

198

June 26th, 1916.

My dear Warburg:

In regard to the Belgian currency we were discussing, this may prove a somewhat larger undertaking than you imagine.

When the war broke out, the crisis was so acute in Belgium that a great many municipalities issued notes for circulation somewhat similar to our 1907 Clearing House certificates. Uncancelled samples of these, and as complete as possible, both as to issues and denominations, is what I want to obtain.

Since the complete occupation of Belgium by Germany, the German military government, I understand, has made issues of such currency and I am likewise anxious to get samples of this currency.

If you have any friend who can secure these for me, I will very greatly appreciate it. It may cost quite a little money and you will, I know, advise me of the amount involved. Thank you very much for your trouble.

Very truly yours,

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

BS Jr/VCM

198

FILING DEPT.
~~CONFIDENTIAL~~

JAN 7 1916

January 6th, 1916.
FEDERAL RESERVE BANK

Dear Mr. Warburg:

Thank you for your reminder of the 5th about foreign exchange men. I have not overlooked it; on the other hand, for the past week it has been impossible for me to do anything about it.

I am not acquainted with Mr. Neilson, but I do know Mr. Rovensky very well and believe he is a competent man. Both of these men would probably be very high-priced men. Generally, the high-priced man, in the long run, is the cheapest. Of all the men I know, Kent would satisfy me the best. He receives a salary, I think, of \$18,000 or \$20,000 a year and we would likely be criticized for paying any such salaries.

Jim Brown is dining with me to-night and I will take the opportunity to pump him.

A cable is going forward to-night in regard to the Holland matter and I will let you know the outcome.

Very truly yours,

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

BS Jr/VCM

198

Copy m/m for 410

PERSONAL.

January 10th, 1916.

Dear Mr. Warburg:

As I have verbally explained to you, our directors felt unwilling to authorize the purchase of United States Bonds until after January 1st. They did authorize at a recent meeting, the purchase of \$2,500,000 and understanding that the Comptroller of the Currency had failed from time to time, bonds for sale for account of national banks, we have had the enclosed telegraphic and letter correspondence with him with reference to the purchase of bonds. I am sending this in order that you may be informed should the matter be brought up for discussion at a meeting of the Federal Reserve Board.

The Comptroller's letter of January 8th apparently takes exception to the expression "considerably below par" which Mr. Kenzel used in dictating the letter of January 7th, signed by me, having in mind, of course, that if we purchased a large block of the bonds at a difference of, say, $\frac{1}{2}$ of 1% in price, the added cost would be a considerable sum of money. It is a small matter, but the Comptroller's attitude does not indicate a very friendly disposition towards our plan for buying U. S. Bonds, particularly, as I believe he sold a block of bonds to one of the other reserve banks at a price somewhat below par.

If the Comptroller wants to sell a block of \$2,500,000 of 2 s at 99 $\frac{1}{2}$, we could buy them.

Very truly yours,

Governor.

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

COPY

Index by Mr. S. H. to Cleverly

RECEIVED
FILING DEPT.

JAN 2 1916

FEDERAL RESERVE BANK

✓ 59
January 14, 1916.

Dear Mr. Warburg:

Section 13 of the Federal Reserve Act limiting acceptances eligible for purchase by us to maturities of not more than 3 months, conflicts with the usance of the Far East. Those bills of China and Japan exporters which appear in this market are drawn at 4 months' sight, or if the shipment has been made by sailing vessel, at 6 months' sight. In many cases, the acceptors are undoubted New York banks or bankers.

The imports of silk, silk textiles, tea, hemp, jute, rubber, etc., for the 9 months ending September 30, 1915, amounted to \$37,909,000 from China and \$73,784,000 from Japan. This movement is mainly financed by the HongKong and Shanghai Banking Corporation, the Yokohama Specie Bank, Ltd., and the Charter Bank of India, Australia and China, Ltd., the agencies of these institutions in New York carrying in their portfolios large amounts of such acceptances. For example, we are confidentially informed that the New York Agency of the HongKong & Shanghai Banking Corporation for the year ending October, 1915, handled \$29,000,000 of eastern import bills and \$16,000,000 of bills representing exports to the Orient. The average holding in their portfolio was about \$7,000,000, a volume which has not been materially increased since the war began. That agency has discounted in the New York market bills amounting to \$2,000,000 of which only \$350,000 are now outstanding.

The Yokohama Specie Bank has now under discount in New York \$3,500,000 at an average rate of $2\frac{1}{2}$ to $2\frac{5}{8}$ %. These bills represent an important part of the international trade of the United States, and would seem en-

#2

Hon. Paul M. Warburg

1/14/16.

titled to be considered for purchase by the Federal reserve banks. They will probably take an increasingly important place in the New York discount market.

The usance is, of course, firmly fixed by custom and by reason of the distances, so that if we decide later to purchase such bills, it will be well to have in mind an amendment of the law that would extend the eligible maturity so as to at least embrace 4 months' bills.

Yours very truly,

Governor.

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

HVC/LES.

198

June 28th, 1916.

Dear Warburg:

Hooray for the first recruit if we land him! It has been like the camel and the eye of the needle - half of us pushing from the rear and the other half pulling on the other side.

In regard to the Belgian currency, (with which I hate to bother you), it is one of those matters that would have to be dealt with, I am afraid, after some correspondence. There are, of course, a good many people thoroughly acquainted with the history of the Belgian emergency currency who could estimate what the cost of a collection of uncanceled samples would be; in uncanceled form, it would be of much greater value than the canceled, and besides that, the samples which I have from other countries now are all uncanceled, including the French, of which I suppose there are 500 to 600 samples, costing possibly from \$250 to \$500 in uncanceled form. Possibly, the best way to handle it would be to make inquiry as to how extensive these various issues were, and if they are too extensive for my pocketbook, then we might get them cancelled. In any event, please do not bother too much about it, because I have no right to shift it over to you.

Mrs. Warburg has just called to say "good-by" and this will be my last letter to you before reaching Colorado. I cannot thank you enough for a great many things, including your sympathy and help.

-2-

Hon. Paul M. Warburg.

6/28/16.

With warmest regards,

Faithfully, your friend,

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

BS Jr/VCM

P. S. My first job in Colorado will be to formulate
something on the Bank of England matter.

B. S. Jr.

January 14, 1916.

Dear Mr. Warburg:

Section 13 of the Federal Reserve Act limiting acceptances eligible for purchase by us to maturities of not more than 3 months, conflicts with the usance of the Far East. Those bills of China and Japan exporters which appear in this market are drawn at 4 months' sight, or if the shipment has been made by sailing vessel, at 6 months' sight. In many cases, the acceptors are undoubted New York banks or bankers.

The imports of silk, silk textiles, tea, hemp, jute, rubber, etc., for the 9 months ending September 30, 1915, amounted to \$37,909,000 from China and \$73,784,000 from Japan. This movement is mainly financed by the HongKong and Shanghai Banking Corporation, the Yokohama Specie Bank, Ltd., and the Charter Bank of India, Australia and China, Ltd., the agencies of these institutions in New York carrying in their portfolios large amounts of such acceptances. For example, we are confidentially informed that the New York Agency of the HongKong & Shanghai Banking Corporation for the year ending October, 1915, handled \$29,000,000 of eastern import bills and \$16,000,000 of bills representing exports to the Orient. The average holding in their portfolio was about \$7,000,000, a volume which has not been materially increased since the war began. That agency has discounted in the New York market bills amounting to \$2,000,000 of which only \$350,000 are now outstanding.

The Yokohama Specie Bank has now under discount in New York \$3,500,000 at an average rate of $2\frac{1}{2}$ to $2\frac{5}{8}$ %. These bills represent an important part of the international trade of the United States, and would seem en-

1/14/16.

titled to be considered for purchase by the Federal reserve banks. They will probably take an increasingly important place in the New York discount market.

The usance is, of course, firmly fixed by custom and by reason of the distances, so that if we decide later to purchase such bills, it will be well to have in mind an amendment of the law that would extend the eligible maturity so as to at least embrace 4 months' bills.

Yours very truly,

Governor.

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

HVC/LES.

PERSONAL.

January 14th, 1916.

Dear Mr. Warburg:

Replying to yours of the 13th concerning Mr. Deans, I am afraid that Mr. Hurlbut's influence may interfere with our landing Mr. Deans. I gather from what Kent tells me that Mr. Hurlbut thinks that Deans is too big for the job. I am awaiting the result of a telephone conversation to-day and will not know until Monday whether Mr. Deans is coming or not. If he does come on for an interview, I will try to get him to come over to Washington.

I am under commitment to stop one or two nights at 1718 H Street on this trip. Would you care to have me stop one or two nights at your house, or are the social allurements of Washington keeping you and Mrs. Warburg too busy to bother with regular boarders? I will adapt my plans to your convenience.

Very truly yours,

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

BS Jr/VCM

Dictated by Mr. Strong but
signed in his absence.

Copy to Mr. Allen

CONFIDENTIAL.

January 17th, 1916.

Dear Mr. Warburg:

I have to thank you for your favor of the 5th inst., containing copy of Mr. Allen's letter addressed to Honorable John Burke, Treasurer of the United States, same relating to operating charges in connection with the Gold Fund. With this in hand, I am able to make a report to the Conference in Washington which I am quite sure will be satisfactory.

The copy of Mr. Allen's letter is returned herein.

Very truly yours,

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

BS Jr/VCM-2

19
PERSONAL.

January 17th, 1916.

Dear Warburg:

Thank you for your telegram about stopping with you this week. I shall certainly go directly to your house and will try to leave here in time tomorrow to take dinner with you, provided you are not expecting guests. Will move over to 1718 H Street after spending a night or two with you.

Sincerely yours,

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

BS Jr/VCM

59

January 26th, 1916.

Dear Mr. Warburg:

This to remind you that you promised to send me letters of introduction to Messrs. Montagu & Company, Sir Felix Schuster and Messrs. N. M. Rothschild & Sons.

Thanking you in advance and with renewed assurances of my consideration, I beg to remain,

Sincerely yours,

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

PMW/BS Jr-M

No.

198

WESTERN UNION

ANGLO - AMERICAN



DIRECT UNITED STATES

CABLEGRAM

SENT

FOR STAMPS

Prefix _____ Code _____
WORDS CHARGE

At _____
To _____ By _____

March 5, 1916

VIA WESTERN UNION

THIS FORM WILL BE ACCEPTED AT ALL
POST OFFICE TELEGRAPH STATIONS.

TO PREVENT MISTAKES PLEASE WRITE DISTINCTLY.

TO {

Paul M Warburg, Federal Reserve Bank, New York City

Best wishes for your trip and a safe return

Benj. Strong.

NOT TO BE
TELEGRAPHED.

Having read the conditions printed on the back hereof, I request that the above telegram be forwarded by the Western Union Telegraph-Cable System, subject to the said conditions to which I agree.

Signature _____

Address _____

THE WESTERN UNION TELEGRAPH-CABLE SYSTEM.

THE LARGEST TELEGRAPH AND CABLE SYSTEM IN EXISTENCE.

8 DUPLEXED ATLANTIC CABLES, OVER 25,000 OFFICES AND 1,500,000 MILES OF WIRE.

Direct Wires from Cable Stations to all the principal commercial centres in Great Britain, United States and Canada, and direct connection with Central America, West Indies, South America, Australia, New Zealand, Fanning, Fiji, and Norfolk Islands.

DIRECT AND EXCLUSIVE CONNECTION WITH MEXICO.

RECEIVING OFFICES IN THE UNITED KINGDOM:—

	Telephone Nos.
LONDON: 1, Old Broad Street, E.C.	3761 Wall
63, Old Broad Street, E.C.	3316 ,,
48a, Gresham House, Old Broad Street, E.C.	704 ,,
21, Royal Exchange, E.C.	9117 ,,
39, 40, Mark Lane, E.C. 1070, 1384 Avenue.	3762 ,,
East India Avenue, E.C.	3763 Avenue
The Baltic, St. Mary Axe, E.C. 6974 Central, 976 ..	976 ,,
34, Throgmorton Street, E.C.	1368 Wall
1, Drapers' Gardens, E.C.	1830 Central
109, Fenchurch Street, E.C.	1050 Avenue

	Telephone Nos.
LONDON: 10, Holborn Viaduct ...	4119 City
Effingham House, Arundel Street, W.C.	1713 Gerrard
34, 35, Southampton St., Strand, W.C.	1155 ,,
2, Charing Cross, W.C.	3598 ,,
5, Royal Opera Arcade, Pall Mall, S.W.	2073 Central
34, Victoria Street, S.W.	3716 Victoria
48, Tooley Street, S.E.	984 Hop
LIVERPOOL: Cotton Exchange ...	2274 Central
...	2275 ,,
...	1535 ,,
...	960 ,,
D6, Exchange Buildings ...	960 ,,

	Telephone Nos.
BRISTOL: Canada House, Baldwin Street ...	309
BRADFORD: 10, Forster Square ...	771
DUNDEE: 1, Panmure Street ...	1351
EDINBURGH: 50, Frederick Street ...	400
GLASGOW: 4, Waterloo Street ...	450 Central, 1165 Argyle
113, Hope Street ...	2017 Central, 2324 Argyle
LEITH: Exchange Buildings ...	600
MANCHESTER: 31, Brown Street ...	1455
NEWCASTLE-ON-TYNE: 1, Side ...	1329

General Offices - 26, OLD BROAD STREET, LONDON, E.C.

Telephone - 5261 LONDON WALL.

PRINCIPAL CONTINENTAL OFFICES AND AGENCIES:—

ANTWERP: 4, Avenue de Keyser.
49, Canal des Recollets.
AMSTERDAM: 4, Weesperzijde.
BARCELONA: 57, Calle Caspe.
CHRISTIANIA: 4, Prinsengade.

COPENHAGEN: Dr. Olgasveg, 47.
HAVRE: 118, Boulevard Strasbourg.
HAMBURG: 12, Ernst Merckstrasse.
MADRID: Academia, 10.
NAPLES: Via Marina Nuova, 14/18.

PARIS: 1, Rue Auber.
37, Rue Caumartin.
ROME: 26-27, Piazza di Spagna.
VIENNA: VIII, Kaiserstrasse, 24.
ZURICH: 59, Rigistrasse.

The public are recommended to hand in their Telegrams at the Company's Stations, where free receipts are given for the amounts charged. Telegrams for this Company's Cables are also received at all Post Office Telegraph Stations; but in order to insure transmission by the Western Union Telegraph-Cable System forms upon which Telegrams are written should be marked "Via Western Union," "Via Anglo" or "Via Direct." This indication is signalled free of charge. Cable addresses are registered free of charge. All important Telegrams should be repeated, for which an additional quarter rate is charged.

CONDITIONS ON WHICH THIS TELEGRAM IS ACCEPTED IF IT BE HANDED IN AT AN OFFICE OF THE WESTERN UNION TELEGRAPH-CABLE SYSTEM.

The Company may decline to forward the Telegram, though it has been received for transmission; but in case of so doing shall refund to the Sender the amount paid for the transmission of the Telegram. The Company will decline to the Sender the charges paid by him for any Telegram which through the fault of the Telegraph Services has experienced serious delay or fails to reach the Addressee, or owing to errors made in transmission has manifestly not fulfilled its object. The Company shall not be liable to make compensation, beyond the amount to be refunded as above, for any loss, injury or damage, arising or resulting from the non-transmission or non-delivery of Telegram, or delay, or error in the transmission or delivery thereof, howsoever such non-transmission, non-delivery, delay or error shall have occurred. The control of the Company over the Telegram shall be deemed to have entirely ceased at any point where in the course of the transit of the Telegram to its destination it may be entrusted by the Company (and the Company shall have full power so to entrust the Telegram) to any other system, service, or line of telegraph for further transmission.

CONDITIONS ON WHICH THIS TELEGRAM IS ACCEPTED BY THE POSTMASTER-GENERAL IF IT BE HANDED IN AT A PUBLIC TELEGRAPH OFFICE IN THE UNITED KINGDOM.

1. Either the Postmaster-General or any Telegraph Company or Foreign Government, by whom this Telegram is or would in the ordinary course of the Telegraphic Service be forwarded, may decline to forward the Telegram although it has been received for that purpose; but in such case the amount paid for transmission shall be refunded to the Sender at his request.
 2. Neither the Postmaster-General nor any Telegraph Company or Foreign Government, by whom this Telegram is or would in the ordinary course of the Telegraphic Service be forwarded, shall be liable to make compensation for any loss, injury, or damage arising or resulting from non-transmission or non-delivery of the Telegram, or delay, or error, or omission in the transmission or delivery thereof, howsoever such non-transmission, non-delivery, delay, error or omission, shall have occurred.
 3. This Telegram shall be forwarded in all respects in accordance with the provisions of the Regulations made pursuant to the Telegraph Acts, 1863 to 1904, and the provisions of such Regulations shall be deemed to be binding not only between the Sender and the Postmaster-General, but between the Sender and any Telegraph Company or Foreign Government by whom this Telegram is or would in the ordinary course of the Telegraphic Service be forwarded.

§ The substance of these Regulations will be found in the Post Office Guide.

Number
Time Filled
Number of Words

WESTERN UNION



CABLEGRAM

THEO. N. VAIL, PRESIDENT

CLASS OF SERVICE	
	Full
	Half Rate
	Cable
	Week End

Patrons should mark the class of service or use FULL RATES or SEE BACK OF THE

FILING DEPT.
APR 17 1916
FEDERAL RESERVE BANK

706

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

New York, April 14, 1916.

~~Warburg,~~
 American Ambassador,
 Santiago.

Just arrived. Very fit. Spend next week Washington collection matter. Best regards your party, particularly yourself.

Benj. Strong, Jr.

Charge to Federal Reserve Bank,
 62 Cedar Street.

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

To guard against mistakes on the lines of this Company, the sender of every message should order it repeated; that is, telegraphed back from the terminus of said lines to the originating office. For such repeating the sender will be charged, in addition, one-quarter the usual tolls of this Company on that portion of its lines over which such message passes.

This Company will not assume any responsibility concerning any message beyond the terminus of its own lines. It is agreed between the sender of the following message and this Company, that this Company shall not be liable for mistakes or delays in transmission or delivery, nor for non-delivery to the next connecting telegraph company, or to the addressee, of any unrepeatable message, beyond the amount of that portion of the tolls which shall accrue to this Company; and that this Company shall not be liable for mistakes in the transmission or delivery, nor for delay or non-delivery to the next connecting telegraph Company, of any repeated message, beyond fifty times the extra sum received by this Company from the sender for repeating such message over its own lines; and that this Company shall not be liable in any case for delays arising from interruption in the working of its lines, nor for errors in cipher or obscure messages. And this Company is hereby made the agent of the sender, without liability, to forward any message over the lines of any other Company when necessary to reach its destination.

It is agreed that this Company shall not be liable for damages in any case where the claim is not presented to it in writing within sixty days after the message is filed with this Company for transmission.

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

THE WESTERN UNION TELEGRAPH COMPANY, INC.
THEO. N. VAIL, PRESIDENT

CLASSES OF SERVICE

FULL RATE

An expedited service throughout. Code language permitted.

DEFERRED HALF RATE

Half rate messages are subject to being deferred in favor of full rate messages for not exceeding 24 hours. Must be in language of country of origin or of destination, or in French. This class of service is in effect with most European countries

delivery the second morning following date of filing if telegraphic delivery is selected. Delivery by mail beyond London can be effected in same period of time to most European countries. Cable Letters may also be mailed to New York for transmission. Rates \$1.50 for 20 words and 30c. for each additional 5 words, between New York, Boston, Halifax or Montreal and London or Liverpool, plus night letter rates to New York and regular charges beyond London if telegraphic delivery desired.

WESTERN UNION



TELEGRAM

198

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, April 14, 1916.

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

Have just jumped from the boat into harness and find your letter on top of the pile. Thanks for the warm welcome. Wish I could have brought Godknowswhat with me. Will see you Sunday.

Benj. Strong, Jr.

Chg. to Benj. Strong, Jr.,
62 Cedar St.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUB.

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, and for this, one-half the unrepeatd telegram rate is charged in addition. Unless otherwise indicated, PAID FOR AS SUCH, in consideration whereof it is agreed between the sender of the telegram and the Company.

1. The Company shall not be liable for mistakes or delays in the transmission or delivery, or for the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for the sum received for sending the same, *unless specially valued*, nor in any case for delays arising from *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 telegram, whether caused by the negligence of its servants or otherwise, beyond the sum of FIFTY DOLLARS, if a greater value is stated in writing hereon at the time the telegram is offered to the Company for transmission 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 to reach its destination.

4. Telegrams will be delivered free within one-half mile of the Company's office in towns of 5,000 people or cities or towns. Beyond these limits the Company does not undertake to make delivery, but will, without charge, 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 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 telegram is filed with the Company for transmission.

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

THE W

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 on 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.

198
PW

PERSONAL,

May 12th, 1916.

Dear Mr. Warburg:

Thank you for yours of the 10th just received.

Very much to my regret, it hardly seems possible for me to get over to Washington for, at any rate, more than one day next week. I will, however, try to run over either Monday or Tuesday, if that is entirely convenient to you, but I may be unable to do even that.

It will be fine to have opportunity for a long chat and exchange experiences. Mrs. Warburg I hope will be willing to put me up.

Sincerely yours,

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

BS Jr/VCM

198

PERSONAL.

May 12th, 1916.

My dear Warburg:

I am enclosing with this an analysis of the reserve position of each New York City bank and trust company that is a member of the New York Clearing House Association as of April 29th, 1916.

You will notice that of the total surplus reserve, now somewhat less than \$100,000,000, the National City Bank alone holds \$39,000,000, the other \$60,000,000 being held principally by eight or ten institutions, some of the most important banks in the Clearing House Association having entirely exhausted their surplus reserves, including even the First National Bank.

The significance of this statement requires no explanation. The general expansion of loans and deposits taking place at many centers has absorbed half of the surplus reserves arising from the new reserve provisions and from importations of gold. At this season of the year, however, and particularly with the great business activity and with planting only recently completed, there is always a greater demand for money than later in the Summer, so that I would expect to see the reserves increase a little later, rather than decline any further. I am sending you this statement, however, for your consideration in connection with the policy of so many reserve banks to purchase Government bonds. The system now holds in round figures \$50,000,000 of Government bonds and I learn in a general way that orders are still outstanding for considerable additional amounts.

Realizing that this is really none of my business, I am writing you personally to ask you to consider the following features of our situation:

1. The general uncertainty in all financial affairs by reason of the war demands that our course be very conservative and that our resources be kept in hand,
2. Operations now undertaken in Mexico with the probability of their enlargement make it reasonable to suppose that the Government might find it necessary to borrow some money, possibly to sell some Panama bonds,
3. The revenues of the Government are still considerably below their expenditures and the condition of the Treasury without regard to the Mexican situation might necessitate the Government selling some bonds,
4. The volume of bills is constantly increasing, not only in total, but as regards eligibility on account of the filing of statements by various private bankers, and we should be able to at least hold or even increase the amount purchased for the System,
5. No matter what conditions may be in the future, the Federal Reserve System must buy \$25,000,000 of bonds every year, or appear before the country as failing to carry out one of the principal objects of their organization, and we can, therefore, count upon a constant increase in our bond account,
6. If money rates work higher and if the Government is itself selling bonds in sufficient quantity to make the price of 2s

ease off, the offerings of 2s at par each quarter will grow in volume and we may be in the position of being required to buy \$6,250,000 every three months at prices somewhat above the current market price.

7. If the entire amount of bonds purchased could be converted into 3s and one year notes, it would put the Federal reserve banks in a somewhat more favorable position, should they have a large bond account. Under the present plan only a small proportion of the total holdings of bonds can be so converted.

In former years, before the Federal reserve banks were organized, had the Clearing House banks of New York City reported reserves in the neighborhood of 20%, as at present, we would have had a most serious situation to deal with, possibly struggling with the Clearing House certificate problem and certainly having no market to rely upon for long time bonds; money would have been unobtainable. The assurance which now prevails, notwithstanding the many causes for conservatism growing out of the war, indicates the extent of the reliance of the bankers of the country generally upon the Federal reserve banks and the degree to which belief prevails that the system can meet any strain. I am, therefore, writing to express to you my personal view that no further Government bonds should be purchased by the reserve banks; that we should take steps to convert as many as possible into one year notes and market the 30 year 3s.

You know this town better than I do and how promptly sentiment changes and things go to pieces under the influence of distress. We cannot afford to miss our opportunity of showing our strength for

Hon. Paul M. Warburg. May 12, 1916.

the sake of a few dollars of earnings. I am writing to you personally as I do not want to be in the position of criticising the management of the System as a whole. If you feel disposed to show this letter as a personal communication to your associates, please do not hesitate to do so.

Very truly yours,

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

BS Jr/VCM

WESTERN UNION TELEGRAM

Form 260

1198

W. E. ATKINS, VICE-PRESIDENT

NEWCOMB CARLTON, PRESIDENT

BELVIDERE BROOKS, VICE-PRESIDENT

OPERATOR'S No.

TIME FILED

CHECK

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

May 13, 1916.

Paul M. Warburg,
1704 - Eighteenth St.,
Washington, D. C.

Will be over tomorrow in time for dinner. If you have engage-
ment will dine at the Club.

Benj. Strong, Jr.

Charge to
Federal Reserve Bank,
Equitable Building.

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the original sender. For this, one-half the un-repeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM. 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, 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, 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 or 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 a 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, 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 such other Company reaches 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 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, 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 accepted at 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 with express understanding that the Company only undertakes the same on the day of their date subject to condition that the time remains for such transmission and delivery during regular 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 letter 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 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.

198

Estes Park, Colo., July 24, 1916.

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

Dear Warburg:

I have addressed some letters to Mrs. Warburg and to you at Loon Lake, New York, and am wondering whether that address is sufficient. If you are wondering also why you have not heard from me, possibly that is the explanation. Yesterday's mail brought yours of the 18th. Most of my time is still spent loafing here, but I put in about one hour a day working and hope shortly to increase that to an hour and a half. Treman and the others at the office write me regularly and tell me of the meetings, which I am sure are good for everybody.

About rates, I have come to the conclusion that if even time money gets up to 5 per cent, or higher, in New York, it will not be advisable for us to increase our discount rate, but should meet the situation by changing our rate for bills, deferring any change in the discount rate until there is considerable tendency for member banks to rediscount commercial paper. The world's money markets are now getting pretty sensitive and we can change our rates for bills without any flurry, but I believe a change in our discount rate might be productive of harm. It is a matter that will require skillful handling and I regret very much not being there to watch matters move this fall. The view you express about the short loan rate confirms my own view about all the rates for discounts. You have doubtless been advised that the minimum rate for bills is now $2\frac{1}{2}$ per cent.

I congratulate you on establishing relations with Sabin looking to membership. We will get them in time, but I would be more pleased to see the time in the near future than deferred until next year. If we get the Guaranty, we will get the Bankers and with them the whole state bank membership problem is solved.

Don't you dare insult me by calling those Republican obstructionists in the Senate my friends. I have no use for any of them. After the hard work that we have all given to the subject of Amendments, it makes me sick to see those jealous time serving partisans throw us down. For the first time I have been tempted to "write a letter to the Press" on the subject. Can't we push the matter along through the President and wouldn't it be a good scheme if some of us addressed a letter or two to Colonel House on the subject?

2.

I am glad the responsibility has been made clear, but it should be done publically.

Thank you for sending me a copy of Mr. Hulbert's letter. He is a fine fellow and if you and your associates can make a generous ruling on the Clayton matter, we can start the ball rolling in Chicago just as well as in New York. Jimmie and I have exchanged postals and I am trying to tempt him to stop up here for a visit on his way home. It is well worth the extra time for the country is wonderful.

You astound me by your slighting reference to your wife and Bettina by saying with those two present there is but little left of your family. Please give them both my love.

About my own progress, I think it has been better the last two or three days than at any time. I am feeling stronger, more energetic and have a better appetite. Just now we are engaged in building a fine sleeping porch at the rear of the cottage, and various other small improvements in the office arrangements.

Have just received a letter from Fred Strauss and am trying to coax him to come out here in September, intimating that with a bit of persuasion you and Mrs. Warburg might be tempted also. I suggest September rather than August as the climate is then at its best and the Park will not be so crowded.

With warmest regards and endless thanks for your letters, which make me feel that I still have a hand in things,

Faithfully your friend,

Estes Park, Colo., August 1, 1916.

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

Dear Warburg:

There is very little news I can send you from here, as news implies activity and that is just now quite out of my line. I have a boss here in the shape of Miss Thompson, who holds me down, but this week I am going to be indulged by a short allowance of fishing. I will let you know the outcome.

The boys at the office write me frequently and I am pretty well in touch with what is going on. They have concluded the government bond arrangement on a basis that seems to me as satisfactory as can be worded out under present conditions. Of course we missed our market, through no fault of our own.

I have just completed and forwarded to New York a long memorandum, much too long I fear, in relation to foreign correspondents. A couple of weeks' quiet deliberation on that matter up here in the mountains convinces me that it is really our duty to conclude an arrangement, which I regard as most favorable, while the opportunity exists and which I fear will disappear if we procrastinate with it. I have a vision which may be over optimistic, but which I think you have sometimes shared with me, that in a few years the Federal Reserve System may be able to develop relations with the principal central banks of Europe, such as never would have been possible prior to the passage of the Federal Reserve Act. This country of ours needs it as one of the safe-guards against unfavorable after-war developments. My views on this matter are not partisan and if conditions respecting communication, security, etc., made possible, I would be just as ready to extend this plan into Germany as into any other country. For the present it seems to me we should make banking arrangements with the Bank of England, the Bank of France, the Bank of the Netherlands, some of the South American Banks and possibly a little later some of the Scandinavian Banks. After you have been over the memorandum I wish very much you would write me fully your views about it. If the situation makes it necessary for you to turn this matter over to your associates without influencing their

2.

decision yourself, then write me your views personally.

I have a bully letter from Mrs. Warburg, in which she reproaches you for deserting her. It leads me to renew my suggestion that this is a good place to spend part of your vacation and it is too far from Washington to result in interruptions.

My best regards to you old man. Write me when you can spare the time.

Faithfully yours,

COPY

Estes Park, Colo., August 5, 1916.

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

Dear Warburg:

I have your fine, long letter of July 31st, dictated at Loon Lake, and am dictating an answer in our new sky parlor, which looks right up at the Continental Divide that is still well sprinkled with big snow drifts. I wish you were here for there seems to be an endless number of matters that we could discuss with advantage, particularly as you seem to be worried and as Mrs. G.K.W. will certify I am the best soporific for these unfortunate moods of yours.

Your good spouse tells me that physically you are in wonderfully fine shape, but mentally are much harassed by the "row" over the Governorship. Don't let it worry you old man -- think of all the things that might happen that would be much worse than the thing that you now fear.

I have sent the office a memorandum about the Bank of England matter. It was too long and in pretty rough shape, but I have asked them to boil it down and polish it off and send it to the Board as coming from the Bank. In addition I have completed the outline of an arrangement by which all twelve of the Reserve Banks would conduct foreign transactions in one account, the New York Reserve Bank to manage the account, subject to a certain supervision by a Committee of the Governors. This is also tentative and I would have sent both documents to you direct, except as a matter of courtesy it seemed necessary for me to first consult the officers at the bank, as well as the directors, while I am in exile.

We are going to have a great opportunity in the near future to develop arrangements of value and importance abroad. A letter just received from Mr. Vissering contains most cordial expressions and asks if I cannot arrange to visit Holland and talk over banking matters with him. If I ever get well, that is one of the first things that we should do.

Thank you for advising me about your correspondence with Sabin and the new ruling about acceptances. You and I might not consider the ruling good business under ordinary conditions, but in order to get these laggards into the system where they belong, I think any ruling of that kind is justified.

Thank you also for sending me the letter which the Board sent to Breckenridge Jones. It should answer his objections, which I recall were very fully set out in a brief, covering this very point, which struck me as being an able argument. Of course Breckenridge Jones has dealt with the Charter powers of the Mississippi Valley Trust Company pretty generously, but he is a sound banker and a safe man in my opinion and his institution is undoubtedly in good shape.

The newspapers report the passage of the Amendment Bill by the Senate, so I am acting upon your modification of my suggestion and writing simply to Mr. Glass. It hardly seems necessary now to write Senator Owen. A copy of my letter is enclosed and I hope it meets with your approval.

My best guess is that we are going to see money reasonably easy until September or October, but after that a good demand. I suspect that some of the gold recently imported has not yet appeared in bank reserves in New York; where it comes from is to some extent a mystery, but can be partly explained. The Bank of France has not shown any increase but a considerable decrease in its gold holdings, notwithstanding that the French people are still giving up an average of a million and a quarter dollars a week from their hoardings. To this can be added the production of the African and Australian mines, which probably amounts to four and a half million dollars a week, and, as you surmise, very considerable contributions by Russia.. We must not overlook the fact also that the effect of the issue of English currency notes has been to drive gold into the London joint stock banks and I suspect that some of this gold is also being used. During the period that gold shipments were suspended by the Bank of England the accumulations from these four sources of supply were doubtless considerable. I must say that the skill with which these great transactions are being managed justifies admiration. It indicates that they propose to keep our bank reserves flushed with gold so long as they are large borrowers in our market. Possibly you observed some months ago that the Bank of Russia announced that in publishing its gold reserve it did not include its stock of gold held abroad; that gold was undoubtedly in London and quite likely had been moved there a long time ago.

Your suggestion about Aiken has long been in my mind. It is a matter that I would hesitate to broach in New York without first conferring with Jay, and, as he will not be back until August 21st, possibly it would be well to wait until then. Aiken would be a great addition to our force, but a tremendous loss in Boston, where in my opinion he has achieved a greater success in securing cooperation from his members than any other bank. He is a lovely fellow and would prove an eminently satisfactory associate; nothing would suit me better.

3.

I had heard of Billy Porter's illness before leaving New York; in fact, the first news I had of it was a letter of sympathy which he dictated to me not long after he was taken sick, and you will agree that that was most characteristic of him. It is a terrible blow to all of us who have been fond of him for many years.

This is enough to inflict you with at one sitting. I am sorry that your letter had a sting in the postscript, stating that you had been hailed to "Washtown" as Mrs. Warburg has christened it.

As always,

Y
D
O
C

198

Estes Park, Colo., August 7, 1916.

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

Dear Mr. Warburg:

One of the boys at the office sent me a copy of the New York Financial Examiner and you will be amused at reading an article on the first page and an editorial, both of which are marked. It simply indicates that some of the old heresy is extant.

I am reading with keen interest the outcome of your negotiations for the passage of the amendments.

Yours sincerely,

198

Estes Park, Col.,

August 24th, 1916.

Dear Warburg:

For over two weeks I have been without help here and consequently unable to answer your letters and a lot of others. I won't attempt to do so to-day, but will write you fully to-morrow or next week. Am going to Denver Saturday to meet two of my youngsters who are coming out with my brother Billy.

I have a letter from Carter Glass expressing confidence that the amendment^s will all pass with the exception of the provision authorizing exchange of Federal reserve notes for gold. This is very disappointing. I may get up a little brief on this matter and send him and will send you a copy. He certainly takes a narrow view of some very fundamental banking principles. If he does not improve, I may decide to send him two or three good books on this subject which he should have read long before attempting to say what kind of legislation this country needs.

Have just learned confidentially that we were very near success in getting the New York trust companies into membership, but they have now been advised that membership in the system will be impossible so long as they have any private bankers on their Board of Directors and, consequently, they cannot afford to join.

