of their date subj time remains for such transmission an hours, subject to priority of the tran

NIGHT LETTERS

Accepted up to midnight for delive ensuing business day, at rates still low rates, as follows: The standard day ra for the transmission of 50 words or les day rate for 10 words shall be charged less. Must be written in plain En missible. Mail delivery, postage p

Confidential

November 5, 1914.

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

Dear Warburg,

You caught me at a bad time yesterday in preparing to make the changes in that Paish report. Jim Brown was here, and he, Wiggin and your humble servant have felt that we ought to get the report in final shape and out of our hands without further changes. As you know, we are all pretty busy and it is difficult to get together and agree on any changes at all. Furthermore, the others feel, as I do, that we would be very much handicapped in making arrangements with New York banks to carry out the plan suggested if it was made public, or in any way came to their knowledge prior to our having discussed it with them. Let me say now that if the letters addressed to you and Governor Hamlin, which I was obliged to re-write very hastily last evening, is not satisfactory in any respect, please don't hesitate to send it back and I will substitute another one. I won't burden you with the whys and wherefores, but will just state generally that I am very anxious that the whole matter should be in shape satisfactory to you and to your associates, and will do my best to make it so.

The insertion of a clause, such as you seemed to think was objectionable, about not making the report public, is really for our own protection here and to make a record of our views. If your views differ from ours in respect to publicity, I assume you will say so, and give us opportunity to discuss the matter of publicity before any decision is reached. That is the whole story, and now let us be happy about it.

This replies to yours of the 4th, and is, of course, confidential.

Very truly yours,

S-W.

Cotton ?

November 5, 1914.

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

Dear Warburg,

Thank you for yours of the 4th enclosing copy of the memorandum in respect to the October trade balance. The figures now given in the memorandum sent you, I believe, are accurate except that September is stated at $18,000,000 export balance instead of $16,000,000. The difference arises from our having taken the estimated figures published before the actual figures were compiled, and I guess they are near enough for the purpose.

After carefully reading the whole memorandum, won't you drop me a line, stating your views about it? The work was done so hastily that I am conscious of many shortcomings in the text, as well as omissions of rather important material. I am chagrined that more time was not afforded us to make a stronger presentation.

Very truly yours,

S-W

November 19, 1914.

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

Dear Warburg,

Yours of the 18th is just received. I am always prepared for the worst, and am writing now to tell you what sort of preparation we make over here. We are ready for the meeting at 10 o'clock tomorrow and have a nice Board room, as I advised you by telephone. Mr. Broderick, I understand, you will bring with you.

My preparation for the worst is to be obliged to decline, much as I dislike to do so, to act as your substitute on this cotton committee. It would be absolutely impossible for me to do that, and I am sure if you sat at my desk for one day you would realize that it would simply involve neglecting something, and that I am unwilling to do. This message I will deliver to you personally tomorrow, and I simply send this letter as a record, so don't be disappointed.

Very truly yours,

BSJr./BW-1

236

November 19, 1914.

Confidential.

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

Dear Warburg,

I am going to ask you this time to do an unpleasant job for me.- Dr. Willis made a report ~~of~~ his work as Chairman of the Preliminary Organization Committee which has been sent to all the Federal Reserve banks. In the report he ~~states~~ that I made a careful examinationoof the accounting system and approved it. As a matter of fact, and as he must have known, I gave it a very cursory examination, and relied entirely upon Mr. Robinson's statements as to its being workable. I also criticized some features of the plan, and the time did not permit me to examine more than a small fraction of the whole scheme and a very small number of the forms. Dr. Willis was not authorized to use my name as endorsing the plan or anything else. I todd him that it looked to me like a workable scheme; that Robinson impressed me quite favorably, and that I wanted to employ him here, particularly as we would be forced to adopt this system rather than any other if the bank was to open in the short time permitted. I never like to have my name used without authority, which he did in this case, and I thought you might drop him a gentle hint that I didn't like it and wouldn't care to have it done again. Your artful way of handling such matters will, I am sure, be all that is needed.

Very truly yours,

BSJR./BW-3

176

November 23, 1914.

Hon. PaulaM. Warburg,
Federal Reserve Board,
Washington, D. C.

My dear Warburg,

Various suggestions in regard to possible amendments to the Federal Reserve Act are submitted from time to time, and it will possibly facilitate your consideration of these matters if I bring them to your attention at once, although doubtless many of them are already being discussed.

Section 13 of the Act (paragraph 97) provides for "A waiver of demand, notice and protest", which it is understood must be attached to all paper which the bank discounts for member banks. The effect of this requirement may prove to be u fortunate, and possibly the bill should be amended on that account. A member bank which rediscounts paper bearing prior endorsements, in other words double name paper, must depend upon the care with which this paper is presented and pretested for its protection in holding prior endorsers to their liability. They have no assurance that they will be so prptected after they waive demand, notice and protect, and a tendency may, therefore, develop among member banks to avoid offering for rediscount any paper which carries an endorser's liability. Two member banks in this district have already raised this question, and we have disposed of by agreeing, informally, to send the paper back to the member bank to whom the discount was given for collection a sufficient number of days in advance of maturity to insure their having opportunity to make presentation.

While, of course, it would relieve the Federal Reserve bank of liabilities that might arise for failure to show diligence in presenting its paper for payment, it may be better to have the Federal Reserve banks under the same obligation as any bank in that matter, rather than have them deprived of the advantage of getting thebbest paper, that is to say, double name paper, supposted by responsible endorsers.

Won't you favor us with any comments on this point that may develop in any discussion of the matter in Washington, so that we may be guided thereby.

Very truly yours,

BSJr./BW-5

November 28th, 1914.

Dear Mr. Chapman:

I beg to acknowledge receipt of letters regarding the cotton situation which were returned to me under date of November 25th.

Very truly yours,

Governor.

Mr. W. T. Chapman,
Care Federal Reserve Board,
Washington, D. C.

B.S.Jr./VCM-1

176

December 14th, 1914.

My dear Warburg:

Replying to yours of the 12th about discount rates: the impression I took away from our meeting Saturday morning was rather extraordinary, considering the occurrences of the past month. I felt that, as a whole, the Governors were disposed to keep their rates high, realizing that the Federal Reserve Board was beginning to incline towards lower rates. The reversal of position may be explained by the same influence operating on your minds that has really influenced the minds of the Governors of the individual banks, viz:- the fear of capital impairment through lack of sufficient earnings to meet expenses.

I do not believe that you realize that current rediscounts or loans to bank correspondents by New York banks which have been running for some months past, have not generally been reduced as yet, and that a lowering of our rate in New York, even so moderate as that suggested in your letter, will simply have the effect of forcing the member banks to reduce their rates and will produce little, if any, business for the Federal reserve bank. It is undoubtedly true that the rates established by member banks would remain under our rates so long as there is a surplus lending power to be absorbed by both classes of institutions. We can keep this up by successive reductions until money is unloanable in New York, and the consequence will be expansion and speculation. I am opposed to reducing as yet simply to make earnings, and as between the two courses, would infinitely prefer to see the reserve banks, as a temporary matter only, make moderate investments in high grade warrants and use a limited amount of their resources in the purchase of bankers' acceptances where they are available.

Once we begin reducing, where will we stop? You realize, of course, that our discounts in New York have really been made up of only two items; that is, the Chemical and the Mechanics. They have retired their loan certificates and probably need little, if any, accomodation, and we cannot expect to replace their lines by the rediscounts of their members in our own district, unless we make considerably lower rates than those in your letter. On the other hand, we could I believe, employ in time about $5,000,000 by moderate purchases of good revenue warrants and by gradually picking up bank acceptances. There are, I have no doubt $30,000,000 of acceptances at the present running in the New York market, none of which we have purchased. In any event, I hope this matter can be allowed to await Mr. Morgan's return from Washington and we will invite his attendance at a Board meeting on Wednesday for the purpose of discussing the matter. Thank you for writing me.

Very truly yours,

Governor.

Hon. Paul M. Warburg,
Care Federal Reserve Board,
Washington, D. C.

BSJr/VCM-3
Dictated by Mr. Strong but
signed in his absence.

STRONG, Jr.
PERSONAL.

December 17th, 1914.

My dear Warburg:

I have written Kinnear of the U. S. Realty & Construction Co. to inquire whether we can get accomodations at White Sulphur without fail, advising about how many will be i in the party, but this is subject, of course, to your letting me know that your own arrangements are already made.

Very truly yours,

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

BSJr/VCM

BENJ. STRONG, Jr.
PERSONAL.

December 17th, 1914.

My dear Warburg:

I have succeeded in reserving drawing rooms K 21 and K 23 on the C. & O. , leaving New York on Wednesday evening, December 30th for White Sulphur Springs, which will be held for us until Monday the 28th, and of course, prior to that time, unless our plans change, I will take them up.

The C. & O. is telegraphing to White Sulphur to see what reservations they can make for returning on January 4th or 5th. In regard to Mrs. Strong going, I am not yet quite certain whether it will be feasible. She wants to go, but various engagements, at home largely in connection with the children, may make it difficult for her to get away just then. I think, at any event, my oldest boy will go and I am confident of going myself and enjoying a quiet visit with you where we can do a little work and quite a lot of play.

Very truly yours,

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

BSJr/VCM

Warburg

December 23, 1914.

BENJ. STRONG, JR.
PERSONAL.

My dear Warburg:

I find that Mr. Fred I. Kent at the Bankers Trust Company will be very glad to handle the cotton matter about which you wrote me, and has already taken it up with the parties in New Orleans. I hope this is entirely satisfactory to you.

Very truly yours,

Governor.

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

BSJr/VCM-15

BENJ. STRONG, Jr.
PERSONAL.

December 29th, 1914.

Dear Sir:

Enclosed please find three tickets covering transportation to White Sulphur Springs, together with two tickets for drawing room and section. It was necessary to secure thee three railway tickets in order to obtain drawing room.

Very truly yours,

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

VCM

January 6th,1915.

My dear Warburg:-

Foreign exchange to-day is pretty weak. Sterling, I understand, has sold as low as 484.

Of course, none of us know what may develop in the way of a gold premium abroad, although as I advised you at White Sulphur Springs, we have learned that the Bank of France has negotiated for some American gold, and if they succeed in obtaining any quantity, it seems more than likely that the gold will be shipped from New York to Ottawa, and released by the Bank of England to the Bank of France. Such a development, as I view it, would simply indicate that the French Bank is willing to pay a premium for American gold in order to relieve the Bank of England of the necessity of surrendering gold on direct transactions across the Channel, as I believe the French-English Exchanges are now in favor of France.

Considering all the circumstances surrounding our conditions at home, with the rapidly easing in the money market, as well as conditions abroad where gold premium might develop of some consequence, I am strongly in favor of having the Gold Fund Committee retain their control of the pledged gold, at any rate for some time longer. This

Hon. Paul M. Warburg. January 6, 1915.

is submitted rather diffidently, as I realize that with your wide experience in these matters, you may entertain other views.

Yours very truly,

Governor.

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

BSJr/MVH-11

January 6th, 1915.

My dear Warburg:

Just a line to tell you how thoroughly I enjoyed my visit with you over the holidays.

It is rather discouraging to find on my return that Congress is going to investigate the new money trust. The heading of a newspaper article suggests a new money trust investigation, but the text of the resolution indicates that some congressmen regard the Federal Reserve Bank system as the old money trust under a new name. I hope no foolish enterprise of that character develops. All we need is time and a fair show to get the system started, and it will be its own spokesman.

With best wishes to you for the New Year, believe me,

Sincerely yours,

Governor.

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

BSJr/VCM-2

176

January 13th, 1915.

My dear Warburg:

The light was very poor in the telephone booth where Governor McDougal was trying to explain the Committee's views of the commercial paper regulation and he has asked me to write and confirm what he said over the 'phone.

The Committee gives its unanimous and very hearty endorsement to the new regulation. They say it is going to take a load off the minds of the member banks in all the districts that they represent. This, I know, you will be gratified to hear as we both put in about two solid days work on this matter and if it is favorably received it is going to help a lot.

There were two changes of rather minor importance suggested: In Article 111, Paragraph (1), all the members of the Committee felt that the word "depositors" should be qualified by adding language somewhat as follows: "provided such depositor does not sell paper in the open market."

The object of this suggestion is to put all paper issued by borrowers who use the open market upon the same basis whether it is offerred by a member bank which happens to have one of such borrowers' accounts, or whether it comes from a member bank which has purchased the paper in the open market.

To Hon. Paul M. Warburg. Jan. 13, 1915.

The other change in Article 111, Paragraph (2), Sub-paragraph (b), was suggested with a view to increasing the minimum amount of paper which might be offerred without a certificate as to credit information by banks having a capital of $25,000, the members of the Committee felt that $5,000 would afford ample latitude for all institutions except those which would have such a small capital that it would restrict them to $1200 or $1500 made to one borrower, so they suggested changing the language of Sub-paragraph (b) to read as follows: "The aggregate amount of obligations of such depositor rediscounted and offerred for rediscount does not exceed $5,000, but in no event a sum in excess of 10 % of the paid-in capital of the member bank."

Both the changes suggested impressed me favorably.

Very truly yours,

Governor.

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

BSJr/VCM-2

January 15th, 1915.

My dear Warburg:

Thanks for yours of the 14th. Personally, I agree with what you say. You will be gratified to learn, however, that all of the Governors are convinced that bad practice has prevailed in the handling of so-called purchased paper. They think the banks are without sufficient information in regard to that class of paper and stimulus should be given to effrots to improve this practice. We can do it later very easily, and I am just as well pleased to strike out the suggestion which came from our meeting.

I am glad to say that we are gradually getting things into smoother working order in the office. There has been a great deal more to do than would be indicated by the activity of our business, but I had rather have the machine working smoothly first and let business come afterwards, than the reverse.

Your partner, Delano, has just discovered that he and I are cousins. It seemed advisable that I should advise you of the fact as this makes two members of the Federal Reserve Board toward whom I shall have no particular need of shwoing respect. This includes you and Delano. (Notice I have dropped the Mr.)

Very truly yours,

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

BSJr/VCM

January 19, 1915.

Mrs. Paul M. Warburg,
1704 - 18th Street,.
Washington, D. C.

I will pull your latchstring at about eight forty-five to-night.

Benj. Strong, Jr.

BSJr/VCM

176

Jan. 26th, 1915.

My dear Warburg:

Bearing on our discussion in regard to the method which is gradually developing by which discount rates are changed, I enclose clipping from the Annalist of January 25th.

Certain telegrams were mentioned when this matter was presented to the Board, and possibly the enclosed extracts from those in our files may throw further light on the matter.

As you stated, we are certainly not very far apart in this matter, but unanimous expression in regard to both the method of fixing the rate and the method of announcing changes, impressed me very strongly, as it doubtless did the members of your Board.

As soon as the result of the meeting last week is sifted out, it will all be conveyed to you in writing and I hope will prove of interest and value.

With best regards,

Sincerely yours,

Governor.

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

BSJr/VCM-1

January 26th, 1915.

Dear Sir:

Replying to your favor under date of January 22nd, I beg to advise that the expense of railway tickets purchased for the trip to White Sulphur Springs was as follows:

3 tickets, $11.85 each,	$35.55
Drawing room,	9.00
Section,	4.00
Total.............	$48.55

Mr. Strong says that he is under the impression that there is some offset to this because of disbursements by Mr. Warburg on account of hotel accomodations which he requests that you deduct from the above.

Very truly yours,

Secretary to Mr. Strong.

W. T. Chapman, Esq.,
Federal Reserve Board,
Washington, D. C.

VCM

January 28, 1915.

W. T. Chapman, Esq.,

Federal Reserve Board,

Washington, D. C.

Dear Sir:-

Receipt is hereby acknowledged of your favor of January 27th, containing check for $48.55 to reimburse Mr. Strong for tickets purchased in connection with trip to White Sulphur Springs. Please accept Mr. Strong's thanks for same.

Very truly yours,

Secretary to Mr. Strong.

BENJ. STRONG, Jr.
PERSONAL.

Personal.

Jan. 28th, 1915.

My dear Warburg:

I have been listening to comments in regard to rates with considerable interest since returning from Washington and fear that the 4 % rates which are being authorized in some districts will give rise to considerable criticism and dissatisfaction. A little later, I will write you more fully about it.

Very truly yours,

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

BSJr/VCM

-5 32/207

BENJ. STRONG, Jr.
PERSONAL.

Rpt made by J. H. Case
See rest envelope

January 29,1915.

My dear Warburg:

We have had the last two reports of the Comptroller of the Currency analyzed, and you will notice the very much better showing made than in the analysis of the report made December 2, 1907. Central reserve cities between June 30th and September 12th last, converted an excess reserve of $2,246,000 into a deficit of $45,663,000 in reserves. The reserve cities as a whole, converted an excess of $16,912,000 into a deficit of $10,849,000. The country banks outside of the reserve and central reserve cities on June 30th had an excess of $46,993,000 of cash and on September 12th, $52,516,000, showing the same old tendency to pile up reserves in bad times, but not nearly so striking as 1907, when, as I recall, the country and city banks showed $112,000,000 of reserves.

I am sending under separate cover, a spare copy of the report, which you may keep for your files.

Very truly yours,

Governor.

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

BSJr/VCM-1

Form 260

WESTERN UNION TELEGRAM

FILING DEPT.

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

FEB 9

EIVER'S No.	TIME FILED	CHECK

NIGHT LETTER.

FEDERAL RESERVE BANK

BENJ. STRONG, JR.
PERSONAL

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

Feb. 2, 1915.

Mrs. Paul M. Warburg,
1704 Eighteenth Street,
Washington, D. C.

I hope Mr. Warburg warned you that I expect to arrive at your house at about eight-thirty Wednesday evening. If it is not convenient, you can send me away, but it will be his fault.

Benj. Strong, Jr.

Charge to Benj. Strong, Jr.,
62 Cedar Street.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWI

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

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED teleg amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, be 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 . *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, gram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valu 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 pa 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 necess 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 o 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 expense, endeavor to contract for him for such delivery at a reasonable price.

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

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

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

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT TELEGRAMS

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

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

NIGHT LETTERS

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

3/

BENJ. STRONG, Jr.
PERSONAL.

Feb. 2, 1915.

Comptroller's Report.

My dear Warburg:

Thanks for yours of the 1st in which you correct my figures as the reserves as shown in the statement sent you. My letter was hastily dictated and I probably read the footings wrong.

The result is interesting, and more so when compared with the result of December, 1907 inquiry, which has already been sent you.

Very truly yours,

Governor.

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

BSJr/VCM-1

February 20th, 1915.

Paul M. Warburg,
Hotel Dennis,
Atlantic City, N. J.

Very sorry can't join you over holidays. Engagement tonight and work Monday makes it impossible.

Benj. Strong, Jr.

Charge to Benj. Strong, Jr.

VCM

Personal.

February 24th, 1915.

My dear Warburg:

I am grateful to you for your note from Atlantic City, and once again, as I have repeatedly said and written, we postively must not get discouraged when disagreement arises. You have strong views and so have I about some matters, but we must not allow them to become absolutely brittle. The fact is, that I have been a good deal worried about this regulation regarding acceptances. The one that was handed to me in Washington at the time of the Committee meeting and the one you and I doped out at White Sulphur Springs, were not even fourth cousins twice removed, and how you could have gained the impression that I was satisfied with the last edition, provided the word "and" was eliminated, is beyond me. The fact is that I had only glanced through it prior to our discussion with the other members of the Board in your office that afternoon, and until I returned to New York had no opportunity to examine it carefully and really study the changes that had been introduced since the time we worked on the matter at White Sulphur Springs.

The principal concession ~~in these~~ to my extreme views embodied in the regulation is the elimination of member banks' endorsement. Against

To Hon. Paul M. Warburg. Feb. 24th, 1915.

that concession, however, a good many other restrictions have been added which, to my mind, throw the whole thing out of joint and you and I must some day sit down and thrash this thing out to the last detail and agree on those points where we can agree, and then understand each other as to the points where we do not agree. In other words, let us reduce this difficulty to an irreducible minimum and see where we stand.

So far as enthusiasm about the acceptance business is concerned, that can be worked up very easily on short notice, but I had rather work it up after we had bought some acceptances than before, as it will make some difference in the rate.

New York is not sulking as badly as you think, or at any rate, Mrs. Warburg does not think so, and her opinion is the only one that counts.

Do not worry about this matter, and believe me,

Cordially yours, also, the same,

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

BS Jr.

February 20, 1915.

Dear Warburg:

I am sending you a telegram advising you that I cannot possibly get to Atlantic City over the holidays, as I find that it will be absolutely necessary for me to do some work Monday and Mrs. Strong and I have a long-standing engagement to entertain some friends this evening. It is high time, however, that we took a holiday, for I fear we are getting overtrained again on this whole matter.

The enclosed clippings, if you have not seen them, may prove of interest. The one from the Journal of Commerce is particularly significant, as their man, who came in our office yesterday, had rather a lurid story about the acceptance regulation which I told him he must on no account publish. It be may that our experience with that paper in Washington, of which they doubtless have been fully advised, together with this request, as accomplished all that will be needed to avoid disagreeable newspaper comment.

I hope you have a good rest, and shall further hope that you and Delano can make it convenient to come to New York and attend our Board meetings occasionally, so as to keep directly in touch with the views of the Board on these various matters, to the advantage of all of us.

Please give my best regards to Mrs. Warburg.

Sincerely yours,

Hon. Paul M. Warburg,
Hotel Dennis,

March 9th, 1915.

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

Will arrive Washington Wednesday March tenth on Congressional Limited. If perfectly convenient will spend the night with you.

Benj. Strong, Jr.

March 18, 1915.

Dear Warburg:

Jim Perkins has asked me to make an address at the meeting of the New York State Bankers to be held in Saratoga some time in June, and I have accepted. It is the only opportunity to make a talk to all of the bankers of the state, and we should not miss it.

He is, also, writing you, making a similar request, and I told him I would urge you to accept, but without any illusion ~~of~~ as to the chances of success.

In case you should decide to accept, would you mind collaborating a bit so that we may not cover the same ground?

I am hoping you will be with us at the office to-morrow to attend the Committee meeting.

Sincerely yours,

Hon. Paul M. Warburg,

Hartsdale, New York.

BS Jr/VCM

1st April, 1915.

Paul M. Warburg, Esq.,
C/o. Federal Reserve Board,
Washington, D. C.

Personal and Confidential.

Dear Warburg:

Thank you for yours of the 31st and for the good wishes. You may judge the holiday has been of value, as Mrs. Strong and I have just returned from a twenty-mile horseback ride and I am feeling about ten years younger.

I read the Trust Company's statement you referred to with a great deal of interest, and possibly, had you not written me, I would have had a letter on the way to you next Monday from New York on this very subject.

A few weeks ago I had quite a serious talk with Jack Morgan in regard to that company's policy, and think I understand the influences which are now, and in fact are always, exerted to keep these matters within conservative bounds. As you doubtless know, there are some of us who have considered that the man who has charge of the foreign department in that company is a little inclined to be speculative. On the other hand, I think we must give him credit for being one of the ablest and most astute in the business. What I would personally fear of a man of that type would be speculation in exchange and, frankly, I do not like to see such a large investment in foreign exchange as that shown by their last statement. The acceptance account of $55,000,000 is, to be sure, very large. I do not think that it represents the actual outstanding acceptances, however, as I believe the banking department requires each acceptance contract to be shown at the full amount rather than at the amount for which acceptances have been actually made. This I have not officially confirmed, but believe to be the case. Shortly before leaving New York, one of the Vice-Presidents informed me that the total was $30,000,000, which I understood at that time was the amount they had accepted and not their liability on commercial letters of credit, which, of course, will always exceed the outstanding acceptance account. At the same time they told me that they only had $700,000 of bills outstanding, which does not cover strictly import or export business. I also understand that much of their export acceptances are against foreign bank credits, which strengthens the bill considerably. That is likewise the case at the Bankers.

As above suggested, I do criticise the amount of their investment in foreign exchange. It looks speculative and I do not think any American institution at this time is justified in buying large amounts at long bills on which they cannot get immediate discount. And, furthermore, to the extent that this represents foreign balances against which exchange has not been sold, I think the risk does not justify the possibility of a profit, considering the uncertainty of the present situation. One difficulty about the management of this account is the character of the man that handles that department. He always has and always will play his hand alone.. Just as soon as I get back to town, I am going to have another talk with the Chairman of their Executive Committee, with whom I have discussed this matter before, and will be glad to give you some more information which I will certainly have no difficulty in getting.