Hon. Paul M. Warburg.

Aug. 24, 1916.

This is another kick-back from that wretched Clayton Act, which in turn, was a product of the still more wretched Pujo fiasco. It means a new campaign to amend the bill and we must get at it promptly. I have written the office that I expect to devote a little time to getting up a brief and draft some sort of amendment and I hope that you and your associates will get your shoulders behind this and get something done next December, if it cannot be done now.

There is little news here except a very favorable report from Dr. Sewall whom I saw last Saturday and who says that I am making excellent progress. He has determined to keep me in the mountains all this Winter. As this place will be deserted next month, I will take the opportunity to do some serious work, increasing the quantity as the Doctor permits.

Please tell Mrs. Warburg that I have an unanswered letter from her which will receive early attention. She is the Best correspondent I have, and let me say without qualification that it is not the only respect in which she is the "best ever."

I also have a letter from Bettina, but as she failed to send a microscope with it, I have not been able to read it all yet.

I hope they are not keeping you trotting back and forth to Washington and if you are going to indulge in any traveling, come out here.

My warmest regards to you, old man, and many thanks for your letters which go a long way toward convincing me that I am not yet out of it.

Faithfully yours,

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

BS Jr/VCM

198

Estes Park, Col.,

August 25th, 1916.

Dear Warburg:

In my letter of yesterday, I omitted entirely to refer to the Kansas City Convention of the American Bankers Association. This is the most important meeting to be held by our members since the organization of the System and I feel convinced that unless the reserve banks and the Reserve Board are adequately represented there we may suffer the inconvenience of hostile action.

My experience has been that the mere presence of representatives of the System at these bankers meetings acts as some restraint and brings about more conservative action. Cannot you and some of your associates arrange to attend and might it not be a good scheme to notify the Federal Reserve Banks generally that they should endeavor to have representatives there? I am mighty sorry that I cannot be there myself, but our office will be represented and I hope adequately.

I will write you fully about various matters next week.

Sincerely yours,

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

BS Jr/VCM

FEDERAL RESERVE BOARD
WASHINGTON

G. L. Harrison 198
Assistant Secretary
Civil

The telegram given below is hereby confirmed.

2-772*

August 24, 1916.

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

Amendments reported by Conference yesterday. Changes in Senate bill are as follows: First, member banks allowed to carry vault reserve in Federal reserve banks with Board's approval. Second, waiver clause amended to read Quote Upon the indorsement of any of its member banks which shall be deemed a waiver, etc. as to its own indorsement exclusively End Quote This eliminates necessity of expressed waiver but it does not correct difficulty raised by banks. Third, Amendment to Section 16 completely omitted except that bills of exchange and bankers' acceptances purchased in open market are made eligible as collateral. Fourth, branch bank amendment stricken out. Fifth, member bank acceptances drawn to furnish exchange limited to fifty per cent of capital and surplus of accepting bank. Conference failed to incorporate days of grace in Section fourteen, failed to incorporate provision authorizing Federal reserve banks to acquire bills drawn by non member as well as member banks for exchange purposes, and failed to incorporate provision authorizing reserve banks to receive deposits from non member banks for collection purposes.

GLE-C.

(CONFIRMATION)

(Signed) G. L. HARRISON
Assistant Counsel.

August 28, 1916.

S i r s :

In accordance with the provisions of paragraph (e) of section 14 of the Federal Reserve Act, the Federal Reserve Bank of New York hereby respectfully makes application for the consent of your board to open and maintain a banking account with the Bank of England, a private corporation established under the laws of the United Kingdom of Great Britain and Ireland having its principal place of business in London, England, and to appoint the said Bank of England its correspondent, and to establish the said Bank of England its agent in the said United Kingdom.

Accompanying this application is a memorandum prepared by Governor Strong of this bank outlining the reasons for submitting the application at this time.

Respectfully,

Deputy Governor.

Federal Reserve Board,
Washington, D. C.

JFC/PE
Enc.

Estes Park, Col.,

August 29th, 1916.

Dear Warburg:

Yours of the 26th has just come and I am still not going to answer this and the other two letters, for I have been a bit knocked out by some mysterious cause, possibly a little cold or something disagreed with me - put it down to the devil's handiwork anyway. When I do not feel well, they put me to bed and that is where I have been since last Thursday.

My eye just catches the suggestion that you may come out here. I am crazy to see you, but it is a case of duty versus pleasure, as you have no doubt gathered from my earlier letters. If you can do it, telegraph me in advance so I can make arrangements for your accommodations. Officially, I say, do not come. Personally, I say, let Kansas City go hang.

I added another blast to my first letter to Glass, after hearing from him that the note provisions would be lost, and send you a copy for such use as you may desire in connection with the Kansas City speech. It is the product of a fevered and distempered brain, but I would not have written it unless I felt pretty sure of the ground.

To Hon. Paul M. Warburg.

Aug. 29, 1916.

I will be delighted to go over your manuscript but do not feel that I can "put it into shape", as you suggest. You are the great speech writer and I am simply the dull critic.

My very best to you and all the family.

Sincerely yours,

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

BS/VCM

COPY

Estes Park, Col.,

September 1st, 1916.

Dear Warburg:

I have three letters from you unanswered, all dated from Loon Lake, the last August 26th. Also, the copy of Harrison's wire about the amendments, which you were good enough to send me, and your own official telegram, - the first of that character from you as Vice Governor - advising me about those infernal "days of grace" which seem to have a way of popping up the chimney and getting somewhere and hiding, so far as the public press is concerned.

I sincerely hope everything is coming smoothly for you in Washington by now and that the new organization turns out well. How I would like to drop in on you.

The last week or ten days I have been feeling wretched and while it was just an unfortunate upset, I suppose it sets me back somewhat and certainly I felt mean for a while. It, also, has resulted in an accumulation of mail, which will take some days to dispatch.

About the Aiken suggestion; he has all along been my first choice. On the other hand, I omitted to mention in a former letter that the development of the foreign business would make it highly desirable for us to get Kains, if he would be willing to come, (which I doubt). I am writing Jay on the

To Hon. Paul M. Warburg.

Sept. 1, 1916.

subject to-day, carrying out the program we arranged by correspondence some weeks ago, and you will undoubtedly hear from him about it. I suppose you realize that Kains knows the London bill market better than any of us. All those Canadian, Scotch and English bankers pick up information about English bills, no matter where they may be carrying on their nefarious trade. He also knows the usage, as well as the technique of the business. I hope you and Jay and Treman talk it over the next time you have a meeting together.

I am glad you liked my first letter to Glass. You may not care as much for the second.

If you decide at Kansas City to come out squarely on the subject of the note issue, (I am awaiting anxiously for the manuscript of your address), I think I will adopt your suggestion and begin to write a few articles for the papers on various features of the Federal Reserve System and take a good hard lick at this particular subject. Possibly you won't mind if I inflict you with some of the manuscripts for editing and censorship. I would also take up the question of Treasury relations, foreign business and (what interests me more than anything just now), the whole subject of our currency and its defects. My idea was to make it as little technical as possible.

About Russian conditions, I must say I am not very fully informed and certainly not well enough posted just now to do any newspaper writing, nor did I see the article in the Wall Street Journal to which you referred. I do not get that paper out here.

To Hon. Paul M. Warburg.

Sept. 1, 1916.

People who visit Russia tell me that if Russia had a year-around, ice-free port, say, for example, a Mediterranean port, the development of agriculture in that country would be astonishing. Russia must go through the same period of exploitation, financial, industrial and political, with all of its unfortunate consequences, that ultimately with beneficial results marked the 25 or 30 years of our history immediately following the Civil war. When her productive capacity begins to build up these big trade balances that we developed after the conclusion of the Civil war, I have no doubt that she will jump ahead fast, and in a general way, I have been rather optimistic about their future. I know little about the last Russian loan, but on the whole, I do not believe we are going to lose money on any of these foreign loans that are now being placed, either those in investment shape or those handled by the banks. I would rather that not more of the securities now being issued went to the public than seems to be the case. I think our banks hold too many of them, but they are short time loans and, frankly, I think are better and present less possibility of shrinkage than much of the American stuff that the banks have formerly held when they ought not.

Do not forget that you are going to send me a letter in regard to the matter of our foreign correspondents.

The fate of the omnibus amendment bill is disheartening. The note provision was the most important of all and losing that makes me sick. Glass has fallen down there very

begin

end

To Hon. Paul M. Warburg.

Sept. 1, 1916.

badly and displays an ignorance of the whole subject of currency that is deplorable in one occupying his position.

Can I now urge you to try and postpone any further action in the matter of postmasters acting as collection agents? If we have to employ their services, don't let us advertise the fact, but take isolated cases, like Lyford who is amusing himself by shipping silver dollars in settlement of items, and get either the postmaster or some one else of responsibility in his town to present checks at his counter.

I appreciate greatly the warm expressions of regard from the different members of the Board who write me and hope that from time to time as they have opportunity, they will keep me in touch by dropping me a line. Would you mind saying this to some of them if you have a chance?

Your last of August 26th gives me the impression that you are feeling pretty cheerful. It made me cheerful, particularly the suggestion that you might get out here the last of September. Don't fail to do it if there is a possible way of arranging it. I would have liked seeing you before the meeting and going over that speech with you, but that of course is impossible.

Some time, if you have the opportunity, would you mind whispering in Delano's ear that I consider him a loyal friend of the Federal Reserve System and one of our main standbys there in Washington. He will know what I mean, just as you do.

To Hon. Paul M. Warburg.

Sept. 1, 1916.

Of course, I know that nothing will induce you to throw up the job, that you are going to stick it out and that I am going to be back there with you in some shape or other to help where I can. If we could get the note provisions right and then get Uncle Sam to pay the cost of the note issue, say for a period of years, you and I could make this Federal Reserve System the greatest thing ever. Without the note provisions right, we are going to be terribly handicapped.

I have a great feeling of sympathy with you and the others about the interpretations necessary under the Clayton Act. The office advises me that they have about 150 pending applications. I wish I could help work out the puzzle and have asked them to send me any material on which I could do some work.

Am glad you like Mr. Treman. He is a splendid fellow and it was a godsend that he could step in there when I left.

The above are simply running comments on your letters. There is little news to send from here. My younger boy and little girl are with me and I expect Ben in a few days. They will likely be here for some time as the college and school openings are delayed I believe by reason of the epidemic.

Please give my warmest to your partner and wife and to Bettina and tell Mrs. Warburg that a letter is germinating which will probably take form in a few days. Meantime, for her amusement, I am enclosing some photographs that were taken by Miss Thompson, giving various views of the mansion we are occupying here. Don't mistake one of them for a hospital ward. It is just the sleeping porch.

Faithfully yours,

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

Estes Park, Col.,

September 6th, 1916.

Dear Warburg:

Yours of the 1st just received, and a letter received a day or two ago from Harding, intimate that both of you might come out here for a few days after the Convention. Please try and do it. I will meet you in Denver if you prefer, to save time, which would be the two days it would take you to get to the Park and back again.

Thank you for your advices about the days of grace. That poor little amendment seems to have passed through every vicissitude before finally getting through. I am glad that the bill was finally passed, but terribly disappointed about the amendment in regard to the note issue.

About the foreign business; of course, I can understand the hesitation which you and some of your associates display in regard to starting transactions with the Bank of England until the State Department has had opportunity to consider the matter. On the other hand, is it quite fair to conclude an arrangement now with no expectation of operating under it unless we make that quite clear to the Bank of England?

You, I am sure, agree with me that the advantage of the arrangement at the present time is really more with us than the Bank of England. The amount of money we would employ would be

To Hon. Paul M. Warburg.

Sept. 6, 1916

small in comparison with the total of all credits which they are employing in this country, and on the other hand, we would accumulate our exchange at most favorable rates and buy our bills on unusually favorable terms. Say \$25,000,000, employed as a stabilizer by some one operating carefully in sterling, will go very much further than one would imagine offhand. Nor do I believe, as you seem to infer, that the Federal Reserve System could undertake successfully the entire burden of keeping exchange around parity. We need to develop our facilities and machinery, simply to do our share. I always have in mind that we have taken about \$600,000,000 of gold from Europe, some part of which must return, possibly, a very large part, and the Federal Reserve Bank of New York, supported by the other reserve banks, should be the one to regulate this flow as far as regulation is possible.

Different practices prevail in regard to gold reserve held in foreign countries: Chili, Argentine, Brazil, Australia, Japan, India and, I believe, at times, other countries, have all carried gold abroad and counted it in one way or another as reserve. At the present time, the Bank of France is carrying 573,000,000 franca abroad in that way which, of course, it shows separately in the statement, and the Bank of Russia is carrying a very large sum abroad, which it shows separately in its statement. The Bank of England, as we know, does not carry gold outside of the British Empire, but it does count gold in Australia, South Africa and Canada as part of its reserve.

To Hon. Paul M. Warburg.

Sept. 6, 1916.

I do not feel very strongly one way or the other about this particular point at the moment, although logically if we are to effect international gold arrangements at all, it must necessarily be upon a basis of counting gold held abroad as reserve, if the arrangement is to be of any considerable value.

In regard to the gold held abroad by the Bank of the Netherlands, I think it would be found on investigation that the Bank of the Netherlands has actually issued notes against this gold and that it does count as part of the note reserve of the bank, but the point is not material as to the Bank of the Netherlands because they are carrying over 80 % reserve now and, besides that, their note issue is secured by the assets of the bank without specific pledge, as in the case of our notes.

There never has been a time since the days when we confiscated Tory property immediately after the Civil war, and greatly to our discredit, that private property has not been respected by the belligerents in the present war. I really have no concern whatever about the possibility of war between England and this country resulting in the wholesale theft of private property, such as you seem to fear. I admit it was done by this country in a most discreditable manner about 130 years ago, and the brightest spot in Alexander Hamilton's record is the magnificent fight that he made in New York State to save this country from the everlasting blot on its honor that would have resulted in the violation of the treaty with England and the wholesale thievery of real estate and private property held by English citizens in this country.

To Hon. Paul M. Warburg.

Sept. 6, 1916.

You and I would feel very much easier about this matter if the note provisions of the Act were in better shape and if we had succeeded as we might under different conditions, in accumulating the greater part of the \$600,000,000 that has recently been received.

Please do not forget that this arrangement is based upon a purely selfish motive, namely, the desire to protect ourselves later on against what is almost sure to happen.

When this miserable war is concluded, if it ever is, I have hopes that you and I will journey to Europe together and perfect these arrangements all around. Possibly, that can be the finishing stroke of the job before we both take to the woods.

Thank you very much for your letter. It would be very much better to talk this matter over and I am terribly keen to have opportunity to do so. The best way is for you and Harding to come out here and take a little holiday with me.

My best regards to you, old man, and many thanks for your patience in this difficult foreign business.

Faithfully yours,

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

BS/VCM

WESTERN UNION TELEGRAM

Form 260

198

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

COLLECT.

Estes Park, Col.,

Sept. 11, 1916.

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

Sending important telegram to Jay, Shoreham Hotel regarding interlocking directors.

Benj. Strong.

BS/VCM

ALL TELEGRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING

To guard against mistakes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for each day. For this, one-half the unrepeated telegram rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM. 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, and the amount received for sending the same; nor for mistakes or delays in the transmission or delivery, or for non-delivery, of any REPEATED telegram, beyond fifty times the sum received for sending the same, unless specially valued; nor in any case for delays arising from unavoidable interruption in the working of its lines; nor for errors in cipher or 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

CLASSES OF SERVICE

TELEGRAMS

A full-rate expedited service.

NIGHT TELEGRAMS

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

DAY LETTERS

A deferred day service at rates lower than the standard telegram rates as follows: One and one-half times the standard night letter rate for the transmission of 50 words or less and one-fifth of the initial rate for each additional 10 words or less. Subordinate to the priority of transmission and delivery of regular telegrams. Must be written in plain English. Code language not permissible.

Telephonic delivery permissible. Day Letters received subject to express understanding that the Company only undertakes delivery of the same on the day of their date subject to condition that sufficient time remains for such transmission and delivery during regular office hours, subject to priority of the transmission of regular telegrams.

NIGHT LETTERS

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

198

Estes Park, Colo.,

September 11th, 1916.

Dear Warburg:

Yours of the 6th and 7th and the copy of the Kansas City speech are all here and I expect to return the manuscript some time to-morrow. I have read it through once and am just getting ready to tackle it again. It is very good indeed, but I will reserve all comment until I have finished it.

It has been snowing up here all night, just now is raining and I expect when it clears up to find the mountains pretty white with snow. This is the first touch of Winter that generally sweeps over the Rockies at this season.

The statement of the bank of September 5th just reaches me, showing Due Other Federal Reserve Banks, over \$48,000,000 gross, and \$32,750,000 net. As a result of their large sendings of exchange, our silver certificates and greenbacks are up to about \$27,000,000. This is the same old difficulty which we have discussed so many times. With the plethora of gold in New York just now, I imagine they will be able to work off the silver and greenbacks in the course of a week or two but the situation is really a bad one and throws the entire burden on New York of sorting all this money received in settlement of exchange. I think we ought to straighten it out. You will notice that I mentioned this in my letter to Mr. Glass, on which

To Hon Paul M. Warburg.

Sept. 11, 1916.

I would like to have more extended comment than is made in your letter, and I mention the matter now in the hope that you and your associates may feel justified in pointing out to Mr. Glass very forcibly this fundamental weakness in the whole situation.

There seem^s to be three things that we can do: One is to present these silver certificates and legal tender notes to the Subtreasury as rapidly as they accumulate and demand gold. That will raise the dust right away; the second is to enter into arrangements with the big New York banks to buy exchange on the other Federal reserve cities. This is not a good plan, as it will be construed as retaliation by the other banks and, furthermore, will enormously increase the float, which by all means we should avoid. This also breaks down the system of deferred credit. The third plan would be to regulate the amount of sendings from the other reserve banks by a system of charges. This will be strongly resisted by the other banks, as they are now making profits out of New York exchange, particularly, Chicago, and any system of charges which we might impose in New York will have the effect of dividing their profits.

I am sure you will agree with me that in settling the policy in New York in these matters, we have been willing always to ignore questions of profit in the interest of the whole system. But we certainly cannot afford to ignore a situation which has the possibility of pumping our gold out in a few days or weeks and stripping us right down to silver and greenbacks. Once before, this occurred when our holdings got up to a total of \$44,000,000. You can imagine what a position we would be in if this accumulation took place at a

To Hon. Paul M. Warburg.

Sept. 11, 1916.

time when the exchanges were adverse and New York was shipping gold to Europe. We would literally be swamped with silver and greenbacks and unable to meet the demands of our members for export gold. Frankly, I do not think this situation is one with which we can afford to procrastinate. So much for the domestic exchange matter.

Now, replying to yours of the 6th, I am keen as a brier to see you out here and your letter gives me the first real hope that you will make the trip. I expect to meet you in Denver anyway, and the only question to be decided is whether you feel able to spend the time to run up to Estes Park, which would take one day each way. We could come up by automobile if the weather was good and you would have one of the most beautiful rides in the country. Any plan you make would satisfy me entirely, and if you say stop in Denver, I will get rooms at the Brown Palace Hotel and we can divide the time between a good chin in the hotel and some drives about the country. A letter just received from Mrs. Warburg indicates that she is tempted to come too. If you can add to the temptation and just bring her along, I will be more than delighted. Please do not disappoint me about coming and let me know whether Harding expects to come too. He wrote me that he might come with you.

A few days ago, Frank Vanderlip telegraphed me that he expected to go to Kansas City and he and Frank Trumbull might come out here after the Convention. As you will come before, there is no chance of bumping heads, but I telegraphed him that you expected to come on if you could and you may hear from him about it.

To Hon. Paul M. Warburg.

Sept. 11, 1916.

All that you say about Aiken and Kains is very true indeed. I have asked Kains if he could recommend a good foreign exchange man. If we could get just the right man and then make a combination with Aiken, it would give us a splendid situation in New York. Aiken is already very well and favorably known in New York and is such a charming fellow that he would be a great addition to the office.

It amused me to read your explosion about Russia and Sam McRoberts. Russia is a good deal of a mystery to me. I have read very little about the country and, of course, defer to your own better knowledge. After all, is not the great difficulty there the character of the people, rather than the country itself? Bad politics, unreliable business principles and the indifference of the upper classes to commercial and industrial conditions will destroy the prospects of any country, and I suppose that is the case in Russia. On the other hand, they undoubtedly have tremendous resources for development and some day they will get them producing.

I am astonished at what you say about the amendments. Carter Glass is too erratic and emotional altogether for work of the character that he has undertaken to do. He strikes me as being full of prejudices without logic. Possibly, his own mistakes are necessary to convince him of his limitations. I have not yet received the final draft of the bill as passed, but when it comes will make that the excuse to write Glass again if you think that is a good plan, and give him another jab on the acceptance matter.

To Hon. Paul M. Warburg.

Sept. 11, 1916.

I am getting ready to prepare some of those articles, in fact, have made notes already for one and hope to start dictation before you get here.

While it is none of my business, let me repeat what I wrote to Mrs. Warburg yesterday. Don't take any risk in bringing Betsy down from the mountains until cold weather has really set in. I have a horror of the possibilities of infantile paralysis. If it is not fatal, it invariably leaves a cripple. I have a little cousin about Betsy's age who will never take a step, as a result of this disease some years ago. Better let school and everything else go rather than risk a new epidemic, and possibly, infection.

The quotation you sent me from the Economist is very interesting. I think we have got to recognize that during present conditions when the trade of the world is so terribly out of balance, many financial expedients must be employed to keep things going, and I suppose we have got to do our moderate part. I would like to see more bills appearing in New York with documents attached and yet realize that wonderful progress has been made in that direction already.

I suppose you know that the Bank of France and the Chamber of Commerce have a representative in New York just now doing nothing else but negotiate such credits and they have fallen in with the idea of having them opened in the right way and having bills negotiated without renewal obligations. They tell me such credits are being arranged for certain purchases of railroad materials

To Hon. Paul M. Warburg.

Sept. 11, 1916.

for purchases of copper, for financing Egyptian cotton and for a good many other purposes, the aggregate amounting to a large sum, but no particular credit being very extensive.

I am advised that some very large cotton investments this year will be carried on 90 day bills drawn in dollars. You were also advised that the \$20,000,000 credit of the Bank of France was paid off in full and a new \$25,000,000 credit arranged, the same to cover the movement of new commodities.

It is a little egotistical to take all the credit for influencing matters in the right way and yet I know from what has transpired in New York that it has been our own insistence that these bills should be drawn in the right fashion that has resulted in the development of the market to date. Our ability to say that bills were eligible, or not eligible, according to our own notion of what was the proper method, has really forced them into line. The English bills referred to by the Economist are of identical character with many of those being drawn in New York.

You will be somewhat surprised that Jim Brown has written me that Sir Edward Holden is reported to have capitulated, at least, in the matter of dollar bills, and the possibility of English banks deliberately adopting the policy of recommending American drawings. Unfortunately, as stated in the article in the Economist, the supply of bills in London has dwindled tremendously. To-day, it is not more than a quarter or a third of the normal volume, due of course, to the large amount of government purchases, for which

To Hon. Paul M. Warburg.

Sept. 11, 1916.

cash is paid; in other words, treasury bills have supplanted commercial bills. This puts one side of the market, that is the investment side, in distinct opposition to our efforts.

Pardon this long letter. It is justified by yours of the 6th which I have enjoyed very much. Do it again.

With lots of good wishes,

Faithfully yours,

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

BS/VCM

Estes Park, Colo.,

September 12th, 1916.

Dear Warburg:

I did not realize until sitting down to go over your Kansas City address that it is a good deal easier to make suggestions and criticisms personally than in writing. When you come to read over the manuscript, you will think possibly that I have a very poor idea of your diction. Please consider that every change suggested is merely a suggestion and not a criticism, and that most of the changes of words were made with a view to strengthening the sound of what you say rather than the substance, and to save time, I have made practically all comments in the text on the margin.

The following special comments, however, seem necessary:

Page 13. In discussing banking reform, we have always considered that individual gold reserves were a source of weakness to the System and your language on the first line of this page might appear to contradict your former statements on this subject.

Page 17. The increase of nearly \$600,000,000 of gold net, I believe has taken considerably more than one year for us to accumulate. The gold movement in our favor, as I recall, started in the early Summer of 1915, but the net addition of \$600,000,000 would have to cover the whole period of two years so as to include the earlier loss of gold which was later made up by large receipts.

To Hon. Paul M. Warburg.

Sept. 12, 1916

Page 18. You refer to \$2,500,000,000 of gold as being the country's total gold supply, but the language on page 5a, line 15, might be understood to mean that the country's total gold supply is \$1,970,000,000. I think you mean that this sum is in circulation in addition to the \$530,000,000 held by the reserve banks.

Page 19. I am not at all positive about my comment on the figure of \$500,000,000 of Aldrich-Vreeland notes. My memory, however, is that \$388,000,000 were actually put into circulation. (Again let me apologize for numerous changes of language, which probably are not justified, but which it seemed to me might make the speech "hear" better).

Page 21. As I recall, the total deposit liabilities of national and state banks in the United States is rapidly approaching \$20,000,000,000. This must be three or four times the total of the English banks. Adequate protection to the stock banks of this country would really necessitate assembling reserves in our central banks three or four times the size of deposits carried by the English banks with the Bank of England.

The note on page 21 in regard to the theory is simply to draw attention to the fact that this reference to the theory is a bit obscure.

Page 4a. The same note in regard to the Chronicle might appear on almost every page with equal justification.

Page 5a. The statement of the amount of gold withdrawn from circulation in France during the period of the war

To Hon. Paul M. Warburg.

Sept. 12, 1916.

as \$71,000,000 is really quite incorrect. What has happened in France is not directly reflected in the statement of the Bank of France. When the Bank of France and the Government made the appeal to the French peasants to deposit gold, the response was instantaneous and tremendous. When I was in France last February, they gave me the figures showing that \$260,000,000 had been deposited with the Bank of France, as the result of this appeal. Since that date, these deposits have averaged about \$95,000,000 francs a week right along. The reason why the Bank of France does not show a greater increase in its gold holdings is because it is shipped to London for shipment to America.

Nobody knows just where the gold reserve of the Bank of France is now held outside of the officers of the bank and the Government. Recent reports show that nearly 600,000,000 francs are held abroad. My surmise is, and has been right along, that there is a constant movement of gold from France to England; partly for security's sake and partly as a contribution to assist in the correction of American exchange. It is quite incorrect to say that only \$71,000,000 has been withdrawn from circulation during the war period, because it is probably more than four times that amount.

Another point in regard to the language which you use in these few sentences is the failure to explain just what you mean by withdrawing gold from circulation. Some people might construe this as meaning hoarding by the people. I understand it to mean withdrawn from circulation by the central bank.

To Hon. Paul M. Warburg.

Sept. 12, 1916.

The other note on page 5a relates to the matter mentioned above on page 18.

Page 6a. Your expression "unduly early and unnecessarily drastic measures of defence" strikes me as a bit inappropriate. The logic of your argument would lead to the conclusion that we will be forced to take emergency measures at the last minute which, as a result, would have to be unnecessarily drastic and alarming in order to accomplish a purpose which could have been brought about easily and without shock, if undertaken well in advance. This all recalls the days when we were sitting in the Subtreasury in New York and the Treasury Department in Washington devising all sorts of schemes to get together gold, gold exchange, provide marine insurance and do all sorts of things, many of which would have been entirely unnecessary had our banking system been in full operation, not as provided by the present statute, but as would have been possible with the Federal Reserve Act in operation as amended by recent proposals. Later on page 6a you refer to surplus reserves being tied up as the basis for enlarged deposits. This might open the door to criticism, because deposit liabilities cannot increase without a corresponding increase in the loan account unless, of course, accompanied by a very large corresponding increase in unemployed reserves. It is a minor point, but I always have in mind your friend the Chronicle and the joy with which they will pick any flaws in your address.

Page 9a. I hate to read any statement from you which condones, accepts or even tolerates, the perpetuation of our bond

To Hon. Paul M. Warburg.

Sept. 12, 1916.

secured bank note. Maybe I feel too strongly about this. The succeeding sentence, which I have marked O. K., takes the sting out of the previous one, but does it do it enough?

Page 10a. I have not the data handy to make a calculation, but my impression is that if one deducts from the net liability of the Federal reserve banks on Federal reserve notes, the actual amount of Federal reserve notes held in the tills of all the Federal reserve banks, along with their other cash, it will be found that there has been no net issue of Federal reserve notes at all.

Page 11a. The marginal note needs no explanation.

Page 12a. It strikes me on reading the address the second time that you have introduced the subject of the Federal reserve bank notes and national bank notes between two different parts of your argument in regard to protecting the gold reserves of the reserve banks. Might not the last line of page 12a, all of 13a, all of 14a and the first two-thirds of 15a naturally come in the middle of, say, page 10a, or possibly at the end of the first paragraph on page 11a?

Page 1a. You seem to accept as final, the conclusion that the only method of retiring greenbacks is by the application of the accumulated profits of the Federal Reserve System. You and I should be the last ones in the world to accept this as final. Some day, means must be found to eliminate the greenbacks, and I believe that once we get at it earnestly, particularly, if there is a new and Republican Congress, it can be done with less

To Hon. Paul W. Warburg.

Sept. 12, 1916.

difficulty than one would imagine. So far, our excess profits pay only Irish dividends and won't retire any greenbacks. The gold reserve of \$150,000,000 behind the greenbacks has been increased to \$153,000,000 by the profits of the Aldrich-Vreeland currency. It would please me a lot if you would avoid mailing your colors to the mast as to how the greenbacks may be disposed of, as some day we may be working on a plan for their retirement and this speech might come back to worry you.

Page 3a. I do not understand your reference to returning a portion of the paid in capital. The member banks won't want it returned whenever we pay them 6 % on the investment. I would be inclined to leave out this reference about a probable return of the capital.

Page 6a. The sentence in the middle of the page implies that membership by state banks only results in burden, whereas, in another part of your speech you have strongly emphasized the policy of the Board in making it so easy for the state banks to take membership and that they are really enabled to enjoy benefits with very little burden. I suggest putting in both sides of the picture.

Page 11a. Please pardon the facetious comments on the margin. I can almost smell the sulphur when this is read. The sentence marked to be omitted might be construed to imply that there are a lot of questions pending that cannot be discussed in public and some newspaper might make this the basis of a story suggesting lack of harmony.

To Hon. Paul M. Warburg.

Sept. 12, 1916.

Page 12a. I have made a slight change in language to avoid inconsistency and hope it appeals to you.

Rider x. The use of the word "secure" will certainly be misunderstood. So many people have in mind that our note issue is secured by gold that they won't catch the meaning of this footnote.

Rider d. The figure of \$204,000,000 of gold mystifies me a bit. We have received \$600,000,000 net from Europe since the Federal reserve banks opened, a greater part of which, (if not all), has come to New York. Does this mean the amount which has been taken in by the Federal Reserve Bank of New York and again paid out through the Gold Settlement Fund, or otherwise? If this is the meaning, I still think the figure incorrect according to a statement recently sent me by the boys at the office.

So much for comment on the language of the speech in detail. As a whole, I believe you are going to have a little difficulty in holding the attention of a large audience through your elaborate argument which contains many figures in regard to the note issue, etc. It is a difficult and technical matter to explain and I am inclined to recommend that the middle portion dealing with the subject of reserve notes and national bank notes be restricted a little bit for the purpose of reading, but published just as it is now. It will be easier for you to hold the interest of a crowd of woolly bankers.

The whole address is mighty good, timely and very much to the point. A lot of those farmers won't understand, but it is not necessary they should. They will be impressed with the importance

To Hon. Paul M. Warburg.

Sept. 12, 1916.

and seriousness of the whole subject and the fact that you and your colleagues know what you are talking about and that the average country banker is very ignorant on these subjects. I will undertake to say that there will not be more than 150 or 200 men in your whole audience who will grasp the importance of these matters, but all of them will be very much impressed with their own ignorance after hearing it. That is one reason why I think it is a good speech.

There is one point that I would like to see in there that you have not mentioned: Every time we get together with member banks or with a Committee of their organization, we make some progress. Take the cooperation which developed from the meeting with the Committee that represented the National Bank Section. I believe it would be a good plan to tell the Association right frankly that no opportunity has been overlooked to invite the member banks into their councils and you are prepared to continue that policy, expecting they will cooperate with you in solving problems rather than standing on the outside and throwing stones.

I congratulate you on the result of your work and hope that it takes like "mother's milk". I hope to be prepared with something on the subject of the note issue as a comeback to the Chronicle, which will certainly criticize everything you say. In the meantime, I hope still more that we will have a chance to talk it over.

To Hon. Paul M. Warburg.

Sept. 12, 1916.

Best regards and good luck.

Faithfully yours,

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

BS/VCM

Estes Park, Colo.,

September 15th, 1916.

Dear Warburg:

The statement of September 10th just received brings out quite strongly one feature of the exchange situation which I think should have careful study. Exactly a year ago, the float between the reserve banks was \$8,000,000. It is steadily increasing and on September 1st was \$35,000,000, September 8th, \$28,000,000.

Every dollar of that money is an impairment of our reserve position. I judge that it is due to two causes principally; one is the practice of the interior banks in taking New York exchange, and possibly Chicago exchange, for immediate credit at a discount; and the other is the inaccuracy of the transit time allowance adopted for the new collection plan, where not sufficient time is being allowed on certain items to enable us to get returns.

I do not think that the reserve banks to-day are justified in accumulating a float of \$35,000,000. It is equal to 7% on the reserve on all of their deposits. This is just a suggestion for consideration and I will try and think of this matter to discuss with you when we meet in Denver.

Sincerely yours,

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

198

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

I can't tell you what a pleasure it was to have that visit with you in Denver. After a rather cold but delightful ride by automobile, I reached here yesterday noon and found a great mass of mail to clean up, which I expect to take rather leisurely. The only trouble with your visit was that you had to cut it too short and missed seeing the mountains which I much regret.

I am going to write you separate letters on the different topics.

With this I enclose another copy of my letter to Mr. Glass.

Please give my warmest regards to the family and tell Mrs. Warburg I am owing her a letter which will soon be written.

Most sincerely yours,

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

BS/VCM

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

You will recall our discussion of the method of treating the item of organization expense in the accounts of the 12 reserve banks. This is just to remind you of my suggestion that I think the Board might issue a regulation which will ensure this item being treated uniformly by all the banks. As I recall, you agreed with the proposal, as earnings now justify it, that everything be written off this year except the item of unissued Federal reserve notes, which can quite properly be carried as an asset. The net earnings of the New York bank to date are about \$280,000. If they keep up as they are running at present, they ought to be able to pay a dividend of 6 % for a period of approximately six months, after charging off \$140,000 of organization expense.

Very truly yours,

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

BS/VCM

198

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

In our discussion of the method of handling foreign accounts, I spoke of a letter which I had drafted for use when the time arose in arranging final details. Copy of this letter is enclosed. It is, of course, only tentative and I would be glad to have your views regarding it.

Very truly yours,

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

BS/VCM

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

Among the matters discussed in Denver was the method of explaining Federal reserve note action in the weekly statement for the press. If you will refer to the last paragraph of the statement of September 16th, No. 801, you will see that one not familiar with our accounting method would find it impossible to strike a balance between the total amount of notes issued to the Federal Reserve Banks and the amount of collateral which is held to secure them.

Might it not be a good plan to put a little tabular statement in the press notices so as to eliminate the appearance of a difference in the account?

Very truly yours,

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

BS/VCM

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

About the Gold Settlement Fund and the difficulty of keeping down our holdings of silver certificates and legal tender notes: I have just received from the office a memorandum of the way Clearing House balances have been running from June 1915 to August 1916, inclusive. The total credit balances have been \$291,516,000 and the debit balances \$20,148,000, so that payments to the New York Reserve Bank by the Clearing House which are largely made in silver certificates and legal tender notes have exceeded a net amount of \$270,000,000. This illustrates graphically the state of our difficulty. We would have cleaned the city of silver and legal tenders had it not been for the importations of gold, and only through the courtesy of J. P. Morgan & Co., and to some extent, some of the member banks, have we been able to effect exchanges and get the gold which has been used to settle with the other reserve banks.

Through Morgan & Co. we received \$53,841,000 between October 27, 1915 and June 7, 1916, when operations were suspended. Between September 6th and September 22nd, 1916, we received \$55,229,000, a total of over \$109,000,000 from this source alone. The other \$160,000,000 has been made up by exchanges with Clearing House members, shipments of exchange direct, shipments of silver

To Hon. Paul M. Warburg.

Sept. 29, 1916.

in some cases and about every other expedient that could be devised. The largest item, I believe, outside of the Morgan gold, has been the increased investment account of the whole system throughout this period which, of course, has enabled us to work off some silver.

These figures were not here when I wrote to Mr. Glass and, possibly, you will be good enough to show him from the above how the exchanges operate and what a serious situation it might present were the exchanges against us and were we exporting gold to Europe at the same time that New York exchange was at a discount in the interior.

Very truly yours,

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

BS/VCM

Estes Park, Colo.,

September 29th, 1916.

Dear Warburg:

You will recall our discussion of the basis of apportionment of investments made by the New York Reserve Bank. It would be a good plan I believe for you to take the first opportunity to talk this over with Mr. Treman and Mr. Jay. It seems to me that those banks which are earning their full dividends should get no part of the allotments at all, and correspondingly, those not earning any dividend should get an increased proportionment. It is hardly a matter that I can handle from this end, although I am writing Mr. Treman about it.

.Very truly yours,

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

BS/VCM

198

Estes Park, Colo.,

October 3rd, 1916.

Dear Warburg:

Yours of the 30th from St. Louis reached me yesterday and I took the liberty of reading the greater part of it to Frank Vanderlip. It made a great impression upon him, as it did upon me, as by the same mail we got the New York papers, giving the news accounts and editorial notes on both your address and his.

Vanderlip gained the impression when he was in St. Louis, (which, of course, was before your address was delivered,) that the Convention was generally hostile to the System, and we could not help but draw the conclusion that your address, together with such assistance as Harding and the officers of the reserve banks afforded, really changed the tenor of sentiment and enabled us to get by this difficulty with great advantage to the whole System. I can not tell you how delighted I am with the outcome. It gives us a year in which to wear down prejudice and we must take advantage of it. I personally believe from reading the newspapers that your address had a tremendous influence so the agony of preparation and delivery was worth while.

I am letting mail accumulate while Vanderlip and Trumbull are here, taking advantage of the opportunity, however, to bring Vanderlip up to date on some of the difficulties about amendments in which he is very keenly interested. You may hear from him direct on the subject.

To Hon. Paul M. Warburg.

Oct. 3, 1916.

The many articles appearing in the newspapers about our currency difficulties justify I believe going ahead with some of the articles that we thought might safely be published, and I will let you know as soon as the thing is in such shape that it seems safe to print it.

We are all going down to Denver on Friday or Saturday after Kains arrives. Grandin starts East for his school on Sunday and then for a few days we will be busy packing up and I expect there will be an interval when you won't hear from me very often, but I do hope you will write me and keep me posted on news from your end of the line and I will catch up as soon as we are settled in Denver.

Please give my love to Mrs. Warburg and tell her that I have a long letter in course of mental preparation which will be put on paper at the first opportunity. I am just now reading Balfour's book that she sent me, in snatches, and find it mighty good reading.

Your visit out here was a life saver and I am really counting on coaxing you out again some time this winter. We won't have to spend the time in Denver if you allow reasonable time, as the Lewiston will be open and one other little inn further up in the mountains if you care for a rougher view of the Park, and we can spend all the time you can spare out here to great advantage.

With best regards to all the members of the Board, I am,

Faithfully yours,

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

BS/VCM

198

Estes Park, Colo.,

October 11th, 1916.

Dear Warburg:

Mail has been impossible the past week while Vanderlip and Trumbull were here, but I will be writing you fully in a day or two. Am moving to Denver Friday.

Your wire has been received but I shall not reply by telegraph as a long letter had already gone to Mr. Jay in regard to Aiken and you doubtless heard from him confirming this. Personally, I think the matter is more up to Aiken than anyone else, as I feel sure our directors will welcome the suggestion, particularly now that Treman has become so well acquainted with him. If any doubt arises, I will let you know and will write Mr. Jay again very strongly.

Best regards.

Faithfully yours,

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

BS/VCM

198

Estes Park, Colo.,

October 11th, 1916.

Dear Warburg:

I have yours of the 3rd and 6th, also, the newspaper articles which are very interesting, and will help in preparing more "dope."

You should have learned long before this that Harding is no man to play seven-up with unless you are well-heeled. I might be able to beat him at cribbage, but not at seven-up. He is an artist at that game and I wonder he has not retired long ago on his profits.

Mother was delighted to receive your letter and appreciated your thoughtfulness. I really think she feels some encouragement that I am going to get well.

About the Kansas City speech, from all quarters I hear that it was a tremendous success and certainly, barring the Chronicle, the newspaper comments have been encouraging and complimentary in every way. My impression is that it saved us from a bad setback, so you see it does pay to put in the work, submit to the inconveniences of the trip and particularly to keep your voice up.

Vanderlip and Trumbull have been here a week, leaving Sunday night from Denver. I had a wonderful visit with them. Have been all over this currency problem with Vanderlip, who is convinced that the time has arrived when we should take up energetically the

To Hon. Paul M. Warburg.

Oct. 11, 1916.

completion of the reform. The Federal Reserve System is a good basis on which to develop it, and even if Congress is unwilling to deal with the matter in December, we ought to take it up actively next year. Unless I am mistaken, if Mr. Hughes is elected it can be made a part of the Republican legislation program. All of that must be kept in abeyance until after election.

I wrote Jay fully about Aiken some time ago and he should have received the letter before your visit with him.

There is no doubt that so long as gold forms so large a part of our circulating medium, the balances of trade originating in the West would naturally move a large part of this gold West, but the economic position of the country with reference to gold I believe is a little different from that described in your letter. Our enormous surplus of exports are being paid for by Europe by three methods:

- 1st. By selling us back our own securities,
- 2nd. By borrowing money in the open market,
- 3rd. By evening up the balances not covered by the first two methods, by actual shipments of gold.

The gold received should be impounded by all of the twelve reserve banks; some of it, of course, would find its way to other reserve banks than New York but all of it should have been retained in the Federal Reserve System instead of being distributed among the reserve banks, by them to member banks and through member banks to the public. The only way this can be corrected is by giving our note issue the proper status.

To Hon. Paul M. Warburg.

Oct. 11, 1916.

Am glad you gave McDougal a dig for those fellows in Chicago need it. We would be better protected by a large gold holding resulting from note issues than by the voluntary deposit of optional reserves, which are likely to be checked out in time of trouble and give us a pinch. The articles in the Wall Street Journal all helped.

My article is about ready for printing and I am going to send it to Jay for the necessary arrangements in a few days. This will be followed by a description of the functions of the various classes of currency now in circulation and how legislation should deal with this complex situation.

Mr. Hendricks is here for a few days.

I am moving to Denver on Friday and my address there will be 4100 Montview Boulevard. Am still behind hand with the mail.

Please tell Mrs. Warburg that that letter is still germinating.

I continue to think of your visit here as a bright spot and hope you can make me another this Winter.

With warmest regards,

Faithfully yours,

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

B̄S/VCM

October 11, 1916.

P. S. OF LETTER TO PAUL M. WARBURG, ESQ.,
FROM MR. JAY.

I enclose letter from the vice president of the National Bank of Commerce which, with his consent, I am submitting to you, and should appreciate very much your view as to our purchasing drafts with such a long series of renewals. If it is possible to ship the goods before the end of two years they will be shipped and the credit will cease. It is Mr. Rovensky's belief that this may be possible. This credit seems to be based upon the storage of a readily marketable staple. You will remember that we have purchased bills covering some shipments of railroad supplies to France which had five renewals, the credit thereby extending over eighteen months. We were advised to-day by Messrs. Brown Brothers & Company of the new credit of \$5,000,000. which they in conjunction with Messrs. J. P. Morgan & Co. and Messrs. Lazard Freres were about to put in effect before the Orleans Railroad of France covering the shipment of rolling stock and calling for four renewals or a total period of fifteen months.

Will you kindly return Mr. Rovensky's letter with your reply.

NATIONAL BANK OF COMMERCE

IN NEW YORK

October 11, 1916.

Federal Reserve Bank,

New York, N. Y.

Dear Sirs:

A client of this bank desires to purchase hides in Buenos Aires for the purpose of exporting them eventually to Germany. As shipping facilities between the Argentine and Germany are at present disrupted, he desires to store the hides in a public warehouse in Buenos Aires until such time as he can safely make shipment.

Our client desires to finance the purchase of these hides by drawing on this bank at 90 days' sight with the agreement that renewals, not exceeding 7 in number (making a possible total of 2 years' time) would be granted.

The bills of lading or warehouse receipts controlling the hides would be held by our agents as collateral and no renewals would be granted after the goods had passed out of our control. Please advise whether drafts drawn under this arrangement would be purchasable by your bank, and oblige

Very truly yours,

(signed) J. E. Rovensky

Vice President.

198

4100 Montview Boulevard.

Denver, Colorado,

October 18th, 1916.

Dear Warburg:

Moving down from the Park of course necessitated packing the "office" and unpacking it again and for about a week I have been out of business, so to speak.

My last letter to Mrs. Warburg gives about all the personal news and just now there seems little else to write about as my visitors have all left and I am settling down to loafing at the new house.

Enclosed, are two press statements which the Comptroller has sent me (I get all of these as published), and I am wondering whether the policy, and more particularly, the conclusions, exhibited by these statements are as well-considered as they might be. I doubt that the Federal Reserve Act has had anything at all to do with the changes in bank deposits by districts, as is intimated by these circulars. The cause of the increased bank deposits in interior cities is undoubtedly the result of the general prosperity of the country as a whole. If I were the Comptroller, I would lay emphasis on the extent to which the reserves unlocked by the Reserve Act and the imported reserves in the form of gold are being used for credit expansion and the possibility of danger growing out of that expansion. The reason why I am sending you these circulars

To Hon. O Paul M. Warburg

Oct. 18, 1916.

is because they give the appearance after your address in Kansas City of one member of the Board pointing out the danger to the country of this expansion and another member of the Board bragging about it.

I am just completing that article on note issues, etc., and will probably send it to Mr. Jay this week and ask him to arrange for its publication. The next one, which I think can be made very much shorter than the first, or about the same length as the first and second, if the article is cut in two, will endeavor to present the currency situation in an entirely different light. I want to base the argument for amendments to our currency laws upon the fact that we are not now proposing to inflate the currency, but to deflate it. Our currency is already inflated about \$1,600,000,000 and the next job in currency reform is to so rearrange the holdings of gold that the existing currency will be put on a sound basis which has never heretofore been the case.

Won't you write me a line about the political outlook? Every time I read Hughes speeches, I get discouraged even to the point of wondering whether it is going to be a good thing for the country to have a change of administration.

Let me know if there is any special work I can do out here. Am still enjoying your visit and hoping for another.

Best regards to you, old man.

Faithfully yours,

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

BS/VGM

from Jay

October 20, 1916.

Dear Mr. Warburg:

I am sorry that we got cut off this morning in discussing the action of the Board in regard to the Central Trust Company and the Bank of Commerce. When the line was interrupted you were explaining that if either institution should liquidate the other would not profit thereby, to which I replied that this related only to the liability side. What I wanted to say further was that I understood we all agreed as to that at the time the matter was discussed in Washington, and that the only possible ground of competition was on the asset side; namely, as to the use of the funds of the two institutions in the credit market.

While I am extremely glad that the Bank of Commerce has been able to retain Mr. Jarvie as a director, I have, as you know, explained the position of the Board to a number of the leading bankers here and have stated that the principle on which they were considered competitors was one which I had recommended, and in every way I have stood behind it and the Board, and I know that you understand this. I stated it also to Mr. Delano when he was over here. It seems to me that the only way such a policy could be carried out was to put it into effect with complete consistency and impartiality. I must say that the action of the Board in the Central Trust Company case leaves me all up in the air as to what their policy is and I really think I am entitled, as the Board's representative here, to be furnished with a complete statement of what it is in order that I may know how to deal with the questions which, it seems to me, are almost

10/20/16.

certain to arise on the part of other banks in view of the action in the
Central Trust Company case.

Trusting that I shall soon receive this, I am,

Respectfully yours,

Chairman.

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

PJ/RAH

Washington, October 6, 1916.

ANNOUNCEMENT BY THE BOARD.

Section 8 of the Clayton Act, which becomes effective on October 15th, 1916, prohibits private bankers under certain conditions from serving as officers or directors of member banks.

A number of inquiries have been received asking the Board's interpretation of the language "private banker" as used in the Clayton Act. As the Board is required, under the provisions of the Clayton Act, to prosecute those violating its term, it is necessary that it should make clear its interpretation of the language used in order that the banks may comply with the letter and spirit of the Act.

The purpose of the Act, as its title implies, was to prevent unlawful restraints and monopolies. It is obvious, therefore, that Congress intended to prohibit common control of member banks and of private bankers engaged in the same activities as member banks, and that it intended to preserve competition in cities of more than two hundred thousand inhabitants between member banks, private bankers, and other incorporated banks, and likewise intended to preserve competition between member banks, regardless of their location, and state banks, trust companies, or private bankers having aggregate resources of more than five million dollars.

In this view the Board interprets the term "private banker" to include partnerships or individuals who are engaged in the banking business, as that term is generally understood, -- including those partnerships and individuals who solicit or receive deposits subject to check, who do a foreign exchange, acceptance, loan or discount business, or who purchase and sell and distribute issues of securities by which capital is furnished for business or public enterprises.

The term "private banker" is interpreted not to include the ordinary stock, note, or commodity broker, unless a substantial proportion of his profits are derived from, or a substantial part of his business consists in, one or more of the banking activities described, nor is it interpreted to include partnerships or individuals using only their own funds in making loans or investments.

No private banker whose partnership or firm assets aggregate more than five million dollars is eligible, under the terms of the Clayton Act, to serve as a director of any member bank, and no private banker, regardless of the amount of partnership or firm assets, is eligible to serve as a director, other officer or employee of any member bank located in a city of more than 200,000 inhabitants, if such firm or partnership is located in the same city.

The Kern amendment to the Clayton Act does not authorize the Federal Reserve Board to grant permission to such private bankers to serve as officers or directors of a member bank even though it appears that they are not in substantial competition with such member bank.

198

Denver, Colorado,

October 20th, 1916.

Dear Warburg:

There is no particular news since I last wrote you, nor have I heard from Jay about the Aiken matter though he has reported all the difficulties about the Clayton Act and it seems to me from what he says and from what the President has said that an amendment to take care of the situation with private bankers has about as much chance as the proverbial celluloid cat.

What did the President mean when he said there was a conspiracy to get control of the new banking system? Did he refer to you or to me, or to whom did he refer? So far as we are concerned in New York, our difficulty has been, as you know, to persuade the New York bankers to take enough active interest in the management of the bank to ensure the election of good directors. You can be sure that some one has been pumping him full of some ridiculous notions and I am mighty sorry that he believes them.

I am enclosing a copy of that article which has just gone to Mr. Jay. I hope the next one will be better.

Write me when you can.

With best regards,

Faithfully yours,

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

BS/VCM

4100 Montview Boulevard.

Denver, Colorado,

October 25th, 1916.

Dear Warburg:

It was really very good of your to telegraph me after your conference with Jay and Curtis in regard to the French credit.

They doubtless explained the views which I had expressed to them about an announcement, so I felt repaid. But in connection with these matters, I always have in mind the great importance to the country as a whole of the existence of a large volume of these bills, even though in the form of finance bills, as an offset later on to the demands for gold. It is the best protection we will have when the war is over.

It was something of a shock to learn that the Syndicate managers sent out circulars stating that the bills would be eligible, particularly if they did so without authority, and in that connection, I want to refresh your memory of my own attitude with both Mr. Brown and Mr. Kent as well as Benbright & Company in regard to the earlier credits. I told them in each case that we considered it our duty to make clear the meaning of the law and the regulations issued by the Board so that their transactions could be made to conform to them if they wanted the bills to be eligible in character. On the other hand, that we would take no part in the negotiations, would make no pledges to buy the bills and if we did buy them, the amount would be governed by our own

To Hon. Paul M. Warburg.

Oct. 25, 1916.

rules and requirements. Furthermore, that we would not favor the Federal Reserve Bank investing in bills by direct purchase, that in each instance they would find and make a market for the paper and if we in our own discretion determined to buy any of it, we would do so in the regular way in the open market and not as one of the primary parties. The object of this attitude requires no explanation.

The same attitude maintained in connection with this credit would have left us with perfect freedom of action and while, of course, the reserve banks have held a considerable amount of this paper, they have not held too much by any means, considering the high character and credit of the acceptors.

It seems to me that any announcement of our attitude towards any specific credit could readily be construed as a reflection upon the propriety or goodness of that transaction and, furthermore, might embarrass us later if occasion arose to change our policy. Then again, it seems to me we cannot expect in these war times that commercial credits will take the form most acceptable in times of peace. Our exports must be paid for and the machinery of our banking system should be adjusted to meet the unusual demand, both in amount and character, that grows out of our huge foreign business. I was not aware that an announcement had been made officially by the Syndicate managers and think that was a mistake, if they did it without authority.

To Hon. Paul M. Warburg.

Oct. 25, 1916.

I do not need to tell you that the rather vigorous opinions which I hold on this matter have no relation whatever to my former affiliations nor to any political sympathy. I would feel just the same about German credits or any other credits and I only wish that it were possible for these matters to take such shape that suggestion of discrimination could not possibly be made. As the Federal reserve banks are handling practically all the bills originating with the German banks in South America that are offered to us, I have no fears on that score if any one attempts to make charges of discrimination, but unfortunately, as you know, the German banks seem to be unable or unwilling to negotiate direct credits in this country.

I had a nice handwritten letter from you yesterday to which I am going to reply in kind. My best regards to you, old man, and don't let this business worry you.

Ask Miller to show you my letter to him about his Indianapolis address.

Sincerely yours,

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

BS/VCM

	DESIRED
message	
ter	
Night message	
Night Letter	

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

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

Rate
Check
Time Filed

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

Collect.

Denver, Col., Oct. 25, 1916. 191

To Hon. Paul M. Warburg,

Federal Reserve Board,

Washington, D. C.

Many thanks for your wire. Stop. Am replying by mail. Stop. We must not discourage the kind of business which will afford us the greatest protection when the exchanges turn against us. It was good of you to telegraph. Stop. My best regards to all.

Benj. Strong.

SENDER'S ADDRESS
OR ANSWER

4100 Montview Boulevard.

SENDER'S TELEPHONE NUMBER

York 1308.

GRAMS TAKEN BY THIS COMPANY ARE SUBJECT TO THE FOLLOWING

- ...akes or delays, the sender of a telegram should order it REPEATED, that is, telegraphed back to the originating office for compa...
the...am rate is charged in addition. Unless otherwise indicated on its face, THIS IS AN UNREPEATED TELEGRAM AND PAID F...
ereof it is agreed between the sender of the telegram and this Company as follows:
The Company shall not be liable for mistakes or delays in the transmission or delivery, or for non-delivery, of any UNREPEATED telegram, beyo...
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...
ing 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 c... or obscure...
s.
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...
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...
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...
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...
tion.
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...
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...
t 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...
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...
th the Company for transmission.
7. Special terms governing the transmission of messages under the classes of messages enumerated below shall apply to messages in each of such respective classes in addition to all...
going terms.
8. No employee of the Company is authorized to vary the foregoing.

THE WESTERN UNION TELEGRAPH COMPANY
INCORPORATED
NEWCOMB CARLTON, PRESIDENT

CLASSES OF SERVICE

DAY MESSAGES

Full-rate expedited service.

NIGHT MESSAGES

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

LETTERS

Deferred day service at rates lower than the standard day mes...
sages as follows: One and one-half times the standard Night...
rate for the transmission of 50 words or less and one-fifth of...
initial rate for each additional 10 words or less.

SPECIAL TERMS APPLYING TO DAY LETTERS:

Further consideration of the reduced rate for this special "Day...
Letter" service, the following special terms in addition to those enu...
merated above are hereby agreed to:

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

Day Letters shall be written in plain English. Code language...
is permissible.

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

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

Letter shall be delivered on the day of its date absolutely and at a...
certain hour of the day; but that the Company's obligation in this respect is subje...
to the condition that there shall remain sufficient time for the tran...
mission and delivery of such Day Letter on the day of its date duri...
regular office hours, subject to the priority of the transmission of re...
gular telegrams under the conditions named above.

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

NIGHT LETTERS

Accepted up to 2.00 A.M. for delivery on the morning of the ensu...
ing business day, at rates still lower than standard night message rates...
as follows: The standard day rate for 10 words shall be charged for the tr...
ansmission of 50 words or less, and one-fifth of such standard day rate fo...
r each additional 10 words or less.

SPECIAL TERMS APPLYING TO NIGHT LETTERS:

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

A. Night Letters may at the option of the Telegraph Com...
pany be mailed at destination to the addressees, and the Company...
shall be deemed to have discharged its obligation in such cases with re...
spect to delivery by mailing such Night Letters at destination, post...
paid.

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

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

198

October 30th, 1916.

Dear Warburg:

I am dictating this reply to yours of the 23rd with your picture in front of me, which reminds me that I would be glad to have one if you have a spare copy kicking about the house.

Forbes' skit is all right so far as the views about your glorious career are concerned, but his treatment of that Jekyll Island meeting might lead one to believe that it was a conspiracy to loot the Treasury, and it is really an injustice to all of the men who were interested in the Aldrich plan.

Your letter also crossed mine containing a suggestion that you ask Dr. Miller to show you my letter to him about his Indianapolis speech. Of course, in writing Miller, I did not attempt any argument on the general economic proposal of deposit banking versus note banking. He knows as much, or more, about the history of banking development as I do. The trouble is in this address he got the wrong pig by the ear and unless I am mistaken he is not the kind that will shift his grip to the right one. Aside from his argument as to the method of dealing with this surplus of gold that we are getting, I really think his speech is a very good one indeed. He has made a fine temperate analysis of the situation and impressed me very much.

To Hon. Paul M. Warburg.

Oct. 30, 1916.

Aiken recently wrote me of Wing's suggestion which he says he declined and Jay has written me in reply to my letter that he will answer my suggestion later, presumably awaiting a conference with Peabody and Woodward. Has it occurred to you that Mr. Jay himself may feel a little discouraged and hurt by this suggestion? I think I mentioned this when you were in Denver.

I have written Mr. Jay quite frankly about the work in the bank, dwelling particularly on your own criticism without, of course, mentioning your name, and hope he can be convinced by this and other pressure that one man can't do it all.

Now about that French credit: My previous letter written before yours arrived explained what our attitude had been in discussing the earlier credits with Brown and the others. So far as our own attitude is concerned, I think it has been correct and no different from what you and the others in Washington would have had us consistently maintain. I do not, therefore, understand the necessity for any public statement, or even any telegraphic advice, to the reserve banks, and referring specifically to the action of the Board rather than to the merits of the business, I am inclined to think that it acted hastily in sending the telegram, which implied that the reserve banks were either committed or, even without commitment, were liable to employ an undue amount of their funds in investments of this character. We must not forget that business of this kind negotiated by state banks and private bankers only affects the reserve system to the extent that we buy the bills, and

To Hon. Paul M. Warburg.

Oct. 30, 1916.

and that is a private matter among ourselves which does not justify any public announcement. I am assuming, of course, that the business is not ultra vires as to national banks.

As to the goodness of the business, I presume you still agree with me that all of these dollar credits to England, France and Germany, (if the last-named were arranging them), are intrinsically good and will be paid. You and I would both like to see the bills drawn if possible in the good old-fashioned way, but these are war times, and a lot of old rules necessarily have been abandoned. Emergency machinery must be devised and put into operation in order to avoid continuous disorganization of the exchanges. I agree with you that it would be very nice to have these bills so drawn that we could drive them home at any maturity date, but you seem to overlook the fact that even if a rate of discount was not guaranteed, the bills would stay here just the same until the credits matured, the only difference being that if the foreign drawers were not protected by the guarantee of discount they would risk having to pay a higher rate.

If the times comes when we have very much higher discount rates for bills than at present, and higher than those on the other side, in other words when a situation develops which would justify transferring the domicile of these bills from New York to Paris or London, you must admit that exchange at such a time must be adverse to this country. Under those conditions, we must rely largely upon the money market working out its own relief and it will do so if we have a large volume of all sorts of bills, by the attraction of floating foreign capital to New York for investment in these identical bills, in that way relieving pressure on our money market.

To Hon. Paul M. Warburg.

Oct. 30, 1916.

and on the reserve banks. In the past, when Lombard Street has been working normally and exchange became adverse to London so that gold begins to move out of the Bank of England, the bank raises its rate, not so much in expectation that bills will not be drawn on London, but in the expectation that floating capital will be drawn to London to invest in bills. I really do not think your argument is a conclusive one that these credits should be in such form that they can be cancelled whenever our rates get high. Their maturity might be shorter and would in ordinary times. But if credits extended by American banks, whether commercial or financial, are going to be cancelled and withdrawn every time our money rates advance, we will never have a bill market. If our discount market works as it should, an advance in our rates will result, as it does in London, in postponing the drawing of a certain amount of finance bills, but an advance should never be expected to dislocate our foreign commercial and financial business by causing the cancellation of foreign credits. If an advance in our discount rates is not effective in attracting money to New York for investment in bills as the chief relief our work in endeavoring to develop a discount market is literally thrown away, for that is the way relief would naturally come.

I do not agree with you at all that this is "unscientific, rotten and dangerous" financing considering the times we are in. The real objection that I see to the method employed in handling this business was entirely in those two paragraphs in the confidential circular. The bankers were not justified in making statements in regard to the Federal reserve banks unless they had first consulted the management of those banks, and particularly so, when this is the first 18 months credit which had been arranged, the others having

To Hon. Paul M. Warburg.

Oct. 30, 1916.

I feel now just as I did when these matters were first discussed. We must not use the foot rule such as might have been used three years ago in dealing with the affairs of the present day. We have to modify a great many things, among others, finance credits, in order to meet the requirements of a trade surpassing anything known in history.

I felt a great deal of concern over the possibility of the Federal Reserve Board making a statement which would involve the Board in any way in a criticism of the goodness of these bills or even of its being legitimate business as to form, etc. Such an attitude by the Board I believe would do infinite harm.

You say that I know you are a liberal constructionist. I think in spots in this matter of finance credits, you have been reluctantly liberal, but that it has been a difficult attitude for you to take and in violation of your many years of training and your strong convictions about the way the bill business should be conducted. This is not the time when ^{nice} pretty theories of the way commerce should be financed can be strictly applied.

I hope very much that you and your associates will see fit to let this matter develop just as the former transactions did and then arrange with Mr. Jay or Mr. Treman to point out to Mr. Kent or whoever was responsible for the circular that they should confer before assuming themselves to state what attitude the reserve banks will take.

The President has committed himself so strongly in regard to the Comptroller and has made such a rash and unjustified statement

To Hon. Paul M. Warburg.

Oct. 30, 1916.

in regard to Wall Street control of the Federal Reserve System that I believe we are going to have great trouble in getting legislation of any kind in December. I am sorry Vanderlip spoke as he did at Kansas City but you realize of course that constant reiteration by the President that Wall Street men are bad men, that is, that some of them are, and his direct reference to the City Bank does not inspire any very cordial feelings from Vanderlip. I am inclined to agree with you that Wilson will be reelected, although I did not think so until the last two or three weeks.

It was mighty good of you to write me so fully. We have always managed to agree upon a solution of these matters and I know will in this case. You may consider when this credit is concluded - which no doubt it will be - that you have done your loyal part in adding \$100,000,000 to Democratic prosperity. Just think of the comfort you will get out of that.

Best regards to you and to the family.

Sincerely yours,

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

BS/VCM

Jay

November 3, 1916.

Dear Mr. Warburg:

In looking over the November 1st Bulletin, copy of which arrived to-day, I note that on page 598 there is a table showing the operations of the clearing plan, in the last column of which headed "State banks remitting at par" New York is reported as dealing with thirty-one banks. I fear that this figure is due to our having followed strictly the wording of the heading. We have only thirty-one state banks to which we send items direct and which remit direct to us at par, but we are handling at par items on two hundred and twenty-nine state banks in this district. These are divided as follows:

Members of N. Y. Clearing House, N. Y. City,	30
Nonmembers of N. Y. Clearing House, N. Y. City,	69
Remitting direct outside of N. Y. City,	31
Collecting through member banks,	<u>99</u>
Total	229

I note that Boston's figures include all the state banks in the district, and undoubtedly our statistics should be presented on the same general principle. Furthermore, I note that some of the large western banks have over 1,000 state banks on the par list, and I feel quite sure from our conversations with some of their officers that they do not have anything like this number of state institutions remitting directly to them at par. Undoubtedly a large proportion of them are collected through member banks just as in our own case.

Very truly yours,

[Jay]

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

PJ/RAH

November 6th, 1916.

Dear Warburg:

I am glad you enjoyed the letter I wrote to Mr. Miller about his Indianapolis address.

The reason why I suggested some doubt as to your standing hitched on the note proposition was because of your much greater degree of reliance upon the value of the amendment permitting member banks to carry all their reserves with reserve banks than I believe is justified. I think personally we cannot rely upon any permanent or dependable hold upon reserves carried by that method, at least, until many years have passed and the Federal Reserve System has a much stronger hold on banking affairs in this country than it has during this formative period. Consequently, I view with a little uneasiness your possible enthusiasm about what might be accomplished by this method, fearing that it might even to some slight extent affect your determination to keep pushing on the note provisions of the Federal Reserve Act.

In principle, you and I are in complete agreement as to how the note issue ought to be handled; we are not, however, in agreement as to whether the other plan will be worth much or not.

I think the argument contained in the second page of your letter is good so far as it goes. It may be logical enough to claim that notes should count as reserve so long as balances do.

To Hon. Paul M. Warburg.

Nov. 6, 1916.

The difficulty is that member banks will not give us the balances and as the law now stands they cannot count our notes as reserves. Do not abandon the fight for the note amendment. I know you won't, but I do not want you to lose even the slightest degree of enthusiasm on the subject.

Faithfully yours,

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

BS/VCM

COOPY

November 6th, 1916.

Dear Warburg:

Yours of October 30th has been read with a great deal of interest and, if I may say so, with a great deal of sympathy for your views in the matter of this French credit.

As I wrote you before, I think the bankers were very hasty in sending out their circular. Nothing that I had ever said to them justified their doing so and it seems to have been an unfortunate mistake of judgement or understanding. In all of these matters, when you come to deal with Kent, let me say that you can rely upon his integrity and good faith to the utmost. He is, of course, inclined at times to be very enthusiastic, but he is a man of great penetration and ability and not the type that would take any unfair advantage or do anything improper.

On the other hand, I hold the view that the future protection of this country will depend later very largely upon our having bills in this market in which foreign banking capital can be invested when the exchanges turn against us and, of course, to some extent our ability to discontinue finance credits such as these when they mature, without disturbing normal commercial credits of the type that you and I both prefer to see develop. If this theory is at all sound, objection would not lie against the French credit on

To Hon. Paul M. Warburg.

Nov. 6, 1916.

the ground of size. At present, in payment for every thousand million dollars of excess exports we to-day receive, say one hundred millions of gold and nine hundred millions of finance paper. That is a great deal better than receiving one hundred millions of gold and nine hundred millions of American securities. When the trade balance turns against us, as I certainly think it will, we can hand back short government notes, finance credits and other similar obligations a great deal easier than we can re-negotiate American securities abroad, so that if the position becomes exactly reversed and we have to pay, say, one thousand million dollars for excess imports we can ship back one hundred millions of gold and nine hundred millions of credits, (whether by cancelling credits or by inviting investment of banking capital in bills on this side), and meet the situation with much less strain than if we had no bills of this character as a safety valve.

I agree with you as to the disposition of the matter now made because it had really reached a position where this course seems to satisfy everybody and avoids any unfortunate publicity.

I really do not think that the Board should take the view that these credits with renewal privileges are anything less than legitimate under the circumstances. English banks for years have opened similar credits with New York banks with similar renewal privileges, not running, to be sure, as long as 18 months, but then no war conditions justified credits of that length.

To Hon. Paul M. Warburg.

Nov. 6, 1916.

This also applies to guarantee of discount which is not unknown by any means, although possibly not as usual as the other type of credit where the drawer must necessarily rely upon the London discount market, but we must not forget that these foreign bill drawers still view our discount market with some doubt and suspicion. They do not know whether we are going to have rates jumping up to 100 %, as they have in past years, and it is most natural that they should seek protection of this character. On the other hand, I would like to see our accepting banks sell the bills and not carry them in their portfolios.

I almost agree with you about Wilson's re-election. Much hinges on New York State. Whoever is elected, however, I hope we can get at the currency question right after results are known.

Best regards to you and many thanks for your letter.

Faithfully yours,

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

BS/VCM

P. S. You do not surprise me in what you say about Hemphill. He and I have disagreed every time on the Reserve System and he knows nothing about this type of business which would enable him to make any valuable contribution to the discussion.

November 16th, 1916.

Dear Warburg:

I have not heard from you since my last effervescence on the subject of that French credit and hope my pigheadedness has not finally exhausted your divine patience. I guess not, and surmise that you have been too busy to write lately.

The President is about to prepare another message to Congress. Why is not this the opportunity to interest him in a proposal for the further improvement of our currency? There is opportunity it seems to me to do a great service to the country by submitting at the present time a well-considered plan for retiring the greenbacks, hastening the retirement of national bank notes, modifying the whole system of fixing denominations of gold and silver certificates and then fortifying issues of reserve notes to take the place of greenbacks and national bank notes by accumulating gold during this period of its redundancy.

This is so obviously the thing to do and I feel that you will agree so heartily with some such plan that I won't elaborate at all. The principal thing is to get the Reserve Board and the Reserve banks committed in recommending thoroughgoing revision of this whole matter and I should think the President would welcome this opportunity of adding this to his other

To Hon. Paul M. Warburg.

Nov. 16, 1916.

constructive achievements, now that he has four more years ahead of him.

This letter is unofficial, but if you would like to have me write an official letter to the Board, elaborating a plan, I think I could do it in a very short time.

Best regards to you and the family.

Sincerely yours,

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

BS/VCM

COPY

198

November 17th, 1916.

Dear Warburg:

My last letter to you was hardly in the mail box before I was delighted with the arrival of your birthday telegram and immediately afterwards received your long letter of November 10th.