Before leaving New York, it was understood in the office that our line was full and that without saying anything to any of our partners in the other eleven cities we would take the same position for their account. It is most interesting to me to watch the course of this development, on account of the old Bankers Association. The Bankers Trust demand bill always sold better than the Guaranty's by a small fraction, and at the present time their acceptances, I believe, sell about one-half of one percent. below the Guaranty's, but, as you doubtless know, Kent is one of the most conservative men in the business, and, furthermore, he is a thorough student of his subject and very conservative about the lines which he extends.

I have no word from McDougal about the meeting on the 6th as yet, but anticipate that he will notify me and I will certainly try to attend. Jay expects to be away next week, but I can probably slip over for one day. I have an engagement on the night of the 7th, which I must attend if possible.

I am mighty glad to have you write me fully and frankly upon the matter covered by your letter. Your own experience has been so wide and you are so much better posted on these matters than I am, that I am going to rely upon you to check up as we go along, and you need never doubt that your suggestions occupy first place.

Best regards to your associates, whom I shall hope to see next week,

Faithfully yours,

67.5

April 12, 1915.

not sent to file

Dear Warburg:

A letter was sent you last week by the Deputy Federal Agent in regard to the possible future course of money rates, in which it was stated that I concurred. As a matter of fact, I did not concur in the views expressed and the letter was sent out under a misapprehension. I mention it now because I want to write you a few lines about rates.

Six months' time money on mixed collateral is now lending at 3 ½ % minimum, as against that rate on all industrial loans a few days ago, and possibly as low as 3 % for the best mixed loans. Money over the end of the year is quiet, and 4 % and 4 ¼ %, with possibly 4 ½ %, ~~asking~~ rate, and strange to say, the rate for these longer loans has shown some tendency to ease rather than correspond to the course of rates for shorter dates. The best acceptances, which sold as low as 2 and 2 1/8 %, depending upon the maturity, a few days ago; within the last two or three days have been offered rather freely at 2 ¼ % for the longer maturities, and the lowest rate for any maturity, I should say, is from 2 1/8 to 2 1/4 %. Guaranty Trust Company acceptances are now about 2 3/8 to 2 1/2 %. Acceptances which we are unable to buy, that is, those of private bankers and mercantile acceptances bearing only foreign endorsements, like the Yokohama Specie Bank, are 2 1/2 to 2 5/8 % Call money rates have hardened a trifle, the

To Hon. Paul M. Warburg.

high money rate since last Thursday being 2 1/2 % and the renewal rate 2 1/4 %.

This is making me reflect a little bit in regard to the acceptance policy. Without dictating elaborate arguments, I have about come to the conclusion that our wisest course is to buy the best acceptances that offer, which are eligible, at 2 1/4 % and maintain that rate for awhile. Our line of Guaranty acceptances is full, and of course, our purchases would be for account of all reserve banks, and considering the volume in the market, I doubt if it would result in the purchase of more than a few millions, three or four at the outside in the course of a week. The reason I suggest this course is as follows:

COPIED FOR
FILE No. 185
SUBJECT. accept.

1. The London market is now 3 to 3 ½ %, but we establish the preferential rate for the dollar acceptance wherever rates are being quoted in other parts of the world.

2. I am advised that bankers are gradually quoting forward rates to their correspondents abroad. This practice should be encouraged.

3. As our line of Guaranty acceptances is full, it may increase the pressure on National banks to expand their acceptance accounts, which is desirable.

4. On a rising market, it gives us opportunity to make a steady and fairly uniform rate.

5. It gives us opportunity to discipline the note brokers, some of whom have shown a disposition to trade on our ~~bid~~ rate, as we could now buy on commission.

6. And to my mind, more important than the others, it will

To Hon. Paul M. Warburg.

give us the opportunity to establish a slightly lower rate for acceptances ~~and~~ than for call money.

7, - and last. Pursued to its logical conclusion, this policy may enable us to buy acceptances with member bank endorsements. Not at once, perhaps, but after the differential gets a bit larger.

It would be a great aid if I could discuss these matters with you, but not having the opportunity, I would appreciate your writing me frankly.

Sincerely yours,

Governor.

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

BS Jr/VCM-2

April 27,
1 9 1 5.

Dear Warburg:

Mr. Hepburn yesterday informed me that he was concluding the preparation of a book on the subject of banking and currency legislation in this country. I think it is modernizing his former book, with which you are doubtless familiar. He is anxious to get particulars in regard to actual business done by the Federal Reserve Banks, including some figures as to their earnings, expenses, etc. The book will not come out until about the first of January, but he wants his manuscript in shape by the first of July. How would you feel about giving him some data along these lines? He is going to let me have a specific memorandum of just what he does want, but I am sounding you in advance to find whether there will be any objection to letting him have it.

This is the first quiet day I remember having had in the bank since we opened.

Very truly yours,

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

BS Jr/VCM

May 4th,
1 9 1 5 .

Dear Warburg:

Thank you for yours of May 3rd about the matter Mr. Forgan mentioned. Possibly, it was indiscreet for me to refer to it. I feel very sure about the dates I mentioned and naturally would hesitate to ask Mr. Forgan to look it up, unless I saw him. There is a chance I will be in Chicago within the next ten days, and if so, I will make inquiry and see just what did happen. He doubtless has the letter in his files.

Very truly yours,

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

BS Jr/VCM-2

May 22, 1915.

Dear Warburg:

I shall probably see you before you receive this letter, but feel that I should send it as a reminder for your desk.

I am somewhat discouraged at the very slow growth of the Gold Fund behind Federal reserve notes. The past month has witnessed the release in our district of quite a large volume of small denomination gold certificates; so much so that it has become noticeable. Yesterday, as an illustration, Jack Morgan stopped in the office for a moment and produced $500. of gold certificates from his pocket. A newspaper reporter came in and called my attention to the same matter; he had $30 of gold certificates. Another man called Mr. Kenzel's attention to the same thing, and he had $10. of gold certificates.

Advantage should be taken of the more free circulation of gold certificates, to perfect plans by which large denomination silver certificates, as well as Federal reserve notes will be put in circulation, and the gold certificates gradually driven into bank reserves. It requires, as I understand the law, only the exercise of discretion by the Secretary of the Treasury. I suppose you realize that with so much cash in the vaults of banks throughout the country in excess of what they are required to carry for reserves, there will be less discrimination against paper money, which does not count as bank reserve, than at the time when the banks are operating on their minimum required reserve.

Including gold held by the Reserve agent, our own gold holdings have risen from something like $85,000,000 when we started business to about $130,000,000, in a period of six months. I believe if no small denomination gold certificates had been issued during the past six months, we might have accumulated from $25,000,000 to $50,000,000 more gold than we have, and I hate to see time lost in bringing this about.

In this matter, you may put me in the class with the importunate widow.

Sincerely yours,

Governor.

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

BS Jr/RAH

June 2nd,
1 9 1 5 1

Dear Warburg:

The papers which I left at your house came safely to hand to-day. Many thanks for forwarding them to me.

Sincerely yours,

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

VCM

62.5

June 4, 1915.

MONEY RATES

Dear Mr. Warburg:

We seem to be at a point where some change may take place in money rates, and you will desire to be advised of developments. During the month of May, the renewal rate for call loans was uniformly 2% until the 24th, when it was reduced to 1 3/4% and has since remained at that rate. The low rate for call loans throughout that period was 1 1/2% until the 21st of May when it dropped from 1 3/4% to 1%, and again yesterday call money loaned at 1% and for the first time since the 1st of May the high rate for loans made that day was 1 3/4%. Short time loans on collateral have likewise been reduced; rates for sixty days to four months being quoted at 2 1/4% to 3%, and six to twelve months, 3% to 4%. Commercial paper remains quoted at 3 1/4% to 4%, but the tendency is easier. Actual rates for discounts in London remain quoted 2 5/8% to 2 7/8%, and nominal discount rates reported from Paris and Berlin remain 5% and 4 1/2% respectively.

It is of interest to contrast the London discount rate, which on March 1st was 1 7/16 to 1 1/2%, from which time it gradually rose to a maximum of 3% on April 12th to 15th inclusive, and has since declined a fraction as above reported.

This ease of money is apparently due to three causes:

1. Slack domestic business, which is piling up surplus reserves and augmenting those created by the establishment of the Reserve system.

2. The absence of the usual spring demand for currency shipments.

3. The increasing amount of our export business which is being conducted on a cash basis, and which it is estimated has so far resulted in our receiving to date this year $80,000,000 of gold from abroad.

In view of the tendencies above described, I am inclined to recommend an energetic effort to increase the investment accounts of the Reserve banks at present rates to as large an amount as possible, and for as long periods as loans can be arranged. We are buying all the acceptances which are eligible for purchase in this market, rates, as you notice, having been from 2 1/4% to 2 5/8%. We are negotiating, as I wrote you yesterday, for a large block of New York City revenue bonds. We are also negotiating with the Comptroller of the State of New York for the purchase of $6,000,000 of revenue bonds of the state, issued in anticipation of taxes, which we probably might purchase subject to legality on a 2 7/8% basis for October maturity. As to the last item, it would be divided among all the Reserve banks desiring to participate, and would be a prime investment, which I am most anxious to conclude. It may be necessary to ask a special ruling from your Board similar to the one requested in the case of the New York City revenue bonds. We are also asking for the opinion of Messrs. Spooner & Cotton as to the legality of this issue, which has been questioned in a tax payer's suit that has just been thrown out of court by the Court of Appeals.

The earnings of this bank in excess of its current running expenses last month amounted to about $19,000, and we have accumulated current earnings in excess of current expenses of about $37,000. If our investment account runs off as rapidly as it might without special authority from your Board in these matters, our earnings would be cut in half, and the good progress made to date sadly retarded.

I am writing you at this length in order that you and your associates may be able to consider the application made yesterday and in this letter for special rulings, and much appreciate in advance your consideration of the matter.

Yours very truly,

Governor.

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

BS Jr/RAH

Personal.

July 23rd, 1915.

Dear Warburg:

Your note is just received and I am glad to hear that your arrangements are pleasing and not disappointing, as is too often the case.

I tried a hand yesterday at golf myself with pretty good success. In the morning, I had Curtis, Treman and Jim Perkins each seven down; in the afternoon, Curtis beat me, and I was all even with the other two. I will be delighted to take a crack at your links at the very first opportunity, and confidentially, if they are too short, we will play the eighteen holes as though they were nine.

The Clearing House plan to which you refer is simply the Boston country clearing arrnagement which enables each country bank which comes into the arrangement to settle their items with one remittance letter, instead of a separate one for each bank. It will eliminate the exchange charge as to those banks that come in and shorten the collection time, as they agree to remit on the day the items are received at par. It will be somewhat more advantageous at present for the country banks but not so attractive for the city banks. On the other hand, it is a move in the direction of par collections, and any move in that direction is helpful to us. If, at the end of two and a half years when reserves are all transferred, their efforts, and ours, have been successful in eliminating exchange in the district, there will be much less difficulty in our getting the adhesion of our country bank members to whatever plan is finally adopted. It is ~~neither~~ not an attempt at competion with us, but might in a way, be construed as a necessary consequence of our collection scheme. Another definite advantage is that it will probably head off a separate move of this kind by state institutions. There are 35 of that class in the Clearing House as against 29 national banks, and of course, they might force through some plan which would be objectionoble to us, whereas, this plan is entirely unobjectionable to us and can be operated in co-operation with our plan. On the whole, I feel well satisfied to see this development take place.

I do not know who is talking to the newspapers about the Brown credit. Jim Brown is not. I know because I have asked him, and moreover, have cautioned him about any statement as to the Federal Reserve Bank. On the other hand, this is a case where the bankers, particularly the national bankers, are entitled to know what they can do and what they cannot do. That is to say, whether their acceptance contract or credit arrangement is of the character permitted by the statute or not, and whether the acceptances, when made, will be eligible for us to buy. We are, of course, endeavoring to make this absolutely clear and unmistakable. I guess we all agree now that if a national bank can accept drafts of this character, we can buy them, and there seems to be no doubt whatever that the national banks are authorized by the statute in making the acceptance, even though the contract should run for a year, or longer.

I really think you exaggerate the importance of the newspaper articles and the possibility of embarrassment. We are still able to run the business without newspaper assistance and I do not believe people are paying much attention to the articles from day to day on this subject.

I am off in about three quarters of an hour to spend the week-end with the family at Wood's Hole, so will ask my secretary to sign this.

With best regards to you and Mrs. Warburg, and wishing you just the kind of holiday that you need and deserve, I am,

Sincerely yours,

Hon. Paul M. Warburg,
Loon Lake House,
Loon Lake, N. Y.

BS Jr/VCM

Personal.

August 2nd, 1915.

Dear Warburg:

I stayed at home last Friday to catch up with some back work, and Mr. Jay on that day telephoned me the contents of Governor Hamlin's letter of July 8th about acceptance credits.

I do not understand the action taken by the Board at all, and fear that we must in some way make our position clear that we do not regard this construction of the law as being correct or binding upon member banks.

In the meantime, however, I have had a long talk with Delano (who was here on Saturday), about the matter, and he has written Harding further on the subject, and just now I have a telephone message asking me to go To Washington to-morrow and go over the matter again, which I am expecting to do.

Things are rather quiet in the office, and we are going to take advantage of the opportunity to get some vacations out of the way. Mr. Jay is going on Saturday. Mr. Curtis and I will be here except for a few days at a time when he and I may alternate.

You will be interested in reading the enclosed article which appeared in the Journal of Commerce. We are gradually getting

Hon. Paul M. Warburg.

the banks accustomed to the idea that acceptances must be endorsed and the negotiable instruments Act has helped us to bring this about, and if we have a considerable volume of bills developing this fall with rates of interest advancing a bit, I am hopeful that we can get the whole acceptance proposition working in good shape.

Please give my best regards to Mrs. Warburg and the same to your good self.

I apologize for intruding with a business letter and will try not do it again.

Very truly yours,

Governor.

Hon. Paul M. Warburg,
Loon Lake House,
Loon Lake, N. Y.

BS Jr/VCM-2

15

August 5th, 1915.

My dear Warburg:

We had a hot time in Washington yesterday, and by this I mean both weather, and otherwise.

Personal

This morning I have your note asking for a report of my trip. It has already been sent you from Washington. Dr. Miller is rather reserved in his opinion on the subject, stating frankly that there was a good deal about it that was technical and he wanted to think it over. All the rest, that is, Governor Hamlin, the Comptroller, Harding and Harrison were clearly of the opinion that we had not understood each other and that the former letters of the Board were wrong. They were good enough to show me your letter in which, as I recall, you stated that the Board's letter was "horrible." They did not know whether you meant the interpretation given to Section 13 of the statute was too restrictive or too liberal, so I suggested to Dr. Miller that he get out the first letter which bore your notations and made it clear to them just how you stood.

The matter was thrashed out very thoroughly and I think they are now well convinced that the limitation of six months applies to the draft and not to the credit, but that no credit that extends for a longer period than six months, and which imposes upon the holder of the

Hon. Paul M. Warburg.

draft any obligation of renewal, would be authorized by the Act. Harrison is drafting a new opinion after consulting Judge Elliott by telephone, who also agrees, and the Board expects to send me a letter on the subject just as soon as they hear from you and possibly from Secretary McAdoo, although I understand that he has already written them urging that the interpretations on this matter be made broad and liberal.

I can't tell you how grateful I am for your broad view on this subject for I was getting hopelessly discouraged. Investigation indicates that revolving letters of credit are now in use by state institutions and private firms covering shipments of the following products: potash from Germany; copper from Chili; meat, hides , wool, etc., from the Argentine; jute from India and silk from China, also, many other commodities from the far East. These credits, in many cases, run for a year. They are of a character with which you are thoroughly familiar, some of them "goods documentary" and others, "goods clean."

The Board, after our meeting yesterday, has, I believe become impressed with the fact that the time is approaching when the extent of our surplus exports will be governed by the combined amounts of securities which we repurchase and credit which we extend, and I do not think any of the members will feel willing to labor under the possible charge that restrictive or narrow views of the functions of national or reserve banks should now be permitted, in view of a possible interference with our export commerce.

I am leaving for Boston this afternoon, and expect to spend the week-end with the family at Wood's Hole and get in a little tennis. Am delighted to hear that you are in good company and having some golf.

August 5, 1915.

..n. Paul M. Warburg.

One examination of your golf bag and its contents convinces me that you are a better banker than a golfer.

Once more give my best regards to Mrs. Warburg and tell her to intercept business mail, coming even from your best friends, one of whom inscribes himself,

Faithfully yours,

Hon. Paul M. Warburg,
Loon Lake House,
Loon Lake, N. Y.

BS Jr/VCM

August 19, 1915.

My dear Warburg:

This is my first chance to write to you for some days. Jay has been away and Mr. Curtis also part of the time, and I have likewise been trying to take it a bit easier myself.

You notice the accounts of additional gold coming to this country, a total of about $25,000,000 having arrived during the past week. I fear there is some likelihood of additional shipments. What can you suggest as a means of locking this up and keeping it out of bank reserves? How would it strike you to issue a special form of Federal reserve note, say for denominations of $1,000 and $10,000 each, make a trade with the importers of the gold to turn it over to us after the Assay Office had made return to the importer, then try to persuade our Clearing House Association to accept these large denomination certificates for settlement of balances between members.

This is a rather hazy indefinite suggestion, but frankly I have not worked it out very completely in my own mind and to save time I thought you might be willing to put your mind on it a bit and give me your views.

The more we develop this extraordinary international situation, the more satisfied I am that we would be on safer ground if Federal reserve notes could be made lawful for cash reserves of national banks. You recall the last time we discussed this I expressed the opinion that this could be safely done after we had accumulated such gold as would flow into the banks by reason of the discontinuance of the issuance of small denomination gold certificates. It might be that when Congress is again in session, we could convince those who have charge of legislation of this character that it would be safe to permit the direct accumulation of gold against the issue of Federal reserve notes right away. Whether the effort is made or not I believe that legislation should be all shaped up in advance so that time might not be lost in discussion or study in case it proved desirable on rather short notice to advocate such policy.

Jay is still away and Curtis is taking the last of this week to become acquainted with the National course down on Long Island. I believe he is playing in a tournament.

With best regards to Mrs. Warburg and your good self,

Yours very truly,

Honorable Paul M. Warburg,
Loon Lake House,
Loon Lake, New York.

BS Jr./RAH

September 2nd, 1915.

Dear Sir:

Will you be good enough to ascertain from Mr. Warburg the amount of Mr. Strong's expenses on the trip from Loon Lake to New York the first part of this week?

Thanking you in anticipation, I am,

Very truly yours,

Secretary to Mr. Strong.

W. T. Chapman, Esq.,
Secretary to Hon. Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

VCM

Form 260

WESTERN UNION TELEGRAM

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

RECEIVER'S No.	TIME FILED	CHECK

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

New York City, Sept. 10, 1915.

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

Will telephone you from Greenwich tomorrow evening.

Benj. Strong, Jr.

Charge to Federal Reserve Bank,
62 Cedar Street.

BS Jr/VCM

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

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

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond 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. *No employee of the Company is authorized to vary the foregoing.*

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

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A full-rate expedited service.

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

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

NIGHT LETTERS

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

(COPY)

592
orig. on
432

September 9th, 1915.

My dear Mr. Warburg:

Mr. Jay is this morning in receipt of an inquiry as to what our policy will be in establishing rates for commodity paper, and before submitting this matter to our Board meeting next Wednesday, I would very much appreciate an expression of your views. There are a number of points to be considered:

First: There will be very little, if any, of that paper in this market;

Second: We have a great variety of rates already and this will introduce another rate as an additional complication and make the rate situation rather obscure to member banks;

Third: If we follow the lead of some of the Southern banks and establish a 3% rate, it will undoubtedly have the effect we have been endeavoring to avoid of creating dissatisfaction among those member banks that have a large Southern clientele. I have always thought that as reserve balances are transferred over a period of three years, that it would be a mistake to arbitrarily break down the lending arrangements which are dependent upon these balances by arbitrary rate reductions.

Fourth: This class of paper may develop to a large volume in the South and it would be a desirable class for us to rediscount for Southern banks, consequently the rates which we establish now will have some bearing on the rate to be established later for rediscount, if those are required, which I doubt.

Would you mind writing me frankly giving some expression of the views entertained by the Board which I could submit at our meeting next Wednesday. Mr. Jay will endeavor to obtain by that date, information in regard to the rates established by the other reserve banks that have taken action prior to our meeting.

Things are very quiet here. Money shows some easing tendency and exchange is still feverish with a tendency to go lower with a very narrow market. Large offerings of bills will materially reduce the rates.

With kindest regards,

Very truly yours,

Governor.

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

BS Jr/VCM-2

(COPY)

592
orig. on
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FEDERAL RESERVE BOARD

WASHINGTON

September 10, 1915.

Dear Governor Strong:

I have your letter of September ninth in which you ask me to give you some expression of the views entertained by the Board concerning the establishment of a commodity paper rate in New York.

In this connection you mention four points -

First: "There will be very little, if any, of that paper in this market;" and

Second: that you have "a great variety of rates already and this will introduce another rate as an additional complication and make the rate situation rather obscure to member banks."

Answering these two points together, let me say that the Board had this very situation in mind when it indicated in its circular that it might appear advisable in some districts where both trade acceptances and commodity paper are being offered, to establish one single rate to govern both. That would appear to be the case in your district and my colleagues and I would have thought that a rate of three per cent established in your district both for trade acceptances and commodity paper would for the time being meet the situation.

You say under three: "If we follow the lead of some of the Southern banks and establish a 3% rate, it will undoubtedly have the effect we have been endeavoring to avoid of creating dissatisfaction among those member banks that have a large Southern clientele. I have always thought that as reserve balances are transferred over a period of three years it would be a mistake to arbitrarily break down the lending arrangements which are dependent upon these balances by arbitrary rate reductions."

The Board would not think that a rate of three per cent for commodity paper would have any such effect at this time. The Federal Reserve Bank of New York, if it established such a rate, would only take such paper with the indorsement of one of its member banks or through a transaction of rediscount from one of the Southern Federal Reserve Banks. It stands to reason that no member bank would rediscount at three per cent commodity paper acquired in the South unless it had a reasonable margin and if you add to the three per cent rate a margin of between one-half to one and one-half per cent, I believe you will find that this rate of three and one-half to four and one-half per cent is about the rate at which the member banks are offering facilities to the Southern National and State banks. On this score it would not appear therefore, that there is any objection to a rate of three per cent.

You say under four: "This class of paper may develop to a large volume in the South and it would be a desirable class for us to rediscount for Southern banks, consequently, the rates which we establish now will have some bearing on the rate to be established later for rediscount, if those are required, which I doubt."

It is difficult to say at this time what should be the rate of rediscount between Federal Reserve Banks if these transactions should become actual. Financial conditions as they will then exist will have to guide us in that respect. If at that time it should appear advisable to maintain your rate of three per cent, the Southern Federal Reserve Banks would have to consider unless assistance came to them again from the Treasury, whether an increase of their rate slightly beyond three per cent would not be advisable, so as to give them such margin as they would deem necessary in order to carry on the redicount of commodity paper with the view of rediscounting the same with other Federal Reserve Banks; of if conditions should warrant such a step, your bank might feel that it would be proper at that time to reduce its rate for trade acceptances and commodity paper slightly below three per cent, in which case the three per cent rate in the Southern districts might be continued. As to this, it is impossible at this time to make any attempt to foretell the future, but it would appear to the Board that a rate of three per cent to be established by you would prove proper and would place your bank in a perfectly safe position to meet any further development as it may occur.

Very truly yours,

(Signed) Paul M. Warburg

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

September 10th, 1915.

Dear Sir:

Enclosed please find Mr. Strong's check for $3.50 covering balance due to Mr. Warburg for traveling expenses.

Thanking you for your attention to this matter, I am,

Very truly yours,

Secretary to Mr. Strong.

W. T. Chapman, Esq.,
Care Hon. Paul M. Warburg,
Federal Reserve Board,
Washington, D. C.

VCM

COPY

September 30, 1915.

Dear Mr. Warburg:

You will, I am sure, pardon my being a little amused by your quoting Mr. Samuel Untermeyer as an authority on practice maintained by the Bank of England in buying bills. As I recall, Mr. Untermeyer endeavored to enlighten the Senate Committee on Banking and Currency on this matter, and among other things informed them that when the bank wanted to get control of the money market, it bought bills in large volume so that bills became scarce in the bill market, thereby raising the rate for bills. My impression is that the Bank of England does not resort to this measure any more. It is commonly understood that when the Bank of England wants to put the rates up, it borrows from the market. I doubt if this practice is at all current and I further doubt whether the bank as a matter of practice buys many bills at all in the open market. Most of its bills come from its regular customers in the usual course of business.