First, about the telegram. It was just like you to think of sending it and pleased me more than I can tell you. You honor me by referring to "our Banks", after having invited me to become your partner in the proprietorship and unconsciously inviting a lot of trouble with me. I don't regret it and hope you don't, old man G. K. W.!

Jay also sent me his good wishes in the shape of some roses, which I am enjoying.

About the election: I do not feel nearly as badly about the outcome as you may imagine. I have never been a high tariff man and even now do not believe in a protective tariff. It is a war breeder, has enveloped the country in an isolated hothouse atmosphere that is unhealthy in the extreme and one of its results is to mislead the people of the country as to our true economic condition, which is not sound. Besides that, I have not much use for Hughes and think it is a mistake to encourage our Supreme Court judges to cast their eyes at the Presidency. As you know, I have always admired a good many

To Hon. Paul M. Warburg.

Nov. 17, 1916.

things about Wilson and now that he is elected, it may be that more can be done in the particular line of our work than would have been possible had Hughes been elected, although I fear the complexion of the House and a possible deadlock.

Now about the main subject of your letter. I am glad you wrote me exactly as you did. I will destroy the letter as soon as I have finished dictating and ask you to do the same with this.

In the first place, let me say that I have been conscious ever since we started work two years ago, that the members of the Federal Reserve Board, and particularly you, have been more than patient with the writer. We have all of us held pretty strong views on one or two important features of the Reserve System, which unfortunately have not always been in accord, and as I have told you frequently when we have been together, I think the Board has shown a great deal more consideration for me and my very positive views on these subjects than possibly I was entitled to receive, or have shown them. So I am going to write to-day exactly as I would talk with you were you here with me.

However, I want first to state my conviction about the present condition of this country: We are storing up energies that are bound later on to make serious trouble for us. England and her Allies have apparently adopted a deliberate policy of loading us with gold in order that they may

To Hon. Paul M. Warburg.

Nov. 17, 1916.

continue to borrow money and buy goods from us. No serious harm would result from this if the expansion of our credit system took the form of foreign loans of different kinds which could later be recalled. Expressing it in another way - if \$100,000,000 of gold will support \$900,000,000 of credit, we could with safety take the gold and extend the credit and ship the \$1,000,000,000 of goods because later on when we may have \$1,000,000,000 to pay Europe, we can hand back \$900,000,000 of obligations and \$100,000,000 of gold, leaving our own affairs in equilibrium. This is a very crude illustration of what is my conviction, as to the only safe development of credit expansion as a result of gold imports.

What I have described above is not taking place. With over \$100,000,000 of gold received, we are inflating our credits partly by foreign loans, but more largely in buying back our own securities and in expanding our bank loans for domestic purposes and to carry the burden of advancing prices. The world is going to continue the gold standard. We are going to have most of the gold, demands are going to be made upon us in ways that cannot now be foreseen, but which inevitably will result in the return of some of this gold. If we must in consequence deflate our domestic credits, we have a hard time ahead of us. It does not make any difference whether the demands come from neutral nations or from former belligerents. The effect will be the same. Therefore, my whole attitude has been to encourage transactions which are not ultra vires and which will put Europe in our debt.

To Hon. Paul M. Warburg.

Nov. 17, 1916.

I am satisfied that your letter was inspired very largely by an unfortunate expression used in my letter to New York, which possibly should not have been read to you, but which, on the whole, I am glad that you saw. It related to rulings on credits to Continental banks. And now, let me explain just why I feel as I do about that. The amendment to the Federal Reserve Act provides that member banks may accept drafts, etc., drawn by banks or bankers in foreign countries for the purpose of furnishing dollar exchange "as required by the usages of trade in the respective countries." Very broad powers of interpretation are vested in the Reserve Board by this amendment. If the Board holds that it is limited in its interpretation to authorizing transactions only in those countries, such as South American, where this has been a long-established custom, it means that the Federal Reserve System will always be the tail of the kite. Our member banks must wait until foreign institutions have already established customs of this character, in other words, until the banks of other countries are doing the business before we can start to do it. Nothing in the Act suggests to my mind that the amendment should be limited in application to South American countries only. Suppose England or France or Germany being unable to pay cash, wishes to establish a practice similar to that employed in South America? What means exist for our banks to join in establishing this custom so that we could enjoy the benefits growing out of this business? How many transactions are necessary in order to establish

To Hon. Paul M. Warburg.

Nov. 17, 1916.

a custom? One or a million? Custom grows up out of a series of transactions of which there must be, of course, the initial transaction and subsequent transactions. How are we to take our place as international bankers if our members are debarred by law from undertaking the development of business customs with any nation of the world that requires the facilities of our credit system? Possibly I am mistaken in assuming that the amendment was intended to have general application and the record of your statement to the Committee seems to indicate that I am. But I am in favor of opening the door wide to all transactions which the law permits which are safe and which will bring the world to this country for banking facilities.

It has always seemed to me that you are inclined to follow a very strict interpretation of the Federal Reserve Act in requiring member banks and Federal reserve banks to observe what we will agree has always been regarded as sound business practice in connection with bills of exchange and that you are reluctant to recognize that war conditions make it necessary to abandon a good many of our former notions of what is exactly the right way to do a thing, in favor of methods which have become necessary by reason of the war and which seem to violate old banking principles. Personally, if the law permitted, (but I do not assume to urge my opinion against yours), I would make the widest interpretation permitted by the law and bring all these big foreign banks to our doors just as rapidly as possible; get them

To Hon. Paul M. Warburg.

Nov. 17, 1916.

dependent upon us, make all the money we can out of them and hold a mortgage over their future performances so that we may protect ourselves when we need to.

I agree with you entirely that there should be some limit upon the amount of bills of this character which the reserve banks should carry. Whether it is \$20,000,000, \$30,000,000 or \$50,000,000, is not material, but the principle of a limitation is surely sound. I agree with you that the handling of the bills by some of the banks in New York has been wretchedly managed. When the Bonbright credits were arranged, I told Kent that we would not buy the bills until they had made a market for them and had found their market level; that he must not depend upon our money in any way, shape or manner and urged that he pursue the course adopted by Jim Brown of offering the bills to four or five bill houses. This should always be done and the accepting banks should never be encouraged to buy their own bills, but they should not, in my opinion, be prohibited from doing so.

I do not agree with you absolutely as to the guarantee of discount. That is not such an unusual condition for long credits as to justify discrimination against such bills, particularly when we consider the history of our erratic money market and the natural fears that might be entertained abroad in regard to being sure of discount at reasonable rates, but I would of course, very much prefer to see no guarantee of discount in connection with these credits, if it can be avoided. This I have always urged in these matters, and will continue to do so.

To Hon. Paul M. Warburg.

Nov. 17, 1916.

I do not understand why the Board failed to appreciate the character of this guarantee of discount. The Brown credit, copy of which was filed with the Board and which was fully discussed and explained, I am sure makes this feature plain and the point was made clear when the matter was submitted, resulting, as I recall in a ruling as to the application of Section 5200 of the Revised Statutes.

In regard to the last French credit, I got word of the Board's telegram to the Reserve Agents before knowing anything about the banker's circular and I now want to say that I think the bankers were most indiscreet in putting those two clauses in their circular, but I still think the Board acted rather hastily in sending out the telegram before completing inquiries in regard to the credit and obtaining full information. But all of that matter has been cleaned up, as I understand it, so that no absolute veto has been placed upon the business.

It annoyed me terribly to feel that after all the care which had been exercised in New York to avoid even the appearance of having the reserve banks in any way parties to these credit arrangements that a circular should be sent out that very calmly put us in the position of being a party to the transaction, approving it and indicating our willingness to buy the bills.

About a differential in rate, I am not inclined to disagree with you, at any rate, very strongly, on this point but want to ask you to think of the difficulties in the way of discrimination of that character. In the first place, our rates

To Hon. Paul M. Warburg.

Nov. 17, 1916.

are already so complicated that no one outside of the management of the System really understands them. The rates now shade from the minimum applying to bills of the strongest member banks drawn against actual shipments of goods, to various kinds of bills drawn and accepted by importers and exporters and endorsed by the agencies of foreign banks. Somewhere in between these extremes, would come these finance drafts, handled at a different rate, The finance drafts now being drawn are in some cases the only ones accepted by some of the strongest American banks and bankers. Intrinsicly, they are a great deal better than bills which we are buying at fairly low rates which are made by some of the smaller institutions whose credit is not nearly as good as the institutions accepting these finance drafts. These rate difficulties would be straightened out if the bankers would themselves market all the drafts through brokers and let the market afford some test as to rates. Their unwillingness to do so in a large way makes our rate of greater importance that it should be. I had rather see the reserve banks follow the market just now than have them lead it and all of my negotiations with Bonbright, Kent and the others have been with that object in view. After reading your letter, I decided to write to the bank in New York and recommend that they establish a differential after further discussion of the matter with you, but will first await your reply. It certainly will do no harm to try this and watch the result, and I do not want you to feel that I am more mulish than I am.

Stamp: 11/17/16
P. 11

To Hon. Paul M. Warburg.

Nov. 17, 1916.

I am really much more concerned by what your letter says in regard to the development of the System and the establishment of its policies bringing at issue the question as to whether it will be run by the Board or by the New York bank. You are too experienced in these matters to disagree with me in the statement that the form of organization of the Reserve System will always present this possibility of conflict and of authority of influence and it can only be avoided by the exercise of a great deal of tact and by looking at these matters in the broadest possible way, which I am willing to confess I may not always have done, by a long shot. It is of the greatest importance, as you will recognize, that the New York bank establish itself as an autonomous and authoritative organization in the eyes of its own membership in New York. The New York Reserve Bank would be a poor instrument to carry out the purpose of the law if it had to go to Washington to get permission every time something had to be done. It really needs to establish the kind of prestige that is enjoyed by the central banks of Europe; without that, the feeling of assurance, protection and strength which should be and is constantly growing in the minds of New York bankers, will certainly fade away. I agree with you that the situation can be dealt with only by constant conferences and by sticking with determination to common plans for carrying out the purpose of its organization. It would be the death of the System to have the impression get

To Hon. Paul M. Warburg.

Nov. 17, 1916.

abroad that New York was going ahead without regard to the views of the Board and assuming to run the whole show. It would be equally disastrous to have the Reserve Board assume the actual management of the reserve banks, if we are to preserve the regional principle at all. I think the safest course to pursue in these matters during the period of the war is to agree if we can that it is a protection to the country to encourage the establishment of these credits, if they are not ultra vires, and on the other hand, to adopt a policy in buying the bills which will have the effect ultimately of making the money cost the borrowers a little more than the rate charged for commercial bills. This can be done very much better when there is a large volume of bills already in our market, than in advance before the volume develops.

You will see how tenaciously I stick to the idea that obstacles should not be put in the way of the development of a large volume of these bills so long as they are good. If some such plan will lead to complete harmony in our efforts to control this business, I would welcome it heartily, and promote that or any other suggestion of yours to get results.

No one can appreciate more than I, who have been so much in your confidence, that driving a team of twelve unbroken nags is a difficult and harassing job. I don't want to add to your troubles a bit and particularly not at this time when I am unable to keep closely in touch and sometimes may form opinions without adequate information.

To Hon. Paul M. Warburg.

Nov. 17, 1916.

You refer to the French railroad acceptance credit. The arrangement in that matter along the lines which you approve was to a considerable extent due to my urgent representations to the Frenchman who was negotiating the matter, that guarantees of discount, etc., were unwise and that we did not want to encourage our bankers to enter into such agreements.

Your strictures upon the method pursued in the last French credit are doubtless justified from your standpoint, but I do not think you should assume there was any deliberate intention to withhold information or to do otherwise than deal frankly. In the Brown credit, which the Bonbright credit copied in identical terms, the whole subject was laid before the Board, together with actual copies of the agreement and I believe, in justice to Kent and the officers of the New York Reserve Bank, that it must be accepted that they acted hastily in the belief that the rulings in the other credits would necessarily apply to this one. I do not think for a moment because a matter originates in Washington that I must always brand it as ridiculous. My letter would have been more accurate had I said the amendment to the law is ineffective because it cannot be applied in any direction except we are willing to trail along after foreign banks which have already blazed the trail. If the ruling as made by the Board is required by the terms of the statute, I have nothing to say, but I hope that is not the case.

I agree with you about a central bank not now being possible. It would be the best solution of some difficulties

To Hon. Paul M. Warburg.

Nov. 17, 1916.

but would invite others. If the Reserve System was one bank, I fear it would invite political attack and be destroyed and certainly it would mean that the central bank management would be more concentrated in the Board in Washington and the managers of each of the twelve banks would be local clerks and the thing would run in a very loose-jointed fashion. If we ever have a central bank, it must be run from New York by a Board of Directors on the ground and nothing would invite greater antagonism than such an institution.

Now, in conclusion, as to the specific business in front of us and the better understanding to be arrived at between the Reserve Board as to whether these foreign credits are to be encouraged or discouraged. I hope it can be arranged that they can be encouraged. If you and New York can agree as to what is best for the country in that regard, I am sure you will have no trouble in agreeing likewise in adjusting rates so that the Board will be perfectly satisfied that the System is holding a check over the amount of paper of that kind which gets into its portfolio, and you can count on my doing everything in my power to bring that about. If the Board takes the view, on the other hand, that these credits should be discouraged and strictly limited, then it seems to me the only possible position for the New York bank is to handle these bills just the same as any others which are good, without any discrimination, because then the amount will have been so limited that they will not in any case prove a menace to the System. Personally, I do not

To Hon. Paul M. Warburg.

Nov. 17, 1916.

think there is the slightest chance of any trouble arising out of credits of this kind, in fact, I think good will result, but I am exceedingly anxious to see the Board and the New York Bank work in harmony and in thorough accord.

Before writing New York, won't you send me another letter advising me how all this strikes you and whether the effort to work it out along the line of my suggestion is not feasible, and then let me write them strongly on the subject.

I have been writing Mr. Jay lately, who unfortunately is just now laid up, urging that a little more systematic handling of some matters at the bank be developed right away. Too much is done at the last minute there. Recent correspondence with him encourages me to believe that he would welcome Aiken as an associate and I have great confidence that Aiken, who has a lot of punch, could get things going a little more smoothly.

Above all things, don't be disturbed because of some unfortunate expression in any letter of mine to New York. I am absolutely confident that had we both been there, this matter would have been adjusted with much less difficulty and friction. Your letter has gone a long way toward accomplishing what you and I both want, although difficult to bring about just now with 2,000 miles between us.

I am dictating this letter while in bed for I have had a little upset the last day or two, but expect to be around all right by to-morrow. Don't ever forget that I think you entitled

To Hon. Paul M. Warburg.

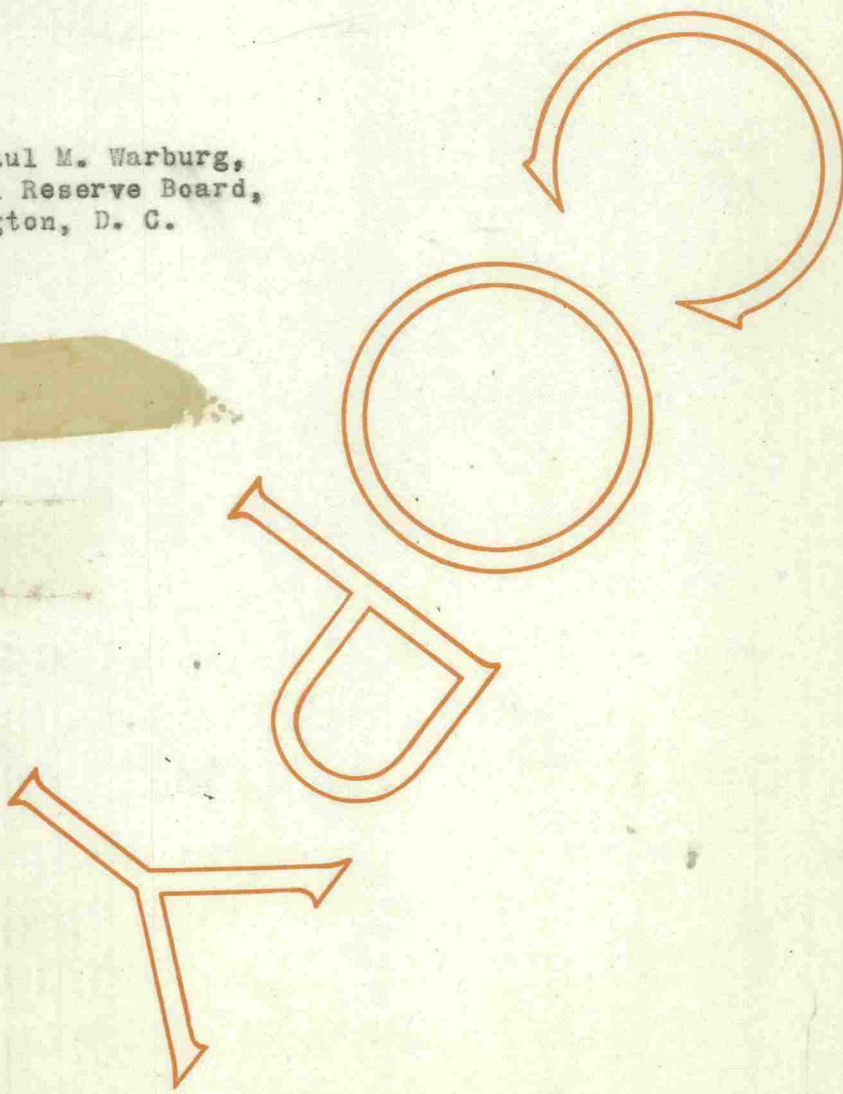
Nov. 17, 1916.

to the credit for everything that has been accomplished in
the last two years and none of it would have been possible had
it not been for your patience and good nature, particularly
with

Yours faithfully,

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

BS/VCM



198

November 17th, 1916.

Dear Warburg:

A rumor just reaches me that the Treasury Department is considering a plan for issuing gold certificates in denominations of \$5. It seems to me that nothing could be so fatal to our plans as such a development. We do not want to scatter this gold all over the country in \$5 bills, but want it in the reserve banks.

I cannot believe that any such plan would be even considered by Secretary McAdoo at this time. Would you mind dropping me a line about it?

Faithfully yours,

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

BS/VCM

198

November 18th, 1916.

Dear Warburg:

Yours of the 14th enclosing copy of your letter to Dr. Miller has just reached me and I have read the enclosure with a great deal of interest. I would not have admitted to amusement if you had not suggested it, but really it has amused me a good deal because of the very frank way in which you have undertaken to lambast one of your associates. I also got considerable amusement from the evidence at the foot of page 6 and the top of page 7, that some of the doctor's remarks rather got under your skin.

I really think the letter is a bully one. Miller's argument about the Bank of England note struck me as being absurd because I am satisfied from observations on the ground that one of the first banking reforms to be undertaken in England when the war is over will be to modify the Bank of England note issue to give it elastic qualities in some way. They were discussing it when I was there.

How do you feel about my publishing that article, cutting it in two parts and following it with a third one containing a specific suggestion for retiring greenbacks and hastening the retirement of national bank notes? Do you think it would offend the Doctor? That is the last thing I want to do.

Sincerely yours,

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

BS/VCM

198

November 20th, 1916.

Dear Warburg:

I was delighted to receive your letter and the photograph which I really prize. It is a good picture and exhibits that stern Warburg character, tempered with good nature and a sense of humor. I will order one of my own "phiz" sent you at once. Please hang it in the skeleton closet.

It would be most unfortunate if Mr. Jay should be discouraged by any changes proposed in our organization. I have hinted to him that I would like to see him out here if he could break away. I have never been associated with anyone who has a higher sense of duty than he and I know he is conscious of some shortcomings in ability to build up and keep moving a large and complicated organization. Nothing would suit me better than to feel that he could step right into my shoes, but I am not going to do you or the bank the injustice of withholding my own conviction that Mr. Jay's qualifications are not in that line. I would tell him the same thing exactly and indirectly have done so by suggesting Aiken.

This is a coldblooded world and I wish I could avoid my own responsibility in this matter, which is certainly not to permit any mistake to be made.

to Mr. Warburg.

Nov. 20, 1916.

Nov. 20, 1916.

My last letter about the French credits answers yours almost entirely. I have already written to New York, notwithstanding what I said in my last letter, suggesting that they consider a differential and am referring to it in another letter to-day.

After reading your letter (and I know you will pardon my saying this), I really have to laugh at finding there is so little difference between us and that experience in this apparent difference of opinion resembles so closely all of our former differences of opinion. We have never failed to get together and we are doing so very rapidly in this matter. Your last long letter helped me a lot!

BS/VCM Digressing a minute, why don't you and I get out of business, put the children out on a farm somewhere and enjoy ourselves a little bit? What difference does it make or will it make a hundred years hence whether Mr. Austin knows how to discriminate in rates or not? If you lived out here for six months under the Rocky Mountains you would begin to realize as I do that a lot of these things do not count for very much.

Referring to the subject again of discount rates, I believe that after the war we are going to have very high rates, first, abroad and then in this country. I do not think that any of these credits will default, although some might have to be renewed. I believe that rather than suffer the slightest default, England and France would pledge the last scrap of

Mr. Warburg.

Nov. 20, 1916.

available property they possess to effect renewals at any old rate. Furthermore, I am hopeful that the war is not going to last as long as some people think.

Will read your letter to Glass very carefully and write you a full reply later.

Many thanks for your nice letters which always encourage me.

Faithfully yours,

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

BS/VCM

COPIES

198

November 21st, 1916.

Dear Warburg:

With this I am returning your proposed letter of November 14th addressed to Mr. Glass, concerning which you ask for comments.

With one or two exceptions, we are so heartily in agreement as to the advisability of the amendment suggested that I will do no more than refer to two or three of them.

First, I do not think any schedule of the amendments can be considered complete in the matter of our gold reserves without recommending:

1. That the greenbacks should be retired and Federal reserve notes issued in their place,
2. That our currency laws should be amended respecting the arrangement of denominations of different kinds of paper money,
3. That the present practice of the Treasury in buying gold should be modified so that the reserve banks can get in between the public and the Treasury Department.

In this connection, one of the most interesting recent developments has been the ability of the New York Bank to buy gold bars because of the inability of the Assay Office to take it for cash as promptly as offered. If we could pay for the gold with

To Mr. Warburg.

Nov. 21, 1916.

our notes and the Assay Office made depositors await the smelt-
get
ing return, we could, all the imported gold, almost without ex-
ception. The above simply refers to omissions from your letter
which it seems to me are of sufficient importance to emphasize.

Recommendation No. 3: I am very doubtful about this. It has the effect of taking the pressure and almost the only pressure which we can exert, off state banks and trust companies and might result in an indefinite postponement of any general movement to take full membership.

Recommendation No. 5: This strikes me as being all right simply because it is an unpleasant necessity. On the other hand, I do not think the undertaking that member banks shall increase their reserve deposits by the equivalent of the paid in capital is practicable. To make it practicable, the statutory amount of reserve should actually increase and that, I believe, to be unnecessary. In other words, any informal arrangement or understanding about increased deposits could be permanently relied upon and you will find that in the New York District the big New York City banks already carry excess balances with us equal to or exceeding the amount of their capital contributions.

Where I think the Board has in a measure fallen down in dealing with this subject of amendments, is not so much in what they have proposed as in the method pursued to secure their enactment. The Board has undertaken alone without any outside support to influence Messrs. Owen and Gladd and their associates, and through them, Congress. Regarding some of the most important amendment proposed, the members of the Board have differed

To Mr. Warburg.

Nov. 21, 1916.

themselves and have not hesitated to expose their differences to Mr. Glass and others. This I regard as fatal to success:

At different times I have discussed the subject of amendments, particularly to our currency laws, with a number of our Congressmen and Senators and in every case they have stated that if the members of the Reserve Board and the managers of the reserve banks, as well as bankers of experience throughout the country, agreed upon the wisdom of the amendments proposed, there should be little difficulty in securing their enactment. No pride of authorship or feeling of responsibility in these matters can, it seems to me, justify the Board in the present juncture in dealing with them by the methods heretofore pursued.

I am informed by Senator Thomas who called on me the other day that the legislative program for the short session is already made up and except upon the recommendation of the administration, no new matter can be introduced with any chance of passage. The program for this session had to be agreed upon as a part of the adjournment bargain at the last session, consequently, these amendments, if Senator Thomas' advice is correct, must be dealt with by unanimous consent. It is a very uncertain and probably hopeless outlook for important changes. My belief, therefore, is that all of these amendments should be studied up with the strongest possible arguments prepared for submission to Glass and Owen and they should be supported by the recommendations of all the twelve

To Mr. Warburg.

Nov. 21, 1916.

reserve banks, by endorsement from leading bankers and, if necessary, even by a few hearings when oral statements could be made to the Senate and House Committees.

I am returning the letter and hope you don't mind my frank statement of the way in which this matter impresses me.

I would be willing to let every other amendment go if we could get the note and currency provisions in good shape. Success to your efforts.

Faithfully yours,

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

BS/VCM

198

November 22nd, 1916.

Dear Warburg:

You have referred in a number of letters to the amount of finance renewal drafts which we had purchased in New York for the whole System in a way which might lead one to believe that we were overbuying. I have watched it from here as closely as possible and from time to time have had statements sent me showing the bills accepted by the different acceptors. Out of nearly \$100,000,000 of bills held by the whole System, our records in New York show as of recent date, a little over \$23,000,000 of this class of paper. Out of the \$23,000,000, over \$8,000,000 bear endorsements of responsible institutions or firms, in addition to the obligations of the drawer and acceptor.

Not only that, but the position of the reserve banks is being constantly strengthened in this field of investment by the fact that the number of accepting institutions is constantly increasing as the business develops, the variety of names on our books is many times what it was a year or a year and a half ago and the lines of individual obligations not only no greater than they were, but in many cases considerably smaller.

The information which you get from your statistical department is liable to be somewhat misleading, as it probably does not assemble endorsements so as to indicate what the single name liability of the various acceptors is.

To Mr. Warburg.

Nov. 22, 1916.

One of the most important elements in this acceptance business, as you know, is the amount of acceptance liability undertaken by the various accepting houses in proportion to the amount of their resources. This we have watched with great care and you will find that the total risk assumed by any one of the acceptors is so insignificant as a banking risk that all doubt as to the goodness of these bills almost without exception is removed. I have deferred writing you on this phase of the matter until I could hear from New York and the figures just received confirm the impression I have had right along.

I would like to put these \$23,000,000 of finance paper alongside of the paper taken by the three Southern banks and probably by all of the other reserve banks, including New York, and let you be the judge of which is the best. I had rather take \$25,000,000, so far as goodness is concerned, of finance paper at $2\frac{1}{2}\%$ than \$5,000,000 of the kind of paper which we get from little country banks at 5%. The risk of loss on the former would be trifling compared with the risk of loss on the latter, and it is not only better intrinsically but it is in a banking sense more legitimate. The little country banks send us paper made by their regular customers to whom they expect to be lending money as long as they remain their customers. It has a nominal maturity date to be sure, but is in fact rarely paid off and has no collateral behind it.

I am writing along this line simply to indicate my conviction that if any rate discrimination is to be made (and to which I have already agreed in my letters to New York), it can

To Mr. Warburg.

Nov. 22, 1916.

only be justified upon the assumption that this paper in form is less desirable than commercial bills and consequently the amount should be restricted by charging a higher rate. I have agreed and even urged that this be done largely on account of your strong feeling on the subject, my personal belief, however, being that the amount of paper of that character already held is not yet large enough to justify discrimination.

I have just learned of the meeting at the office last week which seems to have straightened things out in fine shape and I am delighted that it has done so.

Best regards,

Faithfully yours,

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

BS/VCM

November 25th, 1916.

Dear Warburg:

Thanks for yours of the 21st and for the relief you have given me about those \$5 gold certificates. The rumor gave me quite a shock.

I am terribly disappointed in the attitude of both Miller and Delano in regard to our note issue. One thing in that situation which has been puzzling is inability to get hold of the reasoning, logic or point of view of these two men. Opportunity to do so was given us when Miller made his Indianapolis address. Now, how can we get at Delano?

I will be interested to hear what your Advisory Councilmen did or did not do; in the meantime, my warmest regards.

Faithfully yours,

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

BS/VCM

BE/ACB

Исследования в С.
Федеральной резервной системе
Национального банка в Сент-Луисе

Исследования в С.

Исследования в С.

Содержание отчета об исследовании в С.

Исследования в С. Федеральной резервной системы
Национального банка в Сент-Луисе

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

Исследования в С. Федеральной резервной системы

22

November 28th, 1916.

Dear Warburg:

Yours of the 23rd with enclosure reached me yesterday and this morning the newspaper contained an account of the action taken by the Board and the two together give me a very complete picture of just what has been going on.

It was characteristic of you to write me so frankly and I deeply appreciate it. We can always do better by pursuing this course even when we disagree and this leads me to enclose with this copy of a letter I have to-day written Troman bearing on this subject.

Fundamentally, we differ in our conviction, which may be simply latent and instinctive, as to the goodness of these foreign loans. I am convinced that they are good and will be good even though the war lasts considerably longer; even, in fact to the point of exhaustion. As I wrote you before, some of these bills may have to be renewed and they may have to be renewed at very high rates but I still believe that they will all be paid and, furthermore, if the bankers are wise and skillful, they will be largely absorbed by the public and not prove a menace to our banks. This, of course, does not mean that I would like to see the banks generally, and particularly the reserve banks loaded with finance paper.

To Mr. Warburg.

Nov. 28, 1916.

Where I differ from the attitude of the Reserve Board is in suggesting a policy of repression which is not constructive and which is certain if successful to cause trouble with the exchanges and some disorganization of our foreign trade. Would it not be a stronger, wiser and less timid policy to admit the existence of a situation which imposes certain obligations upon us which it will, in fact, be difficult for us to discharge, which even contains elements of danger and admitting that, set about to fortify ourselves so that we can discharge the obligations and minimize or avoid the dangers. Would you not feel very differently about these foreign credits if we had \$1500,000,000 or more of gold in the reserve banks and 80 % reserve, no greenbacks in circulation and very much reduce the amount of national bank notes with a perfectly normal situation in regard to the reserve notes; even the silver menace can be dealt with if we drive it into circulation to take the place of currency withdrawn and by reducing denominations.

I won't comment in detail on the most interesting narrative of what has been transpiring of which you write me. I know in my heart that you agree with my views about the currency and that you would feel very much easier about all this foreign business if our currency and reserve bank reserve situation was on a sound basis.

About the war situation, it is worse than distressing and I cannot see any outcome to the deadlock. Even President

To Hon. Paul M. Warburg.

Nov. 28, 1916.

Wilson can do very little if anything with feeling so bitter ~~comes for writing~~
 between the belligerents. Don't let either of us lose sight
 of the fact, however, that while the war does continue and
 inasmuch as we can have no part in stopping it, a construc-
 tive program is safer than a program which interferes with the
 operation of natural laws and those which have been accepted
 between nations as lawful and proper.

I feel that I am justified in repeating the state-
 ment that I believe our greatest protection is in having all
 Europe in pawn, so to speak, to this country and in having an
 immense gold reserve in the reserve banks. If these foreign
 loans are not good, ^{but} as I think they are, then you can put me
 down as being wrong in my whole theory and some day you can
 chuckle over that and taunt me with it and I won't have a word
 to say.

Again, old friend, thank you many times for writing
 me so franky.

Faithfully yours,

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

BS/VCM

198

November 29th, 1916.

Dear Warburg:

It was necessary for me to order that picture from the photographer in New York so I was unable to put my name on it. This will be done if you still have it, when next I am in Washington - if I am ever there again. Yours now adorns my chiffonier in a most gorgeous silver frame.

Faithfully yours,

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

BS/VCM

198

December 2nd, 1916.

Dear Warburg:

I am enclosing a letter addressed to Mr. Jay which I will appreciate your handing to him in the event that he attends the meeting of Federal Reserve Agents to be held in Washington. He has not been well however, and should he not be there, I will ask you to be good enough to forward it to him at New York.

Thanking you, I am, as ever,

Faithfully yours,

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

VCM

198
December 2nd, 1916.

Dear Warburg:

Thanks for yours of the 27th ult.

Of course, many of our letters back and forth are like coal barges in a sense. They are the best we can do in the way of discussion with 2000 miles between us.

I am very much interested indeed in all that you say in your letter. You know that I have not agreed with the recent policy of the Board in some of these matters and I think it is honest of me to say that you are the only man I know of with whom I feel at liberty to express disagreements just as frankly as agreements without the slightest possibility of dissension resulting.

Just one last word on this subject to express what is really my theory of the situation: Natural laws over which we can exercise no absolute control, have brought about an immense increase in our export trade; it cannot all be paid for in gold, nor in fact, by the return of our securities, so the trade in volume depends for its existence upon the amount of credit we extend. If these credits are greatly enlarged and are good, we insure ourselves against future disaster. This is all repetition of former letters. What we need to guard against is using this mass of gold to extend our domestic credits. So, in general, my view is that these foreign credits are far safer for our banks and for our country as a whole, than wild speculation and huge inflation resulting from further additions to our gold, which are bound to

To Mr. Warburg.

Dec. 2, 1916.

to follow if we refuse to extend credit. It seems as though a policy of repression is not only timid but will inevitably result, if the policy is effective, in development somewhat as follows:

First, belligerent countries will impose restraint upon imports of goods not necessary for war purposes; this means losses to exporters who are not dealing in munitions, while munitions makers will reap huge profits and get the bulk of the export trade. As we gradually drain Europe of gold, the exchanges become demoralized and as our currency premium advances abroad the cost of all of our exports increase to our foreign consumers. We suffer all the penalties of disorganized exchange, curtailment of our trade and over-production at home. Would not the constructive policy be to let this matter develop naturally and safeguard the reserve banks by reasonable limitations upon their investments in bills, keep their government bond holdings at a minimum and bend our energies to assembling every dollar of gold that can be gathered into the vaults of the reserve banks? And as a part of the program, undertake an energetic campaign to get rid of our greenbacks and retire national bank notes more rapidly. Then, by working the denominations of our paper money as you and I have frequently discussed, it seems we can put our country in an impregnable position by driving gold, not only into the reserve banks, but into the vaults of all member banks.

I am tempted to illustrate my feeling by comparing it with the position of a swimmer who is caught in a sea puss; if his friends on shore shout to him and encourage him to bend

To Mr. Warburg.

Dec. 2, 1916.

every energy to swim against the current, he is bound to drown. One cool head encouraging him to go along with the current and edge along toward shore will save his life. The policy which you fellows, (and I regret to say those Solons of the Advisory Council,) seem to have adopted impresses me as an effort to swim against the current, which will prove too strong for us and will exhaust even the most powerful swimmer.

Don't let our disagreement in this matter lead you to suppose that I read any sinister motive behind the act of the Board. There is nothing of that sort in my mind. It is a subject on which the best may disagree and some years hence you and I will find out who was right. The best part of it is that you write me so frankly and fully which convinces me that were I on hand you would listen to my humble views just as freely as you would express your convictions to me.

Faithfully yours,

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

BS/VCM

198

December 6th, 1916.

Dear Warburg:

The enclosed copy of letter sent Delano explains itself. I would not have written him without an invitation to do so, but he was good enough to send me copy of his memorandum to the Board and this Federal reserve note problem is really so important and pressing that I want to contribute what little I can to making progress.