I will have a talk with Holden, whom I expect to see to-morrow and get some up-to-date information about the practice of the bank, but I really think that these matters are generally very much misunderstood. I will write you further after talking with Holden.

Very truly yours,

Governor.

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

BS Jr/VCM-7

C O P Y

October 4, 1915.

Dear Mr. Warburg:

My meeting with Holden Friday afternoon was devoted to a discussion of acceptances and unfortunately, as others were present, I was unable to pursue the inquiry in regard to the policy of the Bank of England in open market dealings. I hope to get something from him in the near future on this matter.

I did have opportunity, however, to inquire whether the Bank of England would discriminate against bills drawn by a foreign government, accepted by a good English acceptor and, of course, bearing an acceptable English endorsement, and he tells me that without a question such bills would not be discriminated against by the bank.

I really think there is misapprehension in your mind as to the character of dealings conducted by the Bank of England in bills that are current in the London market. The great volume of their dealings are with their own customers. Those bills which they take from the discount houses that are their customers, are frequently not endorsed by the discount houses, the bank holding a general letter of indemnity for liability. I do not think that the bank discriminates in any way between the drawers of the bills as long as they get two good English names, one of which must be the acceptor. As throwing some little further light on this matter, I enclose copy of a letter received from one of the directors of the Bank of England some little time ago and, also, copies of two cables bearing on this subject which I received last March.

You are doubtless aware to what extent the practice of the Bank of England has changed in recent years. At the time of the inquiry by the National Monetary Commission, as I recall, it was stated by some London bankers that the Bank of England did buy bills in the open market to some extent and that, at times, they borrowed money from the market in order to stiffen rates when they wanted to attract money to London to protect their gold. I believe at times officers of the Bank of England have denied that that practice now prevails; that they rarely buy bills in the open market and rarely, if ever, borrow money in the open market.

Mr. Untermeyer seems to have been struggling in hopeless confusion in regard to the operation of the London bill market. His statements before the Senate Committee on Banking and Currency gave evidence of a lack of understanding of the matter and subjected him to considerable ridicule.

My understanding is that the policy of the bank since the outbreak of the war is about as follows: Lord Cunliffe, when the exchanges turned against Great Britain, was inclined to follow the old formulas and endeavored by cooperation between the bank and the British Government to bring about higher discount rates in the open market in London. The operation was largely conducted by the government's short time borrowings which , as I recall, reached about £150,000,000 which lead to a constant accumulation of funds in the Bank of England

Hon. Paul M. Warburg. 10/4/15.

in public account. This was not effective in moving the rates up at first, probably because of the huge guarantee given by the British Government and the large purchases of bills that had been frozen by the war situation, these purchases being made by the Bank of England under the government guarantees aforesaid. In other words, one operation offset the other. The credits released by the government's guarantees and the bank's purchases lowered the rates which the government's borrowings were not effective in raising. Later on, however, when the big war loan was placed, these payments, coupled with the continuation of the sale of short bills by the British Government, were effective in raising discount rates to a maximum of 5 1/8%, which was the rate quoted for August 4th and 5th. At that time, it was announced that the Bank of England's rate of 5% was "effective" and Lord Cunliffe, I am confidentially informed, anticipated that, with this rate prevalent in the London market, exchanges would gradually right themselves by reason of the large volume of bills which would be carried by foreign capital in the London market. He failed entirely to take into consideration the caution which would be exercised by foreign buyers of bills, particularly American buyers, by reason of the possibility of loss caused by the violent depreciation of sterling exchange. No American buyers could afford to carry bills to maturity and run the risk of the rates which would prevail at that future date. Consequently, all long bills drawn on the English market are immediately discounted on forward discount rates and the whole weight of exchange at once fell upon the exchange market.

This has all been explained to Sir Edward Holden, whose answer is that the effort seems to be rather to shift the risk of speculation in exchange from London to New York and he does not see great virtue in my suggestion that having the bills accepted and discounted in dollars will be

To Hon. Paul M. Warburg. 10/4/15.

the equivalent of a permanent loan to the English market and the constant advance of the exchange position for an amount equal to the volume of bills held in this market. In other words, he declines to recognize that the effecting of a transfer of acceptance discounts from London to New York is exactly the effect sought to be brought about by Lord Cunliffe in his efforts to raise the discount rates in Lombard Street.

To revert to Mr. Untermeyer's suggestion, if it is based upon the theory that we should now undertake operations in the open market for the purpose of correcting the international exchanges, it would mean that he advocates our buying sterling bills which are not domiciled in this country, which is a policy that has always been frowned upon by the Bank of England and one which would be fraught with great risk at the present time unless we had guarantees and security against loss of exchange.

I am not at all clear that any duty rests upon the Federal reserve banks at this time to use their reserves in an effort to improve the exchange situation and the only basis upon which such operation would be justified, would be ample guarantees in collateral and the assurance that our money would be returnable to us in gold at the maturity of the bills purchased, if we do not care to renew.

Pardon this long letter on a very dry subject.

Sincerely yours,

Governor.

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

BS Jr/VCM-2

PERSONAL.

October 14th, 1915.

Dear Mr. Warburg:

Thanks for yours of the 12th. I hope the apples arrive in good order.

You have been good enough occasionally to ask about my health. That is always a tender subject with me and, possibly, I have not been very courteous in reply, the fact is, I have not been very well for some time past and would make an effort to get away for a loaf right now were it not for Father's condition. He is very dangerously ill and I see little chance of improvement, in fact,of any change, in his condition except for the worse. This makes it difficult for me to make any plans for awhile. I am risking going to Minneapolis, but only upon the doctor's assurance that it is the wise thing to do.

Sincerely yours,

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

BS Jr/VCM-

October 30th, 1915.

Dear Sir:

In Mr. Strong's absence, I took up the matter of recovery of your overcoat with Mr. Hendricks, who says that they had left the train when your telegram was received but that he returned immediately to the compartment for your coat and was refused possession of it by the porter. He then handed the telegram to the porter with instructions to forward at once. This was not done, however, as the Pullman Company told Mr. Hendricks this morning in answer to his inquiry, that they were afraid to ship it without a more definite address, but promised to send it forward to-day. I trust it will reach you promptly.

Very truly yours,

Secretary to Mr. Strong.

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

VCM

198

November 12th, 1915.

Dear Mr. Warburg:

If I arrange, as seems likely, to go over to Washington on Monday afternoon, possibly you and Mrs. Warburg will put me up for the night, and then understand the necessity of my moving over to the Shoreham. We are going to have evening meetings of the Executive Committee I anticipate, and I am anxious that my associates should not look upon me as a deserter.

Sincerely yours,

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

BS Jr/VCM

208

November 29th, 1915.

Dear Mr. Warburg:

Thank you very much for the copy of your address deliwered at Charlotte, N. C., the reading of which, I anticipate, will prove most interesting.

Very truly yours,

Governor.

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

VCM

198

December 2nd, 1915.

Dear Warburg:

There is just a chance that I will be over in Washington next week, and probably before you have received this letter, I will have telephoned you about it. It all depends upon Woodward, who has some matters he wants to look into in Washington and has asked me to go with him.

I appreciate very much your letter and the nice things you say. You need not worry about my not"sticking it out." I may not always "smile", but I will "stick" all right.

Please give my best regards to Mrs. Warburg and Betty.

Sincerely yours,

Hon. Paul M. Warburg,
1704 Eighteenth Street,
Washington, D. C.

COPY

December 8, 1915.

Dear Mr. Warburg:

I am very grateful to you for your courtesy in sending me copies of your correspondence with Sir Felix Shuster. From his letter, I draw the conclusion that the practice of the London joint stock banks and the Bank of England in respect of handling bills, both for their customers and open market, is just about as I had stated in my letters to you and Mr. Delano.

It seems to me, however, that your questions do not bring out as strongly as they might, the situation which has arisen in this country as a result of the establishment of the Federal reserve banks. We ought to know

First: What definition does the Bank of England, and do the discount houses and joint stock banks, use in distinguishing between finance bills and other bills?

Second: Is there any discrimination against first class bills bearing two English names, simply because they may not be in the form of documentary bills?

Third: What kind of bills specifically are discriminated against, either by the Bank of England, the joint stock banks or the discount houses?

As you know, I have always maintained that a very large volume of bills of the London market are, in fact, in the form of finance bills and are regarded as the highest grade of paper because,

1st. Their two high grade English names, and

2nd. They are not drawn for the purpose of carrying stocks or financing enterprises.

In other words, I believe that a very large volume of bills that are regarded as "prime", are bills drawn for the purpose of making exchange.

I am going to prepare a careful set of questions which I will address to two Directors of the Bank of England whom I happen to know, and see if we cannot get a little treatise on this subject that will clear up any doubt.

I am glad that the Board has decided to put out Regulation "S", rather than deal with the matter by private letter.

Very truly yours,

Governor.

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

BS Jr/VCM-2

198

December 28th, 1915.

Dear Mr. Warburg:

I have investigated the man whose name you mentioned to Mr. Jay and have so far communicated with Mr. Forbes of Harris, Forbes & Company, Bertron Griscom & Company and one of Mr. Mallet Provost's partners, all of whom know him intimately. The story seems to be as follows:

He is a young fellow, probably not over 32, of Spanish parentage and very excellent family, college graduate and a man of most attractive personality and appearance; socially, etc., in good standing in New York. He is rather quiet, not aggressive, speaks English, French and Spanish fluently, thoroughly reliable and trustworthy and reported to be of good habits. He has been employed successively by J. F. White & Company, Bertron Griscom & Company, Harris, Forbes & Company and now by Parkinson & Burr. He is a bond dealer and negotiator, not a salesman in the ordinary meaning of the word, but rather a negotiator in a broader sense. Has made good progress in that business and is well-reported among bond men. Represented Bertron Griscom in Paris for awhile and had some experience in France, Belgium and Switzerland, as well as London. Has had no experience whatever in foreign exchange and probably no experience in South American business.

Another informant just tells me that he can give him an absolutely unqualified endorsement as to trustworthiness, etc., that

To Hon. Paul M. Warburg.

he was abroad representing Griscom. He is a graduate of Cornell and a good man to follow up work laid out for him, but lacks iniatitive.

My conclusion from the statements made to me is that he is a fine chap personally, with considerable experience as a bond man, with no experience whatever in foreign exchange, and would probably be of little or no value along the line of work you have in mind where experience, iniatitive and banking judgement are really the qualifications required.

I am sorry not to have a better report.

Very truly yours,

Governor.

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

BS Jr/VCM-8

124b

March 7, 1912.

Mr. Hugh Kennedy, of the Rogers, Brown Iron Co., generally is regarded as the logical head for our Buffalo organization. He was ~~elected~~ president at the initial meeting of the League there. Mr. Kennedy is interested in Monetary Reform, and gladly would accept the position if he did not feel it would occupy too much of the time he thinks he should devote to his concern.

"I have promised Mr. Rogers I will not make up any more outside matters", he says.

The Mr. Rogers referred to is Mr. Williams A. Rogers, president of the Rogers, Brown Iron Co.

I understand letters from the right sources not only would have the effect of lining Mr. Rogers up for future use, but also would relieve Mr. Kennedy of any embarassment in the matter. A suggestion that he urge Mr. Kenndy to accept the presidency of the Buffalo Branch of the League would be all that would be needed in this direction.

I am informed letters of this sort would have immediate effect if written by officials of the Bankers Trust Co. and Solomon & Co., with whom the Rogers, Brown Iron Co. does considerable business.

John Duffy.

Dear Strong, can you help us in this?

Yours sincerely

Paul M Warburg

William and Pine Streets,

KUHN, LOEB & CO.

New York, Mar. 19, 1912.

#146 B.S.Jr.

MAR 20 1912

RECEIVED MAR 20 1912 REFERRED TO OFFICE

Dear Strong:

Will you be kind enough to let me have a letter of introduction for Mr. William Dinwiddie, to Mr. C. H. Palmer, Vice President of the Genesee Valley Trust Company, of Rochester?

Mr. Dinwiddie needs this letter to "push" his campaign up-state.

Thanking you in advance, I am

Sincerely yours,

Paul M. Warburg

H

Mr. Benjamin Strong, Jr., Vice President,
Bankers Trust Company,
7 Wall Street,
City.

William and Pine Streets,

KUHN, LOEB & CO. New York, Nov. 6, 1911

146

[1912?]

Dear Mr. Strong:

Thank you for sending me the abstract of your speech and Mr. Forgan's figures, with which I am entirely in accord.

Very truly yours,

Paul M Warburg

H

I think 4½% & 3½% are somewhat high; 4% and 3% would be safer as an average return from investments. The latter rate will have to be earned from foreign exchange and bank acceptances

Benjamin Strong, Esq.,
c/o Bankers' Trust Company,
7 Wall Street, City.

THE OWEN-GLASS BILL AS SUBMITTED TO THE DEMOCRATIC CAUCUS

SOME CRITICISMS AND SUGGESTIONS

BY

PAUL M. WARBURG

Reprinted from The North American Review for October, 1913

THE OWEN-GLASS BILL AS SUBMITTED TO THE DEMOCRATIC CAUCUS

SOME CRITICISMS AND SUGGESTIONS

BY PAUL M. WARBURG

Now that we have before us the Owen-Glass Bill in the definite form in which it has been submitted to the Democratic caucus, it may be interesting dispassionately to analyze it and to establish where it differs from and wherein it agrees in the main points with the bill of the Monetary Commission.

It is a source of great satisfaction to note that, as the Republican party had to outgrow and to abandon its old doctrine of "currency issued by National Banks against Government bonds," so the Democratic party had to relinquish its old heresies of the 16-to-1 silver standard, the guarantee of deposits, etc. Both parties are now agreed that reform must provide for "a currency"—to use President Wilson's own words—"not rigid as now, but readily, elastically, responsive to sound credit, the expanding and contracting credits of every-day transactions, and the normal ebb and flow of personal and corporate dealings."

There is a further and even more important progress. Both parties have now recognized that it is not the "currency" which is the exclusive or even the chief factor that needs reform, but that, indissolubly interwoven with this question is the problem of rendering available and efficient the now immobilized reserves of the country, and of mobilizing and modernizing the now illiquid American bills of exchange by creating a "discount market" and "bank acceptances."

Both parties are thus in agreement as to the ends to be striven for; more than that, they are agreed even as to the technical means by which they must be attained.

Accordingly, both plans provide for concentration of reserves, for the creation of an organization for the purpose of rediscounting commercial bills, for the substitution of an elastic note for the present National Bank currency, and for a conversion of the 2-per-cent. Government bonds into 3-per-cent. bonds.

The country is to be congratulated upon seeing these theories and principles clearly established; it remains the nation's duty conscientiously to watch that the aims now professed by both parties be carried into effect in the best possible way, and that they be not lost through ignorance, prejudice, or considerations of party policy. Where there is agreement as to the fundamentals, it should not be impossible to reach an accord as to the means, provided they be honestly sought for.

There were five main criticisms of the Monetary Commission's plan, and it is chiefly on these points that the Owen-Glass plan differs from its predecessor.

Mr. Aldrich's critics claim:

1. That there is too much concentration of power and that this power is placed almost entirely in the hands of the banks or their representatives.

2. That a uniform discount rate for the whole country would not be practicable.

3. That the size of the balances to be kept by the subscribing banks with the National Reserve Association is not defined.

4. That the National Reserve Association, after taking over all the 2-per-cent. Government bonds, is not sufficiently protected, because, although it would assume the responsibility for the entire National Bank note issue, it would be prevented from selling the United States 3-per-cent. bonds in case of emergency (except $50,000,000 per annum and that only after five years).

5. Finally, it is claimed that currency should be issued only by the Government of the United States and not by a semi-official body.[1]

As to point 1, the writer partly agrees with these critics; as to 2, 3, and 4, he entirely agrees; as to point 5, however, he totally disagrees with them.

[1] This article does not aspire to be a comprehensive criticism of the Owen-Glass bill in all its details, but has for its purpose the discussion only of these main points.

Let us analyze each point consecutively:

The Monetary Commission's plan proceeded on the theory of the Bank of England, which leaves the management entirely in the hands of business men without giving the Government any part in the management or control. The strong argument in favor of this theory is that central banking, like any other banking, is based on "sound credit," that the judging of credits is a matter of business which should be left in the hands of business men, and that the Government should be kept out of business. The Aldrich plan, therefore, provided for only a moderate amount of Government control; but on the other hand it restricted the powers of the Central Board and the scope of the branch boards to such a degree, and it proposed so democratic a system of electing directors, that its author hoped to satisfy the nation that the concentrated reserves of the United States and the note issue would be safe in the hands of this National Reserve Association. The Owen-Glass bill proceeds, in this respect, more on the lines of the Banque de France and the German Reichsbank, the presidents and the boards of which are to a certain extent appointed by the Government. The writer is inclined to think that the latter form is the one better adapted to modern nations. These Central Banks, while legally private corporations, are semi-Governmental organs inasmuch as they are permitted to issue the notes of the nation,—particularly where there are elastic note issues, as in almost all countries except England,—and inasmuch as they are the custodians of practically the entire metallic reserves of the country and the keepers of the Government funds. Moreover, in questions of national policy, the Government must rely on the willing and loyal co-operation of these central organs. Much is therefore to be said for the theory of centralizing reserves and note issue in the hands of a semi-official private corporation under a mixed administration of business men and Government appointees, the managing officers being appointed by the Government.

In strengthening the Government control, the Owen-Glass bill therefore moved in the right direction; but it went too far and fell into the other, and even more dangerous, extreme.

In France and Germany the Central Banks are entirely free from any sectional or political color: an officer is appointed on the strength of his qualifications, generally after a long training and gradually rising in rank; a director is elected on account of his standing in the business world; all irrespective of their political faith, and they will remain in office according to their merits and independent of whether the liberal or conservative party be in power.

In our country, with every untrained amateur a candidate for any office, where friendship or help in a Presidential campaign, financial or political, has always given a claim for political preferment, where the bid for votes and public favor is ever present in the politician's mind, where class prejudice and antagonism between East and West and North and South run high, in a country so different from these European states, a direct Government management, that is to say a political management, would prove fatal. Moreover, in Europe the banks are not required to furnish the capital of the Central Banks, nor are they obliged to keep balances of such size as will be necessary with us, where the banks and the Government will be the only depositors of the Federal Reserve Banks. The banks, therefore, should be satisfied that the administration will be carried on without bias and upon sound business principles. There can be no doubt but that, as drawn at present, with two cabinet officers members of the Federal Reserve Board, and with the vast powers vested in the latter, the Owen-Glass Bill would bring about direct Government management.

The Owen-Glass Bill provides for the creation of twelve Federal Reserve Banks as against the one National Reserve Association, with fifteen branches, as proposed in the Aldrich Bill. The National Reserve Association is theoretically the simpler, sounder, and, in effect, the more efficient structure. The freest possible return of idle cash into one large reservoir is best assured by a single organ, and its larger strength and uniform policy render feasible the creation of a real discount market and the performance of other functions, such as accumulation or disposition of foreign bills, gold transactions, etc., which are necessary for the safety of the structure.

Moreover, as we shall see later, a single organ of vast strength is in a position to solve in a more effectual way the question of Government bonds and note issue. Messrs. Owen and Glass were moved to adopt the Federal Reserve Bank system, not only because Senator Aldrich had adopted the other, but because the absolute centralization frightened a great many who are afraid that in some way or other "Wall Street" might secure the key to this great chest. Although, in the writer's opinion, this apprehension was unwarranted, still this fear existed and had to be taken into account. Moreover, it was thought impossible to have one discount-rate govern the whole country; and justly so.

In dividing the country into separate districts, each having its own Federal Reserve Bank and its own rates, it was hoped to counteract the danger of centralization of power and to render each district independent of the other. It seems that the framers of the law were in the beginning impressed with the idea of creating from twenty-five to thirty such centers, or even a larger number. The longer they dealt with this question, however, the clearer it became to them that the number had to be reduced and, furthermore, that some way had to be found to co-ordinate these separate entities, or rather to subordinate them under the domination of one central power.

It is clear that, if a large number of separate Federal Reserve Banks should be created without any such superimposed organ, instead of having a free back flow of idle cash into one center, we should have competitive hoarding of gold at each central point. This would destroy the basic principle of the plan, which is that the reserves of one part of the country, where there would not be any seasonal demand, should be available for the other, where crops might just be moving. Without a central organ the result would have been that these independent and weak Federal Reserve Banks would have had to depend on the strongest among them for assistance. In other words, New York would have become the center dictating the country's financial policy, instead of having it formulated and carried out by a body of men from all parts of the country, as under the Aldrich plan.

It became apparent then: First, that the number had to be reduced in order to make the units larger, and thereby more independent; and, second, that it was necessary to co-ordinate these units under a Central Board. Thus the number was reduced to fifteen, and later on to twelve, and the Federal Reserve Board was created. While these moves were in the right direction, they did not go far enough, for the proposition as it now stands is not as yet a practicable one. Let us see how it would work.

As an illustration we shall assume that a Federal Reserve Bank is established with the minimum capital, permitted under the law, of $5,000,000 paid in, that is a nominal capital of $10,000,000. This would presuppose a paid-in capital of the banks constituting this Federal Reserve Bank of $50,000,000. Let us assume that the deposits of these banks would amount to five or six times their capital, that is, $250,000,000 to $300,000,000. Of these, 5 per cent. would have to be paid in as balances with the Federal Reserve Banks, that is $12,500,000 to $15,000,000. Of these it should normally have no less than 66 2-3 per cent. in reserve, equal to $8,000,000 to $10,000,000, leaving about 10 per cent. of the capital of the constituent banks, or $4,500,000 to $5,000,000, as available in normal times, and an additional 10 per cent. for special demands; after which the limit of a gold reserve of 33 1-3 per cent. would have been reached. This illustration presupposes that the banks, having paid in 10 per cent. of their capital, would want to reimburse themselves by rediscounting an equal amount with the Federal Reserve Bank, which means that the capital of the latter would be normally invested. But assuming that the capital would be uninvested, the total amount available for the accommodation of the constituent banks would even then be only 30 per cent. of their capital.

This permits of several conclusions: it shows, first, that while the Aldrich plan left entirely optional with the banks the size of the balances to be kept with the National Reserve Association, permitting them to count both balance and lawful money in their vaults as reserve, the Owen-Glass Bill, while correctly stipulating a minimum balance of 5 per cent. of the deposits, errs in setting at the same time a minimum limit also for the amount of actual cash to be kept in the vaults of the banks. From the point of view of strengthening the Federal Reserve Banks, and thereby the banks themselves, the balances with the Federal Reserve Banks, that is their cash holdings, ought to be increased as far as possible. The banks ought to hold only as large or as small an amount of actual cash as they actually need for their daily business, and all unnecessary cash should be deposited with the Federal Reserve Banks. Allowing for an ample supply of till-money, but leaving the determination as to its size to the free judgment of the banks, it is safe to estimate that the aggregate gold holdings of the joint Federal Reserve Banks could be increased by some $200,000,000. The joint loaning power would thereby be strengthened by twice that amount. In estimating this increase it has been assumed that an amount equal to at least 2 1-2 per cent. or 3 per cent. of the aggregate deposits could be safely counted upon. In our illustration this would mean that about $7,500,000 would be added to the funds of the Federal Reserve Bank, of which $2,500,000 normally, and a maximum of $5,000,000, would become available for the contributing banks; which would increase the total to 40 per cent. of their aggregate capital. The very object of the law should be to reduce to the smallest possible sum the amount of cash hoarded in the banks and to increase to the largest possible size the concentrated reserves in the Federal Reserve Banks. But it would be a mistake to attempt at this time to do more than to free and to consolidate the cash reserves, now wastefully impounded in the banks. It would be inadvisable to add to these vast sums substantial portions of the cash balances now kept with reserve agents as part of the legal reserves. These balances are now actively employed by the Reserve and Central Reserve Banks; if withdrawn from these banks and replaced by actual cash in vaults, or by balances with the Federal Reserve Banks, the accommodation, heretofore granted to the community by the Reserve and Central Reserve Banks, will have to be provided by the Federal Reserve Banks. That is to say: the regular business done by the banks will have been taken away from them, and the Federal Reserve Banks, which properly should act primarily as reserve institutions, providing the elasticity for extraordinary demands, will have been forced into the normal business, from which they should try to keep away.

Unless it be clearly understood by legislators and banks that the Federal Reserve Banks must not be used in normal times to finance the country to any substantial degree, the latter will fail to serve their purpose, because their funds would not be available when the real " pinch " came.

The balances with reserve agents should therefore be left undisturbed to a certain extent, or if we are to break with the old system of counting one bank's balance with another as a cash reserve, on the ground that such balance really is not cash, then we must concede that our system, as it stands today, implies a reserve of only 6 per cent. for country banks, of 12 1-2 per cent. for Reserve City Banks, and of 25 per cent. for Central Reserve City Banks. It is with these actual cash reserves that the nation's banking business has been done, and, if properly organized, we can safely assume that they would be sufficient. No other nation requires cash accumulations or balances with Central Banks of such size.

If the new law eliminates these bank balances as reserves, it ought to provide for a corresponding reduction of the reserve requirements; not to the full measure of these bank balances, because a certain degree of liquidity was assured by the old system, but to a large extent.

It would appear entirely practicable to reduce the reserve requirements of the country banks from 15 per cent. (of which 6 per cent. were in vaults and 9 per cent. with reserve agents) to, let us say, 10 per cent.; of the Reserve City Banks from 25 per cent. (of which 12 1-2 per cent. were in vaults and 12 1-2 per cent, with reserve agents) to 17 per cent.; and of the Central Reserve City Banks from 25 per cent. to 20 per cent.[1] The law should then provide that of these reserves a balance of no less than 50 per cent. would have to be kept with the Federal Reserve Banks. This would mean a minimum of 5 per cent. for country banks, of 8 1-2 per cent. for Reserve City Banks, and of 10 per cent. for Central Reserve City Banks. The writer has, however, no doubt that the balances would in fact be much larger, because there would not be any reason for the banks keeping more cash at home than they actually need for their daily business. On the other hand, the size of the balances generally kept by a bank with the Federal Reserve Bank—and thereby for the benefit of the entire community—would have some bearing on the consideration which, in case of need, may be claimed from the Board of the Federal Reserve Bank. But whether this suggestion be adopted or not, there can be no doubt whatsoever that nothing can be gained by impounding an unduly large amount of cash in the vaults of the individual banks, or by unduly locking up their now free funds. If properly consolidated and organized, the present cash reserves ought to prove sufficient; if linked together in an unsound and inefficient manner, the inclusion of the bank balances will not avail. If, after a few years of active operation, it should become necessary to increase the balances, the law can be

[1] Provided there are only a few Central Reserve cities; if there were more than four or six there would not be any justification in requiring them to keep reserves so much larger than the other cities.

easily amended to that effect. But it is most important to avoid all unnecessary convulsions at the beginning.

As the law is now framed our illustration has shown that probably eight out of the twelve Federal Reserve Banks, thrown back on their own power alone, would not be able to provide the necessary facilities during seasonable or abnormal demands. The smaller the circle for each Federal Reserve Bank the more acute would be its embarrassment, because the demands of its constituent banks will be simultaneous, the dominating industries of the region not being sufficiently varied. The larger the circle of each Federal Reserve Bank, the stronger must be its own intrinsic power.

But even with larger units than are provided by the Owen-Glass Bill, the law would not achieve its purpose unless it would ultimately bring about a market for bills and bank acceptances and a free and natural interplay of reserves between the various centers. The business normally done by Central Banks must be only a fraction of the aggregate discounting done by the general banks, banking firms, corporations, large and small, and in particular by foreign banks and governments. When the cotton crop is to be moved, not only the Southern Federal Reserve Bank or Banks must provide their limited share, but the local banks in those parts of the country where money is not in as strong a demand during that season should be ready to buy Southern bills. In doing so they would rely on their own ability to rediscount in turn their own short maturities with their Federal Reserve Bank or depend upon the broad market for discounts, in which they could, in case of necessity, resell these bills with their own indorsement. Can such a market, which is an absolute prerequisite for the safety of the entire structure, be developed with a system of twelve Federal Reserve Banks as now proposed? The answer is a most unqualified "No!"

The basis of a discount market is confidence; confidence in its large absorbing power and in its reasonable rates. By "reasonable" I mean to imply rates that can be foreseen by "reasoning," by summing up all the natural influences,—and the extraordinary ones too,—that may contribute to shape money rates in a rising or falling direction. Both these elements would be lacking under the Owen-Glass plan. With twelve discount rates (even though a good many might be generally the same), with twelve competing centers, with twelve, conceivably, different discount policies, a large discount market cannot develop. A market develops where purchasers and sellers meet. Locally the majority of the small finance centers will be purchasers; but, as between the various centers, they will on balance almost invariably be sellers. No open discount market will therefore develop in such smaller centers. It could, however, develop in the large centers like New York, Chicago, St. Louis, Boston, Philadelphia, etc., if it were not for the arbitrary powers vested in the Federal Reserve Board.

If, at these large centers, the banks could rely on *a natural* development of the discount rates, they would not hesitate to invest freely in bills instead of keeping their working reserves (not the legal ones) in " on call money "; but what means have they to cast any reasonable prognostication as to the course of such rates? The New York Federal Reserve Bank's position may be very strong and the Federal Reserve Banks at Boston and Chicago may be in an equally good condition. Eastern banks might therefore be quite willing to buy Southern paper at 5 1-2 per cent. while the official Bank Rate of the Federal Reserve Bank at New York presumably might be at 5 per cent. and that at New Orleans at 6 per cent. But here comes the Federal Reserve Board and issues its edicts that the Federal Reserve Banks of New York rediscount $10,000,000 each from the Federal Reserve Banks at New Orleans, Seattle, Kansas City, or, perhaps, Denver, Salt Lake City, Minneapolis, or Duluth. To what extent these requirements will be made and on whom they will be made, whether on New York, Chicago, or Boston, no banker will be able to foretell, nor will anybody know to what points the money may be directed. In the face of such conditions the call-money market will remain the stand-by of the banks; for they will not incur the risk of investing in discounts while the discount rate, instead of developing according to the natural free flow of credit and money, jumps according to the whim of a largely political body. With an election coming—and an election is always coming in the United States—how strong a probability is there that a demand from Seattle or Dallas (be they over-extended or not) for money from the East will be refused? How strong a probability is there, in the face of some political agitation, that a depleted New York would receive money, even were it its own, from the South or the Far West? And even if the majority of the men constituting the Federal Reserve Board were entirely free from political considerations (which they cannot possibly be because some are political officers and owe it to their party not to disregard the political aspect of the case), what training, what ability would they command to pass upon these business and banking questions so as to enable them actively to run the banking business of the entire country? For not only is the discount rate of each Federal Reserve Bank " subject to review " by the Federal Reserve Board; not only has this Board the power of throwing the reserves from one part of the country to any other part that it pleases; but the Board will fix at its own discretion the rate at which " Federal Reserve notes " will be " advanced " to the Federal Reserve Banks. To this latter question we shall have to revert later.

While it is true that, by the addition of the Federal advisory council, a very commendable improvement has been made, because through it the Federal Board will have an opportunity of at least learning facts concerning general conditions which otherwise it could not possibly know (though it remains entirely optional with the Federal Board to act on these facts, or rather upon local or political pressure); while it is true, furthermore, that the arbitrary powers of the Federal Board have been somewhat " toned down," none the less, the proper working of the entire system will depend upon the wisdom with which the Federal Board exercises its functions, in particular that of " permitting or, in time of emergency, requiring Federal Reserve Banks to rediscount " paper of other Federal Reserve Banks.

It has been argued with great insistence that the Federal Board should not be clothed with the power of " requiring Federal Reserve Banks " to rediscount for each other; but it is the weakness of the entire plan that without such power lodged in some group of men the whole structure would fall to the ground. With twelve Federal Reserve Banks the *permission* to rediscount for each other is a theoretical option of which they would hardly ever avail themselves. If the Federal Reserve Bank of New Orleans should happen to have a bank rate of 6 per cent., against rates of 5 per cent. in the majority of the other zones, and if the Federal Reserve Bank of New Orleans became crowded, facing the necessity of increasing its rate to 7 or 8 per cent., what would happen? Would New England or Pennsylvania or Chicago or New York of their own accord apply for permission to grant a loan? If money should be plentiful in these regions, the boards of these Federal Reserve Banks would argue that their individual constituent banks should take as much paper from the New Orleans banks as they would think safe and good business, but they would not for a moment consider it wise or incumbent upon themselves to weaken the reserve power of their own Federal Reserve Bank for the benefit of the New Orleans Federal Reserve Bank, shouldering thereby a burden which would otherwise fall on the remaining ten Federal Reserve Banks. In order to avoid the semblance of a Central Bank, the structure has been torn into twelve separate entities; but as the majority of these units are unable to stand alone, and as safety lies in union only, there must be some arbitrary power to take the place of the links that are missing in the structure. The further decentralization has gone, where centralization is the end to be sought, the vaster and the more arbitrary those powers must be.

With twelve units, for the deliberation and co-operation of which among each other the law does not contain any provision—excepting the advisory council, which may advise the Federal Board but may not act—the initiative and executive power for any joint or individual action between these Federal Reserve Banks must rest solely with the Federal Board.

This is most unfortunate, because for these seven outsiders, who constitute the Federal Reserve Board—outsiders because, living in Washington, they all stand outside of active business and they cannot possibly ever be in direct touch with the same—it is a problem beyond any man's power to decide wisely which of these twelve Federal Reserve Banks is to receive a rediscount and which of the remaining eleven, and in what proportions, shall grant the same.[1]

[1] The law provides "that the interest charge to the accommodated *bank* (we take this to mean the accommodated *Federal Reserve Bank*) shall be of not less than one nor greater than three percentum above the higher of the rates prevailing in the districts immediately affected." This must be a mistake. If New Orleans's "Bank Rate" is 7 per cent., its Federal Reserve Bank can only take discounts at the uniform rate of 7 per cent.; why then should it sell its assets at 8 per cent. or 10 per

There will, therefore, be no natural flow of reserve money, nor any free flow of money, into these disconnected discount centers. Important open discount markets will not develop; because neither Europe nor the large American banks will trust a system of this kind, which does not insure a sufficient mobility for commercial paper. Consequently the banks will not be enabled to dispense with their present habit of keeping a substantial proportion of their assets in loans " on call." For the sake of creating some provincial centers, which will be centers only by name, and which, standing alone, will not be able to provide the needed relief, the efficiency of the whole system will have been sacrificed.

But while a system of twelve Federal Reserve Banks will prove a failure, it will be well-nigh an impossibility to reduce the number later on. It is difficult to withdraw privileges once granted, even though their elimination would be of general benefit. On the other hand, it would not be hard, at any time, to increase the number, if this should prove advisable later on. Meanwhile, under a system of a small number of Federal Reserve Banks, discount markets would have developed, and the nation would have an opportunity of judging itself whether or not those were true prophets who predicted that the " discount market " would remove the concentration of money on the Stock Exchange, and whether or not the fear of a " tyranny of credit " will survive under the new system.

There are further phases of this problem that we must consider:

The Owen-Glass Bill contains elaborate provisions for the development of bank acceptances and for dealing in foreign exchange. Both provisions are most appropriate, for without creating an effective machinery covering these two items the law would not achieve its aims.

If we want to finance our own foreign trade, if we want to establish a standard banking paper with a large market at home and abroad, great pains must be taken to develop these

cent. in order to accommodate at 7 per cent. some banks, conceivably those that have expanded too much? If the Federal Reserve Bank of New Orleans can borrow only at 8 per cent., its bank rate should be not only at least 8 per cent., but rather higher in order to keep down the expanding banks of the region and in order to draw money into the dry district from other banks of the United States or Europe.

bank acceptances (not only those of subscribing banks, but also of our private firms; for the banks alone could not provide all the necessary facilities). The accepting bank receiving a commission of between 1-4 per cent. to 1-2 per cent. for giving its three months' acceptance, the discount rate for bank acceptances will have to be about 1 per cent. to 1 1-2 per cent. lower than the rate for single-named promissory notes. Though it would be better business for the Federal Reserve Banks to buy 45-days paper at, let us say, 5 1-2 per cent., they will have to make it a point to have a private discount rate for bank acceptances of, let us say, 4 per cent. This private discount rate must meet the English, French, and German rates in the world's market, and, unless the Federal Reserve Banks make special efforts to make the American rate reasonably low, no American bank acceptance will take the place of the European ones, no matter how many foreign banks may be established under the American flag.

Which of the twelve Federal Reserve Banks is to carry this burden? They all will want to earn their 5 per cent., for which the margin does not appear to be very large as the bill is drawn at present, and they all will strive to make the surplus earnings beyond 5 per cent. as large as possible, since they are to receive 40 per cent. of such excess. There are several reasons, however, why the 5 per cent. dividend is not as amply assured as it was under the Aldrich plan: (1) under the latter plan, the Treasury money was deposited free of interest, while under the Owen-Glass Bill interests are to be allowed to the Treasury; (2) under the Aldrich plan the profit on over $700,000,000 National Bank notes, which were to be assumed by the National Reserve Association, and the profit on any further note issue, was to go to the National Reserve Association. Under the Owen-Glass Bill the Federal Reserve Banks will have to pay interest on the notes to the Government, so that it may not be sure that any profit will be derived by them from this source. While the National Reserve Association's profit was limited to 5 per cent., the balance going to the Government, the margin was so large that all transactions which were to be done, for the public welfare, with small profit or even at a loss, could be carried out without encroaching on the 5-per-cent. dividend. It is a fair question whether, in view of these conditions and considering the vast powers of the Federal Reserve Board to interfere with the profits of the Federal Reserve Banks, the Government should not guarantee a minimum return to the stockholding banks,—let us say 4 per cent. as maximum and minimum,—and permit the banks to dispose of their stockholdings at their pleasure, selling the stocks to them above par, and using the premium for the establishment of a surplus fund.[1]

If we review our considerations at this point, we find that the result of the division of the country into twelve Federal Reserve Banks, under the Owen-Glass plan, would be the destruction of a reliable and strong discount market, the weakening of the reserve power of the country, the undoing of the hope of developing on a broad basis the American bank acceptance, and the sacrificing of a strong and efficient foreign-exchange and gold policy. On the other hand, while all these advantages of a frank centralization have been lost, the Owen-Glass plan cannot avoid the same degree of centralization which, however, it brings about by conferring autocratic powers upon a small group of men. And because the technical decentralization into twelve units has gone too far, the individual powers, which are to take the place of the well-knit links of a single organization, must necessarily be too far-reaching. They become a danger to the whole structure and, at the same time, to those who are to be the responsible officers of the Federal Reserve Board.

The remedy is a simple one. If the framers of the Owen-Glass Bill, continuing in the same direction in which they have moved up to the present, will further reduce the number of the reserve centers, the very serious objections to the present law may easily be eliminated.

In the writer's opinion a system of four Federal Reserve

[1] The plan of permitting the Federal Reserve Banks to participate in any profit secured in excess of 5 per cent. does not appear to be sound. It would act as a stimulus toward activity and money-making, where the main duty of these Federal Reserve Banks must be conservatism, and a strong tendency to remain in reserve without any consideration of sacrifice of profits.

It would be better to allow the stockholders a return of 5 1-2 per cent. or 6 per cent., under a liberal system that would permit them to earn this dividend even with the greatest conservatism, than to permit them a share in the excess profits under a narrow system that would rather force them to do business in order to be quite sure of even their 5-per-cent. dividend.

Banks, with centers at New York, Chicago, St. Louis, and San Francisco, with a Federal Reserve Board at Washington, would under the circumstances form the best possible solution. If it be objected that by such a division New York, which would include New England, would become too strong, a system of six Federal Reserve Banks would still be practicable, though less safe and efficient. Any larger number the writer strongly believes to be pernicious. It may be well to bear in mind that with any further increase in number of the Federal Reserve Banks, New York's weight could not be much reduced, and the larger the number of the Federal Reserve Banks, the more acute will become the disproportion of New York's power as compared with that of the other centers.

Let us contemplate now how a system of four or six Federal Reserve Banks will meet the various difficulties that we have discussed. For simplicity's sake we shall discuss a system of four Federal Reserve Banks, but if six should be decided upon, the argument, though weakened, will still remain the same.

A system of four Federal Reserve Banks would offer to the people a guarantee that New York could not in any way have any direct influence upon the management of the banks in the other parts of the country. (The New York Federal Reserve Bank would embrace New England, New York, New Jersey, Pennsylvania, Delaware, Maryland.) The country would be as safe in this respect as it would be under a system of twelve Reserve Banks. On the other hand, what have we gained? The accumulations of reserve money would be so strong in each of the four centers that a sectional, seasonable demand could be readily taken care of; all the more because with four large units, four powerful administrations with a distinct and strong policy, important discount markets will develop. We should then have a real concentration of reserves and a real mobilization of credit. As to bank acceptances, foreign exchange, government bonds and note issue, these four Reserve Banks could agree upon a joint handling of these (perhaps for a joint account to be based upon the capital of each Federal Reserve Bank). Four large concerns will be able to agree upon a disinterested policy; twelve local Federal Banks, with unequal powers, and naturally more selfish interests, never will. The idea prevails among some critics, that twelve centers will take better and fairer care of the country than four. This idea is unfounded. The reverse is the case. The question of the branches of the National Reserve Association and of the Federal Reserve Banks has, in the writer's opinion, never been sufficiently considered in detail. If a free system of transfers from one part of the country to the other is to be established, if balances with Federal Reserve Banks are quickly and easily to be created and used for the purpose of clearing, then all important cities must have branches and all minor cities must at least be within easy reach of a branch. It will be impossible to establish an effective system of transfers of balances with twelve zones, within the boundaries of each of which the easy transfer would remain confined. There are between sixty and seventy cities now that are entitled to branches, or where branches are necessary to cover certain sections. Let us take cities like Cincinnati, Cleveland, Toledo, Columbus, Indianapolis, Detroit, Milwaukee, Minneapolis, St. Paul, Duluth, etc. They all would be entitled to branches, and they all could be branches of Chicago. If we were to pick out one of these and make it a Federal Reserve Bank, the others, almost equal in importance or possibly superior, would fare poorly by becoming tributary to, and dependent on, an organization weaker than Chicago. But this must happen with twelve centers. Moreover, it is hard to imagine that a Federal Reserve City should not become a Central Reserve City. To create twelve Central Reserve Cities would defeat the very idea of Central Reserve Cities; we need not enlarge upon that thought,—but with twelve Federal Reserve Cities we could hardly escape that necessity. By adding San Francisco to the list of the existing three Central Reserve Cities the question might be solved without difficulty with a system of four centers.[1]

[1] With four Federal Reserve Banks one could imagine that each Federal Reserve Bank city would become a Central Reserve City, each city where there would be a branch (and only those) would become a Reserve City. If the accumulation of reserve money with reserve agents is to cease, the main motive in the determination of Central Reserve and Reserve Cities will have been eliminated. On the other hand, the position occupied by a city in the organization of the Federal Reserve Banks will become a very important factor, and inasmuch as there will be a certain concentration of business wherever there will be a branch or a head office, it may be logical to require banks in these centers to contribute in a more substantial degree to the reserves of

If six centers must be created, we must suppose that New Orleans and some other city, presumably Boston, would have to be added. (But, again, the South, grouped around New Orleans, will be less efficiently provided for than by grouping a larger Southeast around St. Louis. Even New Orleans itself would fare better as an important branch than as a comparatively weak Federal Reserve Bank.) In other words,—to use again our old metaphor, often employed in the last six years,—in order to procure fire protection for the entire community we must provide faucets in as many places as we possibly can (*i.e.*, the branches), but we must concentrate the water so that we may have enough for any emergency. If we cannot concentrate all the water into one central reservoir, let us at least see to it that there will be only a few and large ones. Small reservoirs will quickly run dry, thereby creating consternation, and any other small reservoir, that may be drawn upon, will quickly show the effect, again causing anxiety and, as a consequence, an increased demand. Large reservoirs can stand a drain without an alarming drop of the gage and, if interconnected, they can assist one another without much sacrifice and without creating any convulsion or alarm. Twelve interconnected reservoirs would be a complicated system, inefficient in its results and to be handled only in the most arbitrary and haphazard way.

To insist on a large number of Federal Reserve Banks because, it is argued, reserves ought to be kept where they originate, is a selfish and narrow doctrine. For some charitable minds it may be a comfortable feeling of safety to see their neighbor's house burn down and to shut off from him their own water-supply. But when their own house happens to be on fire they may find some fault with such a system. Moreover, with the key in the hands of a board appointed by the President, they should be able to overcome this provincial point of view.

As to the organization of the four Federal Reserve Banks and the Federal Reserve Board, it would not be difficult, while preserving a similar machinery as now proposed in the Owen-Glass Bill, to begin by organizing the branch boards, which would be responsible to, and under the control of, the boards of the Federal Reserve Banks. The lat-

the nation than the other banks which in the future would constitute the "country banks."

ter would be constituted from members of the branches, and some members would be appointed by the Federal Reserve Board. Each branch would have a manager to be appointed by the Board of the Federal Reserve Bank. Each Federal Reserve Bank would have a governor to be appointed by the President, from lists to be submitted to him by the Board of the Federal Reserve Banks, which lists the President might return, asking for a new set of names. These Governors would be first-class, expert men, who should receive large salaries in order to render them independent and in order to make the position an attractive one for men of the strongest caliber. The Federal Reserve Board should consist of these four governors, three additional members to be appointed by the President, and to these should be added the Governor-General to be appointed by the President in consultation with a committee consisting of delegates from the Federal Reserve Banks. It should not be difficult upon a basis of this kind to agree upon a constitution of the Federal Board satisfactory both to Congress and to the business community. The Secretary of the Treasury and the Comptroller of the Currency ought to be members of a Board of Supervision.

With units so large and a Federal Reserve Board thus constituted the powers of the latter may remain almost unchanged; but it is submitted, that it may not be necessary to destroy the independent character of each Federal Reserve Bank by making it obligatory for them to rediscount for each other at the request of the Federal Board. If there be only four Federal Reserve Banks, the heads of which are members of the Federal Reserve Board, at which they would meet one another, they may be relied upon to stand by one another of their own free will—in particular if they have to deal jointly with Government bonds, bank acceptances, foreign exchange, and note issue—and the law may be easily amended in case they should not.

In the writer's opinion Cabinet Members should not be members of the active board. It would be safer both for these officers and for the country if men whom duty toward their party compels not to neglect the political aspect of each case should be kept away from this post. Moreover, Secretaries resign, or, in the course of events, they change, whereas it is most important that the members of the Federal Reserve Board should gradually become experts like the members of the Interstate Commerce Commission. There are no Cabinet Members on this latter commission, nor are there any on the Supreme Court, with both of which the Federal Reserve Board has been compared. Inasmuch as the Democratic party appears to have set its mind on exclusive Government control, the writer's proposition, as above outlined, bears fully in mind this prerequisite even though he may consider it extreme. The plan as here proposed would not allow a single member on the Federal Board not appointed by the President, none the less, but it would gain the confidence of the business community and overcome its objections, because the four Governors of the Federal Reserve Banks, who would be thoroughly familiar with actual banking and business conditions in their respective zones, would have an opportunity and duty frequently to confer with one another, and would have an important voice in the shaping of the policies of the Federal Reserve Board. The remaining three members would be free from any political pressure. The Democratic party's principles would have been fully respected, and yet grave dangers and defects would be avoided.

But, no matter what conclusion may be reached in this respect, and what form the Federal Board may take, the dangers and iniquities of Government management would materially be reduced by the establishment of only four Federal Reserve Banks. The more the Federal Board is called upon to deal only with composite bodies—that is, a number of varied elements massed together—the more it is protected from political pressure. The local demand would address itself to the Federal Reserve Banks; the Federal Reserve Board at Washington would only deal with questions of policy, applying to groups that would be so large that the divergent interests of the various component parts would in themselves eliminate any provincial color, helping the Federal Board to deal with its problems, without fear or favor, in an absolutely statesmanlike, unbiased way.

A structure of this kind would have the advantage, as against the Monetary Commission plan, that, while there would be among the four Reserve Banks one policy of expansion or of contraction, they could each adapt their rate to their own conditions, as against the uniform discount rate for all the country proposed in the Monetary Commission plan. The Federal Board might even have power to permit a Federal Reserve Bank to establish a higher rate for a single branch, when it would appear necessary to curtail a particular over-expanding branch or community, without wanting to affect by a higher rate the entire zone of the Federal Reserve Bank.

A structure of four (or six) Federal Reserve Banks would offer the greatest advantage in dealing with the Government 2-per-cent. bonds and the note issue. With both of these features the Owen-Glass Bill deals in a most unsatisfactory way.

In the first place our currency is already redundant and we would begin with the existing maximum as the minimum, because National Bank Currency, based on Government bonds, does not materially contract. We would provide for a possible increase of $500,000,000, though this limit has now been removed by law, but for a decrease only of $35,000,000 for the first year. The entire National Bank Currency ought to be converted into elastic currency from the beginning. What do we gain by spreading this conversion of bonds and notes over twenty years? There is every argument for a prompt conversion.