The high call rates in New York naturally drive more bills into the Reserve Bank. If you will take the trouble to make up figures to see just what takes place when bills come to us in large volume, you will realize that our means of affording relief in a real crisis are exceedingly limited as yet, and would hardly be effective unless emergency action was taken to give reserve notes a status similar to those enjoyed by the Aldrich-Vreeland notes in 1914.

Faithfully yours,

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

BS/VCM

December 13th, 1916.

PERSONAL and CONFIDENTIAL.

Dear Warburg:

This is one of the days when I want to get a lot of bile out of my system and I might as well make a good job of it.

The Federal Reserve Bank of Chicago is a little less than one-half as large as the Federal Reserve Bank of New York; as I understand the situation, it is now earning all of its expenses and nearly if not all of its dividends. The Federal Reserve Bank of New York since the first day of its organization has contributed everything that was in its power to contribute toward making a success of the whole system - dividing its investments, sacrificing its premier position in the central market of the country and standing ready at every turn to subordinate selfish interests for the general welfare. This is no exaggeration because it is the spirit of the officers of the bank of which evidence has been afforded continuously. At the present time, the Federal Reserve Bank of New York has about \$95,000,000 of gold in its vaults accumulated by note issues; the Federal Reserve Bank of Chicago has about \$4,000,000. I presume the total cost to Chicago of their note issue has not been over \$6,000 or \$8,000; ours has probably been nearer \$200,000.

It is none of our business to criticize or interfere with the policy of the Federal Reserve Bank of Chicago so long as it does not affect our own affairs, but I find recently that

To Hon. Paul M. Warburg.

Dec. 13th, 1916.

Chicago banks that have been in need of currency, particularly new bills, have fixed up some sort of an arrangement by which against New York exchange that comes to us through the Chicago Reserve Bank, they are getting through their New York correspondents Federal reserve notes of the Federal Reserve Bank of New York.

My advices are not sufficiently complete to make a thorough analysis of this matter, (which would have to be done on the ground in New York), but I believe it is worked out somewhat as follows: A Chicago national bank, say Bank A, deposits checks on New York with the Federal Reserve Bank of Chicago which are sent us and credited to the Federal Reserve Bank of Chicago; the Chicago Federal Reserve Bank then gives a transfer of some kind on us to Chicago Bank A, which latter bank remits the transfer to its New York correspondent, say Bank B; Bank B then comes to us with the check and a request for, say, \$100,000 of new Federal reserve notes which it promptly ships to Chicago Bank A.

Further evidence of the generous spirit exhibited by that outfit is given in a reply to our recent letter about harmonious action in regard to government bonds. Chicago objects to the plan.

I have been quietly watching these manoeuvres, not only on the part of Chicago but occasionally on the part of other reserve banks that have been indulging in that time-honored practice of trying to beat New York. Every now and then, it breaks out in some new scheme.

To Hon. Paul M. Warburg.

Dec. 13th, 1916.

Realizing that in these matters it takes time for the Board to take action, I am sending this private and personal letter to you as a warning that "as, when and if" I get back to that bank in New York, this sort of business is going to stop, if it means blacklisting those particular banks that indulge in antics of this kind. If I were in New York to-day, I would notify the Federal Reserve Bank of Chicago that we would do no more business with them of any kind and make it clear at the Governors Conference just why we were going to take that position. Not being there, as I said above, I can only give you the benefit of my grouch and tell you what is just as sure to happen as anything can be when I get back to New York, if this sort of thing continues.

After reading my two letters to-day, you may wonder what is happening to me. I guess it means that I am getting better - at any rate, I have some kick left, as I hope this letter discloses!

Faithfully yours,

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

BS/VCM

198

December 13th, 1916.

Dear Warburg:

Some time ago, one of your letters contained an intimation that favorable decision had been arrived at in the matter of our application for the appointment of a correspondent in London. I am just now in receipt of advices that Mr. Jay has been informally advised verbally by Governor Harding that the State Department does not desire to take any position in this matter and that the Reserve Board will deal with it simply as a banking matter. Further, that the Reserve Board is willing that we should complete arrangements as proposed but not to undertake any business without further authorization by the Board.

This leaves the matter in an absolutely impossible situation which would subject me personally, as well as the Reserve Bank of New York, to justifiable criticism if we should go ahead with the plan without knowing whether we could put it into operation or not, and then finally have the approval of the Board withheld.

I am sending you this letter, -wishing to be absolutely frank with you at all times in these matters, -simply to say that I am writing Mr. Treman on the subject to the effect that the informal advice of the Board with a string attached to it is not of a character that would justify me in doing anything further

To Mr. Warburg.

Dec. 13, 1916.

towards completing these arrangements and that I believe the Federal Reserve Bank of New York is entitled after waiting seven and a half months to a definite "yes" or "no" from the Reserve Board in response to its application for authority to appoint a correspondent in London.

This letter is sent to you personally because my associates in New York may not agree with the views I am expressing to them and it is a matter in which the bank should take formal action rather than be dealt with by me from Denver.

As all questions of neutrality are eliminated, this matter strikes me about as follows: The duty of the Board is to give or withhold its consent; consent once given, it is the business of the Reserve Bank of New York to go ahead and transact the business. Once the business is started, if the Board in its supervisory capacity feels that the Reserve Bank of New York is doing a reckless or unsound business, it is the Board's duty, of course, to call their attention to the fact. I do not think, however, that the Board should give a conditional consent in the informal way which it has in this matter and frankly I think the Board has shown very little consideration to me and my associates in hanging the whole matter up for over half a year.

Why don't you cut the knot by approving the appointment, which is the thing to do, and then, as has always been the case in the past, have a frank general understanding about our

To Mr. Warburg.

Dec. 13, 1916.

policy which is flexible and subject to readjustment as conditions justify? I do not like the evidence of distrust exhibited by the Board and believe that you would be just as impatient and just as disgusted as I am to be asked to do business of this character with a noose around your neck.

You can get just as mad as I am about this and write me just as frankly as I have written you, as I have been waiting some months to get this out of my system where it has been responsible for more or less mental disturbance.

Faithfully yours,

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

BS/VCM

198

Denver, Colorado,
December 15, 1916.

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

Dear Warburg:

You have not written me lately and I know you well enough to realize that it is because you are busy as the dickens and not because you are put out by my recent out-pourings of dismay and dissatisfaction about the way you and your pals have been behaving.

This letter is principally to express my satisfaction that Germany has finally made a move toward peace. If it is sincere, as I pray it is, England and her allies cannot face the civilized world with anything like a clean conscience if the suggestion is not listened to.

I do not know to what extent you may have opportunity to discuss these matters with those who may have an influence in the situation, but let me express frankly and honestly the following conviction, not only growing out of my own thoughts on the subject, but from many observations made abroad.

What England and France most fear is a termination of the war which will not result in disarmament or which will not insure so far as human arrangements can insure it, no recurrence of a similar kind. If the war stops before one side or the other is beaten, the only real assurance of permanent peace will consist first, in disarmament and second, in a formal, definite understanding between all the great

To - Mr. Warburg.

December 15, 1916.

nations, including the United States, that differences between nations will be settled without force and that settlement, if necessary, will be imposed upon parties to disputes by a combination of the neutrals.

I believe today that Germany could recover a large part of the prestige lost in this country and elsewhere if she displays a true willingness to disarm and to submit to a real and enduring and binding league for peace.

This peace development has great bearing on our future plans. You and I should have opportunity to discuss them frankly and try and come to an agreement, which should not be difficult, as to how the policy of the Reserve System should be shaped. I cannot tell you how much I really want to have a visit with you and how much I need it. If you could only break away for a week and spend a few days with me, I would rejoice beyond expression. In any event old man you must never forget what I said in a former letter - that differences of opinion, which between us are never personal, are most difficult to adjust by correspondence and nothing that you could write me, expressing your views which may be opposed to mine, would ever give rise to any personal feeling, so write me frankly in reply to my recent letters, but better still come out here and see me if you can.

With best regards and success to the peace move.

Faithfully yours,

198

Denver, Colorado,
December 19, 1916.

Dear Warburg:

It was a great pleasure to get your letter of the 15th. I had appointments both at the doctor's and dentist's today so have had no opportunity to dictate a reply, but will send you a careful one in a day or two, which I want you to read very thoughtfully and deliberately at home. Let me repeat now that I have never felt the need so much of a good visit with you as recently.

The boys get here this week, we are going immediately away up in the mountains to some log cabins to spend the Holidays and I will be back probably the first of January to start the boys back to school.

Please give my very best to Mrs. Warburg and Betsy, and the same to your old man; that being the thought I have every morning and evening when I see your picture in a magnificent silver frame on my dresser.

Faithfully yours,

BS/CC

198

Denver, Colorado,
December 21, 1916.

Dear Warburg:

This is replying to your long letter of the 15th, which I have read with great interest and appreciation.

Reports of the conferences indicate that they were most satisfactory and this, of course, I get from the other side. On this matter let me make a few frank comments, which I hope you will convey to Governor Harding with your unfailing tact.

One of the difficulties formerly experienced at the Governors' Conferences has been a lack of out-spoken frankness and plain indication of views by the Reserve Board. We never got together on the basis of a partnership, but the governors were rather put in the position of being school boys working under a school teacher, or a board of school teachers, who viewed their work with a certain amount of interest, combined at times with unexpressed criticism, and, to be frank, a certain lack of confidence. All of this can be banished forever if the Board will realize that the governors as a whole are exceedingly well informed on practical matters which they discuss, and desire to establish a working arrangement with the Reserve Board as partners rather than as between pupils and tutors. I do not say this offensively or with any hard feeling whatever, but it is undoubtedly a fact that in technical bank detail this group of twelve men know infinitely more about the subjects they deal with, as a rule, than do the members of the Board; whereas, on the other hand, the members of the Board have an infinitely better general point of view of the whole system than anyone of the governors can have. The

To - Mr. Warburg.

December 21, 1916.

advantages of the Board's general supervision and of the governors' technical knowledge can be made the strength of the system, if the two bodies work together, and they can be made the seeds of discord if they are kept apart. Governor Harding is just the man to handle this situation right and if he will start everyone of the conferences with a good, plain talk, directed rather to stimulating effort than towards cracking the whip of authority, he will find himself driving a 12-horse team of unexampled loyalty and ability. Please tell him this along with assurances from me that he has a great work ahead of him with certain success if this policy can be persuaded, and I think you know that no one understands the situation among the governors any better, or so well, as I do.

It is a delight to get evidence of the affection and loyalty of those fellows which you are good enough to send me. I am in constant communication with Kains, who has really been quite ill, but is very much improved.

About the whole subject of clearings. We are faced with three important matters; one is the problem of charges outlined in the Board's circular No. 901, the other is immediate credit of checks on Federal Reserve banks and the third is the movement in the American Bankers Association to destroy the work we are doing.

I am very strongly opposed to the plan of charges outlined in 901 and send you quite confidentially copy of a letter I am writing Hendricks on the subject, which please keep for your private use. As to Seay's report, I must take time to study it and prepare a memorandum, which I will

To - Mr. Warburg.

December 21, 1916.

send you shortly. I think after while the object that Seay's verbot report aims at can be accomplished without forcing the System to risk the dangers that are really inherent in the unrestricted use of checks on Reserve Banks for exchange purposes. Will write nothing more until I study his report further.

About acceptances -- I am sorry not to agree with you in the views you express as to the way these matters are being handled. If the Board gets timid every time there is any flurry and we begin to pile up bills a bit, the Federal Reserve System will never amount to anything. The \$12,000,000 of bills that you refer to will all run off in a few weeks and really, Warburg, I am amazed at this evidence of lack of courage at a time when the policy pursued by the New York Bank was to my mind right in every single particular. Don't you overlook the facts that every single bill held by the Reserve Banks is as good as gold, will be paid the instant it matures without any obligation for renewal, that everyone of them complies with the law, that they are infinitely better in quality, in liquidity and in intrinsic value than almost all the commercial paper which you refer to which is never paid off in fact and that this recent transaction by the New York Bank is what in former days you and I have hoped and prayed would develop so that we could exhibit both here and abroad that we really amounted to something.

I really think you are mistaken in your view of this matter, as well as your view in regard to the length of the paper. The Bank of France, for instance, handles only short paper. You will find a negligible quantity of 60 and 90 day bills ordinarily in their portfolio. The Bank of England

To - Mr. Warburg.

December 21, 1916.

does not discriminate at all against short paper which comes in through the bill houses. In fact, it very frequently is short paper and I should say in ordinary times is generally short paper when a sudden turn in money rates forces up the rates on day to day loans on which the bill houses carry their portfolio and makes it necessary for them to dump their bills into the Bank of England. I am sorry not to agree with you about a differential. I would recommend that it be adopted in New York out of deference to your views and wishes, but against my personal judgment.

Now, the real trouble with the market in New York, it does not arise from any policy of the Reserve Bank either as to rates, maturities or methods; it arises almost entirely from the practice of New York banks for they will persist in all buying their own bills. Once they were persuaded, educated or driven to marketing everything bearing their own acceptance, the market would broaden at once, the rate situation would take care of itself and no discrimination would be needed or justified. It is not that acceptors offer their own acceptances, the trouble originates through their buying their own acceptances. You will observe that the bankers who have had experience, viz.- Morgan, Brown, Heidelbach - principally, let their bills go to the market. The new fellows at the business seem to think it is a reflection on them to have their bills offered. That is because they are banks of deposit instead of acceptance houses, and I fear it will take a long time to overcome the trouble.

Instead of adopting your suggestion in regard to discriminating against maturities, by all means let us undertake a campaign of education,

To - Mr. Warburg.

December 21, 1916.

or apply pressure, if necessary, towards forcing the banks to discontinue the practice of buying their own bills, and I am sure that most of our difficulties will disappear. Wont you consider this carefully before urging Treman to undertake a course which I am quite convinced will not be effective because it misses the mark.

Now about this exchequer bill episode, don't lets you and I wrangle over this because that water has gone over the dam. I suppose you realize that you and your associates don't hear the truth from your friends, or read it in the press as to the real impression that the matter has created. I blame Davison partly for what happened, but after hearing the story from many quarters, I think the Board could have met the situation by stating that sales of securities of foreign governments in this market were matters of concern between those governments and our bankers and investors, with which the Board did not propose to interfere, and that its supervisory powers over member banks would be exercised directly and through the comptroller in the future as in the past, to insure conservatism and observance of the law in the way in which investments were made.

The trouble is that the Board got outside of its baliwick and aroused suspicion as to the sincerity of its expressions. In other words, it has been universally whispered about that there is something behind it all that has not been explained. I can appreciate that you had no difficulty in convincing those newspaper men that the Board was in a hole after Davison's call, but don't forget that newspaper men don't always say all that they think.

To - Mr. Warburg.

December 21, 1916.

The danger in my mind resulting from such affairs is that the Reserve Board would get itself into such a situation that the important men of the country will ignore them and the influence of the Board, instead of being an effective one, will be rather that of a captious critic without influence.

So much for this. I have written ~~you frankly~~ as I always do and know that you will take it in good part.

I am glad you spoke to Treman and Peabody about a new Deputy Governor and cannot for the life of me understand why more progress is not being made in New York on this matter. Some way or other, punch does seem to be lacking and I don't blame Treman a bit, both because he is new and because it is a difficult position for one to fill temporarily any way. If the Aiken matter develops, I would want him to come out here for a few days for a good plain talk covering various matters about which it would be unfortunate to be obliged to correspond.

You must never underrate Jay; his abilities, his mental power and his importance in the bank. I have a very deep affection for him and a respect for that head piece of his which you would feel in a greater degree if you were along side of him. His chief trouble is inability to organize and coordinate his work and to make the other fellow do 90% of it. I have had some very frank correspondence with him lately and I think only his illness prevented your seeing the result of it.

I am not going to refer to the drafts of amendments in this letter, but prepare separate memoranda on each one, which I will send forward shortly. On the whole, they strike me very favorably, but I do hope

To - Mr. Warburg,

December 21, 1916.

they don't reach the committee stage until I can send you a few suggestions, just to show you that my hand is not entirely out of it yet.

In general, there is one danger to fear from Congress and that is that they will deny any amendment which opens the door to expansion or inflation. My letter to Delano, which I hope met with your approval, was intended to suggest the impossibility of inflation by Federal Reserve banks and I fear that the argument was not made nearly as strong as it might have been.

In pushing for amendments, please don't let the Board rely upon their own efforts alone. The Board does not always agree among its own membership and when these differences appear before Glass & Owen and their associates, an amendment is necessarily lost. Get every pound of ammunition behind the effort by calling in the Reserve Banks and important bankers to add their influence. Would you think it advisable for me to write McAdoo to stir him up? He really does now and then show some respect for my opinion, or at least has in the past, and I think he is convinced that they are honest ones. So far as the President is concerned, if you can get Glass convinced first and McAdoo to join him, you should have no difficulty with the White House.

This is a very long letter, so take it home, mull it over and send me a reply, only when you have got plenty of time and wont be burdened.

Best regards from,

Yours sincerely,

198
P Warburg

Denver, Colorado,
December 22, 1916.

Dear Warburg:

I have been studying over the proposed amendments that you were good enough to send me and find, as you may imagine, that they really require a good deal of study and in some cases data which is not available to me here. They are all distinctly in the right direction and the memorandum, commenting on each one separately, which I am sending herewith must only be understood as an expression of views which I am hopeful will help.

Some of them strike me as being a little crude, or unfinished, so far as language is concerned; in other words, they have not been subjected yet to the polishing process.

May I also repeat what I wrote once before - that I hope the Board will bring to bear every influence possible outside of its own efforts in support of the program of amendments as finally adopted. All other comments are included in the enclosed memorandums.

Very sincerely yours,

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

BS/CC

Encs.

Denver, Colorado,
December 24, 1916.

Dear Warburg:

Yours of the 19th is just received. Did you ever know a time when you and I were not exchanging compliments over mutual cranky notions? Things are working along all right and I know those cranky observations of mine sometimes help by giving you a different point of view, just as yours do with me.

What you say about acceptances of the Trust Companies interests is very much. In the first place, you know we keep very close track of this in New York, as well as the acceptance accounts of the private bankers; as to the latter, they are exceedingly moderate.

As to the Trust Companies, I really do not think the time has arrived as yet to do anything at all on this score, except possibly to have the bank in New York have a little personal discussion with the proper officer of the Guaranty and the Equitable of such a character it would have the appearance of being merely a routine inquiry at the beginning of a New Year. Beyond that I certainly would not go just now for the following reason:

We have a good many objects to accomplish in developing this bill business, all of which cannot be accomplished at once, and they must be dealt with in their order of importance. The principal object to be accomplished is to develop volume of business, even though it seems at the outset to make one or two or three acceptors a bit top-heavy. Developing volume means that every avenue through which credits can be opened in

To Mr. Warburg,

December 24, 1916.

foreign countries should be employed to the maximum at the outset. We must not regard it from the standpoint of the figures of any other acceptor so much as from the standpoint of what is transpiring at the other end of the line where these bills originate. The minute the impression gets abroad in South America, and particularly in the East where communication is so slow, that American acceptors are in any way being restricted in opening credits, it will chill the development as sure as fate.

The second object to be accomplished is to develop extensive [?] [market] machinery abroad, and, pending its development, to use McAdoo's [offer] session, we must make the other fellow carry our horse. The Guaranty Trust Co. has been more skillful and energetic in that direction than any of the other institutions. They are handling the bulk of the business of the German-South American Banks and a vast deal besides, and I would not think just now of doing anything to check that growth. You must recognize, if you look at the bills we get on the Guaranty, that they almost always come through with good endorsements.

The third development, which comes slowly but recently very satisfactory, is to increase the number of accepting names. I am astounded to see what a growth has taken place in the last three months. Facility with which bills are drawn and negotiated in the East and in South America helps this development immensely and the Guaranty again is doing yeoman's work in that regard.

The fourth development is to straighten out the many kinks and irregularities in our own New York discount market; with this we must

To Mr. Warburg.

December 24, 1916.

be exceedingly patient during these early years. I don't believe you realize how effectively the New York bank can control the local market when the time comes to do so.

I have endeavored to name the process of development in its logical sequence as it appeals to me, and my reasons for suggesting that either nothing be done about the ~~two institutions~~ named at present or that the matter be dealt with as one of routine so as not to arouse commenting and without any attempt to apply pressure or excessive rate discrimination.

From last year's experiences, I judge that the Guaranty's account is now at about the maximum and will shortly decline and that the increase in recent months is due to the abnormally high price of cotton. I am privately told that the institution is in better shape than ever before in its history.

Jay sent me for confidential perusal the Minutes of the Conference of Federal Reserve Agents. I was delighted to read Harding's remarks and hear from other sources that the impression made upon the agents and later on the governors was most favorable as to the character of leadership that he was disposed to assume and the way in which he had handled matters.

While I do not agree with everything he said, I do heartily agree with his expression that this System can be run without arbitrary direction from the Board, and on the other hand, without lack of coordination if we will get together, discuss matters frankly and agree as grown up men as to the policy of the system as a whole. Things look pretty bright

To Mr. Warburg.

December 24, 1916.

to me for the future and I hope you feel equally encouraged.

We are off to the mountains tomorrow morning, so you wont hear from me for about ten days.

Best regards to you and all your pals.

Very sincerely yours,

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

BS/CC

COPY

F E D E R A L R E S E R V E B O A R D
W A S H I N G T O N

January 11, 1916.

Dear Governor Strong:

Thank you very much for sending me a copy of the questions that you asked your English friends, directors of the Bank of England, and for sending me a copy of Mr. Grenfell's reply.

When you go over to London, I hope you will further investigate the matter as I do not think that the replies are quite to the point. It is not the question of who is right or wrong, but it is important that we agree concerning proper principles. I can well see from Mr. Grenfell's reply that, in answering your questions concerning finance bills, as the questions have been put by an American, he has in mind American finance bills. You may recall that, concerning those, I have always stated that I thought they were treated differently in London from finance bills of the same character drawn by a country that had a proper finance system. In the past, in the United States, there have been no commercial bills of exchange which could flow from one country to another, and, owing to the fact that large crop movements had to be anticipated, the finance bills have played a legitimate role. But, as I told you, a bill drawn, for instance, against collateral of securities by a German banking or brokerage firm on English bank-

ing house was not considered a desirable bill in years gone by, even when political conditions were still entirely normal between those two countries.

Reading between the lines of Mr. Grenfell's letter, does he not say, as a matter of fact, that "finance bills drawn in the early part of the year have rarely been criticized, as it was felt that the same would be disposed of or replaced by Wheat and Cotton Bills in the fall. If, however, bills came forward in very large quantities at a time of wild speculation on your side, the bank has sometimes issued a private warning to the market that it disapproves of same", etc., and later on he says, "If it considered finance bills for speculation were coming forward on any house in too large quantities" about the same course would be pursued. That means that, essentially, they take bills which have some commercial foundation, and it leads to the question, what would they do if they were faced with an issue of \$25,000,000, \$50,000,000 or \$100,000,000 of paper drawn by a foreign government on British banks. Would they not feel - first, that the commercial character was lacking (particularly if there were agreements to renew) and - second, that there would be too much on single names? Would they not consider these bills under the head of something like speculation?

Of course, just at present, these men over there, in formulating what might be considered the normal attitude of

the Bank of England, subconsciously will be influenced by their own abnormal conditions and requirements. But, before you and I shall be through with our jobs, I hope that normal conditions will prevail again in Europe, and I am confident that I shall be able to prove to you that the Bank of England will object to \$25,000,000 worth of bills drawn by the Government of Roumania on British bankers and that they will stop these bills from going into the Bank of England to any large extent - not by a regulation, as we unfortunately have to issue, but simply as Mr. Grenfell describes it, by indicating that it would not favor these transactions.

I feel so strongly about the principle involved here as one which Federal Reserve Banks should observe that I hope that when you are in England you will get all the light on the subject that you possibly can.

Thanking you for your letters and hoping to receive some more, I am

Very truly yours,

(Signed)

Paul M. Warburg,

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

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

GEORGE W. E. ATKINS, VICE-PRESIDENT

BELVIDERE BROOKS, VICE-PRESIDENT

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

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

Use three symbols after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT

FILING DEPT.
JAN 14 1916
3K ZB 40
FEDERAL RESERVE BANK

110
16 BROAD ST. *P. D. Fr.*
JAN 17 1916

K WASHINGTON DC 1106A JAN 15 1916

BEN J STRONG JR

854

FEDERAL RESERVE BANK NEWYORK

WE HAVE ALWAYS ROOM FOR OUR STAR CHAMBER BOARDER. IF YOU HAVE TO STAY AT SEVENTEEN EIGHTEEN H SUGGEST YOU GO THERE LAST HALF YOUR STAY INASMUCH AS SOCIALLY WE ARE BUSIER DURING THAT TIME LOOKING FORWARD TO SEEING YOU.

PAUL M WARBURG

1110A

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Sirs:

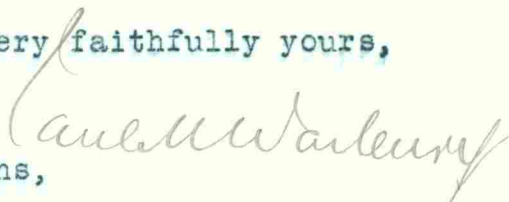
Permit me to introduce to you the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Mr. Strong is about to visit England and some parts of the Continent for the purpose of making some preliminary studies as to the best course ultimately to pursue in making arrangements for the Federal Reserve Bank of New York, and possibly some of the other Federal Reserve Banks, in opening connections in Europe.

Knowing the valuable services rendered by your esteemed firm to some of the Government banks for which you have acted as correspondent, I have taken the liberty of giving Governor Strong these lines, confident that you will be able to give him most valuable advice and hoping that possibly this preliminary conversation may lead to some connections being established between your own bank and the Federal Reserve Banks.

Bespeaking for Governor Strong your courteous reception, I am, dear sirs,

Very faithfully yours,



N. M. Rothschild and Sons,

London, England.

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Sirs:

Permit me to introduce to you the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Mr. Strong is about to visit England and some parts of the Continent for the purpose of making some preliminary studies as to the best course ultimately to be pursued in making arrangements for the Federal Reserve Bank of New York, and possibly some of the other Federal Reserve Banks, in opening connections in Europe.

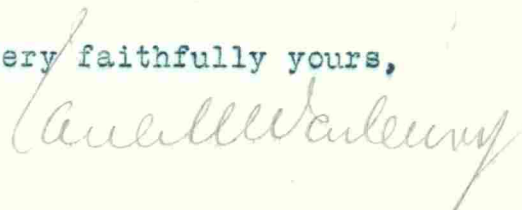
Knowing the valuable services rendered by your esteemed firm to some of the Government banks for which you have acted as correspondents, I have taken the liberty of giving Governor Strong these lines, confident that you will be able to give him most valuable advice and hoping that possibly this preliminary conversation may lead to some connections being established between your own bank and the Federal Reserve Banks.

Bespeaking for Governor Strong your courteous reception, I am, dear sirs,

Very faithfully yours,

Messrs. Hope & Co.,
579 Keizersgracht,
Amsterdam, Holland.

*



FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

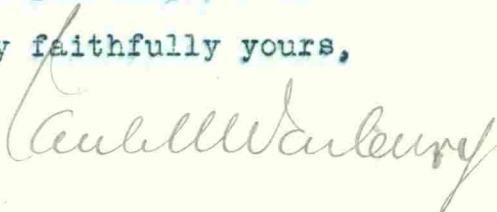
My dear Sir Felix:

Permit me to introduce to you the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Mr. Strong is about to visit England and some parts of the Continent for the purpose of making some preliminary studies as to the best course ultimately to pursue in making arrangements for the Federal Reserve Bank of New York, and possible some of the other Federal Reserve Banks, in opening connections in Europe.

Bespeaking for Governor Strong your courteous reception and availing myself of this opportunity of sending you, through him, personal greetings, I am

Very faithfully yours,



Sir Felix Shuster,
Union of London & Smith's Bank, Ltd.,
London, England.

*

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Sirs:

Permit me to introduce to you the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Mr. Strong is about to visit England and some parts of the Continent for the purpose of making some preliminary studies as to the best course ultimately to pursue in making arrangements for the Federal Reserve Bank of New York, and possibly some of the other Federal Reserve Banks, in opening connections in Europe.

Knowing the valuable services rendered by your esteemed firm to some of the Government banks for which you have acted as correspondents, I have taken the liberty of giving Governor Strong these lines, confident that you will be able to give him most valuable advice and hoping that possibly this preliminary conversation may lead to some connections being established between your own bank and the Federal Reserve Banks.

Bespeaking for Governor Strong your courteous reception, I am, dear sirs,

Very faithfully yours,



Messrs. Samuel Montagu and Co.,
Sixty Old Street,
London, England.

*

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Paul:

Permit me to introduce the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Governor Strong is leaving for Europe in order to find, in a preliminary way, a basis for connections which the Federal Reserve Banks will ultimately have to establish in Europe. He incidentally will want to inform himself about financial conditions in England and on the Continent.

Mr. Strong is a personal friend of mine, who, in the same spirit as I, joined the Federal Reserve System for the purpose of rendering a National service, and his unselfish co-operation has been of the greatest help in the development of the System and to me, personally.

I bespeak for Governor Strong your friendly reception and any courtesy that you might show him and any advice that you might give him in his errand, I shall consider as personally rendered to me.

Incidentally, I am happy to profit by this opportunity of sending you most cordial greetings both from Nina and myself.

Hoping both you and your wife are in the best of health, with fondest regards, I am

Always faithfully yours,

Paul Kohn-Speyer, Esq.,
18 Fenchurch Street,
London, E. C.; England.



*

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

My dear Sir Ernest:

Permit me to introduce the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Governor Strong is leaving for Europe in order to find, in a preliminary way, a basis for connections which the Federal Reserve Banks will ultimately have to establish in Europe. He incidentally will want to inform himself about financial conditions in England and on the Continent.

Mr. Strong is a personal friend of mine, who, in the same spirit as I, joined the Federal Reserve System for the purpose of rendering a National service, and his unselfish co-operation has been of the greatest help in the development of the System and to me, personally.

I bespeak for Governor Strong your friendly reception and any courtesy that you might show him and any advice that you might give him in his errand, I shall consider as personally rendered to me.

Incidentally, I am happy to profit by this opportunity of sending you most cordial greetings both from Nina and myself.

Hoping both you and Mrs. Cassel are in the best of health, with fondest regards - also for Mrs. Jennings - I am

Always faithfully yours,

Sir Ernest Cassel, K.C.M.V.C.O., etc.,
Brook House, Brook Street,
London, W., England.

Carroll W. Wilson

*

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Dr. Vissering:

Permit me to introduce the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Governor Strong is leaving for Europe in order to find, in a preliminary way, a basis for connections which the Federal Reserve Banks will ultimately have to establish in Europe. He incidentally will want to inform himself about financial conditions in England and on the Continent.

Mr. Strong is a personal friend of mine, who, in the same spirit as I, joined the Federal Reserve System for the purpose of rendering a National service, and his unselfish co-operation has been of the greatest help in the development of the System and to me, personally.

I bespeak for Governor Strong your friendly reception and any courtesy that you might show him and any advice that you might give him in his errand, I shall consider as personally rendered to me.

It may be that Governor Strong can discuss with you some of the difficult problems that at present puzzle both you and us, and if some satisfactory arrangements could be made between your great institution and our Federal Reserve Banks concerning certain information of actual operation, I should be only too happy.

FEDERAL RESERVE BOARD

WASHINGTON

January 29, 1916.

Dear Sirs:

Permit me to introduce to you the bearer of these lines, Governor Benjamin Strong, of the Federal Reserve Bank of New York.

Mr. Strong is about to visit England and some parts of the Continent for the purpose of making some preliminary studies as to the best course ultimately to be pursued in making arrangements for the Federal Reserve Bank of New York, and possibly some of the other Federal Reserve Banks, in opening connections in Europe.

Knowing the valuable services rendered by your esteemed firm to some of the Government banks for which you have acted as correspondents, I have taken the liberty of giving Governor Strong these lines, confident that you will be able to give him most valuable advice and hoping that possibly this preliminary conversation may lead to some connections being established between your own bank and the Federal Reserve Banks.

Bespeaking for Governor Strong your courteous reception, I am, dear sirs,

Very faithfully yours,



Messrs. Lippman, Rosenthal & Co.,
Amsterdam, Holland.

*

April 13th 1916

Washington.

1704 EIGHTEENTH STREET

198

dear Ben Strong, There's a warm
welcome to you! After all your,
surely varied, experiences, I trust
that you are glad to be home
again, & I trust it will not be
long, before we have an 8-10
o'clock breakfast, at the above
address so that I can hear all
about your wild doings! My
wild husband, stops his Spanish
flirtations in Buenos Aires tomorrow

to make new requests in
Ohio & Peru, before coming
back on May 9th. I never
quite realized how far away
South America is! I'm
afraid I'm not brave, to be
brave! It was so nice of
you, to think of us, while
you were living, at the rate
of 70-miles-an-hour, & I sent
your last, interesting letter
quite unconditionally - see
to Paul, hoping that it

will reach him, where he gets
to read.

Remembering how busy you will
be, we submit your slip above
- if not before - & show a d.d.
no more than one, & in my
hand given both! & very cordial

Sincerely,
from

Yours sincerely

Maria S. Washington

Copy of handwritten letter

April 13th 1916
Washington

1704 Eighteenth Street

Dear Ben Strong,

Here's a warm welcome to you! After all your surely varied experiences, I trust that you are glad to be home again, + I trust it will not be long, before we have an 8 - 10 o'clock breakfast, at the above address, so that I can hear all about your wild doings! My wild husband stops his Spanish flirtations, in Buenos Aires tomorrow, to make new conquests in Chile + Peru, before coming back on May 9th. I never quite realized how far away South America is! I'm afraid I'm not born to be heroic! It was so nice of you, to think of us, [?] you were living, at the rate of 70 - miles + an- hour, + I sent your last, interesting letter - quite unconditionally - on to Paul, hoping that it will reach him, when he gets to Callao.

Knowing how busy you will be the minute you step ashore - if not before? - I shall add no more than all "I'm mighty glad your back!" + my cordial greetings, from

Yours sincerely

[signed] Nina L. Warburg

Copy
Translation

TELEGRAM

Prepared by.....	Departm Interre
Check by.....	
Code used.....	19
.....	O. K.
.....	File

No. 1027

Santiago Chile 4/18 1916

To LCD Benj Strong
Redar St N.Y.

*Many thanks welcome home
Cordial Greetings*

Starbuck

FEDERAL RESERVE BOARD
WASHINGTON

D.A. Fr.
MAY 12 1916

198
pw

May 10, 1916.

Dear Governor Strong:

I have your letter of May eighth, and thank you for the same.

I have decided not to go to White Plains this week-end because I have agreed to be in New York on Monday, the twenty-second, to attend the dinner to be given by the Economic Club, so I expect to be there from Saturday, the twentieth, to Monday, the twenty-second. If meanwhile you find an opportunity of coming here, I shall be only too glad to welcome you.

Sincerely yours,



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

FEDERAL RESERVE BOARD
WASHINGTON

198

telegram given below is hereby confirmed.

Shuman Allen

Assistant Secretary.

May 13, 1916.

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

Expect you for dinner tomorrow. * Your room is ready.

PAUL WARBURG.

FILING DEPT
MAY 16 1916
FEDERAL RESERVE BANK

2-7729

1948

FEDERAL RESERVE BOARD

WASHINGTON

With copy to files

June 7, 1916.