The present proposition is unsatisfactory for both the Government and the banks. If we consider that within the last twenty years English, French, and German Government bonds have gone down about 20 per cent., anybody would be a bold man who would dare to foretell at what price United States Government 3-per-cent. bonds will sell within the next twenty years. If the United States should embark upon any national enterprise which would entail a material issue of bonds, the price certainly would go down. Should United States 3-per-cent. bonds sell below par, the National Banks would, of course, not convert. The National Bank note issue, in that case, would remain outstanding for twenty years, when the United States would have to sell a 3 1-2-per-cent. or possibly a 4-per-cent. issue to take the place of the old 2-per-cent. bonds. The present proposition, then, gives the option to the National Banks to convert in case the 3-per-cent. United States bonds sell above par, while, if they sell below, the United States will have to take the loss. This is a poor proposition for the Government; on the other hand, it is the minimum that, in fairness, could be offered to the National Banks.

The Aldrich plan proceeded on correct lines in converting the 2-per-cent. bonds all at once and in assuming the entire National Bank note issue. It went astray when it provided that these bonds were to be kept from the market for five years and were to be sold only at the rate of $50,000,000 per year after that period. This meant that the National Reserve Association, having assumed over $700,000,000 on-demand obligations, would have had its hands tied if it had been called upon to protect these liabilities—an unsound position.

The problem is not an easy one. If we imagine that after twenty years the National Banks would have disposed of all their bonds to the public, we must expect that, on the other hand, at that period there will be required at least the same amount of circulation as we have to-day (and more according to the increase in population). That means that Federal Reserve Currency will have been permanently substituted for National Bank Currency, let us say to the extent of $700,000,000 to $800,000,000. But currency cannot be issued without something having been given in return for it, which means again that, inasmuch as the Federal Reserve Banks would not own any Government bonds against these outstanding notes, they must have other assets to that extent—that is, mainly, commercial paper. It follows that, in addition to their own capital and part of their deposits, the Federal Reserve Banks would have *permanently* invested about $800,000,000 in commercial paper, and to this we would then have to add the extraordinary and seasonal demands for which $500,000,000 were estimated to be issued, a total of about $1,300,000,000 to $1,500,000,000. This would not be a healthy condition, for *normally* the Federal Reserve Banks should not be so deep in business, they should become such heavy investors in commercial paper only in times of active demand. It would therefore be desirable to find a way of investing several hundreds of millions of dollars otherwise than in commercial paper, provided that these assets would be safe and quickly salable. It is from this point of view that the following suggestion is made.

Let the four Federal Reserve Banks jointly assume the National Bank note issue and let them take over jointly, in proportion to their respective capitals, the 2-per-cent. Government bonds. Let the Government convert half of the amount so taken over into 3-per-cent. 20-year bonds, the other half into one-year 3-per-cent. Treasury notes of the United States. As long as their charters last the Federal Reserve Banks would jointly bind themselves, whenever these one-year notes would mature, to buy at par the same amount of new one-year 3-per-cent. Treasury notes. The advantage of this plan is obvious. For the United States it is indifferent whether they issue a twenty-year bond or a one-year bond the renewal of which at par has been guaranteed for twenty years. But the position of the Federal Reserve Banks would be immensely strengthened thereby. For, in case the Federal Reserve Banks found themselves in a situation where they wanted to strengthen their position or create a balance in foreign countries, they could at once sell these short Treasury notes, if not on a 3-per-cent. basis, let us say, even on a 6-per-cent. basis. In serious times the loss incurred would not weigh heavily, because money at home would then be in strong demand and bring more than that rate. By such a sale the price for the long-term Government bonds would not be affected in anxious times, when these could only be forced on the market at great sacrifice and at the risk of tearing down the price of all other securities. On the other hand, these United States one-year Treasury notes,—which might be issued so as to mature half in January and half in July—would be a quick asset, a most suitable investment for the Federal Reserve Banks. With $350,000,000 of such an investment it might be quite safe to preserve the holding of the remaining $350,000,000 in twenty-year bonds. If it should be found that the available liquid means of the Federal Reserve Banks should be permanently increased, it can safely be left in the hands of the Federal Board to dispose of them gradually in favorable times and in quantities that the market will readily absorb.

While the Government, in following this suggestion, would continue to run the risk of having to renew the 3-per-cent. bonds at their maturity on possibly a 3 1-2-per-cent. or 4-per-cent. basis, it would on the other hand preserve its chance of securing the advantage of a sale of the 3-per-cent. bonds above par, in case the investment market should take a favorable turn. It would not grant a one-sided option. Furthermore, the profit on the circulation would from the beginning be received by the Federal Reserve Banks—that is to say by the Government—and the earnings of these Federal Reserve Banks would show an ample margin over and above 5 per cent., the importance of which we have already emphasized.

This presupposes that sound counsel will prevail, and that, in the face of the emphatic protest coming from all parts of the country, the framers of the Owen-Glass Bill will ultimately abandon their intention of letting the Government issue the new notes. One need not be a prophet in order to be able to foretell that this heresy will have the same fate as the 16-to-1 silver standard and the guarantee-of-deposit plan, and that after a few years people will wonder how they could ever have considered seriously so absolutely unsound a theory.

Though, as against its original form, Section 17 of the bill has been materially improved, it still remains a puzzle to the writer how, in practice and in theory, it will work out in any satisfactory way. Is there to be a uniform rate for the "advances" of these Federal Reserve notes? Or will the Government undertake to discriminate between various parts of the country? Is this rate to be different from the bank rate in the Federal Reserve districts?

Neither the constituent banks nor the Federal Reserve Banks, when granting accommodations, can know whether the ultimate customers will use this book-credit for the payment of book-debits (that is, by check), or whether it will be employed to discharge debts that cannot be paid by checks, and whether, consequently, notes will be required. Notes that have been issued to-day may again be turned into book-credits to-morrow. They are interchangeable, and, from the Federal Reserve Bank's point of view, they ought to be treated alike, both as deposit liabilities. To cut these functions in two, to attempt to let the book-credit and the note—twin brothers—be born by two different mothers, is a most anomalous proceeding. But, we must ask, how would it be possible at all for the Federal Reserve Banks to act boldly and comprehensively with their problems, if they cannot rely on being able to provide circulation as long as they are within the limits of the law concerning their cash reserves and collateral? While it is inconceivable that the Federal Board should ever refuse to grant an advance to a Federal Reserve Bank in sound condition, still this arbitrary power given to the board would be a menace, and an unnecessary source of weakness, to the whole structure. Moreover, is it at all reasonable that a Federal Reserve Bank should not be in a position to figure what its investments in discounts will return? To illustrate: If a Federal Reserve Bank buys from the Sixth National Bank $100,000 of 60 days' paper at 6 per cent., and the latter draws a check against this rediscount, the Federal Reserve Bank nets 6 per cent. If the Sixth National Bank, or its customer, should draw $100,000 in notes, and if the Federal Board should charge 6 per cent. for " advances," the Federal Reserve Bank would not receive any return at all from the investment. Why punish the Federal Reserve Bank, and indirectly the people, for issuing a legitimate amount of circulation? If the Federal Reserve Bank's earnings above the 5-per-cent. dividend are well assured, the amount charged for the advances will be put from one pocket of the United States Government into the other.[1] If there should be any doubt as to this 5-per-cent. dividend, would it not stand to reason that the Federal Reserve Bank, if it had ample cash reserves, would rather pay out its lawful money than pay for the costly " advance " of Federal Reserve notes? This is, of course, the very last thing the Government ought to encourage, but we can hardly see how this consequence can be escaped under the law as drawn at present.

But these " advances," when carefully analyzed, are nothing but a myth. Sooner or later, but within twenty years, under the Owen-Glass Bill, there will be outstanding $700,000,000 of Federal Reserve notes (which will have replaced the National Bank notes), and in addition such notes as will have to be issued to take care of extraordinary demands, together, let us say, between $1,000,000,000 and $1,200,000,000. Against these notes " which will be the obligation of the United States," the United States will have no assets of their own whatsoever. The Treasury balances, of about $100,000,000, are to serve for certain specified obligations of the Government, and are neither available nor suffi-

[1] As a question of revenue to the Government a tax on note issue is superfluous when the excess earnings go to the Government. If the tax is created for the purpose of acting as a sentimental check on overexpansion—unnecessary, because an effective one is being applied by the bank rates—it ought to be based on *"liabilities"* (comprising deposits and notes issued) and gold cover. But, in a country in which the deposit-and-check system is so highly developed, it would be impracticable to apply the brake on the note issue alone.

cient for the purpose of securing these Federal Reserve notes. The Government relies absolutely on the Federal Reserve Banks to pay these notes when presented. It has no money to advance to these Federal Reserve Banks and it has no money to pay the Federal Reserve notes when presented. As long as the note is in circulation, the Government kindly grants the "advance"; as soon as the note is presented for payment, the Federal Reserve Banks have to cash it. In other words, if we thread our way through this bewildering maze, it is not the Government that gives the advance, but the public which holds the notes that grants the credit. In other words, it is not the United States upon whom rests the primary obligation, but the Federal Reserve Banks. The United States are the guarantors of the notes, which the Treasury would be called upon to pay only after the Federal Reserve Banks are in default.

Why then not put it into a clear form? Why not let the Federal Board at Washington issue these notes—under the supervision of the Treasury—for the joint account and as the primary and joint obligation of the Federal Banks, the United States, in consideration of the profits to be received and against collateral, as proposed in the Owen-Glass Bill, guaranteeing the notes? It is this the writer makes bold earnestly to recommend. The status of both the Government and the Federal Banks would thereby become clear.[1]

Under the Owen-Glass Bill the Federal Reserve Banks set aside a gold reserve for notes which they have not issued and which do not appear as their liability. The United States Government, on the other hand, is to issue up to $1,200,000,000 of notes, and against these no gold cover would appear on their statement; but as a cover they would show only the indebtedness of the Federal Reserve Banks. There is not sufficient differentiation between contingent and direct liabilities and contingent and direct assets. The Federal Reserve Banks are asked to assume practically the direct obligation for a contingent liability, and the United States figure a contingent asset as a direct asset. The writer proposes to put direct assets and obligations into the same balance-sheet, and the contingent assets into the same balance-sheet with the contingent obligations.

[1] The guarantee by the United States is not a necessity; the notes would be good enough without the same; but as a matter of expediency it would appear wise to follow this course.

This is not a question of bookkeeping only, it has a most vital bearing upon the question of direct responsibility or contingent responsibility in the management of the Federal Reserve Banks. If the United States issued the notes as their primary obligation, if the Federal Reserve Board fixed any interest rates for these advances, the Government would establish a direct connection and direct responsibility which, as we have shown, it is most important to avoid. If the method suggested by the writer be followed, any political pressure addressed to Congress or to the Executive for a lowering or raising of rates, a freer or less supply of facilities, in any particular part of the country, would be promptly turned off by the statement that while the Government undertakes the responsibility for supervision, for installing an efficient and honest management, it could not have any direct influence upon the business of the Federal Reserve Board or the Federal Reserve Banks.

It is the world's acknowledged theory and practice to keep the obligations of the Central Banks distinct from those of the Government. It would lead too far to present a full argument showing the advantages of the semi-official Central Bank over a direct Government organ. It may suffice here to refer to the gold loans granted in critical times by the Banque de France to the Bank of England, a transaction that in 1907 we should have been only too glad to bring about for the United States, but could not achieve because there were no modern American bills and no central organization. A semi-official organ can bring about a transaction of such kind, which would be hardly compatible with the dignity and the duties of a Government. This is another reason for keeping the Government in a "contingent position," but not in the first line of battle.

History has shown that the Banque de France survived when the Government of France went to pieces; it remained unchanged whether France became an Empire, Commune, or Republic. History has shown that by keeping the Central Banks and the Governments separate entities, they become mutual supports. The Government is a customer of a Central Bank; at times its largest depositor, at times its heaviest borrower. The Government's credit strengthens the Central Bank, the Central Bank strengthens the credit and power of the Government. Where Government credit and bank credit have been mixed up, the consequence has been to weaken both. Are the United States, under the Presidency of a man of science, going to throw this universal experience to the wind?[1] The friends of the present administration, and any good citizen, for that matter, cannot too earnestly warn it not to insist on any extreme measure that would antagonize wide circles of business men and the very element through the agency of which alone the benefits of the law can accrue to the people of the United States. While technical parts of the measure will have to be amended as the country develops, it will prove the greatest curse for the nation if the fundamental structure should not become a permanent one. Extreme party policy now applied will bring extreme revision whenever the Democratic party should happen to again become the minority party; and the Federal Reserve Bank, instead of being a rock standing unmoved and unshaken by the waves of party strife, will become its very plaything, a fate to be avoided at all hazards. We cannot set business free by tying it in turn to the chariot of every conquering party. Wise moderation alone will insure the safety and the continuity which are the basis of prosperity.

It is sincerely hoped that amendments on lines as here submitted will be adopted. As the bill stands to-day it is vastly inferior to the plan ultimately submitted by the Monetary Commission. In its present form the Owen-Glass Bill is fraught with serious dangers, and it would not be able to bring about those remedies and benefits that the country is entitled to expect.

The suggestions made in this article take into full account the political requirements of the problem.

A reduction of the number of Federal Reserve Banks from twelve to four would not violate any principle. The demand for Government control would be carefully complied with, and the notes would remain "obligations of the United States," with the difference only that they would express what in essence they are under the law, and that interest charges for "advances" would be eliminated.

In dealing with the 2-per-cent. Government bonds as here proposed, no principle would be involved at all, but the prac-

[1] We cannot dwell here upon the harm and danger that would follow the watering of the United States gold currency, which will militate against our securities and our "discount market."

tical importance of this change for the safety of the entire structure cannot be overestimated.

Amended on these lines, the writer feels confident that the law, though not ideal, will redound to the benefit of the nation and be a credit to the party under the auspices of which it was created.

The writer deems it wise not to burden this article with a discussion of a number of questions of a more technical nature, preferring at this time to center attention on the main points at issue.

He hopes that it may not be considered a presumption on his part, if, from Europe, after an absence of several months, and out of touch with the general discussion now taking place upon the subject, he ventures to make these suggestions.

But the active interest which he has taken in developing the ideas, on the main lines of which legislation is now proposed, may, he trusts, justify his effort to point out some pitfalls which may prove fatal and which can easily be avoided.

KUHN, LOEB & CO.

William and Pine Streets,

New York, November 3rd 1913

207

B.S.Jr.

NOV 5 1913

Dear Mr. Strong:-

I have received your letter this morning, and I consider it almost a joke to receive a letter from you, emphasizing your position of loyalty to your Government and its institutions, and upbraiding me as favoring the issue of "fiat" money. It would lead too far to enter upon a controversy in writing upon this subject, but all I want to say is this: I do not believe that any one in this country has given more time, thought and energy to this fight for sound money than I have, and as you may have noticed from my pamphlet, I am as heartily opposed as you are to the issuance of elastic currency by the Government. There is a great difference, however, between a guaranty and a direct issue. Nobody would call the notes of the German Reichsbank "fiat" money, if the German Government would decide to-morrow, that it wanted to guarantee those notes. I agree with you, and I think I made that clear enough in my pamphlet, that all direct connection between the Government and the banking business is undesirable, but you must not go to extremes and call "fiat" money what is not "fiat" money. By overdoing the matter, we simply weaken our position. I have always believed that in order to secure legislation to the United States, we would have to concede a guaranty by the Government of the Notes, and I even expressed this in my pamphlet, which was published, I believe, in 1910 or 1911, before the Aldrich Plan was published, and before the Owen Glass discussion began, So I have not givenway, as you appear to think, but, in this respect, I simply stand where I stood long before the question became acute.

Before I sailed for Europe, we sometimes had the good habit of lunching together. How would it be if we solved the question of "fluidity" and very "liquid" assets, by taking a cocktail together, this or next week?

With kindest regards, I am,

Very sincerely yours,

Paul M Warburg

Benjamin Strong, Jr. Esq.

of Bankers Trust Company,

#16 Wall Street, C i t y.

L.

236

William and Pine Streets

KUHN, LOEB & CO. *New York* May 11th. 1914

71

My dear Mr. Strong:-

Thank you very much for sending me copy of Mr. Harding's letter, which I was delighted to read. It augures well for the future of the Federal Reserve Board and bears out my impressions gained from other quarters

Gratefully yours,

Paul M Warburg

Benjamin Strong, Jr. Esq.
C/o Bankers Trust Company,
#16 Wall Street, C i t y.

L.

32

FEDERAL RESERVE BOARD
WASHINGTON

207

August 12, 1914.

Dear Mr. Strong:

Your secretary sent me an extract from a memorandum which you and Mr. Kent prepared in regard to the Owen-Glass Bill.

I need not tell you that I agree absolutely with your views and always have shared the same. You are familiar, however, with the political reasons that brought about the unfortunate results. I do not know whether it would be possible to get through Congress at this early stage of the game an amendment as radical as would be necessary to bring about the changes you have in mind.

With kindest regards,

Very sincerely yours,

Paul M Warburg

Benjamin Strong, jr., Esq.,
16 Wall Street, New York.

WESTERN UNION TELEGRAM

Form 2138

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BENHJAMIN STRING

BANKERS TRUST CO NEWYORK

I HAVE YOUR TELEGRAM IT IS A BODY BLOW THE WORST I HAVE RECEIVED IN YEARS

PAUL M WARBURG .

1418

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3

2K EO 44 GOVT

K WASHINGTON DC SEPT 8TH

BENJ STRONG JR,
CARE BANKERS TRUST CO.,
14 WALL ST NEWYORK.

UNDERSTAND SECRETARY WILL SEE YOU NINE OCLOCK AT HIS HOUSE.
AM SORRY I AM ENGAGED WEDNESDAY NIGHT BUT AM LOOKING FORWARD
TO SEEING YOU THURSDAY MORNING EARLY. KINDEST REGARDS.

PAUL M. WARBURG. 305PM.

8/50

390

235

~~285~~

Sept. 13 [1914]

Fed. Reserve Bk

236

Personal & confidential

FONTENAY
HARTSDALE, WESTCHESTER COUNTY
NEW YORK

Sunday

Dear Strong,

Do you know Mr. R. H. Higgins of the Chatham & Phoenix Bk, he is a vice-presidt, somebody is pushing him for Fed. Res. Agent and I should like to know all about him. Please be very careful and don't enquire anywhere, ~~unless~~ but let me know what you know about him. Many thanks.

Kindest regards and
Sincerely yours
Paul M Warburg

please telephone before 11 o'clock

Chatham & Phenix National Bank.

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165

20 WS AZQ 30

WS WHITE PLAINS NY SEPT-14

BENJ STRONG JR

BANKERS TRUST CO

NEWYORK NY

SECY SENDS WORD FROM BEVERLEY THAT HE WOULD LIKE EARLIEST POSSIBLE CONFERENCE WITH YOU AND BANKERS REPRESENTING NEWYORK CITY SYNDICATE PLEASE GET IN TOUCH WITH MORGAN AND SCHIFF KINDEST REGARDS

PAUL WARBURG

1215PM

207

WESTERN UNION TELEGRAM

Form 1864

4/17

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

RECEIVED AT 16 Broad St. (Stock Exchange Bldg.), N. Y. ALWAYS OPEN

3 K BU 94 GVT

K WASHINGTON D C SEPT 15

BENJAMIN STRONG JR, 1247

CARE BANKERS TRUST CO NEWYORK.

WOULD YOU BE GOOD ENOUGH TO FIND OUT FOR ME ABOUT QUALIFICATIONS OF FOLLOWING MEN FOR FEDERAL RESERVE AGENT; GEO T RUSSELL, VICE PRESIDEN NATIONAL BANK OF COMMERCE; WARREN T HAYDEN, HAYDEN, MILLER AND CO ; WILBUR M BALDWIN TREASURER, CITIZENS SAVINGS AND TRUST CO ; C A PAINE PRESIDENT, NATIONAL CITY BANK ; F J WOODWORTH, VICE PRESIDENT FIRST SAVINGS AND TRUST CO ; OF CLEVELAND. HAVE YOU ANY MEANS OF FINDING OUT ABOUT CHARACTER AND STANDING OF HARRY P WOLFF COLUMBUS . WOULD BE MUCH OBLIGED.

PAUL M WARBURG 413PM

George S. Russell,	V.P. Bank of Commerce Nat'l Association
Warren T. Hayden,	Hayden, Miller & Co.
Wilbur M. Baldwin,	Treas. Citizens Savings & Trust Company
C. A. Paine,	Pres. National City Bank
F. J. Woodworth,	V.P. First Trust & Savings Company
Harry P. Wolff,	Columbus, O.

Hagerman. Lawyer - Bond house - Exec. Com. Union Nat. Bk - Student - 40 + 45

Baldwin - Amer. Trust ~~Co~~ 37 -

Russell - ? Citiz. Sav - Hustler - hard worker - accomplisher -

Paine (2) Good banker - nearly 50 - brought up as banker - popular -

Woodward - (3) ? possible -

Faucher - (1) 50 - hardly possible but more experience -

Wolff - Treas Wolff Bros Shoe Co - high grade. Own 2 Col. newspapers Backed Cox, & Herrick - No banking experience save as stockholder. Wealth & successful - wants the honor -

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BANKERS TRUST CO FOURTEEN WALL ST

NEWYORK

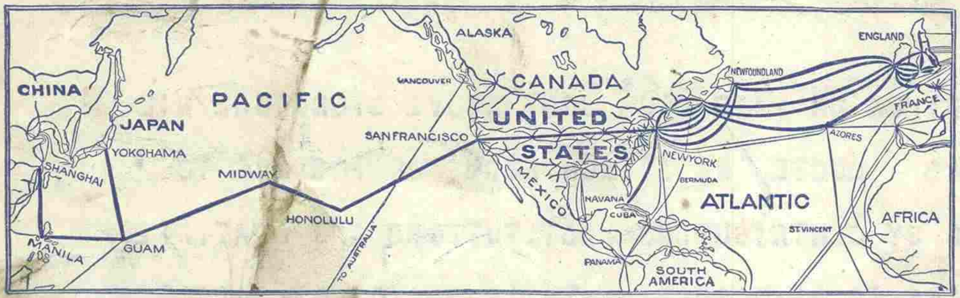
THE INSERTION ON PAGE FOUR JUST ABOVE SIGNATURE WILL BE AS FOLLOWS QUOTE/ WE ATTACH FORMS OF PLEDGES TO BE SIGNED BY CONTRIBUTING INSTITUTIONS AND CERTIFIED RESOLUTIONS TO BE PASSED BY THEIR BOARDS OF DIRECTORS OR TRUSTEES. IN CASE THE PLAN SHOULD MEET WITH YOUR APPROVAL WE RESPECTFULLY SUGGEST THAT YOU INCLOSE COPIES OF THESE FORMS IN YOUR LETTER TO BE ADDRESSED TO THE PRESIDENTS OF THE CLEARING HOUSE ASSOCIATIONS/ END QUOTE

PAUL M WARBURG

[1914]

POSTAL TELEGRAPH-CABLE COMPANY IN CONNECTION WITH THE COMMERCIAL CABLE COMPANY

[1, 2 AND 16]



THE GREATEST TELEGRAPH AND CABLE SYSTEM IN THE WORLD. — EXTENDS OVER TWO-THIRDS OF THE WAY AROUND THE EARTH.

THE POSTAL TELEGRAPH-CABLE COMPANY (INCORPORATED)

TRANSMITS AND DELIVERS THE WITHIN TELEGRAM SUBJECT TO THE FOLLOWING TERMS AND CONDITIONS:

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 this, one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID FOR AS SUCH, in consideration whereof it is agreed between the sender of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyond the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, UNLESS SPECIALLY VALUED; nor in any case for delays arising from unavoidable interruption in the working of its lines; NOR FOR ERRORS IN CIPHER OR OBSCURE TELEGRAMS.

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

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

4. Messages will be delivered free within the established free delivery limits of the terminal office. For delivery at a greater distance a special charge will be made to cover the cost of such delivery.

5. No responsibility 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 shall not be liable for damages or statutory penalties in any case where the claim is not presented in writing within sixty days after the telegram is filed with the Company for transmission.

7. The above terms shall be binding upon the receiver as well as the sender of this telegram.

8. NO EMPLOYEE OF THIS COMPANY IS AUTHORIZED TO VARY THE FOREGOING.

CHARLES C. ADAMS, VICE-PRESIDENT. CLARENCE H. MACKAY, PRESIDENT. EDWARD REYNOLDS, VICE-PREST. AND GENERAL MANAGER. CHARLES P. BRUCH, VICE-PRESIDENT.