Dear Mr. Strong:

I have your letter of yesterday and am sorry to learn that your back is bothering you so much.

Mr. Delano, Mr. Harding and I will come to your apartment in Park Avenue on Monday morning at 10:30.

If my time and engagements permit, I shall come in during Saturday and Sunday and cheer you up.

With best wishes for your back and for the balance of your soul and body, I am

With kind regards,

Sincerely yours,

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

*

198

FEDERAL RESERVE BOARD
WASHINGTON

June 16, 1916.

Dear Governor Strong:

Thank you for your letter of the fourteenth instant.

Mrs. Warburg gives me the most cheerful accounts about you, so keep it up!

I expect to go to New York this afternoon, and shall look you up either Sunday or Monday, or both.

Delano is going with me, and on the way I shall try to work out some of your Bank of England conundrums.

Looking forward to the pleasure of shaking you by the paw, I am

Always sincerely yours,

Caulellid. Murray

Glad the Tremain matter has been settled!

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

FEDERAL RESERVE BOARD
WASHINGTON

198 B.A. Jr.
JUN 23 1916

June 23, 1916.

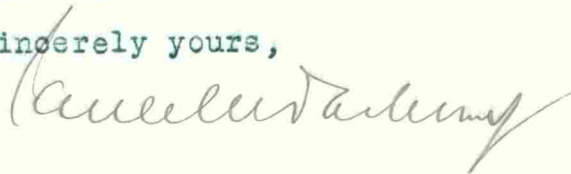
Dear Governor Strong:

Just to keep you busy and to keep you amused, I
send you the enclosed.

Mrs. Warburg telephoned that she saw you and that
you are getting fat!

With kindest regards,

Sincerely yours,



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

Enc.

FEDERAL RESERVE BOARD

WASHINGTON

FILING DEPT.

JUL 9 1916

June 27, 1916.

FEDERAL RESERVE BANK

B.A. Fr. 1916
JUN 28 1916

Dear Strong:

I have your letter of June twenty-sixth.

You say that you want samples of the currency issued in Belgium during the occupation. Are you quite sure that cancelled currency would not do just as well? Uncancelled currency will either not be obtainable or will have to be bought at its actual face value, and that may be a very expensive operation.

Delano told me that you "escaped" with him yesterday and went on a spree. I hope you enjoyed it, but you ought to get a spanking, and I am sorry that I will not see you before you leave so that I could apply it in person.

I had a very satisfactory lunch yesterday with Nash and Frew, who are now going to definitely put up the question to their counsel and their directors. So far as they are concerned, they are ready to take the jump. I am delighted with that and have no doubt that they will get it past their directors, the most obstreperous one of whom I met ^{yesterday} in the morning and, I hope, straightened out.

(2)

With fondest regards,

Sincerely yours,

Wm. W. Dancy

Few was here and is going to put it up to his directors tomorrow.

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

June 28th - 1916.

198

1704 EIGHTEENTH STREET

Dear Strong,

Tomorrow you will start off on your Colorado spree and I want to write these few lines just to tell you that my thoughts and fondest wishes will be with you on your trip. I hope your mind is easy; nothing will happen during your absence to spoil your work. You may rest assured that everyone in your bank and in the other eleven banks has such a feeling

of loyalty to you that no one will be found
wanting and the machine will be kept going
and in good order till you return. I shall
be around frequently and do my share and
I shall try also to keep the Governors together
until their leader returns. That we shall
miss you like the d... --, you know without
my saying so. To me 90% of the fun and
of the feeling of safety is gone, or rather
would be lost without you. But I shall
not feel that way knowing that you are at
the other end of the wire and that we may

continue to have your advice on all the
larger problems. What you have been to me
in the past only you and Mrs. Warkens
know and I wish I could tell you how much
it grieves me to think that you should suffer
from work and conditions which I have
been guilty of placing on your shoulders. But
I want to see you strong and happy soon
again and I am sure you are on the safe
road to rapid recovery. The rest will follow
and we shall make your life easy and
get the best out of you without robbing you
again of your health and taking care of

your life and vitality than we should. God
bless you, old man, think of your friends all
the time, how much they want you back, how
much they need you, and you will be healthy
in no time! I had a long and,
on the whole, satisfactory talk with Carter
Glas. Mr. Kew was here in the morning and
he is going to ask his directors today to permit
him to join the F.R. system. I congratulate
you: that is your work - not mine - and I
think a most important success. When you
come back you shall find some more new
customers: I shall keep you advised about
everything that will happen. Thank you
and bless you!

cordially,
Paul W.

198

FEDERAL RESERVE BOARD

WASHINGTON

June 29, 1916.

Dear Strong:

I hope these lines will reach you at Denver and I hope that you got there without too much fatigue and that you are pleased with your surroundings.

As a first greeting I send you a copy of a letter which I received this morning from Mr. Goff at Cleveland, which will please you. We must now secure at least one letter of this kind a week.

We have not yet heard from Mr. Frew and I wonder what they did yesterday.

I note what you say about Belgian currency and I have dictated a letter to my brother today and have inquired what the cost will be for cancelled or uncanceled notes, and shall let you know as soon as I hear.

We have a group of Governors here today, who are conferring with Delano and Harding about clearings, and I shall meet them later on at luncheon.

If anything interesting occurs, I shall let you know.

Now keep well and get fat; do not worry, and swallow raw eggs, one every half minute.

With fond regards, I am

Always cordially yours,

Benjamin Strong, Jr., Esq.,
Care Dr. Oake's Sanatorium,
Denver, Colorado.

Cancelled

*

THE CLEVELAND TRUST COMPANY

Cleveland, June 27, 1916.

Dear Mr. Warburg:

Absence from the city has delayed an earlier acknowledgment of your letter of June 18th. I am greatly obliged to you for sending me a copy of your Atlantic City address, which I read with great interest and profit. For the most part I agree with all you say with regard to the desirability and duty of state institutions supporting the Federal Reserve System. The matter of applying for membership has received careful consideration by our officers and directors and I am very pleased to say to you in confidence that, in my opinion, such action will be authorized before the close of the year, possibly sooner.

With assurances of respect and kindest regards, I am

Very truly yours,

(signed) F. H. Goff.

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

198

FEDERAL RESERVE BOARD

WASHINGTON

July 6, 1916.

Dear Strong:

I thank you for the telegram which I received at White Plains and for the word that I received this morning.

I am glad to see that you are getting along. Don't get discouraged. I have been, myself, in similar surroundings some years ago and I know that it takes some time to get used to them; but after awhile you will find them most peaceful and will not have any difficulty in being perfectly happy in your idleness.

I thought you would be pleased to hear about the Corn Exchange bank and therefore sent you the wire last night. I had another talk with Mr. Frew and Mr. Vaughan, one of their directors, on Monday last and they arranged with Mr. Jay that they would try to push through the application in record time. The New York committee passed upon the same yesterday and Broderick is there today and I expect to hear from New York every minute. I am very anxious to have the thing settled before I leave for my vacation. I hope to push it through tomorrow.

I had a nice letter from Jack Morgan and append a copy, as it may please you to read it.

I shall be in New York Monday and Tuesday and shall try to get in touch with Sabin and see what I can do. *Have arranged to have him lunch with me.*

(2)

Our amendments are still hanging fire and I am somewhat disturbed over the outlook because the shipping bill may create a situation where our amendments may possibly suffer. But I hope we may be able to avoid this pitfall.

You were right about Mexico. Apparently trouble will be avoided, which is a great blessing.

My son left yesterday for Pagosa Pass, Colorado. He is therefore in your neighborhood. He will be on his survey trip there for five weeks and maybe he will come across you or you will come across him before he returns.

The family is well and happy and we talk about you often - and strange to say, -kindly.

I suppose that New York advised you of the talk we had here with the Governors about the joint selling of Government bonds. They are in agreement now but the difficulty is that the market has now gone to pieces. I do not think that we can do anything until either the Government has sold its bonds or has put a quietus on the apprehension that it might contemplate to sell bonds.

Without more for this time, except best wishes and most cordial greetings, I am

Always sincerely yours,

Benjamin Strong, Jr.
Benjamin Strong, Jr., Esq.,
Care Dr. Oake's Sanitarium,
Denver, Colorado.

*

198

FEDERAL RESERVE BANK
OF NEW YORK

July 10th, 1916.

Dear Strong:

I am here for the day and have had a little chat with the officers of your bank.

My object in coming down town to-day was because I wanted to lunch with Charlie Sabini. You may be pleased to learn that I think things are moving favorably in that direction. We talked for an hour and a half, went through the whole business with much frankness and I shall be much surprised if the outcome is not a favorable one. It may take a little time and, of course, unforeseen things may happen that may give the matter another twist, but as it was left to-day, it looked pretty good to me. I thought you would be much pleased to hear this.

I had a talk with Frissel, where things look less encouraging. He wants to come in but is bothered by his small stock capital and is afraid that increase might have the effect of bringing too much of his stock into the market. He evidently had some talk with the Chemical National Bank people and Porter gave them information which had a discouraging effect in this connection, but somehow or other, sooner or later, I think he will come in.

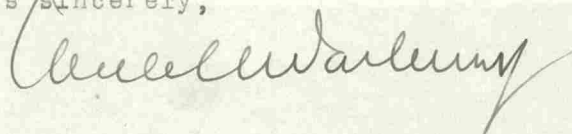
7/10/16.

Had a talk with Kelsey of the Title Guarantee and Trust Company and set him going. We shall have to see what will become of that.

Jimmy telegraphed that he saw you and found you looking well and I was mighty glad to receive this little bit of news of you.

Otherwise, there is not much that I could report to-day and am, with kindest regards,

Always sincerely,



Benjamin Strong, Jr., Esq,
2825 West 32nd Avenue,
Care Rev. F. W. Oakes,
Denver, Col.

PMW/VCM

FEDERAL RESERVE BOARD

WASHINGTON

July 18, 1916.

Dear Strong:

We were delighted yesterday to receive a letter from your brother and this morning your postal arrived from Estes Park. I am mighty pleased to receive such good news about you from your brother and to know that you safely arrived at the Lewiston.

I hope that everything is pleasant and I have no doubt you will now make rapid strides toward full recovery.

Before coming here to Loon Lake I spent two days in New York and had a conference with Messrs. Treman, Rhoads and Aiken; and, of course, Messrs. Kenzel, Hendricks and Curtis were present. We discussed the Government bond situation, some clearing topics, and discount rates. I suppose you are advised as to what is happening there and you know more about it than I. I have written Mr. Treman today to keep me advised about what is happening.

You will have noticed that there was a short flurry in the call loan money market. While I advised New York to increase their acceptance rates - which they did - because I felt that they would not lose any business in doing so, I advised them to keep the call loan rate at 3%, because there is not much risk in doing that. If we get too much we can always be out of the woods within ten days - then increase

the rate. I am very anxious to see the member banks get the habit of applying to the Federal Reserve Banks in just such cases as the one we went through. Acceptance rates, I think, we can probably safely put up to $2\frac{1}{2}\%$ as the lowest basis, and probably they may be able to go up higher without losing any business, and still our margin would be wide enough as against England, where they now have a six per cent ^{bank} rate.

From the statement that I saw in the papers, which must have emanated from Sabin, I should think that his trust company is about due to come in. I am anxious to get back and follow the matter up, but shall try to do so from here.

I am somewhat apprehensive that we shall have trouble in getting our amendments through. I am keeping at everybody, trying to push them along. The amendments were brought up in the Senate last week, but your friends, the Republicans, played politics; and we hope that they will pass this week. It will be more difficult, however, in the House, where Mr. Glass is less enthusiastic about some of our amendments than Senator Owen. But I have made it quite clear to him that the responsibility for whatever may happen if we do not get the amendments, will be his and not ours, and I have also ~~spurred~~ ^{stirred} up Mr. McAdoo; so that apparently he is doing all that he can in bringing pressure upon Mr. Glass.

I had a letter from Mr. Hulburt, of which I inclose a copy, which will interest you, because it shows that things are moving well all over the country.

We are having the usual restful time here at Loon Lake and I am sorry that I cannot give you this year an exhibition of my wretched golf, but I hope that we shall play together next year.

What little is left of my family - being the wife and Bettina - are well and happy and talk of you frequently and send you their warmest love.

I am glad that the various paraphernalia arrived safely and I hope that they give you some comfort. Do not feel that you have to write to me at all, but send me a word sometimes through whomever may be with you. We shall want to know how you are getting along.

Please give our warmest regards to your brother and tell him how much we appreciate his letter.

With warmest regards and best wishes, I am

Always cordially yours,

Cancelled.

Benjamin Strong, Jr., Esq.,
The Lewiston,
Estes Park., Colo.

COPY

112 West Adams Street
Chicago

July seventh
Nineteen Sixteen.

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

My dear Mr. Warburg:

I have received your letter of June 30th and appreciate very much both the letter and the speech.

I read the speech some time ago rather hurriedly and have kept it before me for further study. So far as I am personally concerned there is but one thing that stands in the way of our applying for membership in the Federal Reserve System and that is the matter of interlocking directors.

We have seventeen directors, two of whom happen to be Directors of the Illinois Trust and Savings Bank of this city and another is a Director in the State Bank of Chicago. Several, I believe, are directors in New York Institutions, but I presume there would be no difficulty on that score.

As a matter of fact, I do not think the Federal Reserve Board would in any way violate the amendment of the Clayton Act if this situation was allowed to continue. The law, as I understand it, permits the Federal Reserve Board to authorize men to act as Directors of more than one bank, provided these banks are not in substantial competition. This, of course, gives the Board pretty wide discretion. Take the case, for example, of this banks and the Illinois Trust and Savings Bank. This bank has seventeen directors when the Board is full and the Illinois has eleven. Two of the Directors happen to be common to both banks, but, so far as I know the presence of these men on both Boards has no effect one way or the other on the competition between these banks.

The Illinois Trust and Savings Bank is essentially a savings bank and trust company. It does not solicit commercial business and lets it be known that it does not care much for it. Its loans are confined almost entirely to loans made on collateral.

We have a Savings Department in our office but it is not an important part of ~~the~~ our business, deposits in the Savings Department being only about \$8,000,000. in a total of over \$70,000,000. While, in the case of the Ill. Trust probably three fourths of their deposits are savings and inactive accounts.

We might be considered competitors for savings business and we are active competitors for trust business, that is particularly in the line of managing estates. I take it that the framers of the Federal Reserve Act, as well as the Clayton Act, had in mind commercial business so

Chicago
W. Meier
Hon. Louis W. C/O Esqerly B

as banks are concerned and gave no consideration to trust business of this kind, or savings business. So far as savings business is concerned, there is practically no competition anywhere. All good ~~bank~~ banks, as you know, pay substantially the same rate.

This bank is essentially a commercial bank, having nearly as much commercial business as all the other state banks in Chicago. Inasmuch as these two banks are not substantially competing so far as commercial business is concerned, I am wondering if the Federal Reserve Board would not strain the technical point in our favor, in view of the fact that the spirit of the law would be in no way violated by so doing.

I agree in a general way with your criticism of state banks and trust companies for not entering the system. I have never felt, however that this bank is open to such criticism. The law of Illinois is silent as to the reserves of state banks, and each bank is left to its own devices in the respect, with such moral suasion as can be applied by the State Auditor and Clearing House Assn.

Notwithstanding this, it has been the practice of this bank, I believe, since its organization to carry substantial reserves, averaging more than the law requires of the national banks. At the present time, for example, we are carrying a larger cash reserve than would be required if we were members of the Federal Reserve System. We have never required assistance in times of stress and have always been glad to join in assisting our neighbors at such times. So far as I know, no good customer of this bank has ever had his credit line reduced in a time of panic. I do think, however, that we ought to do our part in unifying the banking system of the country under the Federal Reserve Act but do not think that our joining the System would in any substantial way benefit either the bank or its clients and I do not think we should be penalized if it can be avoided.

I should appreciate it very much if you will give me your views on this subject at an early date as I am in correspondence with several large state banks and trust companies with a view of our all joining together.

With kindest regards

Very sincerely yours

(Sgd) E. D. Hulbert.

P.S. I have shown this letter to Mr. Keep, V.Pt of the Ill. Trust Svc Bank. He says it might have been made stronger as that bank refuses to take ? com. accts. I congratulate you on getting the Conn Exch. of N. Y.

FEDERAL RESERVE BOARD

WASHINGTON

Loon Lake, New York.
July 31, 1916.

Dear Strong:

I wrote you yesterday a personal note and have received today your typewritten letter of July 24th.

I am glad to see from your letter that you are settling down to business; that you are permitted to do some little work regularly. That will be a great help to us and will be some help to you in whiling away the weary hours.

I wrote Sabin from here, sending him the new ruling by the Board, which I had brought about during my short visit in Washington, which permits member banks not to count as outstanding their own acceptances in excess of the 50% or 100% limit if the excess amount beyond the limit is held by the accepting banks themselves. This was something that bothered Sabin and I am glad that I could satisfy him on this point.

You may also be interested in the copy of the letter which we wrote Breckinridge Jones; in which we go a little step further than in the past in stating frankly that state banks and trust companies operate under charters of their own states and that we do not mean to restrict these charter rights when once a bank is admitted, and that we feel that we should not restrict any of their charter rights which pertain to true banking functions. Breckinridge Jones thought that if we

give a satisfactory ruling in this respect that he and Chicago banks - quite a number of them - would come in. He had raised the point that the law did not permit us at all to prescribe regulations interfering with the charter rights of State banks and trust companies, because that would be legislation which Congress had no power to delegate to us. We have not conceded that point and it would be dangerous for us to do so; but I think we have met his point of view by our letter.

Our amendments appear to be making headway, but they have not yet quite passed the Senate. That should now, however, be soon.

You ask whether it would not be a good thing to write to the President or to Colonel House on the subject of amendments. I do not think it is necessary, nor do I think it would help any. If you wrote, however, to Senator Owan or Mr. Glass - particularly the latter - it might do some good.

Money seems to be easier again, but there seems to be no end of what Europe will borrow from us and the way they are handling our market by steadying it by remittances of gold whenever necessary, is simply marvellous. I cannot suppress the suspicion that a good deal of the gold that we are receiving is Russian. Russia shows in her public statements an increase of her loans during the war of about one-half of France and Germany and about one-third of England. With all that, no country has been forced to buy as much abroad as

Russia. It is only possible that either she does not show all her loans - some of which she may have contracted with her allies - or she has been paying by sending gold and does not show a loss of gold in her statements. Or maybe it is that she has been doing both of these things.

Before you left you told me that New York is looking for a permanent Deputy Governor. Have you ever considered whether Governor Aiken of Boston would not be a proper man? He is devoted to you - so much so that I am inclined to think he might be willing to be your second in New York instead of being first in Boston. He has enthusiasm and snap and has a pleasant way in meeting people. I think that during your absence he would undoubtedly do well and after your return I think you would find him a delightful associate; and I know he would enjoy nothing more than to be working with you. Anyway, I have not said anything about this to any one of the New York men, as I should like to know before I do anything, how you feel about the subject. If you thought well of it, I would try to sound out Aiken before mentioning it to anybody in New York.

Did you hear that poor Billy Porter has had a stroke of apoplexy some time ago? While I hear he is now on a fair road to recovery, it is a terrible blow for so young and active a man.

With best wishes and warmest regards, and hoping to hear

from you soon, I am

Always cordially yours,

Paul M. Warburg

Benajmin Strong, Jr., Esq.,
Care "The Lewiston"
Estes Park, Colo.

Inc.*

August 1st.

Just after dictating this letter, Mr. Warburg was called to Washington - leaving at 10 P.M. - on amendment matters. He will return Friday.

W.

COPY

FEDERAL RESERVE BOARD
WASHINGTON

July 25, 1916.

Mr. Breckinridge Jones,
President, Mississippi Valley Trust Co.,
St. Louis, Missouri.

S i r :

Your memorandum in reference to Circular No. 14 and Regulation M, Series of 1915, which relate to State banks and trust companies as members of the Federal Reserve System, has been submitted to and considered by the Board.

It appears that you are of the opinion that many of the State banks and trust companies are apprehensive that membership in the System may involve an undue restriction of their corporate activities as a result of future regulations of the Board and you feel that some assurance should be given to applying banks that, as members, their status, so far as the exercise of legitimate banking and trust company powers is concerned, should be more definitely determined.

As the extent of the Board's power to adopt any specific regulation involves a question of law which must be determined by the facts in each case, it is of course impracticable to outline definitely the scope of all future regulations. In order, however, that the attitude of the Board may be made clear I am instructed to state to you that the Board understands that it is not its function to undertake to impose on the activities of member banks any restrictions that are not contemplated by the Act, but only to prescribe such regulations as are designed to carry out the purposes of the Act.

There are a great many decisions of our courts dealing with the subject of the scope of authority of administrative bodies to promulgate regulations. The principles established by these decisions will, of course, be adhered to by the Board in adopting regulations.

While Congress could not delegate its power to make a law, it can, as stated in Field v. Clark, 148 U.S. 649, 694, "make a law to delegate a power to determine some fact or state of things upon which the law makes or intends to make its own action depend," or, as expressed in the case of Locke's Appeal, 72 Pa. St. 491, 498 -

"The legislature cannot delegate its power to make law, but it can make a law to delegate a power to determine some fact or state of things upon which the law makes or intends to make its own action depend. To deny this, would be to stop the wheels of Government. There are many things upon which wise and useful legislation must depend which cannot be known to the lawmaking power and must therefore be a subject of inquiry and determination outside of the halls of legislation."

The Board does not feel that it is one of its functions to undertake to restrict State banks and trust companies in the exercise of true banking or trust company powers as defined by the laws of the State in which they are created. In passing upon the applications of State banks and trust companies, however, it believes it to be its duty to admit only those institutions which are solvent and sound and whose membership will not constitute an element of weakness in the System. The Board does not consider that it is a prerequisite to the admission of any State bank or trust company that it should possess any certain amount of paper eligible for rediscount with a Federal reserve bank. Congress has provided that the

ST L :
St. Louis,
Missouri,
Mr. Breckin

privileges and advantages of membership may be extended to State banks and trust companies, thus creating one compact banking system while still preserving the integrity of both ^{the} State and and national system. Leaving aside any question of their duty to the country, it is manifestly to the best interest of every strong and sound State bank and trust company to contribute its share to the strength and protective power of the Federal Reserve System by subscribing to the capital stock of its Federal reserve bank and by maintaining its required reserve. This is true whether the State bank or trust company has a small proportion of its assets in liquid paper eligible for rediscount or has any paper of such description at all. The fact that it has little eligible paper would not of itself make its membership an element of weakness or danger and it is obvious that as a member of the System it would be in a position to contract for loans and to obtain cash from other member banks having paper eligible for rediscount and thus indirectly to obtain the desired accommodation. The ability to lend assistance to member banks directly and indirectly will be increased as the strength of the System and lending power of the Federal reserve banks are increased. There is no reason why such assistance should not be given freely to a member State bank while in times of stress the non-member banks may find the member banks less disposed or able to give them this indirect assistance.

It is, of course, indispensable that any paper offered for rediscount to a Federal reserve bank should conform to the provisions of the Act and of the regulations of the Board.

is clear, however, that a Federal reserve bank will have to look all the more carefully into the status of a State member bank asking for rediscounts if such State bank or trust company exercises banking functions that are likely to interfere with the liquidity of such State member institution or that may lead to over-extension.

In other words, the Board might consider the exercises of extraordinary powers, such as might make an applying State bank or trust co. an undesirable member, a sufficient reason to refuse the grant of the application. After such State bank or trust company, however, has become a member bank, the Board does not expect to interfere with the exercise of those banking and trust company powers authorized by its charter. If the exercise of such power should, however, tend to interfere with the liquid and sound condition of a State bank or trust co. member, the Federal reserve bank would, of course, be justified in taking due precaution in dealing with the applications for rediscount by such State bank or trust company.

For your confidential information, I may add that the re-issue for 1916 of the Board's regulation (which has been kept in abeyance pending action of Congress upon the amendments proposed by the Federal Reserve Board) does not contemplate the reissue of the circular which accompanied Regulation M, covering the admission of State banks. Regulation M will be reissued with some slight modifications which will be in keeping with the general thoughts expressed in this letter.

Respectfully,

Governor.

Memo. for Mr. Strong:

This copy has not been compared with original for verification.

198

FEDERAL RESERVE BOARD

WASHINGTON

Loon Lake, N. Y.

Handwritten: D.A. Fr
STL 1-1916

Dear Strong:

Your letters of August 1st and 3rd have been received and hailed with delight. Bettina also received a letter from you which has filled her with pride and glee.

I shall be very happy to read your memorandum on the foreign correspondents question and shall write you frankly my thoughts concerning the same.

I do not think I have written you since my last trip to Washington, where I went to talk amendments with Glass. I send you herewith for your amusement the latest draft as the thing passed the Senate. We have put Glass wise that certain changes will still have to be made and I hope he may be able to get them through. He told me that he could probably not get the domestic branch paragraph in this lot of amendments as he had some kind of an understanding with Mann not to connect the foreign and domestic branches in one amendment. I saw Mann ^{and} talked to him, but without much success. He is opposed to branches on account of the Illinois situation, where no branches are allowed. Glass promised that if he could not get the domestic branch clause in this amendment, he would immediately introduce it in another amendment - and inasmuch as it has passed the Senate, I hope he may be able to get it through in that way.

The power to count 5% of deposits as reserves if held in Federal Reserve notes got lost in the Senate. There is too much opposition to it. However, Glass is very much in favor of

of having an amount of the reserve kept as balance with Federal Reserve Banks in the option of member banks, and I hope that will go, and he proposed to put that back, though in the last minute it was left out in the Senate.

I found Glass very shakeyas to the power of Federal Reserve Banks to issue notes against gold, but I hope I straightened him out on that. They were to go into conference yesterday and I expect then that quick action will be taken on the whole matter.

You will see that included in the amendments is the power of Federal Reserve Banks to open accounts for foreign correspondents. That will give us an opportunity to begin correspondence with foreign countries.

I hope that you and I may finally agree on what the best steps will be in the matter.

As to collections and Postmaster-General, I fully agree with you. I had taken your point of view not to make any noise about collections from postmasters, but I had hardly gone when McAdoo got away with it, as usual, because he thought he had a good thing for the Secretary of the Treasury to advertise. You may have noticed the form of the statement that was given out. It was all Secretary of the Treasury, and the result was just as could have been foreseen, and as you foresaw it a long time ago - a general kick and then a quick run on the part of those who had put the thing out. If he had done the reasonable thing, simply presented here and there some checks to the postmasters, we could have had the desired results without creating any stir.

As to the governorship question, the thing must be decided today or tomorrow and there is no use writing, filling pages with that any more, because when this reaches you the decisions ought to have been reached. We have, I believe, maneuvered well and got all influences to play upon the President that may be expected to have any effect upon him. It is now with him to do the reasonable thing or the unreasonable thing, and we have to meet as best we can whatever may be the outcome.

I had a letter from Dr. Miller, in which he wrote that some weeks ago he wrote me asking your address, wanting to write to you, but his letter has never reached me. As everybody's else, you have his fullest friendship and sympathy and he joins us all in hoping that you may soon be on deck again.

I miss you at golf and otherwise, to which fact Mrs. Warburg can bear witness. I had to send Bettina to a specialist because her eyes were absolutely ruined after she had finished reading your letter.

With warmest regards from all of us and thanking you again for your nice letters, which I hope will continue to come frequently, I am

Always sincerely yours,

P. M. Warburg

Benj. Strong, Jr., Esq.,
"The Lewiston"
Estes Park, Colo.

Signed in Mr. Warburg's absence.

198

FEDERAL RESERVE BOARD

WASHINGTON

Loon Lake, New York.
August 9, 1916.

R.A.W.
SEP 1 - 1916

Dear Strong:

I wrote you yesterday and hope that my letter reached you.

This morning I have your letter of August fifth, which I was delighted to receive.

I am glad to know that the Aiken suggestion struck you well. Of course, Jay is the man to be spoken to first, after his return. Would you suggest the matter to him and draw him out? Or would you rather that I should do it? I rather think the matter would better come from you. It is true Aiken would be a bad loss for Boston, but the Boston matter is pretty well in hand now and of course we should have to try to find a good successor for him there. During your absence New York will need some one who has snap and imagination and some ^{talent} ~~ten-~~ dency of leadership. Treman is excellent in many respects but, as you may well realize, there may be danger that things may slow down too much and the staff and member banks and would-be member banks may lose interest. There is no hurry about this, as both you and I can crack the whip and keep things going, but on the whole, I think a man like Aiken would be a most welcome addition at this time.

I read your letter to Mr. Glass and think it is admirable. I am delighted that you wrote it.

And that reminds me of a thing that I forgot to write you yesterday. If you feel strong enough and if it would not tire you too much, I think you have a wonderful opportunity while you are there to write every now and then a letter to the newspapers ^{or to} ~~which are~~ publishing some articles. I am thinking, for instance, of the Financial Chronicle. The articles that this man writes are so abominably stupid that any one who will go to the pains of answering the arguments will have no end of fun. The difficulty is, not to write a good argument, but not to write too good an argument and show up the stupidity of the man and make a permanent enemy of him. But some reply ought to be written and if you think you should not sign the ^{articles} ~~replies~~ in your own name, somebody else might put them in; but I believe that it would be a very excellent matter for you to sign them. Think of the nonsense the man wrote when he did not see the difference between money withdrawn and locked up in the Treasury and money, transferred from the member banks to the Federal Reserve Banks ^{from} where by indirect method the money can at once return to the market by re-discount of short paper by member banks. Think of the other stupidity when this man does not differentiate between reserves to be kept by member banks and reserves to be kept by Federal Reserve Banks.

I had a letter a few days ago from Mr. Welton, written on behalf of the American Bankers' Association, urging me to address their meeting at Kansas City on the subject of reserves. That is not a stupid suggestion, and I may possibly do it if I can get out of another engagement which I have a few days before at Cincinnati to address the American Institute of Banking. I am keeping this matter pending, as much will depend upon the decision that the President will make with respect to the governorship. If we should get into a row, my speeches will have a very different tendency from now on from what they had in the past, for whatever may be the remainder of my incumbency.

Another thing that I think somebody should write about is Russian conditions. I think that the City Bank is taking a very grave responsibility in boosting that country in the way they are doing it. I do not know whether you take the Wall Street Journal. If you have, look at the issue of August 7th, page five, and you will find there a compilation of per capita debt of the warring nations. I shall inclose a memorandum in which I shall give a rough outline of what I think ought to be said in this respect. Of course it would be absolutely impossible for me to say anything in this connection, though this is not a question of pro-Ally or anti-Ally feeling. I do not think that so long as the foreign loans are good it is anybody's business to sound a

note of warning, but when we are going to be persuaded to make loans that are likely to be bad, I feel that some one ought to get busy and prevent disaster.

If you could devote yourself to matters of this kind during your exile, sometimes using your own name and sometimes possibly suggesting your thoughts to others, I think you could do a lot of good and, incidentally, keep your mind occupied.

It is raining pitch forks today and this may account for the second letter within so short a time.

The family is well and happy and sends you best love. We almost got burned up yesterday on the way, our motor catching fire, but the bad pennies turned up all right, none the worse for wear.

I am glad you had a line from Jim. I shall be happy to see him back here.

With the most cordial greetings and good wishes, I am

Always faithfully yours,

Cauller

Benjamin Strong, Jr., Esq., *alias "G. K. W."*
"The Lewiston"
Estes Park, Colo.

*Inc.

198

FEDERAL RESERVE BOARD

WASHINGTON

Loon Lake, N. Y.
August 26, 1916.

1916
SEP 1

Dear Strong:

I do not recall when I wrote you last, but it is quite some time ago and I am sorry that I neglected my correspondence with you.

However, as my women will have kept you advised, I had to go to Washington in between, and came back just for a week, and expect to leave tomorrow to go back to beautiful "Laundryville" for another year's work. I hope I shall be able to come back here for a week the middle of September and then possibly go from here to Cincinnati and Kansas City, where I shall have to make some speeches on the 21st and 23rd of September.

I have in mind, if I can, to escape from the Bankers' Association at Kansas City as early as possible, and go to see you for a day. But I am not quite sure that time will permit, so do not expect me until I shall give you the definite word.

It is this devil of a speech which has kept me busy here this week. I tried very hard to get out of it, but they would not let me, and so I have concocted something, dealing primarily with the subject of reserves and Federal reserve notes as reserves. The thing is still in very crude form and as soon as I get back to Washington and am able to put

(2)

in the statistical material that is missing, I shall send you a copy and shall be very happy indeed to have you lick it into shape.

I received news from Washington two days ago that the Conference committee has agreed on its report about our amendments. They passed a good many most desirable things, such as foreign branches; power to accept for domestic transactions (though they limited this to drafts secured by readily marketable staples); mortgage loans; power of Federal Reserve Banks to take fifteen-day notes of member banks; to open foreign accounts for their correspondents; for member banks to accept finance drafts; power for member banks to keep as a cash balance with the Federal Reserve Banks any part of their required vault cash reserve. This is quite a batch of good results. They struck out the domestic branch and the power of Federal Reserve Banks to issue notes against gold. The waiver amendment was somewhat changed - it was not completely stricken out. I inclose you herewith copy of Mr. Harrison's telegram, which tells the whole story. I shall send you from Washington a printed copy of the amendments as soon as they are finally passed by both houses. That, after all the hard work we did, the gold note issue amendment was lost is a most disheartening blow; but there is nothing to do but try again. Maybe if we get a

(3)

Republican House in the fall, (and I think that is not at all unlikely) we can do more. So far Glass's power appears to be absolute and in spite of all the effort that I made and in spite of all the pressure that Mr. McAdoo brought upon Glass, we evidently failed. Still, we have made quite substantial headway, and have to be satisfied to move step by step.

I do not recall at all whether I wrote you about the governorship question. I am of course delighted to have Harding take Hamlin's place; but the principle adopted is all wrong. It is perfectly rotten that a man like Delano who worked like a steer and who two years ago was entitled to think that his designation as vice-governor was meant as a compliment, is now being demoted and that quite arbitrarily Harding and I are promoted - if, indeed, my designation can be considered as such. The way the thing is now being handled, a vice-governorship is what in slang we would term a "lemon". If I am to be treated on the same basis as Delano next year, a vice-governorship is not a step toward governorship, but a step away from it, and next year two new men would again be appointed - in that case, Miller and Hamlin. That is, of course, quite idiotic and we must move to have the law amended in this respect. Governorships should rotate automatically by law and there should be no such humiliating condition as there is now, where the man

(4)

who might curry favor with the President or the Secretary of the Treasury might be likely to be advanced, while the man showing independence is likely to be demoted. In itself the thing is immaterial, because we must have a sufficient pride not to feel ourselves better or worse according to whether or not people who do not understand our work think it advisable to give or not to give us a title; but as toward the world, that does not understand the situation as we do, the thing is stupid, galling and humiliating, and will prevent in the future men of independence from joining the Board - and that, after all, is the only thing in which I am concerned, and why I have made up my mind that, no matter what people may think about my own interest in the matter, I am going to fight this thing through. Of course, our best chance would have been to throw this thing into the election campaign, but, some how or other, we feel that we should not do that; but we are going to take it up in Congress in the fall and we have already laid some wires in this direction. Delano acted like a brick in the whole question. He has developed splendidly and I believe that this latest intermezzo ~~has~~ brought him, Harding and myself very close together.