235

FEDERAL RESERVE BOARD

WASHINGTON

September 21, 1914.

B. S. Jr.

SEP 22 1914

Dear Strong:

This is only a hint that Mr. Fulton from New Orleans will call on you tomorrow in order to talk over foreign exchange with you. I am trying hard to persuade him to become Federal Reserve Agent or President of the Atlanta Bank. If he should take up the matter with you, hit him over the head hard and don't let him go before he accepts.

I am sorry to say that Mr. Goff sent me a telegram today declining. He said: "Careful consideration has confirmed the views as expressed Saturday but want you to know that I appreciate and am grateful for the confidence shown." Too bad!

I confirm today's telegram concerning your report and send you herewith a corrected copy containing the change I have made, with your approval. I have no doubt you have secured Mr. Forgan's consent.

With kindest regards,

Always sincerely yours,

Paul Warburg.

Our letter is being printed tonight and is very strong and will be satisfactory to you all. We await your telegram that the 8 cities are in line to let the letters go. Will send you a copy as soon as possible for your confidential use.

Benjamin Strong, Jr.,
Bankers Trust Company,
14 Wall Street, New York.

Inc.

*

FEDERAL RESERVE BOARD
WASHINGTON

2 3 5

C O P Y

Clearing House Committee:

(inserted in pencil)

At the invitation of the (Secretary of the Treasury and the) Federal Reserve Board, a conference of delegates from Clearing House Associations was held at the Treasury Department in Washington on September 4th for the purpose of considering problems growing out of the extraordinary derangement of our foreign exchange markets following the outbreak of the European War. This conference, after a day's deliberation, appointed a bankers committee charged with the duty of recommending to the Board a plan for dealing with this situation. The committee so named submitted on September 4th its first report, which advised the creation of a gold fund of $150,000,000. This recommendation, owing to changes in the situation, was modified in a subsequent report, dated September 19, favoring the creation of a gold fund of $100,000,000 to be contributed by the banks and trust companies located in central reserve and reserve cities.

The Board has carefully considered the Committee's report and concurs (in) its conclusions and recommendations. The Board is convinced of the necessity for an adequate plan of national cooperation to meet a situation, which is of national dimensions, and it has no hesitation therefore in giving its approval to the plan proposed by the Committee, and recommends your earnest cooperation.

The Board shares the Committee's belief that the creation of a large gold fund, at this juncture, will have a far-reaching effect for good, and will prove an effective factor in restoring confidence, in bringing relief, in protecting and strengthening the country's credit and in facilitating the exportation of our products.

The Board, therefore, recommends that your association appoint a committee to secure from the national banks and state banking institutions of your city subscriptions aggregating $ to the proposed gold fund. The Board regards this amount as the fair quota to be raised in your city, based upon the holdings of gold and gold certificates by the central reserve and reserve cities as recently ascertained. The allotments provide a fair margin above the total amount named. Any ~~sums~~ pledged in excess of $100,000,000 will be applied to a pro rata reduction of all subscriptions to the fund.

Forms of subscriptions and certified resolutions to be executed by participating institutions have been prepared by the Bankers committee and are forwarded herewith. This Board recommends that the sums specified be pledged as promptly as possible and that you send the pledges and resolutions, duly executed, to the secretary of the Federal Reserve Board at Washington, D. C. that they may be available for the Committee not later than October first.

For the terms and conditions upon which the subscriptions to the proposed gold fund are made, your attention is particularly called to the report and plan signed by the Bankers Committee and handed to you herewith.

Respectfully,

Governor,
Federal Reserve Board.

The Secretary of the Treasury is in accord with the views of the Federal Reserve Board and recommends the adoption by the banks of the proposed plan.

Fed res) 236

FEDERAL RESERVE BOARD

WASHINGTON

September 23, 1914.

Dear Strong:

Thank you very much for your letter of yesterday which I was very glad to receive.

I hope that you impressed Mr. Fulton by your well-known powers of persuasion and that he will accept.

The change suggested by you commends itself very much to me but yesterday in order to gain time, we sent these letters out to the Coast and to the distant points, with orders not to release them until authorized to do so by telegraph. This was done in order to gain a very valuable twenty-four hours. Inasmuch as our letters ought to be alike it is impossible to make the change which you suggest. I do not think the matter will have a very important bearing.

I hope to hear from you soon that everything is moving along well.

Very truly yours,

Paul M Warburg

The letters will be addressed to the Chairmen.

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
14 Wall Street, N. Y.

*

236

Form 163

WESTERN UNION TELEGRAM

WESTERN UNION

THEO. N. VAIL, PRESIDENT

146

RECEIVED AT 16 Broad St. (Stock Exchange Bldg.), N. Y. ALWAYS OPEN

3K ED. 38-GOVT.

K WASHINGTON. DC. SEPT. 25TH-1914.

BENJAMIN STRONG JR., 956

BANKERS TRUST CO 14 WALL ST NEWYORK

CAN YOU TELEGRAPH OR TELEPHONE QUICK-LY INFORMATION ABOUT QUALIFICATIONS OF ROBERT D FOOTE PRESIDENT NATIONAL IRON BANK OF MORRISTOWN NJ AS DEPUTY FEDERAL RESERVE AGENT.

PAUL WARBURG 145P

F. R. Bank

Personal & confidential

FEDERAL RESERVE BOARD

WASHINGTON

B.S.Jr. September 29, 1914.

SEP 30 1914

236

Dear Strong:

We had a meeting today with Mr. Woodward and have told him that considering the difficulties of the problem we thought it would probably be better to give up our plan of electing you a director of the "C" Class, but that in that case we would feel that you should be made "Governor" and member of the Advisory Council. He is going to discuss this with his A and B Directors tomorrow and I have no doubt this will be acted upon favorably.

We decided this afternoon to elect as third "C" Class Director George Foster Peabody, who is a splendid man and whom no doubt you will like immensely if you do not know him already. He is just the kind of man you would like to work with.

This suggestion was made so suddenly that I had no time to confer with you, but I guarantee the election will be satisfactory to you if he accepts.

The ~~third~~ three names will very likely be announced tomorrow morning.

Sincerely yours,

Paul M. W.

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
16 Wall Street, N. Y.

*

236

Form 168

WESTERN UNION TELEGRAM

THEO. N. VAIL, PRESIDENT

RECEIVED AT 16 Broad St. (Stock Exchange Bldg.), N. Y. ALWAYS OPEN

7K FY 36 GOVT

B.S. Jr.

K WASHINGTON DC SEPT 29 1914

SEP 29 1914

BENJAMIN STRONG JR

862

BANKERS TRUST COMPANY 16 WALL ST NEWYORK

PLEASE SEND ME YOUR CURRICULUM TO BE USED AS BASIS
FOR STATEMENT TO BE GIVEN TO PRESS AT PROPER MOMENT
MANY THANKS

PAUL M WARBURG

1242PM

FEDERAL RESERVE BOARD

WASHINGTON

October 1, 1914.

236

Dear Strong:

Thank you for your letter of yesterday.

I am glad you like Mr. Peabody. You are a crackerjack to take such broad views about all these questions.

With kindest regards, I am

Cordially yours,

Paul Warburg

My colleagues all appreciate your attitude very much indeed!

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
16 Wall St., New York.

*

FEDERAL RESERVE BOARD

WASHINGTON

October 1, 1914.

236

Dear Strong:

I thank you very much indeed for your letter of September twenty-ninth with the accompanying report bearing on W. M. Van Deusen.

With kindest regards, I am

Very sincerely yours,

Paul M. Warburg

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
16 Wall Street, New York.

*

7-R-13

FEDERAL RESERVE BOARD
WASHINGTON

236

October 2, 1914.

Dear Strong:

Many thanks for your letter of October first, giving information concerning Mr. Wolfe.

Very truly yours,

Paul M Warburg

Benj. Strong, jr., Esq.,
Sixteen Wall Street,
New York.

FEDERAL RESERVE BOARD

WASHINGTON

B. S. Jr.

OCT - 5 1914

October 2, 1914.

236

Dear Strong:

We had here today the Class "C" Directors from Boston, Philadelphia and New York. Mr. Jay will report to you about our meeting. I hope that the New York Board will act promptly because things are getting too hot as far as you are concerned and the situation might easily prove embarrassing for you. How would it be for you to get your friend, Mr. Case, to study the by-laws so that you may have the benefit of his suggestions when the committee will have been appointed? You have a rough outline in Mr. Willis's report.

It is important that you frame the by-laws so as to give yourself sufficient power as Governor, but bear in mind at the same time that there are many other banks where we want to be careful not to have the Governor run away from the Federal Reserve Agent and the Board, so there must be some flexibility in this respect.

With kindest regards,

Always sincerely yours,

Paul M. Warburg

Benjamin Strong, Jr., Esq.,
Bankers Trust Company,
16 Wall St., New York.

*

FEDERAL RESERVE BOARD

WASHINGTON

October 3, 1914.

236

Dear Strong:

I have your letter of October second.

Your election will, I believe, take place on Monday. Any time that you want to come over, I will try to arrange to hold myself at your disposal as much as I possibly can. I can always arrange to spend the evening with you. My days, as you know, are pretty full, though I could possibly arrange to devote a forenoon or an afternoon entirely to a conference with you, if you let me know ahead. Saturdays and Sundays I am free and can give you all day.

When the election will have taken place on Monday, how long after that would it take you to be entirely free? As soon as you can come over here for a couple of days, I think we could arrange to spend them most profitably. There are piles of work to be done.

With kindest regards, I am

Very sincerely yours,

Paul M Warburg

Benjamin Strong, Jr., Esq.,
Sixteen Wall Street,
New York.

*

COPY

FEDERAL RESERVE BOARD

WASHINGTON

October 5, 1914.

Dear Governor Strong:

Many thanks for your letter of yesterday, which I have read with much interest. I shall be glad indeed to hear further from you on the subject. What you say is very instructive.

Mr. Untermeyer is not interested particularly in our foreign exchange operations. What is in his mind is open market operations in domestic paper (trade acceptances or single name paper) in order "to make the discoubt policy of Federal Reserve Banks effective" and he claims that is what the Bank of England does. Furthermore, he would like to see the Federal Reserve Banks go into South and Central America and do some pioneer business there.

I have written a memorandum embodying my ideas about the question of agencies of Federal Reserve Banks in South America and Central American countries, and shall be glad to send you a copy in a few days.

Very truly yours,

(sgd) Paul M. Warburg.

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

Gold Fund

B.S.W.

Sunday Oct. 4th 1914

235

1704 EIGHTEENTH STREET

OCT - 5 1914

Ansd 10/5/14 RSH

Dear Strong:

Just a line! First: Would it not be wise to send a follow-up letter to the people who gave us amounts of their indebtedness to Europe and ask them to give us their revised figures from time to time? This would have two effects; the committee would learn how far we have meanwhile liquidated our indebtedness & it would become clear in addition what people have done to extend their debts (as they should!)

Second: Could I be kept posted about

what the gold pool is doing? Third I [illegible] send you a copy of the by laws which I had changed very roughly, as a starter.

Fourth I receive, this minute, your telegram and shall attend to passports at once. I read the name of the nurse Miss Loree Herekin, if that should be wrong please telephone me early. If I can help Mrs Strong through letters to Europe please command me.

Cordially yours

[illegible]

B. S. Jr.

FEDERAL RESERVE BOARD OCT - 7 1914

WASHINGTON

October 6, 1914.

236

Dear Strong:

Now that you are one of us (and I cannot say to you often enough what a joy it is to me to know that you are) I wish you would write me a daily letter concerning things that must be interesting and necessary for me to know, such, for instance, as the foreign exchange situation, the gold pool, the plans concerning the opening of the stock exchange, and, of course, anything that touches any Federal reserve bank question. A daily letter containing "all the news that's fit to print" and all the gossip that I should know will be greatly appreciated. You do not realize how quickly one gets out of touch with everything that is going on if one is confined to the Treasury Building at Washington.

Have you any authentic news about the moratorium in London? I understand it has been extended to November fourth but that certain mercantile obligations have been excluded from the new moratorium. Have you any definite news upon this subject?

One of the things we want to discuss next is how to organize a system of reports which we ought to receive from England and the Continent.

Always sincerely yours.

Paul M Warburg

Benj. Strong, Jr., Esq.,
Sixteen Wall Street,
New York.

P.S. I have just received a letter from Mr. Wiggin informing me about the doings of the gold pool and offering to send me daily reports.

B. S. Jr.

FEDERAL RESERVE BOARD

WASHINGTON

OCT - 9 1914

236

October 8, 1914.

Dear Strong:

I have your letter of October seventh which I have read with great interest and pleasure.

I wrote Mr. Jay that I take it as a good omen that you start at Twenty-seven Pine Street in the building that was erected by my father-in-law and in which I started my business career with Kuhn, Loeb and Co.

I thank you for what you tell me about the operations of the gold pool. I think you are wise to retain your membership on the same.

I am looking forward with pleasure to your visit here. I understand that Monday is a holiday and if Mrs. Strong should leave on Saturday, you might feel like spending Monday here. Let me know ahead whatever you decide.

I am sending you separately a copy of a Committee report on Advisory Council. It was necessary to compose a piece of poetry of this kind in order to clarify somewhat the ideas of Federal Reserve Agents who were asking for instructions. You have to make up your own mind concerning your wishes in this matter.

With kindest regards, I am

Always cordially yours,

Paul M. Warburg

Benjamin Strong, Jr., Esq.,
Sixteen Wall St., New York.

FEDERAL RESERVE BOARD

WASHINGTON

October 12, 1914.

Dear Strong:

I have read these letters with much interest and hereby return them with many thanks.

Very truly yours,

Benjamin Strong, Jr., Esq.,

Sixteen Wall Street, New York.

Inc.

*

FEDERAL RESERVE BOARD
WASHINGTON

241

October 24, 1914.

My dear Miss Walker:

Mr. Warburg is in receipt of your letter of October twenty-third.

The letters to which you refer were referred to Secretary McAdoo and have not been returned to this office. Upon their return they will be forwarded promptly to Mr. Strong.

Faithfully yours,

W. Chapman

Private Secretary.

Miss B. H. Walker,
Care Benjamin Strong, Jr., Esq.,
Twenty-seven Pine Street,
New York.

FEDERAL RESERVE BOARD

WASHINGTON

B. S. Jr.

NOV 2 1914

October 29, 1914.0

re sending out circ. to be sent to member banks of Dist. #2 to N.Y. for re-mailing.

Dear Strong:

I have your letter of October 28th.

Would you mind telling your stenographer to space her letters a little bit more liberally and rather use a few more sheets of paper, as it is extremely difficult and trying to read letters so narrowly spaced. I am getting old and my eyes are giving out so you will have to bear with me in this respect.

It is a pity you are not a football player because you are so strong on "long kicks." You must realize, of course, that during these next few weeks both you and we must act under great pressure and with the amount of details to be perfected and the many heads to be brought into accord it is impossible to consult as freely and to act in as business-like a way as you and I would prefer. I can see your difficulty but please do not forget that I am not acting alone either and we two, acting as buffer states, will have to do the best to cooperate as well as we can. With the best of intentions existing on both sides I have no doubt we shall succeed. On both sides we are working without any trained staff and we are apt to strike some rocks during the next few weeks. I hardly see how that can be avoided but when we are once fairly under way things will become easier and more satisfactory for all concerned. Until then we shall have to have patience.

I suspect that a notice about the memorandum by you was given out by Sir George Paish. We have put on the lid tight here and when we meet with Sir George on Friday shall open the discussion by stating to him our wishes as to preserving the confidential character of the negotiation, so for heaven's sake go on with your memorandum and keep it in your pocket when you are here, if you please.

Your circular No. 1 strikes me well and it is apt to put things right in your district.

Very sincerely yours,

Paul M. Warburg

Benj. Strong, Jr., Esq.,
27 Pine Street,
New York.

*
Inc.

New York Tribune.

New York. Oct. 31, 1914.

Mr. Paul M. Warburg
17 E. 80th St.
New York City

Dear Sir:-

The attached which may be of interest to you appeared in the news columns of The New York Tribune this morning.

Yours very truly,

THE NEW YORK TRIBUNE.

A. Lewis

FEDERAL RESERVE BOARD

WASHINGTON

B.S.Jr.

NOV 5 1914

November 4, 1914.O.

Dear Strong:

Referring to our telephone conversation:

I enclose a copy of the statement from which I obtained the figure of $60,000,000 as October trade balance, which I shall be obliged if you will keep confidential inasmuch as its publication is not authorized by the Secretary of the Department of Commerce through whose courtesy I obtained the same.

Very sincerely yours,

Paul M. Warburg

Benjamin Strong, jr., Esq.,
27 Pine Street, New York.

Enc.

EXPORT TRADE BALANCE IN OCTOBER ESTIMATED AT $60,000,000.

An export balance of $60,000,000 in the foreign trade of the United States during October last is indicated by telegraphic advices received from ten leading ports by the Bureau of Foreign and Domestic Commerce of the Department of Commerce. Reports covering the weekly transactions at New York, Boston, Philadelphia, Baltimore, Galveston, New Orleans, San Francisco, Seattle, Detroit, and Buffalo, which handle about 85 per cent of the total imports and approximately 80 per cent of the total exports of the country, give the following results:

Ten specified ports.	Imports.	Exports.	Customs receipts.
October 1, 2 and 3*	$12,000,000	$15,000,000	$1,500,000
October 4-10	28,810,000	34,890,000	3,760,000
October 11-17.....	24,770,000	28,630,000	2,970,000
October 18-24.....	28,950,000	38,200,000	3,410,000
October 25-31.....	24,640,000	45,900,000	2,900,000
Total, October, 1914	$119,170,000	$162,620,000	$14,040,000

*Estimate for first three days of October.

The ten ports under consideration thus show an export balance of about 43 million dollars, while the business at the remaining ports of the country will probably bring the total export balance to 60 million dollars.

The estimated foreign trade during October, calculated on the assumption that the ten ports above named handled in that month 85 per cent of the imports and 80 per cent of the exports, as was the case in the first 8 months of 1914, was approximately as follows: Imports, $140,000,000; exports, $200,000,000.

The record of foreign trade during the last three months, during which time the trade balance shifted to the export side, is as follows:

Month of --	Imports	Exports	Trade Balance
August, 1914	$130,000,000	$110,000,000	Import-$20,000,000
September "	140,000,000	156,000,000	Export- 16,000,000
October "	140,000,000	200,000,000	Export- 60,000,000

The practically stationary character of imports and the rapidly expanding tendency in exports are also illustrated by the weekly returns from New York. Imports at that port were, for the week ending October 3, $18,515,011; October 10, $18,346,168; October 17, $17,109,271; October 24, $16,406,210; and October 31, $17,294,322; while exports were, for the week ending October 3, $13,270,865; October 10, $17,969,983; October 17, $15,139,582; October 24, $21,410,546; and October 31, $23,379,869.

FEDERAL RESERVE BOARD
WASHINGTON

Gov. Parish

November 4, 1914. O.

(Strictly Confidential) B.S.Jr.

NOV 5 1914

Dear Strong:

I have your letter of November second.

I am afraid that you are seeing ghosts so far as reporters are concerned. The "Tribune" send me the enclosed letter, which does not augur for a bad conscience on their part. Moreover, I cannot see in this report any more than the concoctions of a correspondent who was guessing for there is nothing in the article that would show real knowledge. As to secrecy, we will try to preserve it just as long as we possibly can. I do not agree with you that the bankers can take anything amiss in this case because all we are going to offer them is an option and we do not pledge them to anything at all.

I have your recast memorandum but I have not had an opportunity of reading it as yet.

For heaven's sake stop worrying yourself, and incidentally me! Got your telegram and made the change.

Sincerely yours,
PMWarburg

Benjamin Strong, jr., Esq.,
27 Pine Street, New York.

741

FEDERAL RESERVE BOARD

B.S. Jr.

WASHINGTON

NOV 19 1914

November 18, 1914.

Dear Strong:

Be prepared for the worst! I shall see you on Friday morning at ten o'clock. We shall have a cotton pool meeting and if you have a board room we should like to meet there. Harding and I, Wiggin, Alexander, Rue and Gaston will be the parties.

Will you be good enough to tell Mr. Broderick to be in the neighborhood, because I suspect we shall find something for him to do in this matter.

I should like both you and Jay, if you can, to be present at the meeting because, inasmuch as the running of the pool will ultimately by handled in New York, it is our intention to ask you and Jay to act as substitutes on the committee for Harding and myself. I do not expect that you will have to do much work on this committee, because I do not believe that much money will be taken, but the preliminary work may take some time. Much of this preliminary work, however, I think Harding and I can do and we will save you as much as possible.

Sorry to have to bother you, but it cannot be avoided.

With kindest regards,

Very truly yours,

Paul M. Warburg

Benj. Strong, Jr., Esq.,
62 Cedar Street,
New York.

285

NOV 24 1914 8 29 PM

FEDERAL RESERVE BOARD

WASHINGTON

November 23, 1914.

Dear Strong:

Thank you very much for the information concerning gold shipments and for the copy of the most enjoyable poetry. Selah!

Very truly yours,

Benj. Strong, Jr., Esq.,
Governor, Federal Reserve Bank,
62 Cedar Street, New York.

*

FEDERAL RESERVE BOARD

WASHINGTON

December 3, 1914. 0

CONFIDENTIAL

Dear Strong:

In working on regulations we are striking the most puzzling questions in the Federal Reserve Act and it takes some hard thinking to reach some definite conclusions, which at times are very surprising. I am sending you a sample - an opinion which Judge Elliott worked out after long discussions concerning the right of the Federal Reserve Banks to purchase Government Bonds. I hope that you and Mr. Jay and Mr. Curtis will read it. I am particularly anxious to have Mr. Curtis go over it very carefully and I should also appreciate it if another lawyer of particularly good mind would analyze our conclusions and see whether he agrees or disagrees with them. Maybe your friend Case is the right man for that. If I want to have anything cut to pieces, I would give it to Mr. Henderson, but I do not think that I have a right to approach him in the matter.

Please have Mr. Elliott's opinion treated as absolutely confidential as I do not want it to get out before we reach a final conclusion. It would not be fair to any of the Federal Reserve Banks to give it a start before the others to purchase Government bonds.

With kindest regards, I am

Very truly yours,

Paul M Warburg

Benj. Strong, Jr., Esq.,
Federal Reserve Bank, N.Y.

Inc. *

176

FEDERAL RESERVE BOARD

WASHINGTON

December 12, 1914.

Dear Strong:

I am sorry that I did not see more of you while you were here but I fully realized that it was best to leave you alone and let you spend your time usefully with the other Governors.

I am sorry that I had to be a little insistent on our meeting this morning. I explained to Mr. Curtis fully the reasons, and I am confident that, after the meeting, you will feel that it was a wise and useful thing to have had this little conference.

I send you herewith copy of last week's discount table, showing the various cities. You will see that New York, Philadelphia and St. Louis are losing discounts. I am afraid that if we keep up the $5\frac{1}{2}\%$ rate we would not only be unable to show increases but actually lose what we have already invested. In the face of that, it would hardly be practicable to stand out against a decrease in the short rate. Are you quite certain that you would not be in favor of having a 5% rate for 30 days, $5\frac{1}{2}\%$ for 60 days and 6% for 90 days? That would appeal to me as the most sensible ~~profitable~~ arrangement under the circumstances. Copy

I hope you spend a restful Sunday and get back to your work after a full night's and day's sleep after many nights spent in useful deliberation.

With kindest regards,

Sincerely yours,

Paul M. Warburg

Benjamin Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York.

Enc.

filed in Powers
"Cotton"

FEDERAL RESERVE BOARD
WASHINGTON

November 25, 1914.

My dear Mr. Strong:

I return herewith copies of letters concerning the cotton situation, which you sent Mr. Warburg on October the seventh.

These letters were referred by Mr. Warburg to the Secretary of the Treasury on October twelfth and have just been returned today.

Faithfully yours,

W. J. Chapman

Private Secretary.

Benj. Strong, Jr., Esq.,
62 Cedar Street,
New York.

Inc.

*

BENJ. STRONG, JR.
PERSONAL.

FEDERAL RESERVE BOARD

WASHINGTON

December 19, 1914.

Dear Strong:

Could you find out from the Guaranty Trust, City Bank or maybe some private banker whether they would entertain the negotiation of these cotton shipments to Sweden?

With the positive assurances England has given not to interfere with cotton shipments to foreign, neutral & even belligerent, countries there should not be any difficulty in negotiating these transactions; particularly so when the Swedish bank is of undoubted credit.

Could you send me a wire whether there is any possibility of doing the business or whether we can help in any way to have it done? It is most important for our country that this cotton should be moved freely.