I am going back tomorrow because the Clayton Act applications have to be acted upon, and Miller will be back, so

that for a week we shall have a full Board, after which Delano will be gone for several weeks. This Clayton Act business is not an easy matter. It is a problem full of thorns. I expect to have a little talk with Jay at New York day after tomorrow on my way through, and my plan is to have the Federal Reserve Agents at Washington to advise with us when we finally pass upon these applications, any how, those of the larger and more important cities.

I have had several opportunities in New York to discuss matters with Mr. Treman, and the more I see of him the better I like him. He is level-headed and is a gentleman, even though he is somewhat lacking in aggressiveness.

Peabody appeared to take quite an active part in Jay's absence, and I was very much pleased to see him do so.

Let me hear from you again soon. Your letters are always a great joy to me. *Keep on improving - I need you!*

With warmest regards, in which my women folk join, I am

Always cordially yours,

Cauller

Benjamin Strong, Jr., Esq.,
"The Lewiston"
Estes Park, Colorado.

*Inc.

SYMBOL
Blue
Nite
N L

These three symbols
 after the check (number of
 words) is a day message. Other-
 wise its character is indicated by the
 symbol appearing after the check.

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

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

If none of these three symbols
 appears after the check (number of
 words) this is a day message. Other-
 wise its character is indicated by the
 symbol appearing after the check.

RECEIVED AT

36D R 30 GOVT

WASHINGTON DC AUG 30TH 1045AM 1916

HON BENJAMIN STRONG JR

ESTES PARK COLO

DAYS OF GRACE RESTORED AMENDMENT TO SECTION FOURTEEN AMENDMENTS AGREED
 TO BY HOUSE TUESDAY BOARD SENDS ITS GOOD WISHES

PAUL M WARBURG
 VICE GOVERNOR
 1026AM

P.A. Fr.
 SEP 1 - 1916

198

FEDERAL RESERVE BOARD

WASHINGTON

R.A.H.
SEPC - 1916

September 1, 1916.

Dear Strong:

I received yesterday your letter of August twenty-fifth, in which you express your thoughts concerning the advisability of my going to the Kansas City Convention.

I am glad that my ~~later~~ thoughts in this respect crossed yours. You will meanwhile have received my letter in which I told you of our plans. I spoke last night with Jay, and he said that maybe he would make it a point of going out.

You got a telegram yesterday from Mr. Allen concerning days of grace. I was pleased to tell you that these three days of grace had been smuggled in by "grace" of the clerk of the committee, who stated that it was a clerical error that the provision had been left out, he taking the blame upon himself. The amendments have now passed both houses and we are awaiting the President's signature.

As to the Bank of England memorandum: I met Jay, Curtiss and Treman in New York on my way back, and we had a "Clayton Act dinner" together. Curtiss went with me to Washington and showed me on the way your

(2)

memorandum and the application to the Board. We discussed the matter fully. Some members were in favor of tabling the entire proposition at this time as they did not think the time opportune for sending our money abroad. I put the motion that authority should be given to the New York Bank to sign the contract provided, however, that New York should agree not to exercise its right to put this contract into operation before the end of the war, as provided under Section 9, ~~or until~~ ^{unless} the Board had been consulted again concerning the proper time and conditions to put the contract into operation, and, ~~furthermore,~~ ^{until} ~~in order to give~~ the Board ^{had} ~~time to communicate~~ with the State Department concerning the propriety of such action - ~~particularly~~ during the war. (Mr. McAdoo, who is absent just now, had written the Board that he advised that we should communicate with the State Department before taking any steps.) This motion of mine prevailed, and a committee was appointed (on which I had announced that I would not ~~like to~~ serve) consisting of Harding, Hamlin and Delano. This committee made promptly an appointment with Secretary Lansing and placed your memorandum and application in his hands without, I understand, much further comment. Lansing said that this was a matter to

(3)

which he wanted to give a great deal of careful thought and that we should hear from him after a little while.

I trust that all this is satisfactory to you.

I have not much to say with respect to your memorandum except that I think ^{*it is an excellent presentation, but, I believe,*} you want to consider carefully the propriety of counting foreign credits or foreign ear-marked gold as reserve. It may be interesting to you to know that the Bank of the Netherlands carries the gold that it has ear-marked in New York as foreign credits - not as gold reserve. After all, we must bear in mind that we are the reserve banks of the country and that if gold is required it should be available. While you and I see the advantages of creating an organization by which gold held in foreign countries might also be called reserve, we differ in this respect: that I think to count gold held in foreign countries as reserve is somewhat irregular, and if we want to take that step we will have to take all possible precautions concerning the property right in such gold. If, on the one hand, we take it that the Bank of England is a private institution our gold with them would no more be free from seizure than gold held with any other stock bank in case we should get into a war or complication with England. My conten-

(4)

tion has been that there must be treaties that will hold even in case of war between the nations. While I grant that these international treaties cannot well be concluded at this time, I do not see that there is any particular hurry for them either. While England has thrown into the scales not the credit of the Bank of England, which would be insufficient, but the credit of its government secured by the foreign bond holdings of the nation, our measly \$25,000,000 more or less will not be able to stem the tide one way or the other if England's heroic methods do not take effect any more. The machinery that you have in mind is a very pretty one in case of peace. In case of conditions like the present, however, it would be but a drop in the bucket. It would be entirely impossible for us, in the teeth of present conditions, to attempt to stabilize exchange. Our entire free gold reserve is at present about \$250,000,000 and we cannot take a very large proportion of this gold and put it abroad so that I think your estimate of \$25,000,000 is about correct, and I do not think that would carry us very far. I do think it would have a very good effect for the future if the contract be signed, no matter whether or not we shall be in a position to operate

(5)

in the near future. We can leave that matter open for further discussion and watch conditions as they arise. From the sentimental point of view, I think it is advisable to grasp the hand that the Bank of England is holding out to us, even though, as you know, there are several features in the contract with which personally I do not quite sympathize, but that fact is a minor matter.

Very sincerely yours,

Walter Dill

Excuse this very rough dictation, but I am in a hurry & want this letter to get off. Please bear this

Benj. Strong, jr., Esq.,
Estes Park,
Colorado.

up after reading

198

FEDERAL RESERVE BOARD

WASHINGTON

September 6, 1916.

R.A.H.
SEP 11 1916

Dear Strong:

I have just received your letter of September first with the photographs, which look very attractive, and I was glad to see your own face and to see from ~~that~~ that you are up and about and looking well.

I was very sorry to learn from your letter that you have had a little set-back, but I hope by the time this reaches you that will be past history.

I received the copy of your letter to Glass. I am half through it, but have so much to do that I have not been able to complete it. I shall write you fully about it as soon as I get the time. *Finished it meanwhile, it is bully!*

A draft of my speech will probably go forward to you tonight and I shall be happy to have your comments as early as possible. It is well possible that I shall see you before I deliver it at Kansas City, but after I have delivered it at Cincinnati. I shall have to speak there on September twenty-second; leave there for St. Louis; hope to reach Denver on the twenty-fifth of sixth; spend two days with you; and then be in Kansas City on Thursday night or Friday morning, where I am slated to speak on Friday, the twenty-ninth. This is my present plan, but I am not quite sure that I shall be able to carry it out, and I shall keep you advised as to further happenings.

(2)

I am interested in what you say about Aiken and Kains. I think that of the two, there is no doubt that Aiken will be the better man for what you have in mind. Kains is a charming fellow, of whom I am very fond, but after having been with him for two months in South America, I think I know him pretty well, and I do not think that he has the keenness of perception that Aiken has for the real problems of the Federal Reserve System. I think he is lacking in enthusiasm and vision in this respect - the very things that Aiken has. Moreover, Kains has not been a country banker, while Aiken combines the experience of a country banker with that of the banking knowledge he has acquired in Boston. There is no doubt that as far as foreign relations are concerned Kains would be excellent, but as far as that problem is concerned you can get a good foreign exchange man who will contribute that knowledge. Kains is a splendid "mixer", but too much of a "mixer", and would in the long run be on terms of familiarity with all New York - no doubt about that - but I doubt that he could preserve the degree of dignity in that respect that Aiken might maintain. Aiken is capable of cultivating cordial and friendly relations without, at the same time, carrying into them the golf club or smoking room atmosphere that Kains is apt to carry. That is part of Kains's charm, but in this case I think it is also part of his shortcomings. Jay will be here day after tomorrow with

(3)

a load of Clayton applications and I shall then take an opportunity of discussing this matter with him. I have not done so in the past because I wanted to hear your views first.

About Russian conditions I do not agree with you. I think that people generally labor under a misapprehension about Russia. They think that this country has not had an outlet for her goods. Samuel McRoberts - big fool - writes in his article, "Even if the war had not brought the fair prospect of the fulfillment of Russia's long fostered ambition for an outlet for its commodities through the Bosphorus, etc." He apparently does not realize that Odessa is one of the principal ports of Russia and that during times of peace Russia has never had any difficulty, whatsoever, in getting all her goods through the Bosphorus and carrying on a most lively trade in that way. It shows how superficial and reckless this man is in making his statements, and what chances the American people take in following a man of that type in making their investments.

As to the Federal Reserve amendments, I agree with you. The thing is most disheartening. We have received another blow since. After the Senate record showed the conference report as agreed upon by the conference and passed by the Senate, Carter Glass got it into his head in the last minute that he wanted to restrict the power given to accept for domestic transactions to 50% of the capital and surplus of the banks. He therefore, ^{without consultation} struck out the Board's

(4)

power to grant the 100% limit , but in doing so, overlooked the fact that he was interfering also with the Board's power to grant this permission for transactions involving the importation or exportation of goods. When the bill was sent over to us from the White House to be passed upon before it was signed by the President, we discovered this mess, of which we had had no indication before, and at once got hold of Glass, who frankly acknowledged that he made a mistake and tried to undo it, but he and Owen agreed that it was impossible to undo it at this stage of the session. They all advised us, however, to close our eyes and disregard the consequences until the fall, when they will put the 100% limit back. This is the worst kind of mess and we shall have to worry along as best we can until Congress convenes. Oh! what unmitigated joy it is to do business under Government tutelage!

I hope that when you get my speech you will find that it is time for you to write some articles. But please bear in mind that your health is worth more than any amendment to the Federal Reserve Act. Write enough to keep yourself busy and amused, but do not for a minute think of beginning to work hard if that can interfere with the rest and recuperation which ought to be your main concern.

I shall be glad to give Delano your message. He deserves to get it.

I am glad to know that your boy and girl are with you.

(5)

They will be splendid company and will help you to while away
the weary hours.

With no more for today, I am, (as the President always says,)

"Cordially and Sincerely yours,"

Cancelled.

Benjamin Strong, Jr., Esq.,
The Lewiston,
Estes Park, Colo.

Sapienti sat.

From the London Economist, August 19, 1916.

In the middle of the week a rumour went abroad that large batches of Argentine bills might shortly be expected, and the market seemed to expect some scheme for financing Argentina by means of London credits. This impression, which was difficult to reconcile with the facts of the position, was corrected by the appearance of a Treasury Minute, which shows that the British Government's purchases of sugar and meat abroad are to be financed by bills of not more than six months' currency drawn on London banks and banking houses. The total drawn for meat in any one month is not to exceed 2 1/2 millions, and the total outstanding at any time is not to exceed 10 millions for meat and 5 millions for sugar. No bills drawn under this arrangement are to mature later than October 31, 1917. The acceptors will receive a commission of 1/4 per cent. on three months' and 1/2 per cent. on six months' bills. The bills will be a welcome addition to the dwindled supply of bank paper.

198

FEDERAL RESERVE BOARD

WASHINGTON

12.4.16
SEP 12 1916

September 7, 1916.

Dear Strong:

The copy of the draft of my speech which was forwarded to you last evening was incomplete. I enclose some riders and would thank you to make the following changes:

- ✓ Page 6, line 5: Change "1909" to "1910".
- ✓ Page 9, line 5: Change second word "of" to "or".
- ✓ Page 12, line 10: After word "reserves" insert "or gold exports of alarming proportions".
- ✓ Page 17: Where it reads "Take statement Jacobson No. 2" insert Rider A.
- ✓ Page 20, next to last line. Change "gold" to "specie".
- ✓ Page 22. Illustration consists of Rider B followed immediately by Rider X, Rider C to appear as foot note to Rider B.
- ✓ Page 23. Line 5 of text, change "national bank circulation" to "other kinds of currency".
- ✓ Page 24. Precede paragraph beginning "Take our present" with Rider D and insert Rider E where illustration is called for.
- ✓ Page 4a, next to last line, change "70%" to "60%".
- ✓ Page 5a, line 11: France \$71,000,000; Germany \$230,000,000;
line 13: \$799,000,000 France and \$364,000,000 Germany;
line 14: \$530,000,000;
line 15: "about \$1,970,000,000.
- ✓ Page 6a. Paragraph at top of page beginning "The question" should be inserted as sentence after word "anyhow" in line 3 of succeeding paragraph. Amount in line 5 of that paragraph should be \$272,000,000.
- ✓ Page 13a, line 2: change \$14,000,000 to \$16,000,000
line 3: change \$166,000,000 to \$164,000,000
line 8: change 108 millions to 100 millions.

(2)

- ✓ Page 14a, line 4: Change \$166,000,000 to \$164,000,000.
- Page 2A, line 3, insert in the blank "after November 21, 1917,"
- Page 5A, line 9, change "34" to "35".

Very truly yours,

Benj. Strong, jr., Esq.,
Estes Park,
Denver, Colorado.

Enc.

FEDERAL RESERVE BOARD

WASHINGTON

September 18, 1916.

Dear Strong:

I received your letter of September 12 with comments upon my speech.

I have only one fault to find with your letter, and that is that you thought it necessary to apologize for changes when you know that I appreciate most cordially any criticism or suggestions from you. I am very grateful to you for having gone to the trouble of going through the speech so carefully. Almost all of your suggestions have been embodied in the address, barring only one or two little things where my time did not permit me to recast the matter. A great many of your criticisms had already been ~~made~~^{met} before your letter arrived and your corrections and ours were on the same lines. In a great many cases your point was very well taken and I was very glad to act upon your suggestions.

As to the French gold, the figure had meanwhile been changed to \$125,000,000. Mr. Jacobson made quite some study of this matter but, unfortunately, the report of the Banque de France does not give a sufficient clue because the export statistics do not show what of the gold withdrawn left the country for England. I have finally decided to put the whole paragraph into less definite language in order to make it less vulnerable.

(2)

I had no intention of inflicting the whole speech upon a long-suffering audience. I have cut out for the reading almost all the inflation argument and the national bank chapters. Even then it will still take between three fourths of an hour and an hour to read the stuff, which is too much for me and too much for the audience, but I am very much puzzled how to condense it more.

Thank you for your telegram. I shall be most happy to meet you at Denver, but I sincerely hope that you are not doing a stupid thing in coming down. Of course, I prefer to spend three days with you instead of losing two on the trip to and from Estes Park. On the other hand, I hope you are not doing anything that may interfere with the good progress of your health. Whatever you arrange will be satisfactory to me.

I am looking forward to the pleasure of "chewing the rag with you".

As to your letter to Mr. Glass and as to the bothersome question of regulat~~ing~~ the accumulation of silver certificates in New York, I shall talk with you fully when I get there. I thought your letter was admirable. I shall also tell you more about the Clayton Act, which was a hard nut to crack, but I hope we have found a settlement of the matter which will give general satisfaction even though, of course, there will be grumbling in some corners.

With cordial greetings,
Benj. Strong, jr., Esq., Always sincerely yours
Estes Park, Col.



198

DIRECTORS:

- W. M^{rs} C. MARTIN,
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT.
- T. C. TUPPER,
VICE-CHAIRMAN OF THE BOARD AND
DEPUTY FEDERAL RESERVE AGENT.
- JOHN W. BOEHNE,
EVANSVILLE, IND.
- D. C. BIGGS,
ST. LOUIS, MO.
- OSCAR FENLEY,
LOUISVILLE, KY.
- WALKER HILL,
ST. LOUIS, MO.
- W. B. PLUNKETT,
LITTLE ROCK, ARK.
- LE ROY PERCY,
GREENVILLE, MISS.
- FRANK O. WATTS,
ST. LOUIS, MO.

OFFICERS:

- ROLLA WELLS,
GOVERNOR.
- W. W. HOXTON,
DEPUTY GOVERNOR AND CASHIER.
- JAMES G. M^{rs} CONKEY,
COUNSEL AND SECRETARY.

FEDERAL RESERVE BANK

OF

St. LOUIS.

9161-3100
 Paid
 OCT 3 1916

September 30, 1916.

Governor Benj. Strong,
 Long's Peak Inn,
 Estes Park, Colo.

Dear Strong:

I hope you got the telegram I sent you yesterday from Kansas City, after the delivery of my speech. The delivery was prompt and painless. I kept up my voice, thinking of your Scotch story. Though the hall was very large, the accoustics were good, and I had no difficulty to get away with the address. It was better received than any paper I have ever read, and I had a real ovation after I was through. A very large number of men came to me on the platform, and a small number of State bankers stated that they saw a different light and some said that they would come in. Many of the country National bankers were most complimentary, and said that they would act upon my suggestion with reference to their gold. George Reynolds was there, and moved a vote of thanks for me. He said that he had given orders to reverse the gold holdings of his bank. Up to now he had about ten or eleven millions in bank and twenty or thirty millions in vault (I think those were his figures), but he had given orders to reverse the figures and keep two-thirds in bank and one-third in vault. Pretty good - isn't it? Similar sentiments were expressed by various bankers, and I am really quite encouraged. The best result of the meeting is that there was really developed a real and most welcome spirit towards the Federal Reserve System. The country bankers, who had come to the convention with the evident desire of expressing

displeasure with the System, and who had begun by formulating motions along these lines, finally ended by bringing in a motion of approval of the Federal Reserve System, and the only thing they did was that they appointed a committee to go to Congress and ask for a change in the law, permitting member banks to charge a maximum of \$1.00 per thousand when remitting for their own checks. Harding was called upon to speak upon this motion on Thursday, and I am told he made an excellent speech. Everybody was very much pleased with it. He made a frank statement, saying that we were not a legislative body, but an executive body, and if they wanted to make a change in the law, they had the right of every American citizen to go to Congress and see what they could do. He managed to pass the buck to Congress this way, and everybody was pleased.

The new chairmen of the various sections spoke to us. The ^{new} President of the Association, Mr. P. W. Goebel, of Kansas City, Kans., was very cordial, and stated that if he could co-operate in any way, he would only be too pleased to do so. He is an old countryman of mine, and I had no difficulty in making friends with him. The Chairman of the National Bank Section, Mr. J. S. Calfee, of St. Louis, expressed similar sentiments. So did the new Vice-President of the Association, Mr. C. A. Hinsch, of Cincinnati, whom I had already met in that city. Mr. Stoddard Jess, of Los Angeles, who wants to be remembered to you, made a very satisfactory talk, in as much as he is the new Chairman of the Clearing House Section. He brought up the question of effecting an arrangement enabling the clearing houses to turn in their gold to the Federal reserve banks, ~~interest~~ along the very lines that you and I had discussed. I explained to him what I thought could be done, and and this he promised to do *keep in touch with me*.

I spent a good deal of time with the Governors of the various Banks present. Hendricks was there, too, and I think their presence had a very good

effect in bringing about the proper spirit.

I hope you got back to Estes Park without being affected by the rough weather. In Kansas City, it was beautiful, and here it is getting a little warmer. *That a lovely time by you!*

With kindest regards and best wishes, & in a hurry

Yours sincerely,

Cancelled.

198

FEDERAL RESERVE BOARD

WASHINGTON

R.A.H.
OCT 11 1916
October 3, 1916.

Dear Strong:

I hope you got the letter which I wrote you from St. Louis.

I got home safely - playing Seven-Up with Harding all the way, which made my trip cost me \$5 more for which I cannot charge the Federal Reserve System.

I found my family well. We are glad to be reunited. They all send you their best regards.

This morning I find a dozen letters from you and am delighted to have them. I cannot answer them today because Jay, Curtis and Cotton are here and we shall spend the morning with them discussing some Clayton problems. In the afternoon we have some Clayton hearings with some people who want to protest against our decisions. I hope to be able to write you fully in a day or two.

I had a very nice letter from your Mother, who was delighted to receive the good news about you.

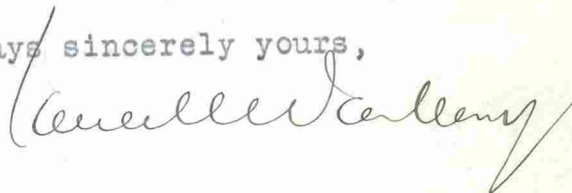
I suppose that you had Vanderlip's visit meanwhile

(2)

and I hope you enjoyed it. His speech in Kansas City is said to have been very good, but it was not over-warm insofar as the Federal Reserve System was concerned.

With a fond hand-shake,

Always sincerely yours,



Benj. Strong, jr., Esq.,
Estes park,
Colorado.

(C O P Y)

FEDERAL RESERVE BOARD

WASHINGTON

October 5, 1916.

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

Dear Mr. Jay:

Referring to the subject of our conversation Tuesday afternoon I have to report that the matter is still in the hands of the State Department, and there is no immediate prospect of getting a favorable ruling. In fact, I believe that if the matter should be forced, the decision would be unfavorable, so I would advise that you find some way to temporize, either by writing your friends on the other side asking about some matters of detail, or in such other way as you can. Meanwhile I will watch the situation closely at this end and push for action at the earliest opportune moment.

Very truly yours,

(Signed)

P. M. Warburg.

198

FEDERAL RESERVE BOARD

WASHINGTON

October 6, 1916.

Dear Strong:

Since I wrote you a few days ago I have been so driven that I did not get a chance to attend to my correspondence and, therefore, I have delayed writing you with reference to your various letters.

I expect to be in New York on Monday, in order to register as a good citizen, and I shall then take up with Jay the question of the apportionment of investments. I shall also discuss with him some of the other questions that you mention in your correspondence, and shall write you again more fully when I return.

As to the gold and silver clearing, I cannot help feeling that the fact that gold came into New York and was credited to the other Federal Reserve Banks is probably only a natural economic development in view of the fact that these interior districts produce so much what Europe is buying at present and that the gold, to a certain extent, is streaming into the United States in payment for these very things that these districts produce. As long as the gold remains in one of the other Federal Reserve Banks

I do not see any harm in its being transferred from one district to another. The difficulty arises, however, when it begins to go into circulation in those districts because Federal Reserve notes are not issued there and the settlement takes place in gold certificates. I had a good chance to discuss this question at Kansas City, where McDougal, ~~Wold~~, Aiken, ~~Leah~~ (of San Francisco) and Hart (of Philadelphia) dined with me. It gave me a chance to give McDougal a dig about their stinginess in not issuing Federal Reserve notes, and I think I made some impression upon him. In St. Louis, I discussed the same thing at the bank, with Watts and Hill present, and I think you will find there will be a change in the attitude of all these banks. Of course, we discussed the same matter at Kansas City. I am going to study this question of silver certificates very closely and will let you know what I find.

The Wall Street Journal last week had an article about the status of various issues of money, which I send you enclosed. I also send you copies of articles which appeared in the same paper dealing with my speech. Note particularly the one of October fifth, sailing into the Commercial & Financial Chronicle

(3)

which may be of interest to you. Of course, you saw what this idiot wrote. It would be fine if he could be taken to account, though I think he is hopeless. His criticism of my article does not take up any argument of mine but is simply dealing in general assertions which it is quite futile to attempt to refute. Have you shaped up your article or what are you planning in this connection?

With heartiest good wishes and warmest regards,

Very sincerely yours,

Amelia

It is very warm here today, summer is coming back. I had a very nice letter from your mother.

Benj. Strong, jr., Esq.,
Estes Park,
Colordao.

Enc.

FEDERAL RESERVE
OF NEA

WESTERN UNION DAY LETTER

Form 2589 K
118

THEO. N. VAIL, PRESIDENT

RECEIVED AT

D 6 J 74 BLUE

WASHINGTON D C 140PM OCT 10 1916

BENJ STRONG JR.,

THE LEWISTON HOTEL, ESTES PARK, COLO.

SPENT YESTERDAY IN NEWYORK HAVE YOU WRITTEN JAY ABOUT AIKEN JAY APPEARS
TO BE READY TO REPORT BUT THINK HIS HAND WOULD BE GREATLY STRENGTHENED
BY A LETTER FROM YOU AIKEN HERE TODAY TOLD ME WING HAD MADE HIM VERY
ATTRACTIVE OFFER TO JOIN HIS BANK WE DISCUSSED MATTER FULLY AND AIKEN
WILL DECLINE THINK HOWEVER IF YOU FAVOR PLAN WE DISCUSSED WE BETTER
PROCEED FAIRLY AND PROMPTLY KINDEST REGARDS HOPE YOU ARE WELL

PAUL M WARBURG 305PM.

FEDERAL RESERVE BOARD

WASHINGTON

October 12, 1916.

Dear Sir:

Your letter of October 11th has been received, enclosing a letter from the National Bank of Commerce in New York, inquiring whether or not the purchase of hides in the Argentine, to be warehoused there and to be carried until after the war, could be financed by acceptances drawn upon a New York member bank. The bills of lading or warehouse receipts controlling the hides would be held by the agent of the accepting bank as a collateral and no renewals would be granted after the goods had passed out of the control of the accepting bank.

In reply, I beg to state that the New York member bank could give its acceptance for the transaction indicated, as they are given to finance a transaction involving the exportation of goods; in accordance with the board's ruling of September 1, 1915, page 268, Federal Reserve Bulletin, 1915.

Very truly yours,

(signed) Paul M. Warburg.

Pierre Jay, Esq.,
Federal Reserve Agent,
New York.

198

FEDERAL RESERVE BOARD

WASHINGTON

October 23, 1916.

12-A-11
OCT 30 1916

My dear Strong:

I have before me your letter of October 20th, inclosing copy of your first article, which I shall take home and study tonight.

I retaliate by sending you herewith a copy of Dr. Miller's speech, which I have not had an opportunity to read in its final form, but I suspect that you and I shall find some spots with which we shall not be in accord.

About Aiken, I telephoned Jay on Saturday and he told me that he had spoken to Peabody, but only in a hurried way, and that Woodward had been away; but he expected to take the matter up energetically this week. I have my doubts that he is going to make much progress during the next few days, as, unfortunately, that is not his method. It takes a whole lot of patience but I have no doubt that finally he will pull the matter off all right. In all fairness to him, I must say that he has had his hands full with Clayton matters, in which he has been very intelligent, though all the time tardy. Furthermore, the election of New York directors is taking place just now and that keeps him busy.

[Woodward]

I suppose he is all up in the air today about the attitude which the Board found it necessary to take with reference to the one-hundred million dollar credit to be negotiated by the

(2)

Guaranty Trust, the Bankers Trust and Bonbright. When we discussed the first credits of this kind, you remember I pointed out the dangers of opening the door in this way, but finally you urged us not to close the door and to leave it to the discretion of the New York Bank to discriminate at the proper moment if the thing should outgrow safe proportions. I am sorry that you were not here last week, because not only do I believe that you might have seen the thing coming, but I also think that you would have been the first to recognize that it was time to protect the system. I inclose herewith a copy of the telegram which we sent Jay and the other Federal Reserve Agents.

The point is this - since the Brown credit there have been two or three new credits, with which you are familiar, bringing the total of these acceptances up to about fifty millions. Then with this new credit of one hundred millions - ninety day bills to be renewed five times and a definite agreement on the part of the acceptors to advance the money at $5\frac{1}{2}\%$ and $\frac{1}{4}\%$ acceptance commission for three months, secured by French Government bonds, ~~have been~~ made payable in dollars so as to coincide with the maturity of the eighteen months' credit.

The Board in its considerations/^{dis}regarded entirely the question of whether or not this was a French Government credit, but considered only the question of whether or not it was a safe ~~to~~ the Federal Reserve Banks to have the impression go out that they would stand ready to hold the bag for \$100,000,000 of these

bills. There was unanimity in the Board that we could not take the responsibility of standing "pat". As a matter of fact, these are eighteen months' cash advances made by the accepting bank to the French borrower, who has no interest whatever in the rediscounting of these acceptances. He draws upon the American bank as a matter of accommodation so as to enable this American bank in its convenience to soak the Federal Reserve System. Whenever money is easy, the accepting banks will carry their own acceptances, but when a sharp turn will come, there may be \$150,000,000 of acceptances falling down upon the Federal Reserve System - and probably more, because if we do not call a halt now there is no doubt that similar credits will follow. The vicious part of it is that, while I should be delighted to see this country accept \$500,000,000 to finance foreign trade, I should want it to be accepted in a way that puts the burden of the discount operation upon the foreigners, so that in case we find ourselves obliged to protect ourselves and to raise the discount rate we could force back the foreigner to use acceptance credits in his own country. However, whenever, as in this instance, the acceptor takes the entire burden of the financing, we might raise our discount rate to 20% and we would be hitting only our own banks without being able to re-transfer the burden to the other side of the water. That is unscientific, rotten and dangerous financing, and while Mr. Kent, in a letter addressed to Mr. Jay, thought he was doing wonderful pioneer work in educating

our banks to use the acceptance facilities, I think that it is mighty poor educating - in all of which I am certain that you and I are in accord.

This kind of eighteen months' borrowing on such a scale as that proposed ought to appeal to the investment market, but should not be dumped on the discount market. If that policy should be permitted, these finance credits would ultimately dictate the discount rates to the detriment of the normal business of the country, and it would be "putting the cart before horse."

Of course, we would not want to interfere at all with the member banks' right to accept for this kind of transaction; but we want would-be acceptors to understand the situation before they commit themselves. You know that I am a liberal constructionist and that I made a pretty arduous fight in order to secure for banks the right to accept for renewals; but when I see how foolish the banks are and at once abuse their privileges, I can understand how Government officials gradually turn into strict constructionists.

What you say about the Comptroller's statements is quite in line with my own thought about the subject. As a matter of fact, I wrote the Comptroller at once when his latest statement was published that I did not agree with his conclusions, but his answer was that he did not agree with mine. His point of view is plainly to analyze the figures which he gets, not from the point of view of safety for the Federal Reserve System, but

(5)

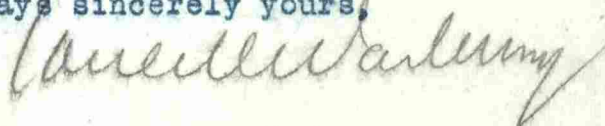
in order to find material from a political point of view to boost the benefits of the system. It is most regrettable and is one of the things that we shall have to take up with Congress during the next session.

You ask what the President meant when he said there was a conspiracy to get control of the new banking system. I think this remark was called forth by Vanderlip's criticism of the system at Kansas City. He spoke there of the fallacy of decentralization and stated that a good system had been spoiled by too much political administration. These remarks were most unfortunate, as was the comment made by the President; but what the latter meant to say was that Wall Street, if the Republicans were elected, would want to establish a central bank and then get control of the system. That, at least, is as I understood it.

As to the political outlook, I know as much about it as you do. Everybody is simply guessing. My own prognostication is that Wilson will be elected.

With kind regards and hoping that you will continue to enjoy your new and pretty Denver residence, and with cordial regards from all the members of the Board and of the Warburg family, I am

Always sincerely yours,



Benjamin Strong, Jr., Esq.,
1400 Montview Boulevard,
Denver, Colo.

COPY OF TELEGRAM SENT TO ALL
FEDERAL RESERVE AGENTS

October 23, 1916.

Board is advised that an acceptance credit approximating one hundred million dollars, drawn on American banks and trust companies, is about to be concluded, on ninety day drafts, subject to five renewals, the accepting banks committing themselves to advance the money to the foreign borrowers at five and one-half per cent per annum, plus acceptance commission of one-fourth per cent for each three months. In view of widely circulated press statements that these acceptances will be eligible for rediscount or purchase by Federal reserve banks, Board deems it its duty to point out that banking prudence and obligations toward general commercial interests of the country require that Federal reserve banks should not acquire acceptances of this character beyond a conservative amount. This view is consistent with the Board's policy in the past, and while it wishes, through all legitimate means, to promote the development of the American acceptance market and to further the growth of our export trade, and while it wishes to avoid any attitude of interference with the powers of member banks in this respect, Board feels nevertheless that it should be clearly understood that these acceptances which represent obligations for cash advances aggregating a very large amount, by the acceptors for eighteen months, cannot properly be regarded as paper self-liquidating within a period of ninety days. If offered in excessive amounts, Federal Reserve Banks may be obliged to discriminate against or to exclude entirely acceptances of this character. Board feels that prospective acceptors should have a clear understanding of this.

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

If these three symbols appear after the check (number of words) this is a day message. Other character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM

NEWCOMB CARLTON, PRESIDENT

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

If none of these three symbols appears after the check (number of words) this is a day message. Other character is indicated by the symbol appearing after the check.

RECEIVED AT 915-919 SEVENTEENTH STREET, DENVER, COLO. ALWAYS OPEN. 1916 OCT 25 AM 2 18

B475CH SHEET TWO
 BE SENT OUT IN DAY OR TWO WILL CORRECT WRONG IMPRESSION CREATED BY
 FIRST CIRCULAR/HARDING EXPECTS TO SPEAK AT NEWYORK NEXT WEEK AND
 EXPECTS THEN TO GIVE GENERAL TALK ABOUT ACCEPTANCES AND CAN THEN
 DEAL WITH QUESTION FULLY ON BROAD LINES WITHOUT APPEARING TO HIT ANY
 PARTICULAR TRANSACTION/WE ARE NOT DEALING WITH POWER OF MEMBER BANK TO
 ACCEPT WE ONLY THINK IT OUR DUTY TO MAKE IT CLEAR THAT WE CANNOT BE
 EXPECTED TO HOLD THE BAG FOR TRANSACTIONS OF THIS CHARACTER AND
 THAT SCOPE/THIS WILL NOT HAVE AN ALARMING BUT QUITE THE CONTRARY A
 VERY REASSURING EFFECT UPON MOST OF OUR MEMBER BANKS/REACTIONS
 RECEIVED TODAY FROM SEVERAL OF OUR OWN BANKS IN IMPORTANT CENTERS,
 WITH THAT WAY KINDEST REGARDS

warburg.

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

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

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

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

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

B475CH 223 GOVT NITE

WASHINGTON D C 24

BENJ STRONG JR

1713

4100 MONTVIEW BLVD DENVER COLO

HAD CONFERENCE HERE TODAY WITH JAY AND CRTIS WROTE YOU FULLY YESTERDAY DONT WORRY SHALL NOT SWING BIG STICK BUT IT IS PLAIN DUTY TO PREVENT SYSTEM FROM BEING SWAMPED WITH UNDULY LARGE AMOUNT THIS KIND OF PAPER AND IF THAT IS SO FAIR NOTICE OUGHT TO BE GIVEN SO WOULD BE MEMBERS OF SYNDICATE IT IS UNFORTUNATE THAT LATTER SENT OUT CIRCULARS TO FOUR THOUSAND BANKS STATING THAT ACCEPTANCES WOULD BE ELIGIBLE IT CAN PROBABLY BE ARRANGED THAT SYNDICATE IN ITS NEXT CIRCULAR LETTER TO

12. A. Fr.
OCT 24 1916

1916 OCT 25 AM 2 18

1916 OCT 25 AM 2 44

198

FEDERAL RESERVE BOARD

R.A.H.
WASHINGTON

October 30, 1916.

Dear Strong:

I received today your letter of October 2 th, about the French credits, and I was very much interested to read your views. I am particularly glad to have them because I am frank to say that it was not easy for me to deal with this matter according to my own conscience, surmising from the telegram that you sent to your New York associates that you were not quite in sympathy with what we were doing. I am glad to see from your letter that we are not so far apart as I was afraid we might be. You have meanwhile received my letter.

I am confident that if you had been in New York and seen the thing coming, and we had exchanged views in time, a good deal of trouble might have been avoided.

Some of the difficulties arise from the fact that we have not been willing, as you correctly say, to look into these credits but simply deal with them by general regulations. Unfortunately, the fact that the two banking institutions stated in their circular that this paper would be eligible for rediscount with the Federal Reserve Banks and sent the circular to four thousand banks, forced our hand; and we had to take some notice.

(2)

The matter has been fairly satisfactorily settled. Kent and Hemphill were here on Saturday. The latter made a fool of himself while Kent impressed me as being very sincere and serious in his aims. He and I had quite a discussion before the Board about what acceptances ought to be and what they ought not to be, and I believe that I gave him a new light. I shall be very happy to see him again and discuss this matter further with him. I only wish that he had come before. They told us that their ^{applications} credit had shrunk from \$100,000,000 to \$20,000,000 and that they had applications for only \$18,000,000, and that probably they would make up the rest themselves so that the topmost they could offer the French - if that much - would be \$50,000,000. In view of the fact that as far as outsiders were concerned there were no more than \$20,000,000, we finally decided today not to force them to revise their statement by sending a second circular, nor to make a public statement ourselves. Harding is going to deliver a speech Wednesday at New York and will make a very general statement about acceptances without mentioning any names, and he will fully explain what we think is right and what we think is wrong. You will find what he says about acceptances on pages nine to nineteen.

I am frank to say that I never realized before that there was a definite agreement in all these credits on the

part of the acceptor to carry his own drafts at a given rate. As we are now informed, substantially the same stipulations existed in the other French credits. About those ^{later} credits we never received any information except, a few weeks ago, ^{at my request} we received a synopsis which did not mention this phase of the arrangements at all. It is clear to me, as I wrote you the other day, that a definite agreement on the part of an acceptor to provide money for eighteen months at $6\frac{1}{2}\%$ renders the acceptance a subterfuge for the mere purpose of the possible accommodation given to the acceptor for his benefit. The drawer is not interested any more at all in the entire acceptance manipulation.

Of course, there was a strong tendency in the Board to go to the other extreme ^{now} ~~then~~ and declare these acceptances as "ineligible." I took the view that that would be over-doing it entirely - that renewals in themselves were legitimate, provided they took the proper form, but that as a matter of policy the banks should protect themselves ^{and} the market from an over-dose of such renewals and from an abuse of the acceptance facilities. That view finally prevailed.

On the whole, I am glad to say, there was complete unanimity on the part of the members of the Board in dealing with this matter.

(4)

It may interest you to know that both Boston and Philadelphia had advised their member banks that they should not expect that the banks would hold the bag for these acceptances - even before the Board had sent its telegram; and Chicago's view you can best judge from the fact that they over-reached themselves to the extent of declaring these acceptances ineligible for open market operations, a point of view from which we shall have to make them retract. Other Federal Reserve Banks expressed themselves at once as in entire harmony with our views and I believe that Jay, also, is ^{now} in full accord with what we want to achieve - even though I believe at times he was afraid that the "big stick" would be swung too energetically. Though at some times it looked that way, this has been avoided and I think the matter has been handled and settled in the best possible manner.

It is necessary, however, that the banks protect themselves, and I am rather inclined to think that it would be advisable to treat unendorsed finance drafts of this nature on a basis a little less advantageous than the regular commercial paper. I think a rate one-fourth per cent higher will at this time be sufficient, just as an indication of the policy of the banks, and it would then permit us,

(5)

whenever it should become necessary, to discriminate more or less.

Miller told me that he had received your letter and I expect to see it tomorrow.

This is enough for one mail. I expect to write you soon again and I hope that meanwhile you have not fretted about this matter, which I think has been disposed of to the best interest of the system.

With kindest regards, I am

Always sincerely yours,

Benjamin Strong, Jr.

Benjamin Strong, Jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

*

*Hope your cottage & life at Denver
continue to agree with you. Election looks
like a Wilson victory to me.*

ms

198

R.A. Fr.
NOVG - 1916

FEDERAL RESERVE BOARD

WASHINGTON

October 31, 1916.

Dear Strong:

I have just read your letter to Mr. Miller and want to drop you a line to tell you how much I enjoyed it. It is a most excellent and convincing presentation, which will be very helpful.

One paragraph in your letter (which I have not before me) amused me very much - or rather, puzzled me. You say that you are not quite sure/^{but}that I am getting away from you on the question of the issue of notes against gold and that you hope I shall stay "put" with you on this proposition. I cannot imagine at all why any such doubt could have originated in your mind. My fight for issue of notes against gold and notes as reserve money anti-dates, by several years, the creation of the Federal Reserve Act. I did say at some time that the most important thing to secure was the power to have vault money kept with the Federal Reserve Banks as a balance and counted as reserve. But I was only willing to strike for this amendment first because I felt certain that when once we had crossed this line, the next step would follow almost automatically.

What will now happen is this: Either the banks will put their vault money into the Federal Reserve Banks and retain only a small proportion in their vaults (in that case the entire

(2)

argument of the terrible inflation that would ensue if the remaining comparatively small amount that would be kept/in ^{were} Federal Reserve notes, would fall to the ground); or, the alternative, that banks will not be able to increase their balances very much because they need so large an amount of till money that it is clearly shown that the additional strength necessary for the Federal Reserve Banks cannot be secured without permitting the notes to be counted as reserves. It would also show that as long as the law discriminates between Federal Reserve notes and lawful money the banks, too, will discriminate in favor of lawful money against the Federal Reserve Bank balance. In addition to all that, we have now the argument which cannot be beaten, that when the law permits the entire vault money to go into Federal Reserve Banks and have that counted as reserve money, there cannot be any logic at all or any business reason why that unguaranteed balance should be reserve money and not cause inflation while a few Federal Reserve notes taken from the balance and kept in vault should be considered as a source of danger. My feeling was simply that the first amendment we could secure without much difficulty, and that this amendment once "put over", the rest would soon have to follow. But I hope you never got it into your head that I was going to abandon the fight for this most necessary perfection of our system.

Cordially yours,

Benjamin Strong, Jr., Esq.,
4100 Montview Boulevard,
Denver, Colo.

Dictated but not read

Paul M. Warburg

P. M. Warburg

98
Letter on Dollar Exchange
referred to Jay to
Strong Nov. 13/16

November 10, 1916.

Dear Mr. Jay:

When in New York a few days ago you showed me a letter received from Governor Strong in which he took issue with the Board for having ruled adversely in the question of the application of the Mechanics & Metals National Bank for permission to accept for three months' drafts drawn for the purpose of furnishing dollar exchange by banks or bankers in France or England.

I told you that I had personally secured this amendment and that I felt responsible to see ^{to it} that it was not now abused. I doubt very much whether you or Governor Strong have ever read my correspondence with Senator Owen or my testimony before the Committee on Banking and Currency in this respect. If Governor Strong had, I am sure that he could not have insinuated to the Board that we should permit British and French banks, on the strength of this amendment, to go ahead and draw any kind of a finance bill, and that he would not have characterized as ridiculous the Board's ruling in this respect. If we did what Governor Strong asks us to do we would open the door wide for any kind of

(2)

finance draft from Europe, and, as a matter of fact, we would have nullified all the provisions in the act which try to restrict the power of American banks to accept only for certain well specified transactions.

If I lent my hand to any such ruling, I would feel that I had broken faith with those who enacted the ^{amendment} law. In my letter to Senator Owen, which appears on page 67 of the enclosed copy of the hearings, you will find the following paragraph:

"I am fully conscious of the fact that a draft of this kind, if permitted, might be classified as closely approaching or being a species of the finance draft; but to the extent as above outlined I think this draft has to be sanctioned in order to place our banks on a par with the British banks and other foreign banks operating in South and Central America.

If Congress will trust the Federal Reserve Board to supervise these transactions and keep them within proper bounds, I believe that an amendment as here proposed would remove a great handicap now burdening the American banks, while any abuse of these facilities could be stopped at any time by the Federal Reserve Board."

On pages 73 to 76 you will find my testimony with reference to this particular amendment, and, on page 76, you will find that I said:

"But because we realize that this is not a thing that should be done promiscuously and should not be abused we have put in both, for the accepting and for the purchasing of acceptances the power of the Board to regulate and supervise it."

(3)

Governor Strong honestly believes that it would be the best for the growth of our acceptance system if there were no restriction whatsoever - as in England - and if our member banks could be permitted to accept according to the requirements of trade and finance, leaving it to the business judgment of the central banks and the banking community in general to regulate any abuse. That, of course, is the ideal way for the development of banking wherever such development is safe and permitted by the law. We must remain conscious, however, of the fact that we are operating under a law and that we must not exclusively be guided by what we wish but that, as citizens and, to be sure, as a government body, it is our duty to live up to the restrictions of the law. We should not be astonished to find that the member banks from time to time will try to beat the law. But if the Federal Reserve Board and the Federal Reserve Banks should adopt that attitude it would be the end of the whole system.

I am sending a copy of this letter to Governor Strong.

Very truly yours,

Pierre Jay, Esq.,
Federal Reserve Agent,
New York.

194

FEDERAL RESERVE BOARD

WASHINGTON

R.A.H.
NOV 18 1916

November 14, 1916.

Dear Strong:

I wrote you a few days ago and send you herewith copy of a letter which I have written to Dr. Miller. I thought it might amuse you to read the same.

I have received a couple of nice letters of yours and shall reply to the, in a few days.

With kindest regards,

Sincerely yours,



Benj. Strong, jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

Enc.

198

FEDERAL RESERVE BOARD

WASHINGTON

NOV 20 1916

November 16, 1916.

Dear Strong:

I have not yet answered your letter of October 30th.

Your request for a photograph of mine is highly flattering, and I am sending you one under separate cover, upon the condition that you send me one of yours. If you should find, however, that looking at my face will interfere with your digestion, so that you do not put on five pounds a month, please turn that photo of mine to the wall or dispose of it in any other proper way.

I am afraid that you are right that Mr. Jay might feel a little bit discouraged. But our minds evidently met, because when he was here I spoke to him along the same lines, telling him how impossible it would be for him to carry on this work alone and as he was over-crowded, I believe that he sees the necessity. I fear, however, that in spite of all that, he does not feel quite happy at the thought of playing second fiddle to anybody but you - though he is too decent and proud a fellow to say that in so many words. Unfortunately, however, he is not enough of an executive and I feel very keenly that it is high time that some aggressive second in command were put into the bank.

About French credits, I regret that we do not understand each other, but evidently we do not very well. We did not make any public announcement, but it was plainly our duty to put would-be member-bank participants in the French credit on notice, inasmuch as the circular of the Bankers Trust and the Guaranty Trust was misleading. As you noticed, there is no scarcity of short loans made to European belligerent countries and as long as the country and its investors think that it is safe for them to buy these loans, we are securing just what you desire - that is to say, maturing foreign credits with which we can protect ourselves if the tide should turn. These credits are increasing at such a rate and the banks and the public will be so filled with them that it certainly is not necessary to involve in these investments the ultima ratio of our country's reserve money - that is, the Federal Reserve System. For foreign acceptance credits in the regular way, or even somewhat irregular, we want to open our acceptance facilities as wide as we possibly can. But there is no sense whatever in getting this acceptance market overloaded with essentially investment paper when the investment market itself is so wide open and in a fair way to be overloaded. Because other countries are at war and have to forget every rule of sound banking, we need not lose all direction and do the same. Our responsibility is even greater in this respect because we are now laying the foundation for future business

methods and have a great responsibility upon our hands in not teaching our country poor banking methods. There is no necessity for doing so and it would be nothing less than reckless.

What you say about the power of discount rates is only partly true. It is true that the higher discount rates draw money into a market for the purpose of buying bills drawn on that market. But at the same time the volume of bills drawn on the market is being strongly reduced, owing to high interest rates. I know what I am talking about because when still a banker in New York and in Germany I covered our long bills on London and used other credits whenever the interest rate in London was raised to a point where our margin against the home market was wiped out.

As to my being "reluctantly liberal" in the acceptance business you are quite right - I am a liberal constructionist for any kind of a legitimate acceptance. I have been fighting for that, as you know, against practically every member of the Board, who, in the beginning, all thought it was dangerous to permit the bankers acceptances to absorb too large a portion of the Federal Reserve Banks' funds. But I have consistently opposed any abuse of the acceptance business by the finance draft, and your point of view has been more responsible for that than anything else. I have felt all along that you do not see the dangers of having the acceptance market filled with "investment acceptances" in the same light as I do, and I feel

that recent events have fully justified my fears, and all my colleagues have come around to seeing this thing more in the same light as I did a year ago. Your point of view was then that we could keep these finance drafts within proper limits. We were then dealing with the one comparatively small credit and at that time I think you would have said that you were certain that you would only get a small portion of that. There is now over one hundred millions of these credits and we have about thirty millions of these drafts in our system. But there has been no indication that the Bank of New York of its own accord found it necessary to begin to discriminate against this paper and to state in so many words how far it wished to go. Quite the contrary, all that we have been getting from that quarter and from you are expressions to the effect that the Board was interfering with the free development of the acceptance business in trying to keep this thing within reasonable bounds. As a matter of fact, even yesterday I received a letter from Mr. Austin in which he says that he does not know how to discriminate; that New York does not know how to do it either. If that be true (and of course I think it is silly) how does New York expect to make good its plan of protecting the system from an overflow of these drafts? and if they cannot, would not those be right who say that these bills must be absolutely excluded, because if they are not, the

(5)

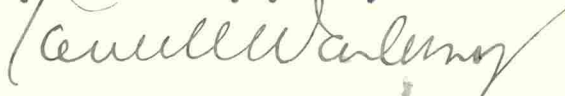
legitimate business of the country will have to pay the price because in that case every new twenty-five, fifty, or one-hundred million dollar credit would force up the discount rate for all the legitimate bankers' acceptances of the country, which ought to be encouraged.

Think it over a little more, old man, and don't forget that we are not at war and that it is our duty to remain strong and healthy for the time after the war.

I inclose a copy of a tentative letter which I have addressed to Mr. Glass without having any intention of sending it. I wrote it only for the purpose of getting Messrs Harding, Delano, Miller and myself in line on what we want to secure during the next session of Congress. If you think that there are any amendments which are necessary which I have forgotten, please give me the benefit of your suggestions.

With kind regards and best wishes, I am

Always sincerely yours,



Benjamin Strong, Jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

*Inc.

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

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

WESTERN UNION TELEGRAM



NEWCOMB CARLTON, PRESIDENT

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

If none of these three symbols appears after the check (number of words) this is a day message. Otherwise its character is indicated by the symbol appearing after the check.

RECEIVED AT **915-919 Seventeenth Street, Denver, Colo.** ALWAYS OPEN
 DUPLICATE OF TELEPHONED TELEGRAM Phone No.
 245NY SQ 23 Foned to Secretary
 K WASHINGTON DC 420P NOV 16 1916 Time
 BENJAMIN STRONG JR By Va **924** to be mailed

4100 MONTVIEW BLVD DENVER COLO

TODAY IS THE SECOND BIRTHDAY OF OUR BANKS BEST WISHES
 FOR THEIR FURTHER GROWTH AND GOOD LUCK TO YOU IN
 THE NEW YEAR

G K W

317PM

FEDERAL RESERVE BOARD

WASHINGTON

R.A.H.
NOV 24 1916

November 21, 1916.

Dear Strong:

I just received your two letters of November seventeenth. Let me answer the business letter first.

There is nothing in the rumor that the Treasury wants to issue gold certificates of the denomination of \$5. Mr. Treman advised me of this, and when I investigated the matter I found it was absolute nonsense. The Treasury wants to cooperate with us all they can in issuing the large denominations. Mr. Malburn is absolutely splendid in this matter. Nothing comprehensive can be done, however, as long as Federal Reserve notes are not reserve money. Unfortunately, I have not so far been able to get Mr. Miller and Mr. Delano to cooperate with me fully on these lines.

I shall write to you fully about this matter and about your charming fourteen page letter, which I have just finished reading and which gave me no end of pleasure. The whole matter you refer to therein has meanwhile been put into pretty good shape. I shall write to you probably tomorrow at great length about it as today we have the Advisory Council here and my time is pretty well taken up.

I am awfully sorry to learn that you have had a little set-back. I hope it does not amount to anything and that, by

(2)

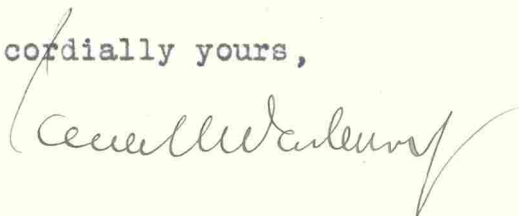
the time this reaches you, you will be up and about again.

The sixteenth I spent in New York and dropped in at the bank, where I happened to find Treman, Aiken and Rhoads - also Sailer, Kenzel and Curtis. I believe we had a very useful chat together in which later on Mr. Peabody and Mr. Woodward joined.

I found your sweet telegram when I got home, and thank you most sincerely for it. You are over-stating the case by a long shot, and I should like to return the compliment to you. But the main thing is, when the next birthday comes, ^{that} we shall have you back again in the front rank.

With warmest regards, in which Nina and Bettina join, I
am

Always cordially yours,



Benj. Strong, jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

November 23, 1916.

CONFIDENTIAL

My dear Mr. Treman:

I have your letter of November 22nd and thank you very much for the same.

I sincerely appreciate your always encouraging remarks about what we are trying to accomplish here.

I am very sorry to learn that Mr. Jay is laid up again and I hope that he will be better again in a few days. Apparently he has taken a chance in getting out too early - a thing that he ought to have avoided.

Your suggestion that I write you about our recent conference here with the Advisory Council I am happy to act upon; all the more since, owing to the absence of Mr. Morgan from the conference, you might otherwise not be advised as to what transpired.

I am inclosing herewith a copy of the statement given to the press at the end of the conference, a report which no doubt you have seen in the papers.

I might add, because it is of considerable interest, that with reference to the first topic - that is, a transfer of vault money to the Federal Reserve Banks - the Council added that this development would be greatly facilitated by

securing an amendment permitting the member banks to count Federal Reserve notes as reserve. All members present favored such an amendment with the exception only of Mr. Rowe of Cincinnati. Mr. Morgan and Mr. Swinney were not present. We know that Mr. Morgan is in favor of such an amendment. I am not quite posted as to Mr. Swinney's position in the matter.

A free discussion of this topic ensued with the Board, in which both sides of the problem were fully developed.

There is one additional recommendation which may be of interest to you, as follows:

"The Council recommends that to the exceptions contained in Section 5203 R S as amended by Section 13 of the Federal Reserve Act the following should be added as a sixth exception:

'6th. Liabilities as an endorser on accepted bills of exchange actually owned by the association and rediscounted at home or abroad.'"

The main discussion was on the general financial situation; a topic with which there are closely connected the questions of reserves, gold importations and foreign loans; also the question of foreign acceptance credits.

To begin with the latter, the Council unreservedly endorsed the position taken by the Board as expressed in Governor Harding's address in New York. They even went further than that - a position which is not quite shared by the Board. I still believe that the position which we took is

just right - that is to say that we should not go to the extreme of declaring these bills ineligible, but simply to deal with them as a matter of policy. I do not think that the point of view taken by the Council, that these acceptances might be eligible for rediscount when offered by member banks, but should not be taken in the open market, is a logical one - any how, not as a matter of ruling. What they meant to say was that inasmuch as some member banks now had these bills, they ought to have an opportunity in case of need to rediscount this paper. They did not feel that such obligation, even though it might be only a moral one, existed toward non-member banks, and they were in general accord that these acceptances were not a very desirable investment for Federal Reserve Banks, and that their use should not be freely encouraged.

As to the general financial situation, it was pointed out that money was not so easy as it looked; that in most of the districts member banks were now lending up pretty well to their legal reserve limits, and that it would not at all surprise the members of the Council if in the near future Federal Reserve Banks would be more freely resorted to. As a matter of fact, in some districts, particularly in Boston, banks are pretty well loaned up and rediscount at this time pretty freely with the Federal Reserve Banks. Similar indications you have seen in New York.

It was also stated that in some districts banks had been investing a little bit too freely in foreign loans, and that it was time that the Board sounded a note of warning against further loan expansion and locking up of funds.

The question was discussed whether or not the date of November 16, 1917, should be advanced so as to terminate sooner the practice of counting balances with correspondents in reserve and central reserve cities as reserves. If the final step as contemplated for November, 1917, took place today, the excess cash reserves would be wiped out and it would be found that, as a matter of fact, the banks are pretty well loaned up to their legal limits. The so-called "excess reserves" with reserve agents of about \$600,000,000 would then appear as what, in fact, they are, bank balances which have been invested in loans by correspondent reserve agents. It was generally felt that it would be to the best advantage of the entire financial situation if Congress would empower the Federal Reserve Board, with sixty days' notice, to put this final change into effect. It would put all the banks on notice and remove some misconceptions as to the existing financial situation. It was generally felt that a step of this kind would have some effect in expelling the theory that further importations of gold must of necessity bring inflation.

The banks themselves have the power to a certain extent of dealing with this danger by keeping the reserves higher; and there are other ways and means of dealing with an overflow of gold so as to keep it out of harm's way.

On the other hand, the feeling was freely expressed that some cool thought ought to prevail in dealing with foreign loans; that they ought to be closely scrutinized and that we should not overlook the fact that if this war went on for a long period, even the strongest amongst the European powers might at the end be in a financial situation which would be critical - to say the least - and which would force those who now believe themselves to be making short loans, to accept long term bonds in payment of these now apparently short investments. It was said that sooner or later this unnaturally stimulated export trade would come to a stop and that it would be better to bring it down gradually to a normal scope than to keep it up by an artificial stimulation of foreign loans, so that when peace should be established there would be a gradual falling off and not a perpendicular drop. It was thought that at the end of the war there would be vast opportunities for the United States to act as the world's banker and to do its share in the work of reconstruction then to begin; and that we should see to it that we keep ourselves strong for that moment and be careful not to

(6)

get involved so deeply at this time as to become the partner of the belligerents to such an extent that when peace should be restored we should be in the position of being dependent upon our debtors rather than of being independent and choosing our own course.

The Board did not feel that it should take the responsibility of advising the investors and it was thought that as long as there was a natural process of financing our foreign trade by a back-flow of securities into the hands of the investors, the United States were doing in effect a cash business which could only be considered a healthy one. A similar result would be reached by foreign loans secured by our own securities. When, however, our trade is to be maintained by the granting of practically unlimited amounts of unsecured loans to belligerent nations and particularly when these loans are to be put into a form appealing to our banks rather than to investors, the Board feels that such a development would not be a healthy one under present conditions. While in form these short term unsecured foreign bonds or notes may appear self-liquidating, as a matter of fact, the result will be that in the aggregate, many hundreds of millions, or possibly an amount which might approach a billion, would be locked up by our banks in an investment which would have to be seen through to the end of the

war and it would then probably have to be turned into long term securities.

The Advisory Council members expressed their unreserved opinion to the effect that this was not advisable and that a further lock up of funds by the banks of the country in such a manner could only be considered with serious misgivings.

In strictest confidence - When Mr. Davison was here last Saturday, he discussed with the Board the question of the British Exchequer bonds and in this entirely informal conference views were developed by the Governor and members of the Board on these very lines and it was a great satisfaction to the Board to see that the Advisory Council members, who independently considered the situation, reached exactly the same conclusions.

Very truly yours,

(Signed) PAUL M. WARBURG.

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

*Inc.

198

FEDERAL RESERVE BOARD

WASHINGTON

B.A.W.
NOV 28 1916

November 23, 1916.

Dear Strong:

I have just finished dictating a letter to Mr. Treman, in which I give him the meat of our last conference with the Advisory Council and also of our meeting with Mr. Davison, who was here last Saturday.

As you know, there has been going on quite an active press campaign, the object of which was to show that unless we granted foreign credits quite freely the country ran the risk of being choked with gold with the attendant consequences of inflation of prices and credits.

Mr. Davison came over last Saturday and had a talk with the Board and expanded upon this theory. He advised the Board that Morgan's had planned to offer \$100,000,000 of British bonds payable in dollars which were to mature in scattered maturities falling between three months and one year, it being apparently the plan to arrange the maturities so that \$10,000,000 would mature each week and then be renewed which would indicate, as he did not deny, that, provided the banks would take it, they would follow this first issue with others and place

(2)

here about \$500,000,000 of these exchequer bonds. When these would have been placed, of course, they might consider the placing of more. But, for the time being he said, the British Government would not want to place more than a weekly maturity of \$10,000,000.

Davison took the point of view that they only wanted to do what was good for the country, but that the British Government was buying about \$10,000,000 worth a day, and if we did not place these loans we were taking the responsibility of cutting down the trade of the country - a very serious responsibility as we were now in a fair way of becoming the masters of the world, ~~and that the loans would increase our predominance,~~ *The more we stimulated this trade, and the more loans we made to these foreign countries, the more would we increase our predominance.*

Governor Harding (who had taken the precaution during these last weeks to place himself in touch with the leading authorities in questions of foreign policy in order to be sure that we were acting in fullest accord with what generally would be considered the best interest of the country) pointed out to Mr. Davison that there was some danger of a creditor becoming so much involved with one debtor that finally, no matter whether the creditor wanted to or not, he would have to go in deeper and

(3)

deeper. In other words, while you thought you had the bull by the tail, as a matter of fact, the bull had you by the tail. In this case, it is John Bull who would have us by the tail.

England has now outstanding in short loans an amount which must be as large as between one and two billions of pounds. How these are to be funded, nobody knows. England's per capita debt next year will have multiplied by seven as against the beginning of the war. The continuation of the war, therefore, appears madness, and as long as nobody knows how long this madness will last, there is no saying in what condition Europe will be when the war ceases. The feeling generally appears to be breaking through here at Washington (and I think also amongst a substantial part of the ^{cooler} clearer elements of the country) that the end of this war will be a draw; that the sooner it ends the better, and that continuing the war means only a needless and fruitless sacrifice of life and treasure. To think that this war must go on to keep our trade going is an abomination. To think that it ought to be the duty of the Government or the Federal Reserve Board to prevent disastrous economic consequences by prolonging it is unjustifiable. And we said to Mr. Davison that it was the general feeling that

(4)

we had grown enough and that we should be in a position of contemplating the "breaking out" of peace without a thought of alarm; that to our mind it was better to let this extraordinary trade gradually go down to more nearly normal proportions than to have it stop with a vengeance.

Davison himself said that he thought there were \$500,000,000 or \$800,000,000 of first class American securities which were held back which we might still receive in payment of goods that we are sending. We all feel that the export trade would not stop at once but ~~that England~~ would possibly take smaller proportions and ^{that} pay for it with our securities and maybe, to a certain extent, with shipments of gold.

England would

As long as Europe sells us secured investments and as long as the investors take them there is no harm done. Altogether, we do not feel that we have the duty of protecting the investor; but we are concerned in the strength of the banking situation, and it was generally felt that these exchequer bonds, while they were made up in a form which made them appear self-liquidating, were as a matter of fact what in the aggregate ^{would} constitute a lockup of the funds of our banks and in the end would probably have to be turned into long term bonds. When the war is over, it may or may not be good policy to grant these long term

(5)

and unsecured foreign loans, but we feel that first we should know whether and when and how the war will be over.

As to the gold danger, the Board feels that there are many ways ⁱⁿ ~~with~~ which it can be dealt with. We have \$700,000,000 of national bank notes which could be withdrawn if our gold circulation should increase too fast. We have greenbacks the gold cover of which could be provided very acceptably. We have a Government that will have to borrow sooner or later and ^{might} ~~should~~ come ⁱⁿ to the market and borrow at this time ^{in order} to lock up the gold. We could induce our member banks, either by voluntary agreement or by law, temporarily to keep higher reserves. And, finally, we could, as a beginning, advance the date of November, 1917, so as to compel our reserve transfers early next year. The latter proposition appeared to appeal to Davison, who, on the whole, placed himself in a position of only wanting to do what was best for the country, and it was very satisfactory to us that the Advisory Council had independently reached the same conclusions as to the general situation.

Forgan stated that they were all down to the lowest point of reserves. In New England the strongest banks are rediscounting quite freely with the Federal Reserve Bank. In New York we have noticed that, in spite of the

(6)

increase of the acceptance rate, we are getting our material quite freely, and, while it is true that our gold holdings have increased, our loan pyramid has increased in proportion; and while our cash reserve in 1914 was 12.8 it is now 13.6, so that, as a matter of fact, we are where we were and there is serious danger in letting the thought go out that it is safe for us to pump into our financial structure a dose of one half a billion or a billion of self perpetuating foreign bonds.

The discussion with Davison was very pleasant and ~~reached~~^{led} to no definite conclusions, which I believe he wanted to avoid. He understood, however, our point of view. While he pointed out to us that we had a duty to finance this trade, he could not answer us when we pointed out that we were financing ten days according to his own statement and that he could figure out for himself the tremendous amounts that this country would have to take in foreign loans if his argument were to prevail that this trade ought to be continued ^{indefinitely & by all means} by continuing loans. He answered that, of course, they would not go beyond a reasonable amount, but I believe we have lost what was our standard for what is reasonable and what unreasonable; and, moreover, the further we go the more difficult it will be to stop.

Men like Wing, Rue, Forgan and Fleishhacker all shared these views, and as to the foreign acceptance credits they went in their recommendation even further than the Board wishes to go. They recommended that these acceptances should not be purchased in the open market while they might be taken when necessary as re-discounts from member banks. They all felt that in this question of acceptances the Board had acted splendidly, even though they apparently felt we had not gone quite far enough.

I know that there are two sides to the argument. It is not an easy matter at this time to decide what is right or wrong, but apparently the general consensus of opinion is getting around to the point of view that we should not over do this foreign business at this time and that the harm would not lie so much in the influx of of gold as in the over stimulation of our trade leading to enormously increased prices, thereby increasing the volume of credits with the entire chain of increased cost of living, wages, etc.

I could write volumes about this without being able to exhaust the subject, ^{but} and for fear of exhausting myself and my stenographic staff, I ~~would~~ better stop.

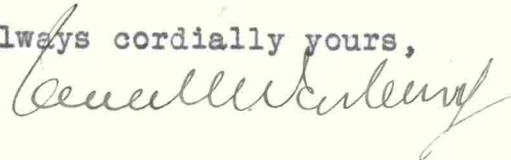
Let me only tell you again how much I enjoyed your

(8)

letter and how glad I am that this whole business has been entirely cleared up. I shall write you in long hand as soon as I get the time.

It is too bad that Jay is laid up at this time, but he expects to be all right for the meeting here on December fourth.

Always cordially yours,



Benj. Strong, jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

Enc.

198
FEDERAL RESERVE BOARD

WASHINGTON

R.A. Jr.
DEC 2 - 1916

November 27, 1916.

Dear Strong:

I have your letter of November twenty-second, which is "carrying coals to Newcastle". Inasmuch, however, as this article is very expensive just now, it is very welcome - as is every line from you.

There cannot, of course, be any two opinions about the "goodness" of these renewal acceptances. We discussed this point fully at New York. The acceptance of the City Bank is as good in the case of a renewal draft as in the case of a bill drawn from South America. It is only in order to prevent an over supply of this kind of paper and because it is essentially not based upon a commercial transaction but upon a perfectly unlimited government credit behind the transactions that the system must protect itself against an over supply of this paper; and when I say "system" I do not mean the Federal Reserve Banks alone but the entire discount market, which will be blessed, as I understand, with another \$30,000,000 credit of this kind so that our banks will be carrying about \$150,000,000 of paper of this

character.

I have never, in talking to others, raised the question of "responsibility," and I have followed quite carefully the conservative methods of your bank in watching indorsements and liabilities. I have not the slightest concern on that score. You appear to deal, however, only with those acceptances that were bought in New York, but, as a matter of fact, quite a batch of that paper has been coming in at other Federal Reserve Banks, particularly in Boston, San Francisco and Philadelphia, so that, as I stated before, we have about \$30,000,000. I do not care ^{so much} whether we have \$25,000,000 or \$40,000,000. The reason why I think it is necessary that we should discriminate is that I think it is proper that we should put the banks ^{& Trust Co's} on notice that this output of foreign credits running for eighteen months is a thing that ought to be kept within reasonable limits and in which they must not rely too much upon the assistance of the Federal Reserve Banks.

As I wrote you the other day, there was not one member of the Advisory Council that did not agree in these thoughts. I am afraid that you will not be in harmony either with what we are doing with respect to

(3)

the British and French treasury bills which Morgan's expect to offer to the banks of the country to the tune of \$500,000,000 or, if the banks are willing to take it, up to a billion. While you may think I am the "chief devil," you are mistaken in that. The Board is unanimous in its present attitude concerning this matter; and some of my colleagues have been much more aggressive in the matter than I.

Confidential

The Board will advise the New York bank, ~~either~~ *when Mr. Ador returns* ~~today or~~ in a few days, that it has no objection to having the contract with the Bank of England perfected substantially on the lines drawn by you, but that the Board wants to be consulted again if it is planned to go into substantial operations before the conclusion of peace. So there is at least some news that will cheer you!

As to the rest, I believe that the Board is acting wisely if it puts the principle of safety first and United States first before the so-called question of our national duties in the fight for "civilization".

Very sincerely yours,

G. K. W.

Benj. Strong, jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

B.A. Jr.
FEDERAL RESERVE BOARD
WASHINGTON

B.A. Jr.
DEC 24

1918
P. Washington

December 19, 1916.

Dear Strong;

Since I wrote you last Saturday I received several letters from you, dated December 13th and 15th, which I was very glad to receive; even though I noticed that you had some cranky notions in your head, some of which I hope my last letter has destroyed and about the balance of which I shall write you fully as soon as I get a breathing spell.

Don't get it into your head that we are getting afraid about our end of the situation. From that point of view we have not begun to worry yet. Whatever we are doing is being done from the point of view that we should not get into a condition that we might have to be afraid.

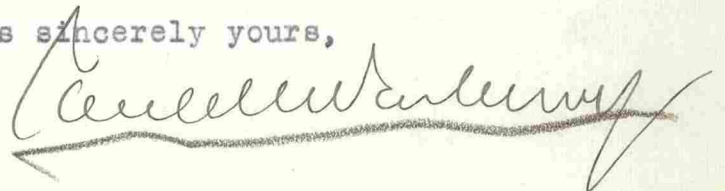
The object of these lines is only to ask you what is your view about non-member banks' accepting in excess of 100% of their capital and surplus? Should we try to use our influence in case they should accept in excess of this limit? What do you think? The Guaranty Trust Company's acceptances are up to \$52,000,000 (Capital, surplus and undivided profits \$45,180,000); the Equitable Trust Company is up to \$12,600,000 (Capital, surplus, and undivided profits \$12,813,000).

(2)

Of course we do not want to be small about it and watch this thing with a ruler, but I should like to know what is your general thought about this problem.

I hope I shall be able to write you very shortly and am,

Always sincerely yours,

A handwritten signature in cursive script, appearing to read "Benjamin Strong, Jr.", written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the bottom.

Benjamin Strong, Jr., Esq.,
4100 Montview Boulevard,
Denver, Colorado.

*