Sincerely yours,

Paul M Warburg

Benj. Strong, Jr., Esq.,
Federal Reserve Bank of N. Y.
62 Cedar Street, New York.

*

Inc.

Form 2138

WESTERN UNION TELEGRAM

G D
1 18 1914
...AL RESERVE BANK

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

DELIVERED FROM

...T 24 WALKER STREET, NEW YORK CITY

K WASHINGTON DC DEC 17 1914

DEC 17 1914

...J STRONG JR

784

62 CEDAR ST NEW YORK

FIND BALTIMORE HEARING IS JANUARY SIXTH SO THAT IF CONVENIENT
WE SHALL LEAVE WEDNESDAY THIRTIETH AND THEN STAY UNTIL MONDAY
INCLUSIVE OR POSSIBLY TUESDAY JANUARY FOURTH FIFTH SUGGEST YOU RESERVE
TWO DRAWING ROOMS FOR C AND O TRAIN THAT NIGHT HARD TO GET RESERVATIONS
...ERE AND WE BETTER SECURE PROMPTLY AM WRITING FOR ACCOMMODATION WHITESULPH...

PAUL M WARBURG

K 21-23 hold mon. 28

1158A

Reserve 2 drawing rooms on main tr...
...o & Ohio, to White Sulphur Springs, Dec 30th
Returning Monday or Tues. Jan 4th or 5th

FEDERAL RESERVE BOARD

WASHINGTON

December 17, 1914. O.

Dear Strong:

I find that the hearing is January sixth, so that I would suggest that, if quite agreeable to you, we leave here on Wednesday the thirtieth and then extend our stay until Monday evening, January fourth, or we could even stay until the fifth, if we both find that this can be arranged.

I expect to be in New York over the holiday over Thursday, Friday, Saturday and Sunday so that I would like to have three days ~~here~~, (on my return) being Monday, the 28th, Tuesday, the 29th, and Wednesday, the 30th. Two days only might crowd me a little.

If this is entirely agreeable to you, let us fix our trip for Wednesday evening, the thirtieth.

If you would rather avoid night trips and if you possibly would like to have some talks here on your way, we could also take the afternoon train on Wednesday at three o'clock. This is a very good train and it would ~~put~~ take us ~~to~~ White Sulphur Springs at eleven o'clock in the night. Let me know your preference.

Very truly yours,

Paul M Warburg

Benj. Strong, jr., Esq.,
62 Cedar Street,
New York.

Form 1201

WESTERN UNION TELEGRAM

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

CLASS OF SERVICE	
	For Full Rate
"Blue"	" Day Letter
"Nite"	" Night Message
"N L"	" Night Letter

The character of this message is indicated by one of the three above symbols written after the check (number of words). IF NO SUCH SYMBOL APPEARS IT IS A FULL RATE MESSAGE

RECEIVED AT 24 WALKER STREET, NEW YORK CITY

DELIVERED FROM
BROAD ST.

26K AMG 16

K WASHINGTON DC DEC 29 1914

BENJAMIN STRONG JR 1262

SIXTY TWO CEDAR ST NEW YORK

YOU PROMISED KINDLY TO SEND TICKETS FOR ME AND SECRETARY HAVE YOU DONE SO MANY THANKS

PAUL M WARBURG

340PM

2

FEDERAL RESERVE BOARD

WASHINGTON

B.S.Jr.
JAN 9 1915

January 8, 1915.

Dear Strong:

Many thanks for your letters of January sixth and seventh.

I was laid up yesterday and had to take a dose of your much beloved aspirin but feel all right again today, but this accounts for my not replying to your letters earlier.

I read them all with a great deal of interest and shall reply to them separately, as per agreement.

Let me add to this one that I am entirely in accord with your suggestion of keeping the Gold Fund Committee together. In times like these, it is never advisable to let any fire engine get out of commission. Nobody can tell in advance how many we shall need and at what time.

Saelr

BENJ. STRONG, Jr.
PERSONAL.

Very truly yours,

Paul M Warburg

Benj. Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York.

FEDERAL RESERVE BOARD

WASHINGTON

January 14, 1915.

My dear Strong:

I have your letter of January thirteenth, and thank you very much for the same.

I was very glad to hear from Mr. McDougal that our circular impresses the Governors so well. Good work! The Board has adopted the Governors' suggestion to make the limit ten per cent instead of five per cent of the total, but, as to the other clause, "provided such depositor does not sell paper in the open market", I regret I am not in accord with this suggestion. I agree with the spirit of it, but I believe it would add to the difficulty of operating if every bank should have to find out from its depositor, or receive a guaranty, from him that he is not operating in the open market, or that he would undertake to inform the bank in case he should decide to do so. I agree that this is perfectly good banking policy, but I am afraid ~~that,~~ after the experience we have had, to put anything in this regulation which has any mandatory character unless it is absolutely necessary.

The principle of the regulation is this; that, if a bank knows its own depositor and he does not borrow more than $5,000, the bank is in a sufficient position to find out what ~~the amount is~~ he may be owing to others. If he borrows outside, then it is up to the bank which takes his paper on the outside market to ask for a statement, and if the depositor is going to make a statement to that bank he is surely going to do as much for his own bank. Moreover, every Federal Reserve Bank or member bank is entirely free to add this provision. We only set the minimum they must require, but not the maximum of what they may require.

Very sincerely yours,

Paul M Warburg

Benjamin Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York.

FEDERAL RESERVE BOARD

WASHINGTON

January 22, 1915.

Dear Madam:

When in White Sulphur Springs Mr. Strong promised to let Mr. Warburg know what he paid for railroad tickets for Mr. Warburg and myself, in order that Mr. Warburg might reimburse him.

As Mr. Strong has not yet written Mr. Warburg about this, I am, at the latter's direction, writing to ask if you will not be good enough to let me know what our proportion of the transportation expenses was.

Faithfully yours,

W Chapman

Private Secretary.

Mrs. V. C. McLaren,
Secretary to Mr. Strong,
Federal Reserve Bank,
New York.

*

Bag 176

FEDERAL RESERVE BOARD

WASHINGTON

January 27, 1915.

My dear Governor Strong:

I have your letter of January twenty-sixth inclosing clipping from the Annalist and copies of telegrams concerning changes in discount rates sent to you from time to time by our Secretary's office with the Board's approval.

I was sorry to have the Governors raise this question of interpretation of the law and thought that the Board had made its point of view entirely clear. Inasmuch, however, as you revert to this matter, I think it necessary to state that since the conference with the Governors the Board has fully discussed the question raised by you on their behalf and I repeat to you what was stated at the meeting and in doing so am voicing the opinion of all the members of the Board.

The rights and duties of the Board are fully expressed in the law. It is our function to review and determine the rates. We may review and determine the rates of the Federal Reserve Banks at any time, just as much as it is incumbent upon us, when we think it our duty to do so, to require one Federal Reserve Bank to rediscount for another. To concede that the Board should have the right only to review rates when Federal Reserve Banks shall indicate their willingness to make a change, would not only be abdicating a power, but would be neglecting a duty which has clearly been imposed upon us. There cannot be any doubt that it is our function to use our influence in regulating rates to such extent as it may be necessary to bring the various Federal Reserve Banks into harmonious relation and cooperation with each other, and to exercise such influence or power in such a way as may be indicated by the requirements of any district, or the entire country, and by its relationship to the world markets. The law clearly contemplated a central authority as a means of coordinating the twelve banks under a comprehensive policy, and the Board has determined to act upon these lines.

As you stated, you and I certainly are not very far apart in this matter. We all have only one thing in mind, and that is to achieve the best possible results, and I am convinced that when once the system will be well under way and when normal times will be re-established, the rates will originate in their natural way in the districts and that normally the Board's function will rather be to approve than to indicate rates.

Under no circumstances, however, can the Board consider for a moment failing to insist on its legal right to suggest changes in rates or to review and determine them whenever this should be required, for the best of all.

The question is of such importance that I thought that I should express myself fully and clearly upon the subject.

Very truly yours,

Paul M Warburg

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

*

PAUL M. WARBURG
WASHINGTON, D.C.

FILING DEPT.
JAN 29 1915
FEDERAL RESERVE BANK

57.5

BENJ. STRONG, JR.
PERSONAL.

B.S. Jr.
JAN 28 1915
recd

January 27, 1915.

Dear Madam:

Responding to your letter of yesterday, I beg to enclose herewith Mr. Warburg's cheque to Mr. Strong's order for $48.55 to reimburse the latter for tickets purchased.

Mr. Warburg informs me that, to his knowledge, he paid no part of Mr. Strong's hotel bill, and, therefore, no deduction is to be made from the above amount.

Faithfully yours,

W. Chapman
Secretary.

Mrs. V. C. McLaren,
Care Benj. Strong, jr., Esq.,
Sixty Two Cedar Street, New York.

Enc.

23. Feby 1915.

HOTEL DENNIS
ATLANTIC CITY, N.J.

Dear Strong,

Thank you for your telegram & letter. I am very sorry you could not come both for my sake and yours. I would have enjoyed your company, and the air would have done you good. It is the vilest of all common places, but it braces you up wonderfully. Mrs. W. and I have been board-walking and board-rolling all day long and feel like a new man. My colleagues may think that that is a d-----ed lucky thing, and probably you too. As you say we are getting over-trained and need a let-up from time to time. I hope you got it too, you need it.

There is something wrong with our machinery; the ship has not found itself as yet. There is too much lost motion. Everybody fussing with the same thing and everybody wanting it just his own way. But we are not a common, ordinary, one of 28000, bank - but a government institution to be run according to the law - and as a business proposition all the same. Those directors of yours can't get away from that and the more they try to get away with it, the more, naturally, they will feel the reins. George L. P. was a joke! — — You and I did

not quite seem to hit it off e[illegible]!
It was a great disappointment to me that we should find ourselves in disagreement where I thought that we had worked it out together. I believe you do not quite realize how much more this regulation gives than we were willing to accept in the beginning. I shall show you the interesting spots when I see you again. I honestly believe you had not properly read it when you gave me the first shock. I don't think that our team play was good. I relied on you to get everybody enthusiastic — and see what happened! We did not talk here at all and left it to you!!! Everybody looking to N.Y. in this case and N.Y. sucks. We must do better next time! Cordially yours all the same,
Paul.

FEDERAL RESERVE BOARD
WASHINGTON

February 1, 1915.

Dear Strong:

I have your letter of January twenty-ninth, inclosing the analysis of the Comptroller's Report, which I have read with the greatest interest and for which I am very thankful to you.

May I point out to you, however, that in the hurry of dictating your letter you did not get your figures right? The central reserve cities had not an excess of reserve of $2,246,000 on January 30th, but a deficit of $6,671,000. The reserve cities converted an excess of $9,076,000 (not $16,912,000) into an excess of $7,808,000 (not 10,849,000). Summing up the result, you will find that from January 30th to September 12th, central reserve cities reduced their reserves by $38,500,000; reserve cities lost $1,200,000, being a total reduction in reserves of $39,700,000, while country banks gained $5,500,000; being a net loss of $34,200,000.

All of this is very interesting, particularly, as you say, in comparison with what happened in 1907. You can just imagine what would have happened if during this time Aldrich-Vreeland currency had not been issued to so liberal an extent.

It is very advisable, however, as you have done, to analyize the situation, because it will give us a valuable lead as to how to view similar conditions in the future in case they should arise.

Very truly yours,

Paul M Warburg

Benjamin Strong, Jr., Esq.,

Governor, Federal Reserve Bank,

New York.

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RECEIVED
FEB 2 1915 9 10 AM
FEDERAL RESERVE BANK
OF NEW YORK

Personal

FEDERAL RESERVE BOARD

WASHINGTON

(Personal)

March 8, 1915.

Dear Strong:

I have your letter of March sixth, and shall be very glad indeed to see you here on Tuesday.

Mrs. Warburg is leaving today to spend a few days with the boy at White Plains, so no seances of telepathy will interfere with the seriousness of our work.

The circular from the Bureau of the Census inquiring into your mental condition was not sent at my suggestion. I am sorry that I should have missed such a good trick. Of course, you should have known that I could not be the man behind this inquiry because there is no doubt in my mind as to the condition of yours! I hope you will not give this any wrong construction.

With kindest regards and best wishes for the elaborating of the acceptance regulation, I am

Very truly yours,

Paul M Warburg

Benj. Strong, jr., Esq.,
62 Cedar Street, New York.

P. S. Just to be serious for a minute, I shall be glad to talk to Judge Elliott about the state bank problem. I have done this before and, much to my regret, found him very much determined on the subject. However, I shall try again.

As to acceptances, I shall keep an open mind, but please bear in mind to change just as little as possible in order not to mix up our member banks again. You are aware of your own directors' remarks concerning the subject, and we must not upset our banks needlessly by subjecting them again to brand new regulations. I hope, therefore, that you will concentrate on the main points and not indulge in the painting of the lily.

FEDERAL RESERVE BOARD

WASHINGTON

February 27, 1915.

Dear Strong:

Thank you for your yesterday's letter which I read with much interest.

I am glad to see that your acceptance business is developing and shall be only too glad indeed to discuss the whole matter with you next Tuesday.

I am sure Mrs. Warburg will be delighted to have your room ready on Monday night. I am reckless enough to take it upon myself to give you this assurance without further consultation with her.

Looking forward to the pleasure of seeing you soon, I am

Very truly yours,

Paul M Warburg

Benjamin Strong, Jr., Esq.,

Governor, Federal Reserve Bank,

New York.

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FEDERAL RESERVE BOARD 182

WASHINGTON

March 23, 1915. ans BJ

Dear Strong:

The Board has today discussed the circular letter and the rules and requirements concerning the clearing system.

You will hear direct from the Governor concerning some suggestions which the Board wishes to make, but I am glad to say these are of only minor importance, and, on the whole, the Board is in accord with the plan as outlined.

It struck me that there is nothing said in the circular concerning the figuring of balances on a weekly average. Is it not your intention to add that, and would it not have a helpful influence on member banks if this were indicated?

Very truly yours,

Paul M Warburg

Benj. Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York.

182

FEDERAL RESERVE BOARD
WASHINGTON

April 12, 1915.

Dear Strong:

Thank you for your letter of April tenth inclosing circular of the Guaranty Trust Company, which I regret to see shows a very unfriendly attitude. Moreover, I believe that that Comapny is not quite alive to the fact that there is a limit up to which everybody may go and when deposit liabilities and acceptances amount altogether to ten times capital and surplus, I doubt very much whether it is proper for any company to go into a scheme of this kind, which amounts to offering not only two per cent, but additional facilities into the bargain for deposits.

I wonder whether this is not a thought which might properly be expressed by some one?

Very truly yours,

Paul M Warburg

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

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FEDERAL RESERVE BOARD

WASHINGTON

March 31, 1915.

(Personal & Confidential)

Dear Strong:

I hope you are having a pleasant and restful stay at Virginia Hot Springs and that your golf is improving as rapidly as your health.

I do not wish to bother you with any business thoughts while you are at play, but there is one matter that I would like to have you think over and about which I would be glad to have your views, and that is the Guaranty Trust Company. Their statement as of March 19 is just published. It shows acceptances to an amount of about $55,000,000. In addition to that, they have deposits of about $260,000,000 - in all, liabilities of about $310,000,000 against capital and surplus and undivided profits of about $32,000,000, or a relation of liabilities to own resources of about ten to one.

Some months ago, Mr. Hemphill asked me what I thought would be the proper amount for them to accept. I said that I could not answer that off-hand; that the amount that a bank could accept would depend upon its general status and it would also depend upon the fact whether or not a bank was concentrating on the acceptance business or whether it went into all kinds of banking business in addition. I illustrated that the large credit banks in England, France and Germany which were doing a general business were accepting moderately, while some of the so-called accepting banks, which concentrated on accepting and used their own resources, if you please, as a premium fund exclusively for their acceptances, and firms like Huth or Kleinworth, accepted their capital many times over - sometimes as much as ten or fifteen times even.

Now, I remember that you told me that most of the acceptances of the Guaranty Trust Company are guaranteed by other banks, but, even then, I think that the status of the Trust Company is pretty well extended, and, inasmuch as I hear that they expect to go pretty liberally into domestic acceptances against cotton warehouse receipts, I wonder whether you should not have a little talk with them about their general policy.

There are several things that might be done. One is that we might say that banks which expect to accept so liberally ought to keep cash reserves against their acceptances as they do against their general deposits. If this Trust Company would keep 18%, as national banks of New York do, against deposits and acceptances, they would have to have \$56,500,000 in cash as against their present cash holding of \$39,000,000. This, of course, may be an entirely erroneous conclusion because I do not know how much of their deposits are time deposits - very likely a pretty substantial amount.

Please do not misunderstand me. I do not wish to criticize the status of the Trust Company. I am certain it is in excellent condition, and, in order to form any judgment, one should know the details of its transactions much more closely then they are available to me.

One of the thoughts that is going through my head is this: whether we should not adopt a policy (without possibly putting it into a regulation) of taking the acceptances only of State banks that keep within the same limits as our member banks. If that were known, I suppose that the Trust Company would keep within this limit because it would not want to be in a position where we could refuse to buy their acceptances, but this wants to be handled very diplomatically and with all consideration so as to give them time to bring themselves within the limit in case we should decide to adopt such a policy. What might be done by this Company would be to get on a joint account basis with one or two of the leading national banks which do not have the advantage of the relationships that the Trust Company has. I was thinking of the Commerce or the Chase. If the Trust Company, in opening its credits, would arrange it so that a share in the credit is opened by these banks (a modus which is not at all unusual in Europe) these banks could agree that each would discount the paper of the other, which would give them valuable accounts, and you might receive the acceptances from these banks with their endorsement, but this is only a side question after all. Of course, we want to be liberal, particularly at the beginning, so as to let the child develop, but we want to be careful at the beginning not to let the thing run amuck so as to call forth criticism which may do harm to the whole development of the acceptance business.

This is a strictly personal letter written to get your mind thinking, and I shall be glad if you will write me frankly in the same way.

Very sincerely yours,

Paul M. Warburg

Benj. Strong, jr., Esq.,
Care Homestead Hotel,
Hot Springs, Virginia.

Mr. Aiken writes today that G. Tr. Co's acceptances were offered to him at 2½%: so people are evidently getting filled with that acceptance.

We have telegraphed McDougal that we shall be glad to have some members of the Committee come here to work with us on the inter-district plan. He answers that McKay will be here on the 6th of Apl.. I hope you have been notified.

FEDERAL RESERVE BOARD

WASHINGTON

April 28, 1915.

Dear Strong:

In reference to your letter concerning Mr. Hepburn's book, I do not know what details he wants. Generally speaking, I should say that everything we have has been published. If there is any help that we can give Mr. Hepburn I am sure we shall be very glad to do so.

Very truly yours,

Paul M Warburg

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

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FEDERAL RESERVE BOARD

WASHINGTON

May 3, 1915.

Dear Strong:

Lest I forget, you mentioned to me that Mr. Forgan had told you that a certain letter which was addressed to him by our office was dated on April fourth and reached him only on April twelfth, and that the Advisory Council therefore had only very short notice of the topics to be discussed.

I had this matter looked up and I find that ~~the~~ our letter was dated April sixth. I cannot say for certain that it left on that date, but Mr. Forgan acknowledged it on April tenth, saying that he had received it and had sent copies to the various members of the Advisory Council, so the margin is reduced from eight to four days, and I am not quite certain that Mr. Forgan did not receive the letter, as a matter of fact, before April tenth.

I shall be interested in having you verify the statements made to you by Mr. Forgan, or talk to me about the subject when I see you next. It is not the first time that mistakes of this kind have occurred with the gentleman in question.

Sincerely yours,

Paul M. Warburg

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

*

19~~8~~ Wednesday

Warburg

B. L. Jr.

JUL 23 1915

ADIRONDACK MOUNTAINS
LOON LAKE HOUSE
LOON LAKE, N.Y.

Dear Strong,

Arrive here all right. Nice simple place, cool air, few friends. So we are pleased. Golf links too short for you, but come anyhow and try them. They are plenty long enough for me.

What is the true inside of the clearing-house move to extend their country collection system? As I leave Albert Wiggin will be here next week I am doubly anxious to know all about it.

Who is doing the foolish talking to the papers about the Brown credit? Is it James Brown? Whoever it is, can't he understand that he should leave the F. R. Bk. out? Why make statements that the F. R. Bk's has agreed to take renewals after 6 months? First of all it hasn't and second such talk is embarrassing. Shake him by the neck until he be dead!

Thanks for the credit-forms which just come in as I am writing. Shall be glad to study them. Give my best regards to the fay.

Sincerely yours
P. M. W.

August 3rd

P M W

ADIRONDACK MOUNTAINS
LOON LAKE HOUSE
LOON LAKE, N.Y.

B.A.Jr.
AUG 5 1916

Dear Strong,

Thank you for your yesterdays letter. Please let me know what was the result of your Washington trip. You must have arrived at the same time as a letter of mine to the Board in which I told them what I thought of their letter to you and protested against their action. Did they show you my letter? If not I shall ask for a copy and send it to you. I suggested their getting in touch with Mr. Cotton and I shall not let the matter rest.

Thank you for the clipping concerning indorsements of bank acceptances. I think

You are on the right track.

We are having a bankers golf tournament here: Wiggin, Rue, Porter, Gilbert & myself. I hope my banking is better than my golfing. Let me hear from you again. Pardon the handwriting, but I have cut my finger & cannot do better today. Mrs W. returns your kind regards and so do I. Always sincerely yrs

T. M. W.

Personal

RECEIVED
AUG 10 1915 8 38 AM
FEDERAL RESERVE BANK OF NEW YORK

August 8th

PMW

ADIRONDACK MOUNTAINS
LOON LAKE HOUSE
LOON LAKE, N.Y.

Dear Strong,

Thank you for your letter of the 5th. All goes well here except golf, which is hopeless.

I think the letter of credit business is on a fair road to a satisfactory settlement. Harrison sent me a draft of a new Counsel's opinion written by him which is O.K. and I wrote him at once to this effect. Meanwhile the Board has been called together for Aug 16th to pass on this matter, but I have written them that I hoped they did not need me present.

It would be too idiotic to have to go there for this matter which should have been settled over a month ago. I have read your brief in reply to that of the Chief examiners and congratulate you upon your admirable statement. I agree fully with your argument. You missed one point: that State banks will have to submit to the inspection by F.R. Banks. Why should this modus be acceptable to them and objectionable to Natl. bks.? If the F.R. Bks can be trusted with one class of banks, they surely can be trusted also with the other. I have written 6 letters and you will excuse brevity & illegibility. With warm regards and thanks again for your good letter

Always sincerely yrs
PMW.

Form 260

WESTERN UNION TELEGRAM

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

...ECEIVER'S No.	TIME FILED	CHECK

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

New York, August 31st, 1915.

Joseph Schmidt,
Care Paul Warburg,
1704 Eighteenth Street, N. W.,
Washington, D. C.

Arrive eight-thirty. Shall dine on train.

Paul Warburg.

VCM

ALL TELEGRAMS TAKEN BY THIS ... ARE SUBJECT TO THE FOLLOWIN...

To guard against mistakes or delays, the sender of a telegra... ...t REPEATED, that is, telegraphed back to the originating o... For this, one-half the unrepeated telegram rate is charged in additio... ...herwise indicated on its face, THIS IS AN UNREPEATED ... PAID FOR AS SUCH, in consideration whereof it is agreed between the ... of the telegram and this Company as follows:

1. The Company shall not be liable for mistakes or delays in the tra... ...sion or delivery, or for non-delivery, of any UNREPEATED telegr... amount received for sending the same; nor for mistakes or delays in the transm...sion or delivery, or for non-delivery, of any REPEATED telegram, beyo... 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 l... *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 ... gram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, at which amount this telegram is hereby valued, ... 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 ... on such value equal to one-tenth of one per cent. thereof.

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

4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 population or less, and within one mile of such office in 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. *No employee of the Company is authorized to vary the foregoing.*

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT TELEGRAMS

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

DAY LETTERS

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

NIGHT LETTERS

Accepted up to midnight for delivery on the morning of the ensuing business day, at rates still lower than standard night tel... rates, as follows: The standard day rate for 10 words shall be c... for the transmission of 50 words or less, and one-fifth of such st... day rate for 10 words shall be charged for each additional 10 w... less. Must be written in plain English. Code language n... p... missible. Mail delivery, postage prepaid, permissible.

PAUL M. WARBURG
WASHINGTON, D.C.

September 8, 1915.

B.L.h.

SEP 10 1915

Dear Madam:

Referring to your letter of the second instant:

Mr. Warburg informs me that the only item he paid was $6 for Pullman compartment ticket Loon Lake to New York and from this amount should be deducted $2.50 paid by Mr. Jay for Pullman seats for Mr. Warburg and Dr. Miller, thus leaving Mr. Strong's indebtedness to Mr. Warburg only $3.50.

Faithfully yours,

W. Chapman

Secretary.

Mrs. V. C. McLaren,
Federal Reserve Bank of New York,
62 Cedar Street, New York.

FEDERAL RESERVE BANK

OF NEW YORK

September 7, 1915.

Honorable Paul M. Warburg, Dr.

To

Federal Reserve Bank of New York.

For one seat in Chair Car, New York to Washington, Tuesday, August 31st, 1915 . . . . $1.25

FEDERAL RESERVE BOARD

WASHINGTON

September 15, 1915.

Dear Madam:

I beg to acknowledge receipt of check for $3.50, covering balance due Mr. Warburg for Mr. Strong's traveling expenses, for which please accept my thanks.

Faithfully yours,

M C Chapman

Private Secretary.

Miss. V. C. McLaren,
Secretary to Mr. Strong,
Federal Reserve Bank,
New York.

*

C O P Y

FEDERAL RESERVE BOARD

WASHINGTON

September 28, 1915.

Dear Governor Strong:

Mr. Samuel Untermeyer, who was here a few days ago to be present at the meeting of the International High Commission, expressed to me on this occasion his thought that the Federal Reserve Banks ought to take up open market operations, and he said in this connection (as he has often done before) that it is the practice of the Bank of England to buy bills in the open market and that it was this that constituted its control over the market.

I said to him that what the Bank of England bought in the open market were either bankers' acceptances or commercial paper endorsed by banks but that the Bank of England would not do what he wants the Federal Reserve Banks to do; that is to say, buy in the open market, without the endorsement of any bank, commercial paper, single name or double name.

You may have an opportunity of speaking to Sir Edward Holden, with whom, as you told me, you are on intimate terms, and I should be very much obliged to you if you would get from him a statement as to the transactions of the Bank of England.

May I remind you that I invited you to ask him also whether or not the Bank of England would normally take a finance draft drawn by a foreign government upon an English acceptor. To illustrate, a draft drawn by the Minister of Finance of Roumania upon John Henry Schroeder & Co. And, furthermore, whether or not the Bank of England would take a finance draft drawn by a foreign stock broker other than banks of the United States, against the deposit of collateral upon an English acceptor, i. e., a Dutch firm like Boissevain on Union Bank of London. Would the Union Bank accept for them?

I was glad to see your signature again upon your yesterday's letter and I argue from that that you are feeling better. I hope you will soon get a good and extended holiday.

With kindest regards,

Sincerely yours,

(sgd) Paul M. Warburg,

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

Washington, October 4,1915.

Foreign Agencies
Federal Reserve Bank - National Banks.

To the
FEDERAL RESERVE BOARD,
Washington.

Sirs:

In compliance with the Board's request for a statement of my views concerning the question of "foreign agencies of Federal Reserve Banks" as authorized in Section 14 of the Federal Reserve Act, I beg to submit the following report:

When dealing with interpretations of the Act, a great deal has often been said concerning the "intention of the writers of the law". Inasmuch as paragraph (e) of Section 14 has been bodily taken over from thevAldrich Plan, we have to go beyond the writers of the Federal Reserve Act in order to find the true intent of this paragraph, and inasmuch as Senator Aldrich consulted me concerning this particular phase of the intended Act, and inasmuch as I suggested to Senator Aldrich the insertion of this very paragraph, I may be pardoned for venturing to explain what its original intention was.

The two paragraphs read as follows:

Sec.14 (e) of the Federal Reserve Act provides that every Federal Reserve Bank shall have power:

"with the consent of the Federal Reserve Board, to open and maintain banking accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may deem best

for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell,

Section 36 of the Aldrich Plan reads:

"National Reserve Association to have power

to open and maintain banking accounts in foreign countries; to establish agencies in foreign countries for the purpose of purchasing, selling and collecting foreign bills of exchange; to buy and sell, with or without its indorsement, through such correspondents or agencies, check or prime foreign bills with or without its indorsement, through such correspondents or agencies, bills of exchange arising out of actual commercial transactions which have not more than ninety days to run and which bear the signature of two or more responsible parties."

arising out of commercial transactions having not exceeding 90 days to run and bearing the signature of two or more responsible parties."

It will be seen that the only substantial change was the insertion of the words "bills of exchange" where the Aldrich Plan read "foreign bills of exchange" and "prime foreign bills".

From actual operation (having been active in several banks in foreign countries acting as correspondents or agents for government banks in other countries) I was in a position to appreciate from my own experience the importance of the functions of foreign correspondents or agents, and was anxious to secure the advantages of such connections for our future financial system. The operations of these foreign agents for their government banks are substantially as follows:

Let me choose the Bank of the Netherlands as an illustration, though practically all important government banks have been operating on similar lines.

There will be certain times when, for economic reasons, through the movement of products from or to the Netherlands into or from other countries, or for extraordinary reasons, exchange on Holland will move up to the gold exporting point or down to the gold importing point. When the point is reached where gold may leave the country, the Bank of the Netherlands has two main means of protecting itself: one is by increasing the discount rate, which measure will result in higher interest rates apt to attract foreign money into Holland and thereby to counteract the flow of money from the country. The other is to sell from its portfolio bills on foreign countries in order to create balances in those countries and thereby provide means of payment without shipping the yellow metal. It, therefore, has been the policy of foreign government banks to acquire foreign bills of exchange on such countries as are apt to be creditor nations from time to time and such countries only as have safe gold standards and enjoy first class banking credit. These purchases of foreign exchange on such countries are being carried on whenever exchange is low or when interest rates in the home country are so low that it would seem prudent for the government bank to withdraw its funds from active employment at home and invest the funds thus withdrawn in foreign countries, whence they can be called back whenever rates become active at home and whenever the influence of the government bank may be used to advantage in preventing home rates from becoming burdensome to the borrowing community.

When acquiring a ninety-day draft on a British bank, the Bank of the Netherlands will draw interest on this bill at the discount rate; but when the bill matures or if the Bank of the Netherlands acquires checks on London, it creates a balance which needs to be converted into an interest bearing investment. These balances will then be employed by the correspondents or agencies (whichever name we may give to them) for the purchase of other ninety-day drafts on London. According to its requirements, the Bank of the Netherlands will renew from time to time its foreign investments. The Bank of the Netherlands considers these foreign holdings as a secondary gold reserve and continues them almost perpetually, with such casual interruptions as may become necessary for the protection of its own gold holdings.

It was the consideration of these conditions that led to the insertion in the Aldrich draft of the clause above quoted, and it will now become apparent what was meant when it was provided that the National Reserve Association - or the Federal Reserve Banks - should have power to "open and maintain banking accounts in foreign countries * * *, establish agencies in such countries * * * for the purpose of purchasing, selling and collecting bills of exchange" and that they should be able to "buy and sell with or without its indorsement, through such correspondents or agencies, bills of exchange * * * ". In case of a "pinch", the Bank of the Netherlands was to be in a position of ordering its correspondent to rediscount with the Bank of England or in the open market millions of its holdings of British acceptances so as to enable the Bank of the Netherlands to draw a check against the balance so produced and so to protect its gold. That is why it was stipulated that the bills to be purchased by these agents should be "prime bills" and should not run beyond ninety days and should bear the signature of two or more responsible parties, so that these bills should be current bills that the correspondents should be able to sell freely at all times and bills on which a loss should practically be excluded.

It ought to be stated that the foreign governments select the strongest possible firms in foreign countries to act for them as agents, and that they invariably buy these bills with the indorsement of their agent (or correspondent) so that they could lose only in case, not only the foreign correspondent or agent should fail, but also the two additional signatures on the bill.

I am well aware of the fact that these banking habits have developed as a protection in times of peace but that in times of war these large foreign balances may be a source of some anxiety. It must be borne in mind, however, that government banks normally work in times of peace and that these methods of protecting their country against acute gold withdrawals or against the tendency of too low rates of interest have effectually met many an acute emergency, and furthermore that even in times of war these balances have eventually been paid. I might draw attention to the fact that a year ago, when we were called upon to meet our large debts abroad, it would have been a great protection for us if at that time balances could have been made available in London to meet this first onrush.

My object in reviewing the origin and original intent of this paragraph is to show that this clause was inserted for the sole purpose of providing an additional piece of machinery for the protection of the Federal Reserve System. Clearly, no other intention was underlying this section.

The question is now raised, whether or not it would be advisable for Federal Reserve Banks to establish foreign agencies in South American countries for the purpose of aiding in the development of our commerce and trade with those countries, and, following out this thought, the question has been raised by some writers whether the Federal Reserve Banks should not open branches in foreign countries to compete with some of the branches of foreign joint stock banks or the local banks of those countries.

In order clearly to understand what is wished by those foreign countries and in order to see how far we might go and what would be the result if we followed their wishes, it might be well to understand first what business foreign banks or local banks in those countries are expected to do. They are expected to bring a capital of their own into the country. They are expected to take deposits. They are expected to make loans to assist in the development of the country and to finance its trade with other countries. The local banks, when taking the paper of the local merchants, farmers or industrial concerns, are generally secured by local mortgages or pledges of assets - incidentally they are frequently called upon to make advances to the local governments and to finance government contracts.

Any American national bank going into this field will find itself somewhat handicapped when competing with these foreign and local banks, because its national charter does not permit it to embark as freely as its competitors in all these various branches of business.

Foreign banks going into foreign countries with widely fluctuating exchanges have, almost without exception, found it extremely difficult, if not impossible, to protect themselves against the risk of exchange losses. The history of the banks of the Far East, as well as in South and Central America, is rich in experiences of this kind. It is only when the original investments in buildings and in loans have been written down to a very low point that these foreign branches begin to be fairly well protected against further losses on account of this fluctuation in exchange. As long as they work with the deposits received in foreign countries and employ them on the spot, they can avoid this risk of exchange, but for money which they bring into the country this risk is involved and hard to eliminate by exchange operations for future delivery. Moreover, the business risks involved in these countries are very heavy and they are counteracted by very heavy interest charges and very substantial commissions, which accumulate and form an insurance premium fund necessary to sustain the losses incurred from time to time.

What service could Federal Reserve Banks be expected to render under the circumstances?

They certainly could not be permitted to take reserve money, which is to be considered as a gold reserve by their member banks, and lock it up in foreign countries in long term loans involving a substantial risk of loss, both as to principal and as to exchange. The law does not permit them to take deposits from individuals at home, but from member banks only. They could not, under the law, take foreign deposits.

They cannot make loans at home to individuals. Should they be permitted to make loans to individuals in foreign lands where the risk is a substantially greater one and where Federal Reserve Banks could not be permitted to accept anything like the consideration that is being taken by the local banks? Should Federal Reserve Banks be permitted to make loanson mortgages and collateral which they are not permitted to conclude at home? Should they be permitted to make advances to the local foreign governments while the law quite clearly lays down that they should only be permitted to buy United States government securities and warrants of municipalities of the United States, and only such as are specifically outlined in the Act?

The answer to all these questions is, of course, in the negative. The only transactions that agents of Federal Reserve Banks in South America could undertake would be the purchase of American bankers' acceptances, and, after normal conditions will have been re-established in Europe, possibly prime bankers' bills on such European countries as the Federal Reserve Banks would decide to open accounts with for the protection of their gold holdings. I cannot conceive of any other transactions that Federal Reserve Banks could safely or properly do through their agents in South and Central American countries.

The Federal Reserve Act permits only of the opening of "branches" of national banks. This has led, so far, to the unfortunate condition that there is only one bank large and enterprising enough to open American "branches" in South and Central American countries. Several banks have approached the Federal Reserve Board suggesting that an amendment be urged which would enable national banks jointly to hold the stock of banks chartered to do business in foreign countries. The Aldrich Act contained, in Section 57, a clause to that effect, "provided that such foreign banks should not be permitted to receive deposits in the United States, or to transact any domestic business not necessarily related to business being done in foreign countries or dependencies of the United States."

Some amendment to this effect, it is believed, would enable national banks in important centers of the United States to combine in opening an independent bank in South and Central America. I believe that such an amendment should be urged by the Federal Reserve Board, as otherwise the Board would be subject to the reproach of apparently fostering a monopoly by one single bank. Pending this amendment, it has been suggested to some of the banks interested in this foreign business that theymight establish agents or agencies in places where they expect to develop business in South and Central America. It has been suggested to them that if five or six national banks which expect to jointly own a bank in South America would together employ agents, they might develop a considerable amount of business, particularly in financing American trade with those countries, be it import or export. Through such agents American bankers' acceptances might be placed at the disposal of South American ~~xxx~~ importers and exporters, and these credits might be extended even for the growing of crops or the production of goods sold for exportation to the United States or other countries. These credits could be so arranged that the agent would place for each of the five or six banks employing him a certain agreed quota thereof, and, similarly, he might act as their agent in contracting for them for the purchase of these American bankers' acceptances for forward delivery. It may be possible that the Federal Reserve Banks can be induced to cooperate in the employment of such an agent. The Federal Reserve Banks might cable to this agent their discount rates from time to time, and the agent might secure on the spot the purchase of these acceptances. By making such an arrangement, some part of the expenses of this agent could be carried by the Federal Reserve Banks and this might stimulate some of the member banks to go into the venture. The agent in turn might be used for keeping the Federal Reserve Banks advised as to commercial andfinancial conditions in his field of operation.

On the other hand, it needs to be very carefully considered whether the appearance of the Federal Reserve Banks as active purchasers in foreign markets would not have a tendency of keeping the member banks out of these markets. In other words, it may well be that these independent banks, which are now desirous of entering the field, might say that the purchase of these American bankers' acceptances is one of the few transactions which offer a field for them, and that, if the Federal Reserve Banks expect to enter this field in competition with them, they would rather stay out of the market. In that case, it may be found practicable and more advisable for the Federal Reserve Banks to confine themselves to cabling their forward discount rates for transmission to such American banks as operate in foreign countries and to such agents as operate for them, giving to these foreign branches andto such agents an opportunity of in their turn concluding the transactions with the Federal Reserve Banks,-the latter, however, bearing the cable expense in order to facilitate in every way the development of American banking in foreign countries.

My own conclusion would be that inasmuch as the Federal Reserve Banks cannot compete with the foreign banks or member banks in foreign countries, and inasmuch as there is only a very restricted field for their operation, that Federal Reserve Banks should do everything ~~that~~ they possibly can to encourage member banks (operating through branches, agencies, or - if an amendment should be secured - ~~by~~ by independent American banks in foreign countries) in the development of American trade and American banking, particularly in establishing what is generally called "dollar exchange" in the world market. However, I am profoundly convinced that successful competition with foreign banks can only be carried on by American commercial banks- not by Federal Reserve Banks - and that if the Federal Reserve Banks cannot effectively compete, they should be very careful not to do anything which might act as a deterrent rather than an encouragement for American banks entering the field of banking in foreign countries. It ought to be stated that no European government bank entertains branches or agencies in South or Central American countries.

My suggestion would be that, at the next Governors' conference, the matter be discussed fully with the Governors and that they and the Federal Reserve Agents be asked to study the question very carefully in all its varying aspects and make a report to the Board.

Respectfully submitted:
Sgd. Paul M. Warburg.

10/4/15

P. S.

There is one more side of the problem that might profitably be considered. That is the question of whether or not Federal Reserve Banks should appoint existing local banks in South American or Central American countries to act as their agents or correspondents. Two considerations would militate against such a step at this time. The first is that, instead of assisting these American banks that would be willing to enter upon the venture, we should be assisting banks with which they would naturally have to compete and for which these local banks are better equipped by more liberal charters and by the fact that they are already firmly established in the field. The second is that for these foreign banks the American connection would be a mere incident. We could not rely in any way on their making a real effort in pushing the development of American dollar exchange. They are more apt to proceed on the lines of least resistance; that is, they are likely to prefer the well estblished channels, and to do their business on lines which would offer them the greatest profits in interest, no matter whether these will be European or American.

While Federal Reserve Banks may ultimately consider the establishment of such connections with local banks in places where American banks or bankers will fail to establish themselves, it is believed that the Federal Reserve Banks will probably have to move with the greatest caution in establishing these connections at this time, lest their steps might act as a retarding influence rather than an encouragement for the American banks and bankers at present contemplating operations in this field.

P. M. W.

COPY

October 20, 1915.

My dear Sir Felix:

At one time the papers contained a report that we might expect you over here as one of the British Commission, and I need not tell you how much I had looked forward to the pleasure of seeing you here again - though not in any official capacity, as you know the Federal Reserve Board could, of course, have nothing to do with the loan negotiations; but as a friend I should have welcomed indeed an opportunity of seeing you again.

You are one of the few who have trained their minds to think scientifically in matters of finance and it would have been a great pleasure to me to discuss with you some of the problems that we are dealing with here.

Some assertions have been made by people outside of our Board but who desire to influence our work, concerning the operations of the Bank of England, and I should like very much to receive from you some authentic advice as to the following questions:

First - Does the Bank of England buy discounts in the open market?

Second - If it does, does it buy anything but first-class paper - that is to say, paper bearing the acceptance of a bank or first-class banking firm or its indorsement?

Third - Does the Bank of England buy in the open market commercial paper - paper drawn by a merchant upon his customer or promissory notes from firms with which it has no regular connection - that is to say, who are not its customers or depositors?

Fourth - Does the Bank of England in normal times buy finance bills? I am not referring in this case to so-called "house on house" bills, as Speyer on Speyer or Morgan on Morgan, but bills, for instance, as they used to be drawn by German banking firms or brokerage firms or English acceptance houses against stock exchange collateral, or, bills, as I remember, were drawn at some time by Roumania through a Roumanain banking firm on British banks in order to finance the Roumanian Government; or a draft drawn direct by a foreign government on a British accepting firm.

Pardon the somewhat confused character of these questions, but they have been raised in this particular form and as replies to these questions have been contradictory, I am very anxious to receive an answer from such authority as you.

Pardon my writing you about these matters at a time when no doubt you are very much occupied with very serious work, but you are one of the few who realize how important it is to establish the correct principle even in the smallest trifle when we are laying the foundation for the future growth of an important system.

I hope you are strong and well in spite of the strain of the time and am,

With kindest regards,

Always sincerely yours,

(Signed) PAUL M. WARBURG.

Sir Felix Shuster,
Union Bank of London,
LONDON, ENGLAND.

Ans Oct. 30/15 Bleu

PAUL M. WARBURG
WASHINGTON, D.C.

October 29, 1915.

Dear Strong:

Thank you for your letter of October 28th.

My much maligned overcoat has not yet put in an appearance. Would you mind having your secretary investigate how it was sent so that I may follow it up? Excuse the bother.

Mrs. Warburg got your letter this morning and she and Betsy greatly enjoyed the fun, even though - or possibly because - it was at my expense.

With kindest regards, I am

Sincerely yours,

Paul M. Warburg

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

*

COPY

THE UNION OF LONDON & SMITHS BANK, LIMITED,

2 Princes Street,

London,

November 3, 1915.

My dear Mr. Warburg:

It was a great pleasure to me to receive your letter of the 20th October, and I wish there were time for a more frequent interchange of views between us, for you would have much to tell me that would be of the greatest interest to me.

It had at one time been suggested that I should be one of the British Commission on the Loan, but for various reasons into which it is not necessary to enter I thought it better not to go. It would have been a very great pleasure to me to go over to your side again. There is, however, and has been, a great deal to do here, and it is most difficult to get away.

With regard to the questions you put to me, you are of course aware that the Bank of England is not guided in its operations by absolutely strict and rigid rules, and thus occasional exceptions may have been made to their general line of conducting their business. Subject to this observation my answer to your enquiries is as follows:

First: - The Bank of England does not buy discounts in the open market. It only discounts paper at its own minimum rate, occasionally even somewhat above that rate, and it does so only for its own customers. As you are aware, most of the large commercial firms, as well as private individuals, keep their accounts, not with the bank of England but at the other great Banks. The larger firms, however, have small discount accounts open at the Bank of England, which are used only at times when a rise in the Bank rate is anticipated, because at other times they can discount their paper elsewhere to better advantage. The Banks, as you know, are not in the habit of re-discounting their paper with the Bank of England or elsewhere. This is not strictly in reply to your question, but it might be of interest to you, especially when I add that according to the whole of my experience this policy is a great mistake, but it is a tradition which hitherto has been carefully preserved.

Second and Third: These really do not arise as the answer to the first has been in the negative, but as a general observation, bearing also on your fourth question, I think the one established principle from which no departure is made is that every bill which the Bank of England discounts must bear two approved English signatures. What this really means is of course a matter of judgment from time to time, but the English character of the signature has always been insisted upon and, for instance, the acceptances of branches of foreign institutions, however, good, are never taken. The general tendency is to give preference to bills of a commercial character and to regard with disfavor anything that looks like a finance bill. In commercial paper would of course be included bills drawn under re-imbursement credits for shipments of merchandise. The class of bill described in your fourth question would perhaps not be objected to if the amount was not too large and the bill was handed in by an endorser of high standing, but if anything like an excessive amount were seen objection might probably be taken.

The bill described in your third question, drawn by a merchant on his customer, would only rarely find its way to the Bank of England.

Such are mostly taken by the merchant's own banker, and, as I observed, the Bank of England buys only from firms having discount accounts with them. Promissory Notes, mentioned in the same question, do not enter into the regular sphere of operations of our merchants. They are hardly ever issued and therefore would be looked upon with great suspicion. The ordinary way for the merchant is to draw bills upon a bona-fide customer, and if the genuineness of the transaction is established, that is to say, if it is really ascertained that goods have passed, such bills find always a ready market with the Banks, even when the firms in question are not possessed of large means. The great internal trade of the country is carried on in this way, and banking experience has shown that it is by far the safest bill to buy and losses are comparatively insignificant.

I hope the above will give you a fair idea of the working of our system on the points you mention. If the above is not quite clear and if I can be of use to you in any way please do not hesitate to write to me again.

Believe me, with kind regards,

Yours very truly,

(sgd) FELIX SCHUSTER.

Paul M. Warburg, Esq.,
Washington.

208

FEDERAL RESERVE BOARD

WASHINGTON

November 26, 1915.

Dear Governor Strong:

I have your letter of November twenty-third, which has my full attention.

You may be interested to know that, at Charlotte, where I had to deliver an address (of which I send you a copy herewith), I met Mr. Cox, of High Point, who was placed next to me at dinner, and I had a good opportunity of discussing the matter with him and expressing to him the pleasure we should have in seeing his committee and also my hopes of cordial and helpful cooperation.

I think the matter is in good shape.

Very truly yours,

[signature]

Benj. Strong, jr., Esq.,
Governor, Federal Reserve Bank,
New York.

Enc.

198

B.S. Jr.

1704 EIGHTEENTH STREET.

DEC - 2 1915

Dear Strong,

Let me thank you very sincerely for your very kind letter. The touch of a friend's hand is one of the most precious things that come to us at certain times.

You guessed right. I am disheartened and disgusted, but I have not lost my courage and my mind — at least not yet. But it is worth everything to me to know that I have some friends that stand for what I am fighting for, and that I cannot abandon them anymore than they would abandon me. So let's stick it out — and smile! When are you coming again?

With kindest regards from the sky parlor-family

Sincerely yours

Laura M.

Nov 30th 15.

FEDERAL RESERVE BOARD

WASHINGTON

DEC-8 1915

December 2, 1915.

Dear Governor Strong:

Did you not tell me that the Clearing House in Chicago accepts only gold certificates in payment?

My attention was drawn to Section 12 of the Act of July 12, 1882, providing for the issuance of gold certificates and making such certificates, as well as silver certificates, part of the lawful reserve of national banks. This section further provides:

> "and no National banking association shall be a member of any clearing house in which such certificates shall not be receivable in the settlement of clearing house balances."

While it is not absolutely clear whether the words "such certificates" refer to both gold and silver certificates, I know that the Comptroller's office and the Treasurer's office have held that "such certificates" applies to both gold and silver certificates.

Can you enlighten me about the conditions of the case in Chicago and in other cities where only gold is accepted in settlement of clearing house balances?

Very truly yours,

Paul M Warburg

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

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JAN 1916
FEDERAL RESERVE BANK

FEDERAL RESERVE BOARD

WASHINGTON

December 29, 1915.

Dear Governor Strong:

I have your letter of December 28th in which you give me a graphic illustration of the serious weakness of the present system of intra-district clearings.

What you write me is extremely interesting and I shall bring it to the attention of the Board.

Very truly yours,

Paul M. Warburg

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

*

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FEDERAL RESERVE BANK
OF NEW YORK